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# NOTES

# GLOCALIZATION: A BALANCED APPROACH FOR A SMOOTHER INTERNATIONAL ACCOUNTING HARMONIZATION IN THE DEVELOPING COUNTRIES

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## ABSTRACT

The main objective of this paper is to propose *glocalization* as a new approach for promoting IFRS and facilitating the implementation of international accounting harmonization especially in the developing countries, given the growing controversy on the reflections, implications and consequences of accounting globalization especially in the developing countries. The endeavors towards international accounting standardization are influenced by the extreme polarization between the proponents and opponents of accounting globalization that pushes towards a compromise position represented by *glocalization*. Jordan, as an example of a developing country, provides a fertile environment of the use of *glocalization* as an appropriate solution for the stagnation in accounting thought and practice. We document evidence from the Jordanian professional regulations and practice that the adoption and implementation of IFRS have been significantly influenced by the local context in terms of its legal, economic, political, institutional, social and cultural aspects. Therefore, we introduce adopting the concept of *glocalization* to describe the process of internationalization of accounting standards, as this concept has been intelligently used by many researchers in various fields of the social and political sciences to affirm the need for "indigenization" to better promote the infamous process of globalization. This paper has implications for standard setters and regulators. Further, IASB is requested to permit flexibility when issuing standards to allow for a convenient glocalization to achieve the objectives of harmonization. This approach allows the regulators to examine the impacts of the international standards and how fit to the context during application. Glocalization through evolutionary adaptability is the only solution to alleviate the current pseudo implementation of IFRS by the majority of developing countries.

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## INTRODUCTION

The process of international accounting harmonization is initially influenced by the developed economies based on the argument that international accounting standards shall increase the quality of corporate reporting in terms of relevance, transparency and comparability. Further, such standards would facilitate inter-company comparisons with respect to financial performance if different companies were located in different countries

or subject to different financial reporting jurisdictions. Supposedly, comparability would enhance the efficient allocation of resources in a growing global capital market.

However, it has been observed that financial reporting could not be standardized even when a single set of international accounting standards is adopted by different countries, due to country-specific variables beyond the standards themselves (Cieslewicz 2014, Tyrrall *et al*, 2007). Cultural differences, regulatory frameworks, institutional variations, sources of finance, capital market features, corporate governance practices and the variation between financial statements and tax forms are among these variables (ACCA, 2011). For a successful implementation of professional accounting practice, they must be branched out of its national context and culture or represent rationally modified versions of the IFRS.

The purpose of this paper is to provide an example on the substance of the current adoption and implementation of the international accounting standards and to introduce *"glocalization"* to accounting literature and standard setters as a new concept for a smoother local acceptance and a better description of international accounting harmonization. Jordan is used as an example of the application of *glocalization*, which is moving from IFRS as endorsed by IASB to the implementation of IFRS in various versions in developing countries.

## GLOCALIZATION: A LOCALLY MODIFIED GLOBALIZATION

Within accounting literature, economic globalization is viewed from the perspective of financial market liberalization and the internationalization of accounting standards in encouraging the spread of common practices (Al-Abdullah, 2000; Ghadar, 2004). So far, globalization has been a debatable topic given the distinct cultural backgrounds. Since the early beginnings of accounting internationalization, a debate has evolved regarding two concepts associated with the efforts of the uniformity of accounting standards, namely "standardization" and "harmonization", where the term "standardization" implies greater rigidity and less flexibility. On one hand, standardization means the imposition of a rigid set of rules, with limited room for accommodating the variation among different situations, environments or countries (Nobes and Parker, 1991). Choi *et al* (1999) define *harmonization* as a process of improving the compatibility of accounting practice by setting limits on how much they can vary. In fact, the term harmonization implies a reconciliation of different views. Therefore, using the latter term is more practical and acceptable for issuing accounting standards at the global level. On the contrary, *standardization* can be an ideal state only if there is a perfect homogeneity in terms of context such as culture, politics, economics, laws and taxation systems across countries in order to guarantee an optimal compatibility. Such homogeneity can never have real world counterpart. Several studies investigated the factors influencing the financial reporting process in different inhomogeneous environments (Nobes and Parker,1991).

## ACCOUNTING IN SOCIETIES WITH DIFFERENT CULTURAL VALUES

It is widely accepted that cultural values have dominance on accounting values and methods. For example, Hofstede's model of six pairs of cultural values is investigated in accounting literature extensively. Table (1) provides comparative scores assigned by Hofstede (2018) to the dominant cultural values in Jordan and USA.

**TABLE 1: COMPARATIVE SCORES REGARDING THE DOMINANT CULTURAL VALUES IN JORDAN AND USA**

| Hofstede's six pairs of cultural values | Jordan | | USA | |
|---|---|---|---|---|
| | Dominant cultural values | Scores assigned by Hofstede | Dominant cultural values | Scores assigned by Hofstede |
| Large and Small Power Distance | Large power Distance | 70% | Small Power Distance | 60% |
| Collectivism and Individualism | Collectivism | 30% | Individualism | 91% |
| Femininity and Masculinity | Femininity | 55% | Masculinity | 62% |
| High and Low Uncertainty Avoidance | High Uncertainty Avoidance | 65% | Low Uncertainty Avoidance | 54% |
| Short and Long Term Orientation | Short-term Orientation | 84% | Long-term Orientation | 74% |
| Restraint and Indulgence | Restraint | 57% | Indulgence | 68% |

The dominant cultural values in both countries are different. The accounting models that fit the USA dominant cultural values must be different from the dominant cultural values of Jordan. Careful adaptation through an evolutionary process based on glocalization is an adequate solution for a proper implementation of IFRS. Alternatively, if the domination of the USA and the UK accounting on IASB's standards, albeit true, is rejected, the question is do IASB's IFRS fit perfectly the above two divergent cultural values? If the answer is yes, then the idea that accounting methods are influenced by cultural values must be rejected. If the answer is no, then, based on the historical developments of IASB and IFRS, IFRS cannot realistically serve accounting information needs in Jordan unless IFRS are evolutionarily adopted.

In the same vein, developing countries with a dominant Islamic philosophy confine their economic activities to many ethical values and principles where deception, unfairness, usury and monopoly are forbidden. Further, the Islamic philosophy rejects "profit maximization" as the ultimate goal of economic activity, unlike the capitalist system. Therefore, any business activity that does not comply with the Islamic values would be prohibited by Islam. Eventually, the Islamic societies have become conservative and cautious towards the phenomenon of globalization, since the unfair capitalism is linked to the economic globalization (Alsharairi and Al-Abdullah, 2008).

## ADOPTING IFRS: THE BENEFITS AND THE CHALLENGES

On April 1, 2001, the International Accounting Standards Board (IASB) was founded as a result of restructuring the IASC, and has become responsible for issuing International Financial Reporting Standards (IFRS), previously issued as International Accounting Standards (IAS).

It is argued that adopting IFRS by countries around the world will result in high quality, transparent and comparable information in financial statements, from the perspective of international readers (Lasmin, 2011). This argument can only be valid when the implementation of IFRS is rationalized by the local national context. Presumably, internationally comparable data about companies can facilitate the inflow of foreign direct investment and firms can obtain finance from different sources at a lower cost, given that financial statements prepared according to IFRS contain the most reliable information used by foreign investors (Amiram, 2012). Many developing countries do not have the competency nor the resources to develop adequate and reliable local accounting standards. Furthermore, international organizations may require regulators in developing countries to adopt the supposedly legitimate, modern, and high quality accounting standards such as IFRS before approving grants and aids to developing countries (Rodrigues and Craig, 2007).

Despite the theoretical benefits expected out of adopting IFRS, there are still obstacles in the actual application of these standards especially by firms in the developing countries, such as the high costs and being a totally "foreign organ" unless a reasonable accommodation by the "recipient body" is sought. The implementation costs include, among others, staff training, using independent experts for due to complicated issues (Haller and Eierle, 2004; Warrell, 1999). In fact, these costs may not be recovered or produce the expected economic benefits. Being a totally "foreign organ", it is quite possible that IFRS can cause economic, social and political disturbances upon implementation. Unless controlled and properly accommodated, the foreign organ can be lethal as it confuses its new surroundings. Developing countries, like Jordan, do not have highly developed capital markets and their economies majorly consist of small and medium enterprises (SME), and therefore cannot easily receive higher inflows of foreign investment or obtain finance with a low cost merely by adopting IFRS (Atmeh, 2016). Additionally, international investors look for other factors like economic growth, market capitalization, tax policy, legal environment, relative interest rates, political system, and social system before they make their investment decisions.

## GLOCALIZATION: A WAY OUT

While globalization is criticized as a biased power, an alternative concept is introduced in this paper, which is "*glocalization*". The term was modeled on the Japanese word *dochakuka*, which originally arose as a concept to help mitigate the conceptual difficulties of global-local relationships (Khondker, 2004). The word is composed of Globalization-Localization and Khondker, (2004) defines it as "the creation of products or services intended for the global market, but customized to suit the local cultures". From the perspective of multinational corporations, glocalization is defined by Matusitz (2016) as a strategy a multinational corporation adopts abroad to cater to local idiosyncrasies. Moreover, Gond and Boxenbaum (2013), in their research on glocalizing responsible investment, propose that glocalization can be sustained by implementing different "contextualization" techniques to overcome the lack of political, technical or cultural "fit" between the imported practice and the local context.

In this paper, we define "glocalization", in the context of international accounting harmonization, as the process of adopting the global accounting standards, i.e. IFRS, but customized to suit the local differences, i.e. cultural, economic, regulatory … etc.

We reviewed the accounting harmonization literature and we could not find any previous use of the "glocalization" term. However, it has been intelligently used by scientists from other fields in social, political, educational, and even theological sciences

to describe the need of "indigenization" during the process of globalization, since the applicability of imported social paradigms and concepts is resisted and questioned (see Patel, 2017; Matusitz, 2016; Drees, 2015; Gond and Boxenbaum, 2013; Khondker, 2004). Not all countries have different regulatory, legal and taxation frames to implement one imported set of accounting standards. Therefore, glocalization represents an inclusive, equitable and counter-western-hegemonic approach to achieve a functional international accounting harmonization framework.

## IFRS IS A SINGLE SET OF STANDARDS: MIXING REALITY WITH MYTH

Recently, the adoption of the IFRS has gained a huge momentum around the world as 89% of countries have adopted IFRS for listed companies in 2016 (PwC, 2016). Theoretically, the financial reporting produced by the firms adopting IFRS is assumed to be a high quality reporting and achieves comparability and transparency. However, these assumptions cannot be taken for granted due to, for example, the fact that firms have substantial discretion in the application of accounting practices especially in the areas that involve judgment and measurements. Other reasons are demonstrated below.

## ADOPTING A LABEL

Daske *et al* (2013) classify firms into "label" and "serious" adopters of IFRS, as some firms may adopt IFRS merely as a label without making material changes in their reporting policies, while other firms may adopt IFRS as part of a serious commitment to increase transparency. This could happen because the strength of enforcement differs across countries, in addition to the variation in reporting costs and incentives between firms. For example, in Jordan, all listed companies are required to apply IFRS, and the Jordanian Securities Commission (JSC) reviews the annual financial statements presented by the listed companies. The JSC reviewers concentrate on the form of elementary disclosure requirements, rather than the substance of important accounting requirements and therefore, the monitoring methodology and capacity of the team that carries out monitoring activities are not sufficient (ROSC, 2004). Thus, pseudo implementation is crystal clear in the case of Jordan. According to ROSC (2004) report, several instances of noncompliance with IFRS in the listed companies' financial statements are observed, mainly in areas like foreign currency losses, end-of-service indemnities, appropriations of net income, provisions and impairment losses, and non-consolidation of subsidiaries.

## DIFFERENT VERSIONS OF IFRS

Most countries make delays or changes when implementing IFRS. Several implementation methods have been noticed across countries leading to national versions of IFRS, as there is no internationally uniform practice for implementation. ACCA (2011) explores the methods of implementation and reports the following methods:

1. *Full adoption of the IFRS:* according to this method, the regulations in a jurisdiction require companies to use IFRS as issued by the IASB, whatever these may be at the time (e.g. Malaysia). It is difficult to imagine anything other than pseud compliance due technically complicated requirements and the non-existent natural incubator for smooth implementation of IFRS.

2. *Inserting IFRS (unchanged in substance) into law:* in this method, every new standard or new amendment issued by IASB should be imposed through legislation. Compared with the previous method, this involves delays in making IFRS available to

companies. Some countries have nonetheless taken this route in order to translate the standards from English into a national language (e.g. Canadian French).

3. *Cautious endorsement of IFRS:* This method is adopted by the European Union (EU) where many bodies are involved in scrutinizing IFRS output, standard by standard, amendment by amendment. In some cases, whole standards or parts of standards might not be endorsed and carved out (part of IAS 39 on the recognition and measurement of financial instruments has been removed due to a pressure from the EU). There is also a risk of missing the IASB's compulsory application dates as the scrutiny process takes a long period of time. Accordingly, the phrase 'IFRS as adopted by the EU' is used by European companies in their financial reporting.

4. *Fully converging with IFRS (and intending compliance):* In this method the IFRS is adopted locally. For example, The Australian Accounting Standards Board takes the IASB's output and amends it by giving it an Australian number, making textual changes and banning early adoption.

5. *Adapting IFRS:* A country can take IFRS as a starting point but then make various changes. For example, Chinese listed companies are required to use a set of standards based on IFRS in general. However, in specific areas, other local accounting practices are applied (unlike the rule under IAS 36, impairments must never be reversed). The Chinese approach is pragmatic and realistic and accordingly plausible. Venezuela followed another approach in adopting IFRS, as it adopted IFRS in 2004 but has not (by mid-2011) adopted all the subsequent changes to IFRS.

6. *Allowing IFRS:* Switzerland allows listed companies to use IFRS or the national GAAP for the preparation of consolidated statements.

It is obvious that glocalization is practiced, at least on a de facto basis, by the majority of countries and at different scales. For example, The European countries apply 'IFRS as adopted by the EU' which may differ from the original version of IFRS, a more extreme example would be adopting IFRS merely as a label without real transformation. Furthermore, localization element is found even in the case where full convergence is assumed.

## LOCAL MODIFICATIONS OF IFRS: EXAMPLES FROM JORDAN

There are several practical issues in implementing IFRS as is in the developing countries. We shed light on Jordan as an example in our discussion. The following practical challenges in Jordan will lead to financial reporting according to IFRS in form but not in substance, raising the question of whether IFRS adoption is a reality or a myth.

## TAX LAWS EFFECT

IFRS framework requires companies to prepare general-purpose financial statements that are not customized for tax purposes. However, the influence of tax accounting is present in the financial reporting of the public shareholding companies in Jordan. For example, most of the companies use the useful life and depreciation rates for the property, plant and equipment as stated in tax law. Therefore, no deferred tax assets or liabilities are recognizable, which is not in accordance with IAS 12. Further, assets could be fully depreciated but still in service.

## ISLAMIC CULTURE EFFECT

Firms complying with the Islamic law do not accept the notion of interest expense and amortization schedules based on interest. Alternatively, other concepts inconsistent with

IFRS are employed, such as *ijara* or rent, instead of interest (Cieslewicz, 2014). In addition, Islamic financial instruments represent a combination of contracts, where every economic transaction is divided into sub-transactions. According to IFRS, reporting should represent the substance of the transaction rather than its legal form, while the Islamic accounting methods do not always capture the economic substance, where each transaction is accounted for separately (Atmeh and Maali, 2017).

## RELATED PARTIES' TRANSACTIONS

In countries of collectivist culture like Jordan, hiring relatives, establishing business relations on trust and honor, and trading with family members and other connected parties are immense. Such environment may affect the application of IFRS standards. For example, the definition of related parties as stated in IAS 24 is considered narrow and does not capture the full range of this type of relationships. This may affect the financial reporting, and result in inadequate disclosures (ICAEW, 2010).

## INTELLECTUAL PROPERTY RIGHTS

The relationship between the legal system and financial reporting is well addressed in the literature (Jaggi and Low, 2000). Further, when property ownership rights are not clearly established or enshrined in the laws, the recognition of assets is challenging. For example, recognizing intellectual properties as intangible assets in developing countries depends on the legal system in these countries and whether the enforcement of laws is sufficient to protect the rights of the owners. Developing countries are vulnerable to infringing activities in this regard. Therefore, intellectual capital recognized by the Jordanians companies is under doubt due to the lack of sufficient enforcement mechanisms against violators of intellectual properties.

## THE REGULATORY ENVIRONMENT

In several cases, regulators in Jordan affect the implementation of IFRS. The Jordanian Securities Commission (JSC) and the Central Bank of Jordan (CBJ) require the cost-depreciation-impairment model for all property, plant, equipment, intangible assets, and investment property. The revaluation model in IAS 16 Property, Plant and Equipment and in IAS 38 Intangible Assets and the fair value through profit or loss model in IAS 40 Investment Property are not permitted from 2007 onward. This is due to the lack of active sophisticated markets for the related assets in Jordan. In addition, the regulators in Jordan give more priority to creditors than stockholders. This is reflected by the issuance of conservative accounting instructions to protect creditors, which violates the faithful representation characteristic of financial reporting that is emphasized by IASB's conceptual framework.

## CONCLUSIONS

This paper contributes to the literature of international accounting harmonization by introducing the concept of "glocalization". We define "glocalization", in the context of international accounting harmonization, as the process of adopting the global accounting standards, i.e. IFRS, but customized to suit the local differences, i.e. cultural, economic, regulatory … etc. Although the objective of international accounting harmonization is to increase the compatibility of accounting practices around the globe, this contemporary phenomenon is perceived with questionable reflections, implications, especially in the

developing countries. We document that the controversy is stimulated by questioning the suitability of a ready set of international standards in a social science like accounting, when installed and implemented in developing countries, taking Jordan as an example. With this example, there is evidence from the Jordanian professional regulations and practice that the adoption and implementation of IFRS have been significantly influenced by the local context in terms of its legal, economic, political, institutional, social and cultural aspects. Therefore, we introduce adopting the concept of *glocalization* to describe the process of internationalization of accounting standards, as this concept has been intelligently used by many researchers in various fields of the social and political sciences to affirm the need for "indigenization" to better promote the infamous process of globalization. This paper has implications for standard setters and regulators. IASB is requested to permit flexibility when issuing standards to allow for a convenient glocalization to achieve the objective of harmonization. This approach allows the regulators to examine the impacts of the international standards and how fit to the context during application.

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