

POLITICIZATION OF ACCOUNTING

HALIL PAINO

Universiti Teknologi MARA Cawangan Pahang, 26400 Bandar Jengka, Pahang

ABSTRACT

The figures that accountants report either in financial statements or published annual reports will give significant effect on economics behavior, have impact on budgeting process and attract public and parliamentary interest. Accounting rules therefore affect human behavior. Hence, the process by which they are made is said to be political. This article is addressing the issues of political impact in accounting.

INTRODUCTION

Political strategies, much like marketing strategies, involved a complex set of decision for firms. After a firm decides to become politically active, the next question is on how to be active in politic. In prior literature scholars have devoted little attention to political strategy formulation. One goal in this works has been highlighted on the importance of government rule. Policies making to a firm's opportunity set and describe the potential have to shape government policy, thereby shaping their own competitive space, by expanding the discussion of political strategy formulation.

Gerboth (1973) in one passage of his article, *Research, intuition and politics in Accounting Inquiry*, highlighted that, "When a decision making process depends for its success on public confidence, the critical issues are not technical; they are political... In the face of conflict between competing interests, rationality as well as prudence lies not in seeking final answers, but rather in compromise – essentially a political process".

In the same view, Horngren (1973) writes, "the setting of accounting standards is as much a product of political action as of flawless logic or empirical findings". It was due to the reason that the setting of standards is a social decision. Standards place restrictions on behavior; therefore, the affected parties must accept them. Acceptance may be forced or voluntary or some of both. In a democratic society, getting acceptance is an exceedingly complicated process that requires skillful marketing in a political arena.

There are, without question, political aspects of accounting. Accounting influences human behavior, if only because it conveys information, is obviously enough. There are very few areas of human knowledge that are devoid of political significance. But that does not mean that the processes by which knowledge is advanced or by which new applications are found for old knowledge are themselves political processes in the sense in which that term is usually understood. A politically motivated answer may or may not be appropriate. It obviously depends on the nature of question or issue.

NATIONAL OBJECTIVES

Since government policies have significant effects on the competitive environment of firms, many firms are expanding their efforts to affect public policy decision. To date, researchers have focused on why government is important to firm's profitability, what the objectives are of firm politically active, and what types of firms are likely to become politically active (Hillman et al, 1999).

The effect of government policy on the competitive position of businesses represent in turn, important determinants of firm's performance. The government and it policies are critical resources that shape firm's competitive environments. Government decision makers have the ability to alter the size of markets through government purchases and regulations affecting substitute and complementary products; to affect the structure of markets through entry and exit barriers and anti-trust legislation; to alter the cost structure of firms through various types of legislative pertaining to multiple factors such as employment practices and pollution standards, and to affect the demand for products and services by changing excise duty and imposing regulations that affect consumption patterns (Weaver et al, 1993).

Today, accounting no longer be thought as non-politic, the figures that accountants report have or at least are widely thought to have a significant impact on economics behavior. According to Solomon (1978), accounting rules affect the human behavior. Thus the setting of standards process is a social decisions that being influenced by human behavior or political behavior. The standards setting are important accounting events that affected by the political in nature. It can be described as democratic because like all rules making bodies, the Board's right to make rules and legislation depends ultimately on the consent of the ruled. But because standards settings requires some perspectives, it would not be appropriate to establish a standard based on legislative because it must be deliberative and can be described as political because there is an educational effort involved in getting new standards to be accepted.

STANDARDS SETTING

Even there are political aspects in accounting, one should be carefully looked at the part which politics should and should not play in accounting standards setting. Since accounting influenced human behavior, that does not mean that the processes by which knowledge is advanced or by which new applications are found for old knowledge are themselves political processes in the sense in which that term is usually understood (Solomon, 1978). Accounting politics like the others field faced three sequential decisions in the political strategy formulation. As based on Hillman (1999), those three involved:

- i. Approach to political strategy
- ii. Participation level
- iii. Specific strategy choices

The first decision in formulating political strategy is its general approach to political strategy. Accounting pursues political strategies over the long term rather than on an

issue-by-issue basis. Example is on the part of accountants to cooperate with the government in furthering its economics policies. Corporate reporting standards should result in data that are useful for economics decisions provided that the standards is consistent with the national economic goals.

Although the importance of government policies to Accounting Standards Boards, the relationship between Accounting Standards Boards and political strategy, and the general objective of national economic goals are commonly accepted and understood, the specific behavior that Accounting Standard Boards choose in order to participate in the national economic goals achievement have received relatively little attention. Thus, Accounting Standards Boards need either to be proactive or reactive in general, efforts to anticipate political problems and to get political objectives have become essential for most Boards.

If Standards Boards remain passive and only react to government policies, they can be assured that other interest groups are proactively working to shape government policies in a direction that benefits other interests that may or may not coincide with those of the Boards.

The second phased is the level of participation; individual participation or collective actions. Individual refers to the efforts by one person or individual board to affect Generally Accepted Accounting Policies (GAAP). Collective action refers to the collaboration and cooperation of two or more Accounting Standard Boards in the policymaking. In accounting, it refers to the economic impact of accounting standards. Numerous other politically sensitive accounting issues could be cited such foreign exchange and translation, contingencies, etc, but none of these has received as much attention as accounting for inflation, for none has such widespread potential repercussions throughout the business world.

Irrespective of the approach taken, perhaps the most obvious distinction regarding the choices between individual and collective participation in politics relates to the differences in financial resources necessary at each level. Individual action loads all costs directly on the participating party, where as in collective action, the costs of political action are shared among the members.

Once Boards (Accounting Standard Boards) has decided to approach political strategies and then has decided to pursue participation, its next face related to the specific strategy it would employ. Some as markets has described the public policy process, with suppliers of policies and those demanding policies. The suppliers are those Accounting Standard Boards who shaped accounting policies, standards and agendas. The demanders included the internal group, companies, stakeholders, enterprises as well as government.

Exchange theory suggests three political strategies that Boards and some interest groups may used to compete in the public policy processes based on the fundamental resources exchanged: information, financial incentives and constituency building (Oberman W, 1993). Accounting standards need to be set mainly in the areas where there are controversy, it is highly probable that the status quo and there is constantly a temptation for such people to rush off to their legislative representatives to get the

government to interfere. That sort of initiatives represents the gravest threat on the horizon to the private control of standards setting.

CONCLUSION

One factor that should be reminding to the Accounting Standard Boards is the neutrality of information in the standards setting. Neutrality here refers to the Accuracy of the information and does not imply that no one gets hurt. In this sense, accounting policy choices can never be neutral. There is someone who is not. Thus, neutral here is in the sense that all males of draft age were equally likely to be selected.

As far as politics in accounting is concerned, one clear picture in the real practice is that, companies do not all choose the same accounting methods. They do not all used the same predictions models and therefore the accounting methods that has the most information content for one company is not the one with the most for another company. Political strategies, much like marketing strategies, involved a complex set of decisions for Accounting Standard Boards. It involved all stages from the pre announcement of accounting standards information until the application of those standards.

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