

**AN INVESTIGATION INTO THE EXPANSION OF  
WESTERN PROFESSIONAL ACCOUNTING BODIES –  
USING THE CASE OF CPA AUSTRALIA**

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## **ATTESTATION OF AUTHORSHIP**

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.



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## **ABSTRACT**

Extensive research has been done on the formal professionalisation processes of western professional accounting bodies. It would appear that as the growth of local markets reaches saturation, professional accounting bodies make the move to overseas markets, in particular to emerging Asian markets such as China's. The Anglo-Saxon professional accounting bodies are responding to and reciprocating the expansionary strategies previously developed by institutional networks including accounting organisations such as the Big 4, multinational enterprises and the international organisations such as the World Bank, WTO and so forth. The globalisation promoted by the Anglo-Saxon institutions has often been more symbolic than substantive and that has engendered some criticism. Hence, the aim of this thesis is to investigate the phenomenon of the expansion of western professional accounting bodies into China with particular reference to CPA Australia, which has not yet been studied. The three research questions concern: (1) the global expansion of western professional accounting bodies and China's control of its domestic accounting field, (2) the impact of CPA Australia and its programme of expansion into China, and (3) the impact of these changes on Chinese accounting graduates and accountants and their choice of a professional accounting body. The globalisation of financial reporting, auditing and the accounting profession is permeated with the symbolic passing as the substantive. This thesis draws on the theoretical framework of new institutional sociology (NIS) and legitimacy theory to disentangle the symbolic from the substantive in respect of what accounting institutions

and ‘actors’ say and the strategies they employ.

The main evidence for this research was collected using semi-structured in-depth interviews and qualitative document analysis. 45 interviews were conducted. The study findings reveal the impact of western institutional networks on China, and China’s limited coercive power to control these institutions. Chinese participation in the three areas investigated in this research would promote the further globalisation of accounting, while Chinese resistance to globalisation 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.

Another significant finding of this research is the decoupling between CPA Australia’s Melbourne head office and its operational managers in mainland China. It is a characteristic of decoupling, as shown in the literature, that operational managers may adopt strategies different from those originally proposed by the chief executives – in this case those in the Melbourne head office. CPA Australia’s global strategies have become decoupled and are thus less effective in China. That is, the local operational managers are concerned with returning a financial surplus at the expense of offering a respected and quality professional service. The implication of the finding is that it is hard for CPA Australia to maintain its professional ideals and gain legitimacy when decoupling becomes too transparent in the eyes of the Chinese accounting profession,

Chinese academics and other informed observers.

With regard to the third research question, how do Chinese accountants and accounting graduates view western professional membership and what are their actions (symbolic or substantive) in respect of membership, pragmatic motives appear to be the dominant drivers. Such motives imply that Chinese accountants and accounting graduates do not necessarily join a western professional accounting body as a result of the recognition of its brand or value. It seems that many of them are uncertain about the future benefits of membership and they do not have a good understanding of the differences between western professional accounting bodies. The phenomenon of accounting graduates blindly joining any western professional accounting body available to them could be attributed to the aggressive marketing campaigns of some of these professional accounting bodies.

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 research makes a contribution to knowledge through the application of NIS theory to the field of the accounting profession. The study also makes a methodological contribution with its construction of analytical matrices which combine three forms of homogeneous isomorphism from NIS theory and elements of legitimacy theory. The research also contributes to accounting practice, in particular the critical review of the

expansion of CPA Australia which has revealed that its global expansionary strategy is threatened by internal decoupling.

Keywords: professionalisation, accounting profession, globalisation of accounting, IFRS, new institutional sociology, legitimacy theory, decoupling.

## **ABBREVIATIONS**

### **A**

ACA	The ACA is a world leading professional qualification offered by ICAEW
ACCA	Association of Chartered Certified Accountants
ACPA	Australian Corporation of Public Accountants
AIA	Association of International Accountants
AICPA	American Institute of Certified Public Accountants
ASA	Australian Society of Accountants
ASCPA	Australian Society of Certified Public Accountants

### **B**

Big 4	Big Four accounting firms including PWC, KPMG, Ernst & Young, and Deloitte
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### **C**

CA	Chartered Accountant
CGA	Certified General Accountants Association of Canada
CICPA	Chinese Institute of Certified Public Accountants
CIMA	Chartered Institute of Management Accountants
CPA firms	Certified Public Accounting firms
CPAs	Certified Public Accountants
CPAA	Certified Practising Accountants Australia

### **G**

GAA	Global Accounting Alliance
GAAP	Generally Accepted Accounting Principles

### **H**

HKICPA	Hong Kong Institute of Certified Public Accountants
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### **I**

IASB	International Accounting Standards Board
ICAA	Institute of Chartered Accountants in Australia
ICAEW	Institute of Chartered Accountants in England and Wales
ICAS	Institute of Chartered Accountants of Scotland

IFRS	International Financial Reporting Standards
IIAV	Incorporated Institute of Accountants Victoria
IMF	International Monetary Fund
IPP	International Partnership Programme
<b>M</b>	
MNEs	Multinational Enterprises
MPM	Multiple Professional Memberships
<b>N</b>	
NIS	New Institutional Sociology
NZICA	New Zealand Institute of Chartered Accountants
<b>P</b>	
PCAOB	Public Company Accounting Oversight Board
<b>S</b>	
SEC	American Securities and Exchange Commission
Sino-foreign	Chinese-foreign
SOEs	State-Owned Enterprises
<b>W</b>	
WTO	World Trade Organisation



## **CHAPTER 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 the Anglo-Saxon professional accounting bodies, the big accounting firms, multinational enterprises (MNEs) and the international institutions such as 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, as the growth of their domestic markets reached maximum levels. This thesis tells a global expansionary story of a western professional accounting body – CPA Australia. The extent of Chinese participation in the three research areas of the globalisation of accounting outlined below is the generic question posed by this thesis: (1) the global expansion of western agencies and their impact on China and China's control of its

domestic accounting field, (2) the impact of the Certified Practising Accountants Australia (CPA Australia) and its programme of expansion into China, and (3) the impact of these changes on Chinese accounting graduates and their choice of an professional accounting body. The three research questions involved in this thesis are thus interlinked. It could be argued that each one represents a separate paper for further research. China is a growing world power with possibly the world's largest economy in the future, and how the country operates in this accounting field will have ramifications for the rest of the world. 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 introductory chapter provides a background to the research topic, justifies the need for the research, describes the research questions and research objectives, explains the research design and gives an outline of the thesis structure.

## **1.1 *Research Background***

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 China's. The CPA Australia is one of the western professional accounting bodies that have proactively expanded its operation into Asian countries.

The CPA Australia first ventured into Asia in 1988 with offices in Hong Kong, Malaysia

and Singapore. However, it did not enter mainland China until 2002, when it opened its Beijing office, and in 2006 it opened another office in Shanghai (CPA Australia, 2013). Its footprint in mainland China came fourteen years later than one of its main competitors, the Association of Chartered Certified Accountants (ACCA). A number of other professional accounting bodies have also expanded into China, including the Certified General Accountants Association of Canada (CGA), the Chartered Institute of Management Accountants (CIMA), the Institute of Chartered Accountants in England and Wales (ICAEW) and the Hong Kong Institute of Certified Public Accountants (HKICPA) (CICPA, 2013). In the middle of 2012, the CPA Australia opened its third China office in Guangzhou. As stated in the CPA Australia's 2011 annual report, 3% of CPA Australia's members are located in mainland China (CPA Australia, 2011b). The focus of this thesis is on what has happened in mainland China.

The development of the accounting profession in mainland China is unique. In contrast to the post-colonial countries, which have been mainly influenced by the British Empire (Poullaos & Sian, 2010), the Chinese accounting profession has been significantly influenced by Soviet models similarly to the post-socialist countries of Eastern Europe such as the Czech Republic and Romania. All are now moving away from the Soviet models but in different ways (Albu et al., 2011; Hao, 1999; Seal, Sucher, & Zelenka, 1996). 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) The CICPA is a very young professional accounting body compared with the Anglo-Saxon professional accounting bodies such as the ICAEW, the American Institute of Certified Public Accountants (AICPA), the ACCA and the CPA Australia. It is also considered a weaker professional accounting body because the Chinese government still retains control over it (Hao, 1999; 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.

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). It has also been observed that in recent years China has welcomed the invitation to participate in international financial accounting bodies. Moreover, China has moved to align its standards with those of the

IASB (IASB, 2006) [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; Saudagaran, 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. Antwi (2009) maintains that the western countries are the main brains behind the funding of the IASB. More recently there have been signs in China of a “push-back” against the institutional network. As the sino-foreign joint ventures established twenty years ago will expire, China wishes to take over control of the Big 4 in China and has issued them with a domesticating policy which means domestic auditors will gradually take over the Big 4 and push foreign auditors away from top management positions in the Big 4 in China (Ministry of Finance, 2012).

In the context of China’s welcome to western accounting firms and professions, the CPA Australia’s strategic movement into the mainland China market has progressed in the past ten years. Given the intense competition between western professional accounting bodies in China, the CPA Australia has made its mark on the Chinese market in a

relatively short period of time. Its expansion into China is thus an interesting phenomenon to study. The research undertaken in this thesis is against a background of the embeddedness of the western institutional network and the growing assertiveness of China.

## **1.2 *Justification for this Research***

The people, institutions and professional bodies involved in accounting do not always do what they say they will do (Meyer & Rowan, 1977). 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 (Scott, 2008b). The goal of this thesis is to disentangle the symbolic from the substantive in respect of what accounting institutions and actors say and the strategies they employ. Too often “form” triumphs over “substance” (Meyer, 2008). The symbolic provides smoother pathways to collaboration while the substantive requires implementation, which can be controversial and difficult (Ashforth & Gibbs, 1990; Okike, 2004). Symbolism can be a much wider pathway than simply being defined as people not doing what they say they will do (Dambrin, Lambert & Sponem, 2007; Kostova & Roth, 2002).

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.

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, and this line of thinking is much more to the fore in Chapter 4 of this study. Thus, strategic-legitimacy researchers assume a greater level of managerial agency.

By contrast, the institutional approach (see Chapter 3) 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). Important as the distinction is between the strategic and institutional approaches in the literature, this study follows the thinking of Suchman (1995) by incorporating both strategic and institutional orientations. On the one hand, this study 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 study also accepts arguments from the literature that the cultural environment impacts on the freedom and objectivity of managers within that environment.

Within institutional theory, researchers refer to the concept of decoupling and it is a focus on decoupling which concerns this thesis. 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. Such ceremonial strategies are not confined to accounting, as the university sector provides a plethora of ceremonial activities, one example within the university sector being the ceremonial role of the international relations director. This job requires travel to distant countries, dinner engagements and the exchange of gifts with university counterparts. The director does not see students or academics during these visits. Research and teaching are not advanced but the director's travel is considered to be necessary and worthwhile. Again, this study maintains that both the strategic and institutional explanations for this phenomenon are valid, with, in this case, more of an emphasis on an institutional view.

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*, 2012b). Institutions such as the CPA Australia, with its grand offices in the main cities of China but with comparatively low levels of Chinese membership, may be engaged more by the ceremonial features of their expansionary strategy.

Individual actors may take on membership of western professional accounting bodies more for their symbolic significance than for substantive reasons. 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, 2008a; 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 study seeks to address. By extending the concept of symbolic versus substantive to individual actors, the study also seeks to draw from Chinese members of western professional accounting bodies to what extent their

membership is symbolic rather than substantive. In other words, if the implementation cost is high, are they willing to make a substantive commitment.

### **1.3 *Research Questions and Objectives***

To incorporate the concerns and gaps discussed above, the following research questions are proposed:

**Research Question 1:** How does China view the western accounting professions?

**Research Question 2:** How do western professional accounting bodies experience their expansion into China – using the case of CPA Australia – and what problems have emerged for them?

**Research Question 3:** How do Chinese accountants and accounting graduates view membership of western professional accounting bodies and what are their actions (symbolic or substantive) in respect of membership?

It is suspected that the drivers referred to in the research questions, as the subsequent literature will show, may be symbolic or substantive but often there may be no clear-cut distinction between them. To further refine the empirical investigation, China's welcome and the CPA Australia's expansion is further analysed in terms of coercive, mimetic and normative elements. The responses of individual actors are also further interpreted according to pragmatic, normative, and cognitive elements developed by Suchman (1995). However, as with all qualitative research, there has to be

interpretation, which is of necessity subjective. So then, why is this important?

Globalised accounting relies on agreements between countries, institutions and accountants and if such agreements are more symbolic than substantive, then there will be little or no implementation. Meyer and Rowan (1977) found decoupling involves adopting a structure for legitimacy purposes but not implementing it in practice because of a perceived conflict with technical efficiency concerns. Such a situation may apply to many Asian countries with regard to their acceptance of the IFRS. Westphal and Zajac (1998, 2001) found that corporations benefited from adopting a legitimate practice whether they implemented it or not. They also found that decoupling is more likely among reluctant, later adopters. Rao, Greve and Davis (2001) concur, saying late adopters more readily decouple, a response that they hide behind seeming enthusiasm. The end result in terms of IFRS adoptions will be distrust, scepticism and failure.

As the issue of decoupling is widespread and important, much research has been devoted to the phenomenon. Meyer and Rowan (1977) were among the first to shift attention from the technical aspects of performance measurement, to focus more on the importance of an organisation's conformity to the appearance and symbols – defined as legitimate by their external evaluators. Why do organisations decouple? Kostova and Roth (2002) suggest it occurs when there is strong coercive pressure to implement a new practice and an organisation distrusts the actor asserting the pressure. George, Chattopadhyay, Sitkin and Barden (2006) argue that decision-makers decouple when they face ambiguity in interpreting their environment, which results in the selection of

some institutional pressures while ignoring others. That is, institutions in the same field do not necessarily respond similarly to the same pressures (Boxenbaum & Jonsson, 2008). This thesis analyses, first, the strategies of the Chinese government in the context of welcoming into China the Anglo-Saxon institutional network of MNEs, big accounting firms, western professional accounting bodies and the IASB. The question is: to what extent is their welcome by China symbolic or substantive (and indeed the whole Anglo-Saxon network), and to what extent is it an isomorphic response to exogenous pressures? The second research question, concerns the strategies of one western professional accounting body (the CPA Australia) entering into the Chinese market, and asks: to what extent is their strategy, as a late entry professional accounting body, symbolic or substantive, and is it a response to isomorphic pressures? Finally, the third related research question concerns the views of Chinese accountants and accounting graduates as to their choice of western professional accounting membership. The question asks: whether their actions towards achieving the professional accounting qualifications are symbolic or substantive and whether the drive to membership is pragmatic, moral or cognitive.

## **1.4 *Structure of the Thesis***

The remainder of the thesis is organised into three parts and further divided into nine chapters. Part One is the theoretical and methodological framework and includes Chapters 2, 3, 4 and 5. Chapter 2 reviews the literature on the development of the

accounting profession in major Anglo-Saxon countries, including the UK, the US and Australia. It also discusses the embeddedness of international institutions such as the western professional accounting bodies, the Big 4 accounting firms, MNEs and the IASB. This chapter also provides background information about the development of the accounting profession in China and draws attention to the issues arising in ex-communist countries that changed from a socialist to a capitalist model. Lastly, this chapter discusses the tensions caused by globalisation. Chapters 3 and 4 describe the theoretical framework of this thesis: a combination of new institutional sociology (NIS) and legitimacy theory. These two chapters review the key theoretical elements of NIS and legitimacy theory, and discuss relevant theories and issues that inform the study. A matrix of the analytical framework is constructed for analysis of the findings. Chapter 5 describes the research methodology and methods used for data collection and analysis. The matrix constructed for the analysis is discussed in this chapter in greater detail. Part Two of this thesis presents findings from empirical research and discusses key implications of the findings by drawing on the theoretical and analytical framework described in Part One. This part of the thesis contains three chapters: Chapters 6, 7 and 8. Each chapter deals with one key research question. Finally, Part Three (Chapter 9) provides the overall concluding section, contributions, limitations and recommendations for future research.

# **PART ONE: THEORETICAL AND METHODOLOGICAL FRAMEWORK**

## **CHAPTER 2: The Accounting Profession and Professionalisation**

### **2.1 *Introduction***

The chapter begins with an overview of the accounting profession, legitimacy and institutions (section 2.2). Change is inevitable and may arise as a result of various institutional pressures as explained but, always, change is clothed in a cloak of legitimacy. The interconnectedness of the Big 4 accounting firms, the MNEs, the Anglo-Saxon professional accounting bodies and the IASB is a feature of section 2.3. The literature cited shows their mutual embeddedness. Voices critical of what can be termed colonialism and the unfair promotion of the introduction of Anglo-Saxon-designed accounting standards to centralised economies are also cited because this study is an investigation of accounting in China. Such criticism is likely to be part of the background influence on the empirical findings.

Section 2.4 begins with a series of brief histories of the development of the accounting profession in countries relevant to this investigation. The UK and the US are briefly reviewed as it is in these countries that the Anglo-Saxon accounting profession was created and developed. Australia is then considered, as it is where CPA Australia, the

professional accounting association central to this study, originated. More extensive is section 2.5 on accounting and the profession in China. Within this section arguments from the literature are introduced to show why China's government found it necessary to exercise tight control over its profession.

Section 2.6, from socialism to capitalism, identifies the strong grip that former rule-based bookkeeping practices and adherence to tax regulations have on the accounting sector. Plus, the point is made that many communist type economies are pushed into convergence with the IFRS by various international bodies. Within this section the cases of the Czech Republic and Romania serve as exemplars to show how form triumphs over substance in many of these centralised economies. The topics discussed in section 2.6 have relevance to China and to this study. Linked to this section is section 2.7 on the global tension between symbolic and substantive change. Such tension becomes evident when, as in the examples above, substantive commitment to financial standards is weakened by a more ceremonial commitment to legal form. This section is followed by section 2.8, which identifies the gap in the literature and introduces the key research questions, and section 2.9 concludes the chapter.

## **2.2 *The Profession, Legitimacy and the Institutions***

The accounting profession has achieved legitimacy and in so doing gained global recognition. Not only have accountants spread geographically but also organisationally, evolving from chartered accountants to consultants and business advisors. Professional accounting associations play an important role in the process of collectively defining and redefining the institutional logic that establishes what it means to be a chartered accountant (CA) and what is an appropriate way of being organised. “Specially, the professional association of accountancy engaged in discourse that legitimated a significant adjustment in what accountants ‘do’ and thus in the definition of what it meant to ‘be’ a CA” (Greenwood, Suddaby, & Hinings, 2002, p. 76).

Leicht and Fennell (2008) define a profession as (i) when the occupational incumbents’ work is defined by the application of theoretical and scientific knowledge to tasks tied to core societal values; ii) where the work commands considerable autonomy and freedom from oversight, except by peer representatives of the profession; iii) where claims to exclusive control over a task domain is linked to knowledge required as part of their training.

The accounting profession may be considered to have evolved into four sub-communities (Greenwood et al., 2002): Public service, industry, commerce and government. Public service has developed into three different levels of public accounting firms:



- (1) The Big 4 accounting firms (namely PWC, KPMG, Ernst & Young, and Deloitte), which are primarily international in scope and focus on large clients. Leicht and Fennell (2008) consider that within the accounting field this is by far the dominant community.
- (2) Major firms that provide national coverage and have strong links with other international or local big firms.
- (3) Regional and local accounting firms that service small and medium-sized clients.

From 1977 to 1997, one element of the changes was a redefinition of the role of a professional accountant, expanding it to include the capability of providing business advisory services. The second element of the change was endorsement of a new organisational form, the multidisciplinary practice, which includes accountants, lawyers and consultants (Greenwood et al., 2002).

Professional accounting associations are commonly understood as agents of reproduction rather than of change (Greenwood et al., 2002). For example, CPA Australia is responsible for the development of uniform standards of practice and the strategic development of the accounting profession. It represents the interests of the accounting profession to external constituencies. Through the routines of licensing, training and professional development, and the monitoring and disciplining of behaviour, associations supposedly act to underpin existing conventions and values. Prevailing practices become encoded in the associations' organisational routines and, to

the extent that routines remain unchanged, encoded institutional logics are reproduced (Greenwood et al., 2002).

The assumption that prevailing practices are reinforced and reproduced by routines is an oversimplification (Greenwood et al., 2002). Entry into CPA Australia requires completion of examinations that emphasise accounting. Practice reviews focus solely on enforcement of standards. Programmes of professional development reflect the demands of delivering traditional services. In this sense, the institutes' routines convey the prevailing logic of action. However, the routines do not prevent radical re-conceptualisation of both the boundaries of the professional body and the appropriate organisational template.

One complexity is that institutional pressures may influence participants unevenly (H. Leblebici, G. Salancik, A. Copay, & T. King, 1991; Ruef & Scott, 1998). CPA Australia is comprised of professionals who work in highly different settings, ranging from sole proprietorships to international firms. Members of larger firms are the least likely to participate in the training and post-certification activities of the institutes. Their firms provide training, which means they have less exposure to the reproductive rhythm of institute activities. Professionals in smaller firms, in contrast, are much more embedded in the institutes' routines (Greenwood et al., 2002). Consequently, the routines of a professional association may work to reproduce prevailing practices, but their influence will be distributed unevenly as the influence of the Big 4 accounting firms is far more

significant.

Importantly, the professional associations do not initiate change. Institutional fields are regulated through the reciprocal effects of market and institutional governance structures (Suddaby & Greenwood, 2005). For example, increasing market pressures and technological shifts will contribute to the pressure for change. Therefore, the role of professional associations within the same organisational field might change over time. CPA Australia may be considered in this light. Such pressures may come from the growing embeddedness of the profession with institutions such as the Big 4, multi-national corporations, and the IASB (Leicht & Fennell, 2008).

It is important to understand the "permeability" (Greenwood & Hinings, 1996) or "plasticity" (Fox-Wolfgramm, Boal, & Hunt, 1998) of professional boundaries. Law societies are critical of multidisciplinary practices, and conform to the traditional model of conservative institutes. Compared with the legal profession, the accounting profession appears more open to new ideas. It exhibits greater plasticity in its identity than the legal profession. As a result, jurisdictional change is less contested and more easily legitimated, whether organisationally or geographically. Fox-Wolfgram et al. (1998) argue that the structures that determine the relative plasticity of boundaries are unclear, and further research would be useful to cover that perspective. This thesis supports the contention of Leicht and Fennell (2008) that structures that determine the plasticity of boundaries derive from the professions' embeddedness, and their plasticity

of boundaries is more likely to be observed outside Anglo-Saxon jurisdictions.

In addition, professional accounting associations, such as CPA Australia, serve as an arena where definitions of membership and conduct can be socially constructed. Leicht and Fennell (2008) maintain that professional accounting communities are highly organised as professional membership is mandatory, association participation is extensive, and formal interaction and communication are highly developed.

Professional accounting associations use committees and task forces that host intra-professional discourses; official publications easily and comprehensively transmit ideas and scripts; and developmental programmes provide professionals with opportunities for interaction and discussion. Such a situation contrasts with other, non-professionalised settings, where interactions are less routine and where official accounts are less evident or authoritative (Greenwood et al., 2002).

The basis of legitimation is primarily economic. Legitimation in professional settings, by contrast, is not simply a function of anticipated economic outcomes, but of professional appropriateness (Greenwood et al., 2002). What matters within a professional context is the demonstrated conformity of innovation with the values embedded in traditional beliefs. It is only when ideas are couched in such a way that they are perceived to be consistent with prevailing values that they appear compelling and legitimate for adoption. One of the key tasks of professional accounting associations is to theorise jurisdictional movement as consistent with the normative base

of the accounting profession, thus making migration (organisationally and geographically) acceptable (Leicht & Fennell, 2008).

Theorisation is integral to institutional change. It is the rendering of ideas into understandable and compelling formats (Greenwood et al., 2002). This can be done in commercial settings by stressing the results obtained elsewhere and the technical soundness of ideas. Approval in this way is predicated on the logic of efficiency and imputed from their adoption by exemplary others. Based on that, symbolic legitimacy is an assumed link between new ideas and economic outcomes. However, the collective structures of professional accounting associations, such as CPA Australia, may ease the change because they enable theorisation. In a highly professionalised setting, symbolic legitimacy is gained during diffusion, as diffusion requires a normative justification.

Professional associations contribute to legitimisation in discrete ways. Further research is clearly needed to draw out the complex ways through which associations contribute to continuity and change and the connection between their actions and different types of legitimacy. Theorisation processes can be expected to vary according to their intended recipients. Legitimation involves discourse both within and outside an organisational community. The discourse occurring within a profession, how professionals "talk" to each other, may be different from how professionals talk to outsiders and the legitimising discourse adjusted accordingly (Leicht & Fennell, 2008). Following this overview of professions, legitimacy and the institutions, the next section will discuss the

interconnections among international institutions, including professional accounting bodies, the Big 4 accounting firms, the MNEs and international accounting bodies such as the IASB.

### ***2.3 The Anglo-Saxon Embeddedness: Professional Bodies, Big 4 Accounting Firms, the Multinational Companies and the IASB***

Leicht and Fennell (2008) draw attention to change within professions with regard to the growing importance of the institutional environment. They refer to “A growing embeddedness of network connections between large institutional and corporate actors, to the exclusion of the best interests of individual clients and consumers of professional services” (p. 445). Such consumers may include governments. Leicht and Fennell (2008) suggest that not all forms of embeddedness are desirable. As an exemplar, they refer to the embeddedness of Arthur Anderson and Enron. More widely, such embeddedness, while not necessarily undesirable, happens among the Big 4 accounting firms, the Anglo-Saxon professional accounting bodies, MNEs and the IASB, the latter being a body financed by the MNEs. In turn, the Big 4 accounting firms gain by the expansion of activities by MNEs, and in turn the professional accounting bodies gain by the advancement of membership when the Big 4 are established overseas.

Other researchers have drawn attention to this growing interrelationship. Samuel (2006) notes that for the Big 4 accounting firms, the thousands of clients converting to the

IFRS is an opportunity for their organisations as well as for their auditors. Significant amounts of training and consulting activities are required as these standards are new and unfamiliar to locals who need to purchase some services from consultants in order to overcome the uncertainty. In addition, international auditing firms, such as the Big 4, dispatch their employees to other countries as well as to MNEs. There are positive normative effects from the transfer of accounting staff worldwide.

Larson (1997) found that lobbying of the IASB is dominated by large multinationals and that 30% of the world's top 50 biggest companies participated in lobbying the IASB, and of the corporate letters to the IASB the large companies' letters made up 85% of the total. This finding seems to be consistent with the opinion of Sikka (2001) that standard-setting just serves the interests of a few powerful groups, namely large multinationals and large accounting firms.

Albu et al. (2011) also observe that "The current Big 4 accounting firms play a profound role in the globalization of accounting and represent the normative pressures that affect organizations and the choices they make in accordance to their reporting and practices implemented" (p. 92). Moreover, Saudagaran (2004) states that MNEs can derive additional benefits from adopting a single set of global accounting standards; for example they can easily monitor subsidiaries around the world, and obtain more useful managerial accounting reports and evaluation methods.

Given its benefits to the big accounting firms and MNEs, expansion continues apace.

Since 2001, the IFRS has been adopted by more than 120 countries, and all remaining major countries have agreed to either converge with or adopt the IFRS by eliminating major differences between the IFRS and their own generally accepted accounting principles (GAAP) in the near future (IASB, 2013b).

On the other hand, there are voices of concern. Saudagaran (2004) considers the progress of the adoption of the IFRS to be a form of accounting colonialism because the for-profit 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. Furthermore, the case study of the IFRS implementation in Romania proved that merely adopting the IFRS by developing countries will not result in the desired outcomes if their capital market regulations and economic development policies do not change, so the quality of IFRS implementation will, to some extent, depend upon the evolution of the surrounding environment (Albu et al., 2011). Other researchers present similar views from the perspective of developing countries. Antwi (2009) maintains that western countries are the main brains behind the funding of the IASB. Antwi (2009) argues that the main objective of the IASB is to develop the IFRS as a single set of globally accepted for-profit accounting standards in order to create a more efficient and effective world-wide system. Most capitalist countries will be favoured in the process of adopting the IFRS as their social environments and legal systems match this objective. Examining the same theme from a communist perspective, Doupnik and Perera (2007) comment that more centralised economic systems would focus more on the



management of their entire industry as the purpose of their financial reports are to evaluate centrally controlled economic plans. Doupnik and Perera (2007) maintain that it is debatable whether substantial benefits would in fact be gained by adopting the IFRS because accounting practices are not designed for investment decision-making in most communist countries.

The complaint is that the IFRS are “carbon copies” of standards originating from the UK and the US with a strong orientation towards maximising shareholders’ wealth rather than the social functions of accounting (Mir & Rahaman, 2005). However, the counter argument is advanced by Sir David Tweedie (2006), ex-chairman of the IASB:

*For auditors, a single set of accounting standards should enable international audit firms to standardise training and better assure the quality of their work on a global basis. An international approach for accounting should also permit international capital to flow more freely, enabling audit firms and their clients to develop consistent global practice to accounting problems and thus further enhancing consistency (p.1).*

In addition, Ball (2006) promoted the idea that more accurate, comparable, comprehensible financial statement information should lead to better informed valuation over various capital markets, which means it would be possible to enable small investors to compete with institutional investors who are well informed in analysing cross-border financial information. By and large, investors could benefit from the process of speaking the same financial reporting language worldwide. Moreover, the adoption of the IFRS could facilitate cross-border acquisitions by investors.

The point being made in this section is that the Anglo-Saxon accounting bodies are linked together for mutual advantage and this is recognised in the literature as shown, and perhaps resented by those authors outside the Anglo-Saxon tent. It is suggested that this self-serving embeddedness forms an accounting background to the research questions asked in this thesis, and may colour the responses of interviewees in unsuspected positive or negative ways.

## ***2.4 The Development of the Accounting Profession in Anglo-Saxon Countries***

Lee (1995) argues the accounting profession was established “to gain market control of an occupational service by means of monopolistic exclusion of individuals deemed unworthy or unqualified to provide it” (p. 49). By contrast, Bledstein (1976) observes that organised professions were the means by which the middle class exercised cultural control and established its social status. In the same vein, Johnson (1972) and Friedson (1983) maintain that the development of a profession is the result of cultural and historical forces. Earlier Carr-Saunders and Wilson (1933) attributed the development of the profession to unselfish motives such as a desire to serve the public interest. By contrast, Larson (1977) argues that professions are organised to gain market control of their respective service fields by establishing monopolies, entry prerequisites, and examinations. The following sections review the development of the accounting

profession in three Anglo-Saxon countries: the UK, the US and Australia. The significance of such a review is that the UK and the US provide the two earliest and most influential examples of the accounting profession's development. Moreover, by studying the professionalisation process in Australia, a clear picture of the context in which CPA Australia operates can be drawn.

#### **2.4.1 The United Kingdom**

A formal professionalisation process of accountancy originated in the mid-to-late 1800s in two territories (geographical jurisdictions): Scotland and England (Lee, 1995). Many accounting historians (Kedslie, 1990; Macdonald, 1985; Parker, 1986; Walker, 1988) suggest the bankruptcy laws were a factor in the formation of an accounting profession in Scotland and England. The effect was to further separate the operations of lawyers and accountants, which were at that time blurred. Work around voluntary insolvency became an important feature of accountants' rather than lawyers' work. It can be claimed that the accounting profession has its roots in the legal profession and the legal development of numerical and calculative functions that required specialised treatment. From this beginning, Napier and Noke (1992) maintain that the accounting profession extended its influence into corporate accounting and auditing. However, it was not until the 1940s that the accounting profession began to issue to its members accounting standards which were regarded as mandatory. Under the UK Company Act 1948, the accounting profession finally attained a monopoly of corporate audit services. The

monopoly of audit services by the respective national professional accounting bodies was subsequently copied by most countries in the world.

Lee (1995) suggests that some common features of the early UK professional accounting bodies were to seek legitimacy in royal charters. For example, the Scottish Society of Accountants formed in 1853 and the English local societies formed in the 1870s merged into the ICAEW in 1880. Both defended the exclusive use of accounting professional designations, entry, examination and training requirements (Freidson, 1983; Napier & Noke, 1992). Both sought statutory registration of the title of professional accountant but failed, even though the title chartered accountant was protected by the courts. However, perhaps because of their “chartered” designation, UK accountants enjoyed a prestige and status which was not available in the US professional bodies before the 20th century (Kedslie, 1990; Lee, 1995; Macdonald, 1985; Walker, 1988). Another feature of the early UK bodies, which distinguishes them from many professional accounting bodies today, was that they created an institutionalised environment separate from the state and were left to be self-regulating (Lee, 1995).

#### **2.4.2 The United States**

Between 1870 and 1900 in the US, economic opportunities for investment by UK companies and investors opened the way for an inflow of a large number of experienced

Scottish and English chartered accountants (Bledstein, 1976; Bruchey, 1990; Galambos & Pratt, 1988). Lee (1995) states that since there were no such institutionalised bodies in the US, these accountants began to form institutions. The first body in the US, the Institute of Accounts, was formed in 1882. Admission was open to any accountants passing its test, and its function was the education of accountants. A few more bodies were formed from 1882 onwards such as the American Association of Public Accountants which was formed in 1887. This Association restricted its membership to individuals in public practice. They sought professional status and economic rewards perceived to be unavailable from the Institute.

Both bodies individually and then collectively sought state accreditation and licensing, starting with the State of New York. Unlike the situation in the UK, they were successful in becoming licensed accountants. Following prescribed examinations and training, a licence was granted by the state in which the individual accountant worked. Later, each state founded a society of accountants separate from federal bodies like the Association to regulate and administer its certified public accountants. The Federation of Societies of Public Accountants (which later merged with the Association) was formed in 1902 to take overall control of the state societies (Lee, 1995).

Lee's (1995) study argues that the US system of accreditation and state licensing potentially created dual duties as accountants served both the state and its professional body; this was not a feature of the UK system. A schism occurred from 1916 to 1936 as

the conflict between developing a self-regulating, independent body and the existing system of the state-based licensing of Certified Public Accountants (CPAs) became severe. In 1936, professional bodies merged into the American Institute of (later, Certified) Public Accountants, with a membership open only to certified public accountants. Subsequently, a uniform examination system was adopted by all states in 1952. Being open to an academic perspective, the US bodies used state-based higher education facilities to enhance professionalism, similarly to the Scottish profession, rather than relying on practical training, as in England.

### **2.4.3 Australia**

The Australian accounting profession, like its New Zealand counterpart, was influenced by the British model (Parker, 1986, 1989). In the late 19th century, each Australian state developed its own professional accounting body. The earliest association, the Incorporated Institute of Accountants Victoria (IIAV), was formed in 1886, and was the antecedent body of CPA Australia. In 1901 the 'Federation movement' led to the six former British colonies uniting to form the Commonwealth of Australia. As a result of this movement to a commonwealth, a preference for national associations began to emerge (Carnegie, Edwards, & West, 2003). In 1908, the Australian Corporation of Public Accountants (ACPA) was incorporated. Eventually, the IIAV and the ACPA became the key forerunners respectively of CPA Australia and the Institute of Chartered Accountants in Australia (ICAA). The IIAV (the forerunner of CPA Australia) became,

in 1952, the Australian Society of Accountants (ASA), a body with generally more permissive entry requirements (Carnegie et al., 2003). The strategy of the ASA was “that of exerting influence through the amassing of members and resources” (Carnegie et al., 2003, p. 811). After a series of mergers and changes in the 1990s, the ASA became the Australian Society of Certified Public Accountants (ASCPA) and officially entered Asian markets in 1993. The ASCPA became CPA Australia in 2000.

CPA Australia started its venture into Asia in Hong Kong, Malaysia and Singapore in 1988. However, it wasn’t until 2002 that it opened the Beijing office in mainland China, and later in 2006 opened another office in Shanghai. In the middle of 2012, CPA Australia opened its third office in Guangzhou. As of 2011, out of a total of over 139,000 members worldwide, 3% of CPA Australia’s members were located in mainland China (CPA Australia, 2011b). CPA Australia has been coordinating with the CICPA on various fronts, including sponsoring the 2010 China National Tax Competition and the International Partnership Programme (IPP) from 2007 to 2010. In the IPP, the CICPA and CPA Australia jointly sponsored elite Chinese CPAs to attend a three-month intensive training course in the Melbourne Head Office, thereby enabling these CPAs to attain a CPA Australia qualification (CPA Australia, 2010).

Following this review of the professionalisation process of accountancy in the three Anglo-Saxon countries, the next section will provide a comprehensive review of the development of the Chinese accounting profession.

## ***2.5 The Development of the Chinese Accounting Profession***

The accounting profession in China emerged as a result of the inflow of western capital from America, England and France together with western public accountants. To protect Chinese local enterprises, Mr Lin Xie proposed to the government the establishment of a public accounting system (Aiken & Lu, 1998; Guo, 1988; Hao, 1999). In September 1918, the regulations for public accountants were officially published and Mr Lin Xie became the first “certified accountant” in China (Li & Wang, 1989). After that, the Chinese accounting profession was influenced by western countries for over a decade until the new China was founded in 1949 (Aiken & Lu, 1998; Guo, 1988; Hao, 1999). Therefore, the period from 1900 to 1949 can be considered the first phase in the development of the accounting profession in China and it was strongly influenced by western countries. However, for the next 30 years the accounting profession in China experienced very little development as a result of continuous political upheaval.

The second phase of the development, from 1949 to 1978, was significantly influenced by the Soviet model. When in 1949 the Communist Party became the government, accountants as a profession had no status and had effectively disappeared (Yee, 2009). By introducing central planning, the economic structure of China was dramatically changed, the capitalist enterprises being replaced by the state-owned and collective enterprises. All private enterprises in China were transformed into publicly owned enterprises. As a result, a uniform accounting system was imposed by the Ministry of



Finance. Under this system, the cultivation and allocation of accountants were regulated by the Ministry of Finance and hence there was no demand for professional public accounting and auditing services in this second phase (Aiken & Lu, 1998; Hao, 1999). During the Cultural Revolution in 1966, accounting became a very dangerous career. Accountants were targeted for persecution (Bledstein, 1976).

The third phase of the development started after the economic reforms in 1978 and it is still ongoing. As a result of the economic transformation and the policy of opening up to the world, many foreign direct investments were made in the form of Sino-foreign joint ventures (Hao, 1999; Nobes & Parker, 2008; Yee, 2009). These joint ventures were regulated by a different set of policies and followed international conventions. In order to cope with the new regulations on joint ventures, the public accounting profession in China, which had been suspended and had ceased practising, was then reinvented by the government. The CICPA was eventually established in 1988 (Hao, 1999; Kliegman, 2005; Zhang, 1997).

The first “Chinese Accounting Standards for Enterprises” came into effect in 1993 (National People's Congress, 1993). It was a remarkable move towards the use of international accounting standards in China. The conceptual framework of the regulations was close to the US and the IASB standards. However, the regulatory framework was very different from that in the Anglo-Saxon countries. The “standards” were issued by the Ministry of Finance and stated in the standards that the government

agencies retained control over the CICPA (Nobes & Parker, 2008). The role of the CICPA was then expanded in the “The Law of the People’s Republic of China on Certified Public Accountants”, but the Ministry of Finance still retained a high degree of monitoring and directing authority (Hao, 1999; National People’s Congress, 1993).

In particular, the CICPA has been developing joint training programmes with the ICAEW and the HKICPA (CICPA, 2010, 2013). The CICPA aims at training 2,000 Chinese CPAs to become ICAEW or HKICPA members within 10 years (CICPA, 2005). The Chinese accounting profession has limited recognition globally. Therefore, one of CICPA’s main objectives is to train Chinese CPAs to get western professional qualifications so that the level of competency of Chinese CPAs can be generally lifted to meet international standards (CICPA, 2008).

The government retained tight control over the accounting profession in the early stages of the reform by specifying the range of services that could be offered by Chinese CPAs. They also required that all Certified Public Accounting (CPA) firms in China had to operate under the sponsorship of government-related organisations or units (Hao, 1999). This led to a debate around the lack of independence of the Chinese CPAs, CPA firms and the CICPA. This it was argued would be a major constraint to the further growth of the accounting profession in China (Yee, 2009). In response to this issue, in 1998 the 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). This is considered a major change in the history of the accounting profession in China and has given impetus to further development. In this context, Perera (1989) notes that in earlier, less complex times, it was assumed, in the countries with a common-law heritage such as the UK and US, that “accounting should be developed by accountants, independent of legal direction or government interference” (p. 145). Perera (1989) explains that outside the Anglo-Saxon sphere, to provide much needed professional services, the development of accounting may have to be promoted through appropriate laws and regulations. However, Perera (1989) concedes that the concern is that government involvement is likely to weaken the accounting profession but generally, in the case of developing countries, the accounting profession is “already weak and relatively small, and it is exactly because of this reason that government intervention becomes necessary to safeguard public interest” (p. 149).

The weakness and lack of professional independence, Perera (1989) observes, often coincides with a lower professional status of accountants, which means it is important that the government, for reasons of uniformity and public confidence, provides clear direction. Perera (1989), generally speaking, claims that there will be fewer doubts about the honesty and integrity of accountants if they have a more prestigious status.

This is because, in general, if accountants have a more prestigious status the public will show them a higher degree of tolerance and trust in the diversity of accounting practices. However, if accounting is not regarded as a profession of high public esteem, then it is assumed that accountants are not to be trusted. Accounting uniformity may

seem to be the best way to provide public protection. Of the two situations described above, many developing countries seem to fit into the latter (Perera, 1989).

Thus, reflecting Perera's (1989) observations, in contrast to more independent bodies in the West, the development of the accounting profession in China was and is government-driven and organised, manifesting a coercive isomorphism rather than the embeddedness which Leicht and Fenell (2008) found exists among Anglo-Saxon professional bodies and their institutional networks. The next section will further discuss the development of the accounting profession in socialist or ex-communist countries. In particular, the discussion will emphasise similarities with and distinctions between China and other ex-communist countries, as well as the conflicts and issues that arise in adopting the international accounting standards.

## ***2.6 Socialism to Capitalism in an Accounting Context***

The development of the accounting profession in China (the focus is on mainland China, excluding Macao and Hong Kong) is unique and distinctive. It differs from the way the post-colonial countries, which are mainly influenced by the British Empire (Poullaos & Sian, 2010), have developed. China has more in common with the post-socialist countries in Eastern Europe such as the Czech Republic and Romania. China, the Czech Republic and Romania have been significantly influenced by the Soviet models and have undergone major economic transformations in 1978, 1989 and the 1990s respectively. All of them are moving away from the Soviet models but in

different ways (Albu et al., 2011; Hao, 1999; Seal et al., 1996). It is interesting to note that Nobes and Parker (2008) comment that “the development of financial reporting in Eastern and Central Europe has inevitably been subject to more discontinuities but no country has broken completely with the past, and influences remain both from the pre-communist period and from the communist period” (p. 245).

Sucher and Jindrichovska (2004) point out that previous studies in ex-communist countries show that even if moves towards substance over form and a focus on investors have been attempted, the emphasis on appropriate bookkeeping and on compliance with tax regulations has continued in the Czech Republic. Thus, with regard to communist or former communist countries, it is necessary to recognise the link between financial reporting and tax laws, the lack of IFRS knowledge, and the need to change the mindset of finance personnel (Jermakowicz & Gornik-Tomaszewski, 2006; Larson & Street, 2004).

There are a few problems associated with a lack of clarity in fiscal law, and inconsistent understanding of the IFRS by regulators and preparers; the persistence of the communist mentality among accountants who gained their knowledge and skills prior to the transition are noted (Albu et al., 2011). Vellam (2004) claims that in communist countries the accountants generally preferred more prescriptive regulation and less choice of accounting procedures.

As a result of the problems mentioned above, Albu et al. (2011) argue that even though

a *de jure* harmonisation of national accounting standards with the IFRS existed, the *de facto* application of the IFRS was limited. Changes in accounting systems are justified by external events, often by law requirements (coercive pressure), but they hardly have any impact on routines (decoupling), especially if the change is not consistent with traditional shared values. It is the decoupling or symbolic change that this thesis seeks to uncover.

In the case of the Czech Republic, the government adopted *laissez-faire* policies with regard to the accounting system that finally led to an accounting profession which was relatively free from the political influence of government agencies. However, the domination of the large international public accounting firms (namely the Big Six at that time) in the formation of the accounting system may have resulted in a profession with very little Czech local identity and character (Seal et al., 1996). Arguably, this has not happened in China because, in spite of the *laissez-faire* policies promoted by the government, it seems that the Big 4 accounting firms, the MNEs, the western professional bodies and the IASB are all constrained to some extent in their influence and acceptance.

Unlike the situation in the Czech Republic and Romania, the government agencies in China effectively controlled the entry and operation of large international accounting firms in the early days of reform, and loosened the regulations carefully and gradually. The Big 9 (which have now become the Big 4) were allowed to enter the Chinese

market in the 1980s, and the second-tier firms were only allowed to enter later. In the early 1990s, on condition that they established Sino-foreign joint ventures with Chinese CPA firms, these international accounting firms were allowed to offer auditing services to local clients. This incremental approach taken by the Chinese government was to protect the local CPA firms from excessive competition and promote extensive cooperation between them and these international accounting firms.

Albu et al. (2011) argue that implementation of the IFRS is more about gaining the appearance of legitimacy in financial reporting. This contention is supported by Jermakowicz and Gornik-Tomaszewski (2006), who claim that adoption or convergence is seen as a means for developing countries to gain legitimacy. It especially applies to communist and ex-communist countries, which underwent several reforms during their road to modernisation. In a financial or economic sense, such a need for legitimacy may apply to China as well.

For communist and ex-communist countries, simultaneously with the commitment to convergence, there is evidence of the difficulties or failures of this process. First, Callao, Jarne, and Lai'nez (2007) suggest there is a lack of political will, rooted in the local culture and a strong national outlook that prevents the development of a truly harmonised framework. Second, the magnitude of the differences that exist between countries is recognised and the costs to eliminate them are considered very high (Jermakowicz & Gornik-Tomaszewski, 2006). Third, local traditions have a strong

influence over the implementation of new concepts (Sucher & Jindrichovska, 2004).

Fourth, the economies of these countries are largely tax and law orientated, which obstructs the harmonisation process (Larson & Street, 2004; Vellam, 2004). Finally, it is believed that diversity will not disappear because it comes from a different accounting tradition and the adopters' interpretation will be partially influenced by their history and previous practices (Hoogendoorn, 2006; Schipper, 2005; Tokar, 2005). These factors provide a background to the empirical research to be undertaken as the analysis of findings will distinguish between substantive and symbolic responses.

All these difficulties with regard to adoption or convergence raise the question: Why do developing countries adopt the IFRS? Perhaps for some it is a desire to promote their development and attract financial resources, while for others it may be the result of pressures from multinational corporations or the World Bank, or the effect of the lack of expertise of the national standard setter or regulator (Irvine & Lucas, 2006). There is no doubt that the World Bank and the International Monetary Fund (IMF), being the major sponsors to the IASB's standards, are already acknowledged as playing important roles in demanding that developing countries adopt the IFRS (Chamisa, 2000; Irvine & Lucas, 2006; Mir & Rahaman, 2005).

While some studies agree that the implementation of the IFRS in developing countries may help to improve the trust in accounting information and attract new investors and resources, others suggest that developed accounting models (including the IFRS) are not



appropriate to the economic environment of developing economies (Abd-Elsalam & Weetman, 2003; Irvine & Lucas, 2006).

Chamisa (2000) shows that many former communist countries (such as China, Poland, the Czech Republic, Romania) are adopting or converging with the IFRS and considers that their new orientation is not surprising, because “capital markets are being established and developed” (p.276). Nonetheless, differences in the way the IFRS is applied in Romania and in other countries will remain, because of the environmental factors affecting the accounting systems such as the characteristics of a code-law country, a dominant position of the state and a reduced importance of the accounting profession.

Such differences remain, as Albu et al. (2011) argue, because for Romania genuine accounting change is a slow process and the transferability of accounting constructs from one culture to another is controversial. Ding, Hope, Jeanjean and Stolowy (2007) document that in countries with a relatively weak accounting profession, the comprehensiveness of accounting standards would be lower and a weak profession would be associated with less sophisticated accounting standards. For many communist and ex-communist countries, while they acknowledge that substance over form is an important issue, in reality because such a concept depends heavily on professional judgment their bookkeeping compliance models do not facilitate a change. Therefore, instead of leaving people to use principles and apply professional judgment, they

continue to give rules. Albu et al. (2011) cite one informed respondent as saying:

*I would probably prefer to use financial statements prepared in accordance with IASs, but this is not essential for me ... What I would really prefer is a change in the mentality of Romanian accountants ... I am not thrilled when seeing financial statements prepared in accordance with IFRSs but I know nothing is changed behind ... They can say they observe IFRSs, but in fact their judgment is the same...for my needs I want a different mentality, not just mere application of the provisions of the law. (p.92)*

Such claims are consistent with previous literature concerning the difficulties of implementing the IFRS in emerging economies (Ding et al., 2007; Jermakowicz & Gornik-Tomaszewski, 2006; Mir & Rahaman, 2005). Albu et al. (2011) consider that Romania cannot be regarded as a country displaying successful IFRS implementation, but as one with low conformity and manifesting resistance to change. The obstacles we find are the importance of taxation, the lack of educational training and also of resources, as well as the reduced power of internal coercive factors (such as users other than the state, and auditors other than the Big 4). As the Romanian case illustrates, preparers, auditors, regulators, professional bodies – those shaping the context of IFRS implementation – have incentives that “remain primarily local” (Ball, 2006). Thus, the process of IFRS implementation across the world is highly contextualised, and every case is relevant and contributes to the understanding of the harmonisation process and its challenges. But the point to note is that in many communist and ex-communist countries much the same problems arise and are resolved more in form than in substance (Albu et al., 2011; Callao et al., 2007).

Following this review of issues and conflicts arising from the process of professionalisation in the socialist and ex-communist countries, the next section will facilitate a discussion on the growing tensions between China and international accounting bodies.

## **2.7 Globalisation Tensions: Symbolic versus Substantive Change**

One aspect of the growing tensions between China and global accounting regulations is the accounting scandals that have engulfed Chinese firms listed on American Stock Exchanges. For example, in May 2011, the American Securities and Exchange Commission (SEC) took legal action against Deloitte's Shanghai arm in a case involving a Chinese client. The next day, Chinese officials announced that foreign partners would hand control of the big 4 to their Chinese colleagues by the end of 2017 (Ebrahimi, 2012). It may be argued that Chinese officials believe the SEC is going too far in pursuing Chinese auditors when they are already regulated by the Chinese Ministry of Finance. To many Chinese, such legal action taken by the SEC may seem like American imperialism or western colonialism.

The global tension in accounting arises because many Chinese firms listed on American Exchanges are using Chinese auditors. One such example is Longtop – a Chinese business software firm. The auditor partner from Deloitte resigned a year ago from the Longtop audit, claiming to have found very serious defects during the audit for the

financial year ending March 2011 (Norris, 2011). But Deloitte's Chinese partners refused to hand over the working papers on the Longtop audit to the SEC on the grounds that doing so would contravene local laws and that they needed to defend Chinese sovereignty (*The Economist*, 2011). Another source of tension is that the Public Company Accounting Oversight Board (PCAOB) is required to inspect all listed accounting firms based abroad, but China has continually blocked access. If China continues to block access and Chinese accountants are not audited by the PCAOB, these companies may be deregistered from American Exchanges on the grounds that they do not have a registered auditor (*The Economist*, 2011). Also western multinationals with Chinese subsidiaries will not want to use deregistered Chinese auditing firms. With some 36 countries already cooperating with the PCAOB, it would appear that China is rejecting international regulatory cooperation. However, China may see such regulations as examples of western colonialism (*The Economist*, 2012a).

For the purpose of this thesis, it must be observed that China in recent years has welcomed the invitation to participate in international financial accounting bodies, and also welcomed western accounting practices and professions into China. Moreover, China has moved to converge its standards with those of the IASB (IASB, 2006) [while not announcing a date for adoption]. Such changes in the development of accounting in China, which seem to be substantive, may in practice be more symbolic.

Other examples are available of the responses of governments or governmental

agencies. Boxenbaum and Jonsson (2008) comment that decoupling often occurs to confer legitimacy while being implemented so as to have little substantive impact. In this way, the formal structure can be decoupled from implementation. Boxenbaum and Jonsson (2008) give examples of affirmative action in a US college and reforms at Swedish rail where operations were unchanged by reform. This kind of decoupling can be seen on a world stage as governments become actors.

Meyer (2008) points out that national states (e.g. China) promote world norms with which they have no capacity to conform at home. For example, China has secrecy laws which cannot be violated by their auditors, yet it wants access to public listing in the US while being aware that the PCAOB will demand to audit its auditors. Meyer (2008) goes on to say that modern organisations and national states appear to be eager to construct themselves as actors, thus incorporating, often wholesale, global standards. In the same vein of decoupling, Drori (2008) observes that “Ceremonial commitment to the globally institutionalized models, structuration, based on symbolic gesturing, and gratuitous compliance with universalized standards result in loosely connected structures, action, and formal discourses” (p. 466).

## **2.8 The Research Problem**

As shown above, extensive research has been done on the formal professionalisation process of the western professional accounting bodies. It would appear that as the growth of local markets reached maximum levels, professional accounting bodies made

the move to overseas markets, in particular to emerging Asian markets such as China's. In part, as shown in this background chapter the Anglo-Saxon professional bodies were responding to and reciprocating the expansionary strategies previously developed by their institutional networks of related and mutually reinforcing parties. This chapter has devoted space to explaining this mutual reinforcement within an institutional network. To a great extent, such mutual collaboration, however informal, has been successful and allowed all the participating institutions to spread around the world.

The globalisation promoted by the Anglo-Saxon institutions has often been more symbolic than substantive and has engendered some criticism, as has been shown in this chapter. These negative features of globalisation are significant to this thesis when considering the responses to the research questions. Also, more recently, there have been signs in China of a "push-back" against the institutional networks within which the professional bodies are embedded, as identified by restrictions on the Big 4 and the foreign oversight of Chinese audits.

Such background constraints may or may not influence the empirical investigation to be undertaken, and may or may not colour the eventual findings. Hence, the aim of this thesis is to investigate the phenomenon of the expansion of western professional accounting bodies into China, which has not yet been studied. It is against a background of growing China assertiveness that the research will be undertaken and is, arguably, therefore able to make a contribution to the history of the Anglo-Saxon profession and

its move into overseas countries.

The key questions to be investigated are:

1. How does China view the western accounting profession?
2. How do western professional accounting bodies experience their expansion into China – using the case of CPA Australia – and what problems have emerged for them?
3. How do Chinese accountants and accounting graduates view membership of western professional bodies and what are their actions (symbolic or substantive) in respect of membership?

It is an aim of this thesis to decouple the symbolic from the substantive organisational legitimising strategies in respect of the answers to the first two questions. For the third question, the aim is to uncover the elements of legitimacy and analyse the action of individual cases in terms of whether they are more or less symbolic and substantive.

However, for the first two questions it is necessary to examine further the characteristics of decoupling as an institutional strategy, which is the theme of the next chapter (Chapter 3). For the third question, Chapter 4 of this thesis will consider the elements of legitimacy and their linking with symbolic and substantive actions.

## **2.9 Summary**

This chapter reviews the literature concerning the professionalisation of the accounting profession in three Anglo-Saxon countries, namely the UK, the US and Australia.

Following a review of the development of the Chinese accounting profession, the chapter then compares the accounting profession in these western countries with the Chinese accounting profession, with a focus on the institutional pressures that drive the changes in the process of accounting professionalisation. By introducing the subject of the embeddedness of the international institutions, including the Big 4 accounting firms, the MNEs, the western professional accounting bodies and the IASB, the growing global tensions between China and the international accounting bodies are highlighted.

The gap in the literature is then identified at the end of the chapter with a brief discussion on the significance of the current study. For the first two research questions, new institutional sociology (NIS) will be reviewed in the next chapter (Chapter 3). It will examine various forms of homogeneous isomorphism and then study the characteristics of decoupling as an institutional strategy.



## **CHAPTER 3: New Institutional Sociology**

### **3.1 *Introduction***

The purpose of this chapter is to explain how aspects of institutional theory can be used to explain how governmental, professional and individual actors construct strategies to implement or respond to change. The issues to be examined are China's welcome to foreign accounting professional bodies, the strategies of western professions operating in China and why or why not individual actors would respond to these developments. The development of new institutional sociology (NIS) is reviewed (section 3.2), and an explanation is provided of why NIS is relevant in terms of governmental and professional considerations, and the usefulness of isomorphism (section 3.3). After a broad overview, NIS is identified as most relevant to this thesis. In the next section the concepts of isomorphism are illustrated, and then the literature on decoupling is reviewed (section 3.4). Decoupling, with its connotations of symbolism is a concept important to the arguments developed in this thesis, and it is discussed in section 3.5. This chapter teases out the difference between symbolic and substantive strategies, as such a difference is of underlying importance in analysing the empirical findings in later chapters.

Institutionalism can be seen to have three branches: old institutional economics (OIE), new institutional economics (NIE) and new institutional sociology (NIS). They develop either sociological or economic theories and while there are differences between them

they share the belief that institutions are important (Moll, Major, & Hoque, 2006).

OIE was first described by Veblen (1898) as being a settled habit of thought general to men. More importantly, OIE rebutted the classical economic argument that individuals were rational but greedy – utility maximising. Instead, OIE considered a multiplicity of influences shaping behaviour – many of them institutional – and in particular power, politics, and technological change. Rather than focusing on specific institutions OIE considered institutions more at a societal level, that is, on why and how changes occurred, what new structures were created, and what old structures disappeared. Accounting studies based on OIE have also followed a theme of transformation and reorganisation (Moll, Burns, & Major, 2006).

However, there has been some movement in OIE studies from the macro to the micro level as research increasingly considers institutional behaviours within organisations. Nelson and Winter (1982) have observed customary practices in business and accounting, and explain how such regularities enable businesses to hand on established knowledge. Institutions may be defined as “promoting settled habits of thought common to the generality of men” (Veblen, 1919, p. 239), or “[...] a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people” (Hamilton, 1932, p. 84).

NIE’s objectives are much more micro-analytical and more accepting of neoclassical economic influences. Thus, NIE attempts to explain the existence, appearance and

disappearance of institutions (Moll, Burns, et al., 2006). North (1993) explains:

“Institutions, composed of rules, norms of behaviour, and the way they are enforced, provide the opportunity set in an economy which determines the kind of purposive activity embodied in organisations (firms, trade unions, political bodies, etc) that will come into existence” (p. 242). Research adopting an economic approach is more likely to consider organisations from a neoclassical economic position. NIE researchers focus more on the continuity and emergence of organisations, and their failure (Moll, Burns, et al., 2006).

However, NIE, which is premised entirely on the neoclassical economics paradigm, is not featured in this study because it explains institutional behaviour in terms of economic forces. OIE is also not featured because it focuses more on power and politics impacting at a societal level, whereas this study is focused at a micro rather than a macro level. For these reasons, NIS is seen as giving a more relevant theoretical underpinning to this study.

NIS is chosen because through its concept of isomorphism it embraces the influences of the wider environment on the development and expansion of professional accounting bodies. Professional accounting bodies are highly institutionalised and highly structured, and it can be assumed that within such organisations there is resistance to change (Zucker, 1987). NIS offers theoretical explanations as to the influence of the external environment of why professional accounting bodies are seeking growth in

overseas territories. However, such expansion 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. Morphew and Huisman (2002) have issued calls for further research based on the NIS framework to understand the broad isomorphic patterns in the behaviours of institutions.

NIS assumes organisational structures are the product of external influences, that is, they emerge as a function of external pressures as opposed to being the product of a drive for internal efficiency (Abernethy & Chua, 1996). The emergence of professional accounting bodies may be seen as driven by external forces: the desire to influence regulation, the right to have a monopoly of audits, and the right to limit the number of individuals using the description “accountant”. This authority is enhanced by receiving royal assent to use the additional title “Chartered Accountant”. Scott (2001) additionally observes, “Institutions consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behaviour”( p. 33). Professional accounting bodies do just this: they provide the structures and give stability to the meaning of being an accountant (Moll, Burns, et al., 2006).

However, professional bodies that operate in similar fields are believed to yield to the same forces which determine how they operate and how they shape their internal organisations and procedures (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). In

the same way universities organise their structures so that roughly identical procedures and positions are common throughout their particular field. “It is the external rules, procedures, myths and/or norms that define an institution in NIS theory. Institutions are transported by various carriers – cultures, structures, and routines – and they operate at multiple levels of jurisdiction” (Scott, 2001, p. 33).

More importantly, Aldrich (1979) has argued that the major considerations that organisations must take into account are other organisations. 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. It is the drive for political power and institutional legitimacy which this thesis contends to explain: how the Ministry of Finance in China, albeit perhaps ambivalently, views foreign professional accounting bodies and how in turn foreign professional bodies like CPA Australia expands and seeks members in China. Of course, the literature does not address these “how” questions but the concepts that are described can be applied to explain this recent phenomenon.

### ***3.2 A Review of the Development of NIS Theory***

This section reviews the development of NIS theory. Early NIS research focused on “soft” organisations: schools, public agencies, and non-profits. Institutional theory appeared to be limited to examining non-rational facets in market-type organisations or

to studying organisations largely shielded from competitive forces. Meyer and Scott (1983) proposed that all organisations operate in both technical and institutional environments, but that the extent of pressure posed by each varied across differing types of organisations. Scott (2008b) provides a few examples of different types of organisations that operate in very different environments. Banks and hospitals normally operate in highly technical and institutional environments, whereas health clubs and day-care centres face low demands from either of these environments. As a result, organisations such as health clubs and day-care centres tend to be short-lived and relatively weak. On the other hand, schools and mental hospitals operate in highly institutional environments but low technical environments, in contrast to manufacturing firms that operate in highly technical but low institutional environments.

The beginnings of a more complete and robust institutional formulation began to surface in the early 1990s. For example, Powell and DiMaggio (1991) suggested that NIS should redirect its attention to “show how political and institutional forces set the very framework for the establishment of economic action” (p. 187). In a similar vein, Orrù, Biggart and Hamilton (1991) insisted that “institutional arrangements played a paramount role and can be observed at the very core of market-regulated, technically dominated environments” (p. 362). Whitley (1992) proceeded to examine the “distinctive business recipes in various institutional environments that become established as the dominant forms of business organization in different societies” (p. 125). NIS began to recognise that rules, norms, and belief systems undergird all stable

social systems, including economic systems. Institutional processes are not restricted to realms lacking competitive processes. Rather, these processes provide the rules and norms governing competition and the cultural templates providing the repertoires of strategic action (Clemens, 1997).

Institutional systems undergo change for both external and internal reasons. Exogenous change may be occasioned by disruptions, occurring in wider or neighbouring systems whether for political, economic, or social reasons, that destabilise existing rules and understandings (Scott, Ruef, Mendel, & Caronna, 2000; Thornton, 2004). Endogenous sources of change include gaps or mismatches between more macro systems and micro activities in response to local circumstances, inconsistencies existing between institutional elements or competing frameworks, and persisting poor performance levels in relation to expectations (Dacin, Goodstein, & Scott, 2002; Scott, 2008b; Sewell, 1992). Institutional change was the topic, but attention was restricted in these early studies to convergent change (Oliver, 1991; Scott, 2001). A number of empirical studies have been carried out to examine the construction of institutional arrangements and their associated organisational fields. Renewed attention to change and, more broadly, recognition of the value of studies of organisational fields indicated the maturation of institutional theory.

The process of a change in the institutional logic of an organisational field diffuses through the management control system of a firm. The theoretical framework proposed

by Hasselbladh and Kallinikos (2000) describes the institutionalisation process of management control systems in more detail by observing how ideals are translated into discourses and control techniques: “Institutions are conceived as consisting of basic ideals that are developed into distinctive ways of defining and acting upon reality supported by elaborate systems of measurement and documentation for controlling outcomes” (p. 704).

The ideals refer to the institutional logic promoted inside the organisational field as already defined (Foucault, 1980, 1988). When ideals are developed and specified into elaborate systems of relationships and causal models, they are transformed into a discourse. A discourse is a way of defining and acting upon reality, while control techniques involve an elaborate system of measurement and documentation for controlling action outcomes. These are usually expressed in numerical or other forms of codification (Hasselbladh & Kallinikos, 2000).

There is a need for internalisation for an institutionalisation process to be fully accomplished (Kostova & Roth, 2002). Actors internalise their subjective interpretations according to how they understand the process is to be accomplished. A common goal can be objectified even though the participating actors may have internalised different understandings. Thus, it is possible that CPA Australia’s entry into China became objectified as a strategy, because the decision-making actors internalised their own understanding of how the process was carried out (Hasselbladh & Kallinikos, 2000).



Dambrin, Lambert and Sponem (2007) point out:

*Indeed, when ideals, discourses and techniques are not coherent, subjectification, i.e. the invisible side of the institutionalisation process, is hindered. A more invisible side of institutionalisation lies in the internalisation of the new rationales by organisational actors, meaning the way actors understand their roles and enact them according to, against, or regardless of these new rationales. (p. 203)*

Management control systems are a combination of control mechanisms designed and implemented by management to increase the probability that organisational actors will behave in ways consistent with the objectives of the dominant organisational coalition (Abernethy & Chua, 1996). The use of the theoretical framework proposed by Hasselbladh and Kallinikos (2000) offers new insights into the decoupling phenomenon by studying the institutionalisation process through ideals, discourses and techniques. It calls into question the systematic as well as the linear nature of this process. Ideals, discourses and techniques do not naturally translate from one to another: decoupling appears when there is no coherence between them. Moreover, it argues that ambiguous ideals and ambivalent techniques may facilitate the implementation and the internalisation of a new institutional logic in a given organisation. Such a new institutional logic may be the driver behind the entry into China of western professional bodies like CPA Australia.

From an institutional perspective, organisations are treated as successful to the extent that they embody societal myths concerning rationality. “A societal myth is the belief that two or more unrelated events are in fact linked, for example, the belief that a

credentialed teacher is a better educator than a non-credentialed teacher” (Euske & Euske, 1991, p. 82). Legitimacy is defined as organisational compliance with the expectations of key external constituencies, such as taxpayers, local or regional governmental bodies or clients. By conforming to their expectations, organisations receive funding and support. As a result, legitimacy, as opposed to efficiency or control over resources, is the main criterion for survival and growth. The entry of professional bodies like CPA Australia into China could be conceived as a drive for legitimacy rather than efficiency or control over resources, bolstered by the social myths that somehow legitimacy and efficiency are related.

It is a key underlying assumption of institutional theory that an organisation’s structure becomes isomorphic with the relative environment, that is, the organisation adopts structures and other features that reflect the environment in which it operates. In other words, “the more the formal structure conforms to social beliefs about what the organisation should rationally do, the more ‘legitimate’ the organisation. The more legitimate the organisation, the less emphasis is placed on the evaluation of outputs” (Euske & Euske, 1991, p. 84).

From an institutional viewpoint, managers develop a strategy to promote a rational image that matches the expectations of constituencies. This rational image is projected through activities such as strategic planning, development of policies and procedures, budgeting, and evaluating internal compliance with rules and regulations (Meyer &

Rowan, 1977). These activities reflect the structural aspects of the organisation, not the technological aspects. From this perspective, the organisational structure may be decoupled from the technology of the organisation. This does not mean that the development of strategic plans, budgets, reporting systems and policies are merely rituals. Their prime purpose may be to convey an image of rationality, and translate the activities of the organisation in such a way that the environmental requirements for rationality are fulfilled. Their secondary purpose may be to provide managers and supervisors with methods of controlling resources.

Organisations import their formal structures from outside. They emulate and reproduce the procedures, rules and structures that enjoy external legitimacy. Formal structures come from the state, from professions, or from other “successful” organisations (DiMaggio & Powell, 1983). In general, rationalised myths were the creation of western culture. The legitimacy of accounting over time and across nations gave credence to this idea, but a more subtle approach now seems necessary (Meyer & Rowan, 1977). In agreement with NIS theory, accountants recognise the importance of the state and the accounting profession. The core issues of power, legitimacy, and rationality run through both institutional and accounting literatures. Accountants are the quintessential rationalised myth, and it is surprising that NIS researchers have not devoted more time to studying them. Thus, the literature makes clear that accounting confers legitimacy. It is used more to justify political decisions than to make technical decisions. A major economic power such as China needs accounting to confer legitimacy on its economy

and to promote its power and culture. Technical efficiency while necessary is not sufficient without legitimacy. At the same time, western professional bodies like CPA Australia seek to promote their power and culture beyond Australia. Being a major professional accounting body requires more than being technically efficient, it requires global recognition – in other words legitimacy.

Finally, it may be argued that “Institutional theory is a vast and mixed lot, joined by a common premise that institutions matter” (Moll, Burns, et al., 2006, p. 198). Criticisms of institutional theory abound: it is too deterministic; it is too focused on the prevalence of “decoupling”. Political instability and group differences within organisations are ignored, and, not unconnected with such instability, there is limited consideration of the exercise of power (Moll, Burns, et al., 2006). Nonetheless, the focus of this research is within a framework provided by NIS, and, in particular, the impact and relevance of institutional isomorphism (from symbolic and substantive perspectives) in driving China to encourage western professional bodies like CPA Australia to enter a different cultural and governmental environment. Following this review of the development of NIS theory, the next section justifies why NIS theory is relevant to this research.

### **3.3 *Why NIS Is Relevant***

This section discusses why NIS theory is an appropriate theoretical framework for this research. Research involving NIS has been widely applied in various accounting studies. An investigation into the New York State government’s decision to adopt GAAP

in external financial reporting was found by Carpenter and Feroz (1992) to be influenced by power and politics. In developing countries, NIS has been used to show that western accounting practices have been formally adopted to portray legitimisation, modernisation and transparency although some “decoupling” practices continue to exist (Meyer & Rowan, 1977; Scott, 2001). Similarly, Alam (1997) employed NIS to show how the symbolic role of budgeting in a Bangladeshi organisation was used maintain formal external legitimacy. In UK local government, Seal (1999) used institutional theory to show how accounting had been adapted to resist the implementation of compulsory competitive tendering. Such studies demonstrate common activity patterns among institutions and explain the existence and appearance of institutions, and in some cases their disappearance (Moll, Burns, et al., 2006). However, while some studies show governmental bodies welcoming outside influences for reasons of legitimacy, none have focused on why a professional accounting organisation would choose to operate in a different cultural and governmental environment.

According to DiMaggio and Powell (1983), where organisations depend on the same sources for funding and legitimacy, they will be more subject to their members than organisations with different sources of membership. The result would be that professional bodies which have larger membership base and various sources of membership (for example, the ICAA) could coerce professional bodies which have relatively smaller membership base (for example, the New Zealand Institute of Chartered Accountants [NZICA]) to adopt their practices. Also, the more ambiguous the

goals of an organisation are, the greater the extent to which it will model itself on the organisation that is perceived to be successful. For example, the NZICA is in the process of adopting strategies similar to those of the ICAA, and which the NZICA hopes will be successful in attracting new members in New Zealand (NZICA, 2013b). The reason for this is that organisations like the NZICA with ambiguous goals are highly dependent on an appearance of legitimacy. Such legitimacy is seen as enhancing their survival. Also, where ambiguous goals arise within an organisation such goals may cause conflicts, which can be resolved by copying other organisations such as the ICAA. Moreover, commonalities of membership within a field cause homogenisation by putting professional bodies under similar pressures from members. Thus, within a field like Australia, there will be a higher level of isomorphism than when CPA Australia enters a field like China or New Zealand. Another driver of increasing homogenisation derives from transactions with government agencies. This is because government agencies prefer formal structures and rules (DiMaggio & Powell, 1983). In this respect, professional accounting bodies operating within Australia will show a greater extent of isomorphism because the transactions with the government are necessary and frequent.

There are many arguments to support the theory that institutions are increasingly subject to a process of homogenisation, although there are also arguments suggesting there is heterogeneity among institutions. Neoclassical economists have a preference for natural selection mechanisms, which operate to weed out those institutional forms that are less

fit to survive. On the other hand, Marxists maintain that key elites guide and control the social system through commanding important positions in major institutions. According to Marxists, such a capitalist elite, perhaps what the British call the establishment, exercises political control over various institutions (Scott, 2008a). Nonetheless, DiMaggio and Powell (1983) argue that neither of these arguments is sufficient to explain homogenisation of institutions. Instead, they argue that institutional isomorphism better explains the way institutions are becoming more homogenised. For this thesis, NIS supplies the theorisation to explain how China views the western professional bodies and why western professional bodies like CPA Australia have chosen to operate in China. This thesis employs the arguments that such strategies are driven by three types of isomorphism: coercive, mimetic and normative. These are discussed in the next section.

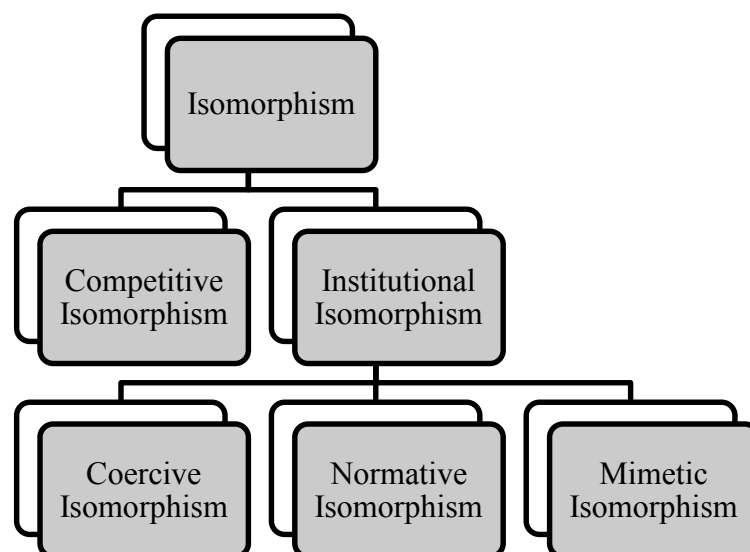
### **3.4 *Isomorphism***

In this section, three forms of homogeneous isomorphism, coercive, mimetic and normative, are explained with reference to the research issues. Organisational bodies such as professional accounting bodies and government bodies begin by displaying diversity in approach and form, as can be seen in the different models used in China, the UK and the US, which have been discussed in Chapter 2. However, once professional accounting bodies become globalised, homogenisation takes place in both the professional accounting bodies and the corresponding governmental authorities. This

process features increasing interaction between different professional accounting bodies, with coalitions and alliances resulting in common accounting standards and mutual awareness. Thus different professional bodies become more alike, and diversity disappears. The concept that best captures this process of homogenisation is isomorphism (DiMaggio & Powell, 1983).

The way that external factors permeate an organisation's structure and procedures is called "isomorphism" (DiMaggio & Powell, 1983). As shown in Figure 3-1, DiMaggio and Powell (1983) describe two types of isomorphism: competitive and institutional. The first is a result of competitive forces causing organisations to adopt least-cost practices and efficient structures and procedures. The second, and more the focus of this study, is further divided into three strands: coercive, mimetic and normative (Moll, Burns, et al., 2006).

Figure 3-1 Isomorphism





Thus, competition is one force driving homogenisation, but isomorphism is also a major driver of homogenisation. Aldrich (1979) argues, “The major factors that organisations must take into account are other organisations” (p. 265). This is because professional accounting bodies compete not only for members, but also for political power, legitimacy, and social and economic well-being. Sometimes, changes driven by government coercion and company legislation may require certain institutions to do audits according to certain processes. The result may be that a common legal environment will drive formerly different professional accounting bodies to conform in behaviour and structures. The expansion of government and the globalisation of capital are also coercive in driving homogenisation (DiMaggio & Powell, 1983). However, competitive isomorphism also creates a heterogeneous organisational field: for example, western professional accounting bodies like CPA Australia must find a strategic response to established positions in the accounting field in China, which is occupied by the CICPA. This may require some differentiation in their strategies and a proactive response (Boxenbaum & Jonsson, 2008).

### **3.4.1 Coercive Isomorphism**

The concept of coercive isomorphism is relevant to the entry of western professional accounting bodies into China as they must comply with strict Chinese regulations and rules. Such coercive power imposes on western professional accounting bodies like CPA Australia some modifications to their procedures. Chiang (2010) observes that

governments have the potential to act as coercive change agents as they can confer legitimacy. Streeck and Schmitter (1985) point out that the state is not simply another actor in the environment of an organisation because its ability to use legitimating coercion makes it a quite distinctive type of actor. Scott (2008b) observes that the regulatory power of the state can lead to the creation of new institutional forms.

From a broader point of view, China may also face coercive influences from global bodies like the World Trade Organization (WTO) and the IASB to open up its accounting service industry to western accounting firms and professional accounting bodies (Doupnik & Perera, 2009).

The existence of a common legal environment also affects many aspects of an organisation's behaviour and structure. For example, legal commitments, financial reporting requirements, and auditing standards shape organisations in similar ways. As a result, organisations become increasingly homogeneous within given domains and increasingly organised around rituals of conformity with wider institutions. At the same time, organisations are decreasingly determined by the constraints posed by technical activities, and decreasingly held together by output controls (DiMaggio & Powell, 1983).

Therefore, the effect of the Chinese government's regulations on western professional accounting bodies should be seen as an important coercive isomorphic element in the development of these professional accounting institutions. Furthermore, the impact of

global bodies on the Chinese government should also be seen as a significant coercive influence on the development of the Chinese accounting profession. To examine the external influence imposed by and on the Chinese government, the research will include interviews with relevant government officials and key CICPA personnel; an analysis of legal documents and official reports will also be conducted.

### **3.4.2 Mimetic Isomorphism**

By contrast, mimetic isomorphism occurs when “organisations tend to model themselves after similar organisations in their field that they perceive to be more legitimate or successful” (DiMaggio & Powell, 1983, p. 152). Organisations may model or adopt technologies or innovations from similar successful organisations to enhance their own legitimacy. Uncertainty is the force that encourages the imitation. Uncertainty occurs when goals are ambiguous, or when the environment is uncertain. Then, according to March and Olsen (1976), all organisations will model themselves to some extent on other organisations. Such modelling may occur unintentionally as a result of using consulting firms chosen from the narrow range of the Big 4 accounting firms (PwC, KPMG, Ernst and Young, and Deloitte Touche Tohmatsu), or through employee transfer. The aim is to avoid uncertainty. Uncertainty is also a powerful force that encourages imitation. Modelling is a response to uncertainty. One of the most dramatic instances of government modelling was the effort by Japan's modernisers in the late 19th century to model new governmental initiatives on apparently successful western

prototypes. The government sent its officers to study the courts, the army, and the police in France, the navy and the postal system in Great Britain, and banking and art education in the US (Westney, 1987). The Chinese government's welcoming of foreign accounting bodies may be seen as an example of government modelling, that is, allowing multiple professional bodies to enter their domestic market – which is similar to the way Japan used western models to redevelop its economy. Organisations tend to model themselves on similar organisations in their field that they perceive to be more legitimate or successful.

At the professional level, the NZICA has adopted the procedures of successful and rival organisations such as the ICAA by introducing online teaching of professional papers and reducing the qualifying degree period from four to three years (NZICA, 2013a).

With reference to China, the successful expansion into China of the ACCA in the late 1980s and China's convergence with the IFRS have arguably produced a mimetic effect in drawing in other western professional accounting bodies. These theoretical reflections show that external influences such as mimetic isomorphism may partly address the second research question: "How do western professional accounting bodies like CPA Australia experience their expansion into China?" To facilitate a consideration of the influence of mimetic isomorphism, which offers more certainty, more legitimacy and the prospect of success, documentary analysis and interviews with key personnel in CPA Australia will be conducted.

### **3.4.3 Normative Isomorphism**

A third source of isomorphic organisational change is normative and stems primarily from professionalisation. Professions are subject to the same coercive and mimetic pressures as organisations. Two aspects of professionalisation are important sources of isomorphism. One is the requirement for formal education in the discipline and for legitimating that discipline in a cognitive base produced by university specialists; the second is the growth and elaboration of professional networks that span organisations and across which new models diffuse rapidly. Universities and professional training institutions are important centres for the development of organisational norms (DiMaggio & Powell, 1983). Professional associations are another vehicle for the definition and promulgation of normative rules about organisational and professional behaviour.

Within professions, members of the same occupations strive to define their roles and control their outputs. While professionals within an organisation may differ as, for instance, do auditors, auditors are themselves similar to other auditors in different professional accounting organisations (DiMaggio & Powell, 1983). Legitimation within a profession requires the same form of education and university specialisation. Such an education creates a pool of interchangeable professional members who occupy similar positions across similar professional organisations. Thus ICAA and CPA Australia members may be legitimised by the same educational processes. Often within

these organisations, the same structures exist with common career titles and pathways. Normative isomorphism allows the introductions of norms and values by staff from a common professional background and training. This occurs when staff shift from one professional accounting organisation to another, taking with them their former practices and so influencing the adoption of common procedures and structures.

According to Scott (2003), “Unlike externally enforced rules and laws, norms are internalised by participants; behaviour is guided by a sense of what is appropriate, by one’s obligations to others, by a commitment to common values” (p. 136). Jepperson and Meyer (1991) point out that research focus has shifted to examining the effects of individuals and organisational actions on institutions. There is more focus on what is called institutional entrepreneurship to offer a fresh insight into how institutions are influenced by actors and human agency (DiMaggio, 1988; Fligstein, 1991; Hardy, Maguire, & Lawrence, 2004; H. Leblebici, G. R. Salancik, A. Copay, & T. King, 1991). By putting human agency back into the institutional analysis of organisations, NIS helps “move beyond the constraining effects of institutions” (Hardy & Maguire, 2008, p. 213). Scott (2008b) underlines that individual actors’ energy, ideas, conformity and non-conformity are key to constitute and shape the organisational structure. There is no social structure or organisation without the ongoing participation of specific individual actors. Moreover, Jaffee (2001) observes that individuals have the ability to alter the rules and the distribution of resources, or to exercise “agency” to influence or alter the environment and structural constraints. By using their influence, individual actors are

able to create an environment which others must acknowledge and respond to (Greenwood & Hinings, 1996). Often, it is in the interests of an individual actor to alter an organisation's goals (Fligstein, 1991). Such individual actors may reside both inside and outside the organisational environment. Thus, this study will recognise the importance of individual actors as "institutional entrepreneurs", with both internal influence and external influence.

Therefore, the research will also involve interviews with "institutional entrepreneurs". According to Hardy and Maguire (2008), these individuals flourish in emerging fields or fields in conditions of uncertainty, crisis, problems, tensions and contradictions. Fields are "networks of social relations, structured systems of social positions within which struggles or maneuvers take place over resources, stakes and access" (Oakes, Townley, & Cooper, 1998, p. 260). According to Hardy and Maguire (2008), institutional entrepreneurs dislodge existing practices, introduce new ones, and ensure that these become widely adopted in the field. This may explain why western professional bodies like CPA Australia and the ACCA have entered the Chinese market to recruit new members, a strategy which effectively widens the existing practice of marketing for members in Australasia to include the Chinese market. There may also be institutional entrepreneurs in the Chinese government who introduced western accounting practices and professional bodies into China. These individual actors may be, for example, the Vice President of the Ministry of Finance in China or top executives like the CEO and Strategy General Manager of CPA Australia.

However, whether the strategy of expansion and the strategy of introducing western practices involve some “decoupling”, so that they become initiatives made symbolically rather than for substantive reasons, or whether they reflect a genuine desire for global growth is uncertain. The next section of this chapter provides a review and discussion of decoupling.

### **3.5 *Decoupling***

It has been suggested that symbolic strategies could be attempts at impression management to deal with conflicting demands within a heterogeneous field and be ceremonial responses aimed at resolving internal conflict (Boxenbaum & Jonsson, 2008). Sometimes organisational structures and procedures do not meet external expectations or conform to the organisational image. This separation, which may be intentional or unintentional, is called “decoupling” (Weick, 1976). Decoupling may also be seen as a form of window dressing, as when a professional accounting body institutes educational accounting “updates” for practising accountants but in reality such events, held in the evening, are usually given to informal socialising (Moll, Burns, et al., 2006).

According to Meyer and Rowan (1977), decoupling occurs when institutional rules function as myths which are adopted by a profession to gain legitimacy, membership and stability, and to enhance survival. However, these rules which function as myths do not serve the demands of technical production. Moreover, they decrease internal



coordination and control in the interests of legitimacy. Thus within an organisation such structures become decoupled.

Meyer and Rowan (1977) argue that the spread of government oversight has caused bureaucratic structures to be employed as the most effective and rational means of controlling subunits. It is taken for granted that such bureaucratic structures are legitimate and enhance survival prospects, without regard for their impact on outcomes. Such bureaucratic structures are formalised and are regarded as legitimate and effective without any attempt to assess to what degree it has increased effectiveness. Hence the process of decoupling may be observed.

Many researchers have long observed that organisations play active roles in shaping their institutional contexts (Dowling & Pfeffer, 1975; Parson, 1956; Perrow, 1970; Thompson, 1967/2003). Meyer and Rowan (1977) point out that organisations such as automobile producers create a demand for roads, fuel and transportation systems, as well as attempting to build their goals and procedures directly into social attitudes. Automobile producers create a public standard defining a desirable car, which then affects judicial regulations covering what constitutes a car. They give further examples of institutional symbolism: school administrators who create new curricula as legitimate innovations in educational theory, and government requirements, or the codification into institutions programmes, around environmental pollution (Meyer & Rowan, 1977). The results of such symbolic strategies are largely ceremonial and do not result in

substantive change or necessarily increase technical efficiency. However, for this thesis it is important to observe that institutional symbolism is aimed at shaping the institutional contexts and constructing a formal, highly institutionalised structure that functions as myths. It raises the question as to how much the entry into China of western professional accounting bodies, like CPA Australia, is an attempt to build and legitimise their goals and procedures as opposed to increasing membership or improving technical efficiency. Again, a parallel is universities, which establish international relations departments with a view to increasing the number of students from overseas when the reality is that the department serves to legitimise and build the window-dressing goals of the institutions with a large cabinet of gifts and photographs from foreign universities. In the same vein is the Chinese government's welcome of foreign professional accounting bodies a legitimising window-dressing exercise or is it really aimed at promoting technical efficiency? To answer these questions will require interpretation of the views of informed observers or close documentary analysis of the degree to which these initiatives are either symbolically aimed at shaping their institutional contexts or are substantive to improving efficiency.

As Meyer and Rowan (1977) comment, "Modern societies are filled with institutional rules which function as myths depicting various formal structures as rational means to the attainment of desirable ends" (p. 345). These myths are diffused through relational networks and have legitimacy based on the supposition that they are effective.

Organisations may often claim a symbolic role in developing their formal structures. As

Meyer and Rowan (1977) observe, “many organizations actively seek charters from collective authorities and manage to institutionalize their goals and structures in the rules of such authorities” (p. 348). For example, the first professional accounting bodies in Scotland and England sought such charters to institutionalise their goals and structures (Lee, 1995). In this way, organisations attempt to professionalise by symbolically creating rules of practice that are enforced by agencies of government. The point is that this kind of isomorphism incorporates elements which legitimate externally rather than in terms of efficiency. The term “Chartered Accountant” is an illustration of this kind of ceremonial myth conferring legitimacy without necessarily improving efficiency.

To institutionalise their goals and structures, Meyer and Rowan (1977) comment that firms like Rolls Royce symbolically “establish themselves as central to the cultural traditions of their societies in order to receive official protection” (p. 348). In the same way, professional accounting bodies like the NZICA seek to establish themselves as central to the cultural traditions of New Zealand in order to gain legitimisation and official protection (NZICA, 2013c). China’s CICPA has established itself in the same way to keep foreign professional bodies limited to a secondary role. Such symbolic strategies mean institutions will incorporate elements which are legitimated externally rather than in terms of efficiency. A further decoupling is achieved by employing external “ceremonial” criteria to legitimate their formal ceremonial structure (Meyer & Rowan, 1977). Meyer and Rowan (1977) give an example of myths that interpret and

explain actions such as those surrounding doctors and accountants. They argue that we can say accountants will perform certain tasks, and do so, without knowing who these accountants are or exactly what they will do. “Both the speaker and the listeners understand such statements to describe how certain responsibilities will be carried out” (Meyer & Rowan, 1977, p. 349).

According to Meyer and Rowan (1977), ceremonial assessment criteria are used in accounting:

*For example, the conventions of modern accounting attempt to assign value to particular components of organisations on the basis of their contribution – through the organisations’ production functions – to the goods and services the organisation produces. But for many units – service departments, administrative sectors, and others – it is utterly unclear what is being produced that has clear or definable value in terms of its contribution to the organisational product. (p. 350)*

In this way, through mythical systems of shadow pricing, accounting places ceremonially derived production functions on service departments which have no production function. Such ceremonial criteria legitimate organisations in the eyes of their external stakeholders. It is the lack of a production function which often serves to identify a symbolic strategy.

Ouchi and McGuire (1975) conceive of a continuum along which organisations can be ordered. At one end are production organisations with strong output controls and at the other are institutionalised organisations whose success depends on confidence achieved by isomorphism with institutional rules. Formal structures that celebrate

institutionalised myths are different from structures that act efficiently as they are more concerned with goals and appearances. Organisations may face the dilemma of celebrating institutionalised rules or promoting efficiency. Many institutions employ professional consultants to assist their decision-making and possibly improve productivity. But the overriding ceremonial reason is to maintain internal and external legitimacy (Meyer & Rowan, 1977).

Conflicts may also arise between institutional rules and efficiency because the former are couched at high levels of generalisation whereas technical activities may be specific and contextual. But the problem of conflict arises because institutional rules are often inappropriate to specific situations (Meyer & Rowan, 1977). Such conflicts are resolved by decoupling, which requires organisations to protect their formal structures from evaluation on the basis of outputs. This research questions CPA Australia's expansion in China, asking how much is their Chinese structure concerned with substantive strategies. Meyer and Rowan (1977) argue that the advantage of decoupling is that formal structures are assumed to be working and protected from evaluation criteria involved in technical activities:

*Thus, decoupling enables organizations to maintain standardized, legitimating, formal structures while their activities vary in response to practical considerations. The organizations in an industry tend to be similar in formal structure – reflecting their common institutional origins – but may show much diversity in actual practice. (p. 357)*

Meyer and Rowan (1977) believe that formal organisational structure, with its highly

rationalised appearance, is decoupled from actual organisational practice. In the same vein, Ribeiro and Scapens (2006) claim that:

*Formal structures and procedures are adopted in order to acquire legitimacy and guarantee the resources required for the survival of the organisation, but they are detached from the everyday organisational practices so as not to disturb the normal processes of daily operations. (p.97)*

Such detachment from everyday practices with its emphasis on appearance may be identified as a symbolic response to gain legitimacy. Formal structure has much more to do with the presentation of organisational-self than with how things actually transpire within an organisation. Formal structure is mythical and ceremonial, a kind of symbolic window-dressing (Meyer & Rowan, 1977). When decoupling is significant, there is a substantial discrepancy between formal structure and organisational practice, such as occurs when rules and procedures become cultural rather than technical processes (Carruthers, 1995). Such cultural processes it is argued are symbolic.

NIS believes that institutions matter, and researchers embrace the importance of culture, particularly concerning how the social world is constituted and cognised by social actors. Isomorphism means that the congruence between the inside and outside of organisations is not dictated by technical criteria. The process is a cultural and political one that concerns legitimacy and power much more than efficiency alone (Carruthers, 1995; Orrù et al., 1991). This thesis argues that such concerns may be applied to national institutions, such as the Ministry of Finance in China to explain its drive to

welcome western professional accounting bodies.

In general, NIS takes exception to rational choice interpretations. If there is convergence among organisations, it is not necessarily because market competition or some other quasi-Darwinian process has forced them to adhere to the optimal form (Carruthers, 1995). If, for example, organisations devote considerable energy to the development and elaboration of rationalised rules and procedures, it may not be because these produce decisions or outcomes that are “objectively” better. “Being technically efficient is not the only path to organizational survival. Achieving legitimacy in the eyes of the world, state, powerful professions, or society at large, is another effective survival strategy” (Carruthers, 1995, p. 317). Thus, although the Ministry of Finance in China may endorse the ideal of welcoming western professional accounting bodies to recruit in China, some decoupling may occur as Chinese culture and standards may still prevail and western accounting bodies may be allowed only members with restricted permission to operate in China.

Powell (1991) points out how, through the media of the modern state and professions, institutional pressures affect the organisation and policies of for-profit corporations. He concludes that it can be difficult to separate technical and institutional factors, but not only because the latter occasionally masquerade as the former (DiMaggio, 1991). It is acknowledged that this research will require careful interpretation to tease out technical from institutional factors. Similarly, Orrù et al. (1991), in their analysis of business

groups in Japan, Korea and Taiwan, argue that institutional arrangements operate at the core of technically dominated environments. What happens is that socially acceptable and culturally legitimate means are used to achieve a given end. In their analysis, institutional effects do not compromise the pursuit of technical ends so much as they enhance it (Orrù et al., 1991). Economic actors can pursue several goals simultaneously, and do not concentrate on profits to the exclusion of all else.

Decoupling plays an important role in the institutional processes, for it allows an organisation to maintain its institutionally prescribed appearances (via formal structure) without having to compromise actual operations. Mainstream accounting theory believes that accounts can help produce better decisions. Dutifully followed, the application of accounting rules will generate information that will inform organisational decision-makers about their situation, and help them to select the optimal strategy (Carpenter & Feroz, 1992; Carruthers, 1995; Ribeiro & Scapens, 2006). If accounts are being used more to justify decisions than to generate them, however, or to make decisions look good rather than to make them rational, then we would say that the rationalised form of accounting is decoupled from actual organisational decision-making. “Whatever accounting manipulations are being performed, they must be done ‘backstage’ in order to be effective. It is hard to maintain appearances if the decoupling becomes too transparent” (Carruthers, 1995, p. 319). For that reason, symbolic strategies aimed at appearance will not be transparent or readily acknowledged.



### **3.6 Summary**

This chapter has been organised to review the extant literature with regard to NIS. It comprises several sections, each discussing key elements of NIS which are necessary to understanding and illustrating the arguments and analysis of the findings in this thesis. While the first few sections describe and explain the scope of NIS, the latter section is of more specific importance. Decoupling is discussed at length because it is a key consideration in the analysis of the empirical findings. Decoupling provides a link between NIS and legitimacy theory in that it explains how symbolic strategies are aimed at some kind of legitimisation rather than directed at technical efficiency. The next chapter extends the literature review to cover aspects of legitimacy which concern this thesis and to further forge the link between NIS and legitimacy theory.

## **CHAPTER 4: Legitimacy**

### **4.1 *Introduction***

This study follows the thinking of Suchman (1995) and incorporates both strategic and institutional orientations. The study accepts that managers can and do construct symbolic relationships with their stakeholders to engender desirable legitimating perceptions. In this respect, such a compromise position leaves a distinction between “symbolic” and “substantive” actions. Such a distinction is central to an understanding of this chapter.

The chapter begins with a section on legitimacy and organisational heterogeneity (section 4.2), which contributes important links as it discusses instrumental and pluralistic struggles in institutions and brings in the concept of heterogeneity as opposed to homogeneity. Following such a discussion, it is appropriate then to introduce specific elements of legitimacy: pragmatic, moral and cognitive as these elements are essential to later data analysis in this thesis (section 4.3). A section then follows on legitimacy, institutions and the social contract to discuss how institutions seek to avoid the legitimacy gap (section 4.4). Next, there is an evaluation of the substantive and symbolic strategies that are central to the analysis of the findings (section 4.5). Such an evaluation draws from the literature to show symbolic models, substantive models and an interesting model where there is a disconnection between management expectation and staff practices. Finally, the chapter concludes with the section that considers the

problem that arises when developing countries attempt to converge their national systems with Anglo-Saxon transnational systems (section 4.6).

## **4.2 Legitimacy and Organisational Heterogeneity**

DiMaggio (1988) argued that there is a need to study power and the entrepreneurs who actually create institutions. Friedland and Alford (1991) added that the dichotomy between technical and institutional forces “assumes an institution-free conception of interest and power, and maintains the materialist-idealist dualism in which actors have objective interests, which can be understood independently of the actors’ understandings” (p.244).

In this respect, Lounsbury (2008) draws useful attention to the instrumental approach advocated by Oliver (1991) who suggested that:

*Attention be paid to the various ways in which organizations strategically respond to institutional pressures...Organizations do not always blindly mimic or acquiesce in the face of institutional pressure, but they can also seek compromise with multiple constituents, engage in avoidance tactics, and try to manipulate sources of pressure, or merely defy or ignore institutional demands. (p.352)*

Compromise and avoidance may well apply in the case of accounting professional bodies expanding into other countries where the local staff may have different objective interests and understanding to that of senior management situated in an overseas head office. For example, Westphal and Zajac (1994) in their study found that many corporations announce the adoption of incentive plans to tie executive compensation to

company performance, but fail to implement them. Again, this finding drives home the point that actors (maybe staff at an operations level) can engage in manipulative symbolic action in order to satisfy senior management that their strategic actions are being employed.

Symbolic actions which Meyer and Rowan (1977) describe as rationalised myths become a kind of institutional rationality to shape individual behaviour. They argue that rationalised myths “are rationalised and impersonal prescriptions that identify various social purposes as technical ones and specify in a rule like way the appropriate means to pursue these technical purposes rationally” (p343-344). China’s convergence with International accounting standards may be seen as identifying social and economic purposes with technical ones and, thus, of necessity having to allow some access into China of Western professional accounting bodies to confer legitimacy internationally. Such instrumental approaches are highly institutionalised and thus in some measure beyond the discretion of any individual participant or organisation. Most importantly, Meyer and Rowan (1977) suggest that “institutional environments are often pluralistic, and societies promulgate sharply inconsistent myths” (p.356). It highlights how multiple forms of rationality may exist, providing a foundation for the explanation of organisational variety rooted in institutional as opposed to instrumental rationality. Institutional theory as a theory of imitative passivity suggests that institutional approaches should be able to provide robust explanations of the sources and consequences of heterogeneous, not just homogeneous, behaviours and forms.

Thornton (2004, p. 69) defines institutional logics as “the socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organise time and space, and provide meaning to their social reality”. Lounsbury (2007) emphasises that to demonstrate the power of logics, it is necessary to show how a multiplicity of broader cultural beliefs and rules structure cognition and guide decision-making of actors in a field. At the societal level, the capitalist market, bureaucratic state and the nuclear family can be conceptualised as logics that constitute the interests of actors and thereby shape cognition and action (Friedland & Alford, 1991). At the level of industries, logics consist of common producer. “Identities and valuation orders that structure the decision making and the practices of the players in a product market” (Thornton & Ocasio, 1999, p. 805). That is, they focus the attention of key decision-makers on a delimited set of issues and solutions, and fundamentally shape decision processes and outcomes (Ocasio, 1997).

Lounsbury (2007) extends this approach by demonstrating how contending logics fundamentally shape variation in the practices and behaviour of distinct groups of actors. For example, the US mutual fund industry, funds in Boston tended to focus on conservative long-term investing and relied on passive money management strategies, while funds in New York concentrated more on active money management strategies aimed at rapid appreciation of principle. These two distinct logics, rooted in different geographic locations, led to different forms of rationality. Boston based funds tended to

make core strategic decisions about money management based on their relative efficiency to peer funds; by contrast, New York funds made decisions based on their relative performance to peer funds. Thus, performance and efficiency are not universal triggers for decision-makers, but are institutionally contingent, in this case, based on the relationship of logics to different groups of actors located in different geographic locations.

Lounsbury (2007)'s research highlighting some new directions in NIS research away from the study of isomorphism and towards an understanding of organisational heterogeneity. Lounsbury (2007)'s study dispels more restricted views of NIS while helping to open new analytical avenues and argues that a focus on institutional rationality in the form of multiple, competing logics can be particularly fruitful. While there has been some good work in this direction, much more needs to be done to understand where logics and new practices come from and how they relate to each other. Thus, the thesis will seek to identify the competing logics driving western professional bodies to the Chinese accounting market. Heterogeneity can also be used to explain the political and commercial preferences that could become apparent from different geographical areas in China.

### ***4.3 Elements of Legitimacy: pragmatic, moral and cognitive***

Suchman (1995) defines legitimacy as, “a generalised perception or assumption that the actions of an entity are desirable, proper and appropriate within some socially

constructed system of norms, values, beliefs and definitions” (p. 574). The appeal for legitimacy is to a social group as a whole notwithstanding individual reservations. It is a means to establish social legitimacy and the underlying philosophical positions that are reflected in the concepts of legitimacy are designed to be congruent with current social values and beliefs.

Between an organisation and its cultural environment, there is a need to share the same ideas or value as to what constitutes legitimacy. The emphasis being not so much what is desirable, but what is recognisable and understandable that would explain and justify an organisation’s existence (Meyer & Scott, 1983). Suchman (1995) points out that the concept of legitimacy seems to divide academic studies into two distinct groups: strategic or institutional. The strategic studies emphasise an individual or management perspective which manipulates and use effective symbols to gain societal support (Ashforth & Gibbs, 1990; Dowling & Pfeffer, 1975). By contrast, the institutional studies emphasise cultural pressures which transcend any organisation’s control (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). While the divisions between individual/management strategic and institutional legitimacy are an important consideration, it is the concept of legitimacy being driven by combinations of pragmatic, moral or cognitive considerations that this thesis uses to explain the third research question: how Chinese accountants and accounting graduates view membership of Western accounting professional bodies and what are their actions (symbolic or substantive) in respect of that membership.

Pragmatic legitimacy rests on the self-interested calculations of an organisation's most immediate audiences according to Suchman (1995). Aldrich & Fiol (1994) point out that for self-interested reasons organisations may emphasise their image and legitimise such an image by advertising. Moreover, image advertising may foster generalised attributions of good disposition. Whether such calculations are driven strategically or institutionally as a result of cultural expectations is not resolved but what is motivating is a desire to build and maintain a reputation for competence and reliability. When pragmatic strategies of legitimacy are preferred, reporting by institutions or accountants will be designed to appeal to consequentialist values and beliefs. Thus, individual accountants might seek membership of CPA Australia because they believe that CPA Australia will further legitimise their domestic Chinese qualifications. The Chinese government may welcome CPA Australia's entry into China because the presence of such foreign professional bodies further legitimise China's claim to be a strong voice in international accounting and financial organisations. Pragmatic legitimacy relies on audiences' self-interest, whereas moral and cognitive legitimacy do not (Suchman, 1995).

As mentioned previously, moral legitimacy does not rely on audiences' self-interest (Suchman, 1995). Ashforth and Gibbs (1990) conclude that for organisations their best hope is to accumulate a record of technical success. Suchman and Eyre (1992) continue to observe that within the contemporary rationalist order, technical performance not only establishes consequential legitimacy but it also exerts spill-over effects on moral



dynamics to provide a lasting validation for procedures and structures. For individuals the normative dimension may be to seek from others approval for their actions, in the sense of doing what others think they should do; such as improving technical skills. It is important to note that moral legitimisation comes with a warning from Selznick (1949) that it carries a substantial likelihood of unanticipated goal displacement and possibly public cynicism. In this respect, the thesis considers the motivations of CPA Australia – is the professional body driven by considerations of technical success and efficiency or is there some goal displacement. Likewise with the Chinese government, is it welcoming western professional bodies for technical accounting reasons?

The third element of legitimacy, as suggested by Aldrich and Fiol (1994), is based on cognition rather than on self-interest or evaluation. Generally speaking, there are two significant variants of cognitive legitimacy: legitimacy based on comprehensibility and legitimacy based on taken-for-grantedness (Suchman, 1995). DiMaggio and Powell (1991) suggest that to provide legitimacy based on comprehensibility, the larger belief systems and the experienced reality of the audience's daily life must be meshed.

Whereas the cognitive legitimacy based on taken-for-grantedness is identified as exterior and objective. This kind of taken-for-grantedness, as Suchman (1995) claimed, is the most subtle and powerful source of legitimacy identified to date.

Suchman (1995) considers that to achieve cognitive legitimacy, gatekeepers may be employed to grant certification to label institutions and grant preferred definitions to

these institutions. It would seem that the Chinese government gatekeepers have granted CPA Australia quasi status in that CPA Australia is labelled as inferior to the Chinese professional accounting body – CICPA in terms of its accreditation within China. While pragmatic and moral legitimacy can be arrived at by cost-benefit appraisals or ethical judgements by way of public discussion, cognitive legitimacy implies unspoken assumptions as to professional legitimacy (Hooper & Xu, 2012). It may be the Chinese government derives some cognitive legitimacy by being open to western professional accounting bodies. In the same way some Chinese accountants may join Western professional accounting bodies being motivated by taken for granted assumptions as to their international status.

These observations as to pragmatic, moral and cognitive elements derived from the literature can better explain from the point of view of legitimacy the “how” questions asked by this thesis. This is not to say that any one element of legitimacy is necessarily sufficient but rather that all three – pragmatic, moral and cognitive – may be combined to varying degrees. To make it clear that such elements are intervals on a range, the thesis constructs a matrix to analyse the dominating elements as derived from interview data. The matrix is further explained in section 4.5 of this chapter.

#### ***4.4 Legitimacy, Institutions and the Social Contract***

Suchman (1995) draws attention to the connections between legitimacy and institutionalisation as being virtually synonymous. “Both phenomena empower

organisations primarily by making them seem natural and meaningful” (Suchman, 1995, p. 576). That legitimacy is a goal of institutions is observed by DiMaggio and Powell (1983) who in their landmark article state that, “Organisations tend to model themselves after similar organisations in their field that they perceive to be more legitimate or successful” (p. 152). Meyer and Rowan (1977) observe that organisations such as professional accounting bodies are highly institutionalised and beyond the discretion of any individual participant and so, such organisations must “be taken for granted as legitimate” (p. 344). They further argue that, “The delegation of activities to appropriate occupations is socially expected and often legally obligatory” (p.344). Their concepts of occupational social expectations and occupational obligations as contributing to legitimacy are now developed to understand the motives of individuals seeking to belong to a professional accounting body.

Legitimacy theory with regard to organisational legitimacy is defined by Lindblom (1994) as:

*...a condition or a status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy. (p.2)*

The definition views organisations as being part of a larger social environment (Gray, Kouhy, & Lavers, 1995), but it can also be extended to individuals who seek to belong to a western professional accounting body. That is Chinese accountants by belonging to western professional accounting bodies become part of a wider social environment.

Within this larger social environment, it is held that a social contract exists (Guthrie, Petty, Yongvanich, & Ricceri, 2004), however, in this case, the contract is between the professional accounting body, which grants status and recognition, and the individual who gains credibility from a respected organisation. Organisations are now being bequeathed with “legitimacy” based on the ability to operate within the bounds imposed by society, that is, for individuals, membership of a recognised profession is necessary to enjoy continue access to the accounting market (Campbell, Craven, & Shrives, 2003).

Deegan and Rankin (1996) state that a breach of the social contract i.e. failure to comply with social expectations may lead to a revocation of the contract, which means the organisation then risks sanctions forced upon by the society. A professional accounting body could lose the right to audit within a certain jurisdiction. For an individual accountant it could mean losing professional membership. For example, an accountant could be struck-off for unethical behaviour and forced out of the professional accounting body. In accordance with legitimacy theory, if a body perceives it has breached the contract or its legitimacy is in question, a number of combative strategies can be applied (Lindblom, 1994). First, a body can seek to make appropriate internal adjustments to close the legitimacy gap and communicate these changes to shift the relevant public’s expectations. Second, instead of making internal adjustment or changing public expectations, the body seeks to manipulate public’s perceptions by deflecting attention from the issue of concern to other issues. Finally, a body may seek to adjust societal expectations of its performance rather than making internal adjustment

to close the legitimacy gap; arguably the audit industry is doing this by claiming to be watchdogs not bloodhounds (Nunn, 2003). By contrast, individuals claim legitimacy by being in a professional accounting body and, in that respect, two professional accounting bodies, one local and one international, may be preferred as conferring greater legitimacy.

Given that legitimacy theory itself is said to be derived from the bourgeois stream of political economic theory (Gray et al., 1995) this thesis, however, still allows that legitimacy theory has the potential to present an in-depth understanding of multiple memberships of professional accounting bodies. Therefore, it is crucial for this thesis to make use of legitimacy theory, particularly on its ability to explain the potential existence of a social contract.

As argued by Abeysekera (2008), a social contract essentially envelopes the whole legitimisation process. The growing interest in multiple professional accounting memberships offers a more refreshing concept of social contract driven by a broader range of socio-economic changes pertaining to increasingly sophisticated society, the surge in service based industries, changing patterns of interpersonal activities and the emergence of the network society, being digital, virtual and interconnected (Petty & Guthrie, 2000). With these broader socio-economic changes, it is expected that in this study there will be a shift in value drivers with globalised professional resources taking precedence over traditional national professional accounting bodies.

The above arguments may not be enough to strengthen the link between MPM and legitimacy theory as the social contract, a core ingredient for legitimacy theory, has not or probably cannot be explicitly established. However, the term social contract cannot be known with any precision and different professions will have different perceptions about those various terms (O'Donovan, 2002). MPM is still at the voluntary stage, which means there is no legal requirement to join a professional accounting body – let alone two. MPM therefore, at least at present, can only be considered as part of non-legislated societal expectations that embody only the implicit terms of the social contract (Gray et al., 1995).

Archel, Hussilos, and Spence (2009) propose a way to expand the explanatory power of legitimacy theory by explicitly considering the role that the government plays in the context of MPM. As government policies are meant to protect the general well-being of the public. Therefore, within the context of this research, the role of the Chinese government in introducing the concept of MPM can be seen as a potential for a more explicit terms of contract between professional accounting bodies and the society. While the involvement of government may not necessarily lead to mandated law, the key to an implied social contract, as argued by Abeysekera (2008) is that there should be some involvement of government in promoting an implied social contract between the professional accounting bodies, their members and the society (represented by the government).

The almost invisible social contract becomes apparent when there are changes in community perception on how professional accounting bodies adapt to the social expectations. “If society’s expectations about performance changes, then arguably an organisation will need to show that what it is doing is also changing” (Deegan & Unerman, 2006, p. 213). With respect to the legitimacy gap, Lindblom (1994) states:

*Legitimacy is dynamic in that the relevant publics continuously evaluate corporate output, methods, and goals against an ever evolving expectation. The legitimacy gap will fluctuate without any changes in action on the part of the corporation. Indeed, as expectations of the relevant publics change the corporation must make changes or the legitimacy gap will grow as the level of conflict increases and the levels of positive and passive support decrease. (p.3)*

When there is no direct threat to a profession, professions will often take a symbolic approach to strengthen the appearance of legitimacy, but when they follow others, in mimetic isomorphism then the strategy may be considered more substantive (Deegan, 2006). For example, CPA Australia’s entry into China may be considered substantive if by following other Western professional accounting bodies, CPA Australia seeks greater efficiencies and effectiveness as a global professional body. Under legitimacy theory, it is suggested that if a profession or an individual believe their survival is dependent on being legitimate, they will pursue strategies to ensure their position (Deegan, Rankin, & Tobin, 2002). Societies also expect professional accounting bodies and their members to communicate that they are abiding to the terms of the social contract by providing information illustrating how they serve to benefit society and how they may improve their activities and capabilities. However, with no direct threat to a professional body or

their members, any new initiatives will be aimed at preventing a legitimacy gap (Deegan, 2006).

Professional legitimacy comes from an understanding of a large social environment. An intangible social contract exists between the professional accounting bodies and the wider public. For such professional bodies to acquire and maintain legitimacy, they must fulfil their expected obligations to society within the recognised boundaries of their discipline. Next section of this chapter will provide a thorough discussion of legitimising strategies that can be adopted by institutions and individuals.

#### ***4.5 Legitimising strategies: Substantive and Symbolic***

Institutions and individuals to achieve legitimisation will adopt either substantive or symbolic strategies or some combination of both (Ashforth & Gibbs, 1990). To explain how these legitimising strategies may be used by organisation and individuals, this section will illustrate various scenarios drawn from the literature. First, examples of substantive actions are cited, followed by some examples of the employment of symbolic strategies. Next, the more interesting cases for this study of disjunction between management and staff are detailed. Finally, this section will explain how this thesis adopts the legitimising strategies to analyse the finding.

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. The result was the implementation of substantive changes to processes, improved standards for auditors to follow, stricter adherence to the code of ethics, accompanied by disciplinary action, and the closer regulation of the smaller audit firms. Sometimes substantive change may be the result of coercive measure put in place by governments. Such examples can include environmental regulations or conversely, Ashforth and Gibbs (1990) provide the example of American tobacco firms implementing substantive strategies to defeat government initiatives aimed at limiting their advertising, while at the same time attempting to manipulate societal perceptions of what is legitimate.

By contrast to substantive actions, 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. An illustration of such a desire is exemplified in Edelman, Abraham and Erlanger (1992) study of a liberal arts college in America which introduced affirmative action policies with regard to the composition of its teaching staff. Having such a policy of affirmative action in place gives an appearance of being socially responsible. In many such cases, affirmative strategies effect substantive changes to benefit socially deprived sections of the community. By doing so, institutions may register their social legitimacy. However, in the case cited by Edelman et al.(1992), the finding was that the appointed affirmative action officer

exercised sufficient flexibility in the hiring process to effectively negate implementation of the policies that the management had put in place. By such means, the officer conferred legitimacy upon the college while simultaneously attending to divergent concerns relating to its teaching staff.

Similarly, Brunsson and Olsen (1993) found that management reform strategies at Swedish Rail 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.

Finally, with reference to symbolic strategies, Westphal and Zajac (1998) report on the symbolic management of corporate governance reforms or more precisely, the adoption of long term incentive plans, even if such plans are not implemented. They ask, why socially legitimate verbal explanations may also favourably affect the stock market response, while at the same time diminish the likelihood of other internal governance reforms. The positive reaction to such plans is, according to Kumar and Sopariwala (1992), consistent with the view that there will be a lower degree of agency problems and lower agency costs subsequent to their adoption. In this case, the focus is on the use of verbal communication to manage impressions. Kamoche (1995) observes that organisational reality can be socially constructed through a combination of ritual and

language. Indeed, the most useful symbolic strategies must in essence combine ritual with language. In this respect, Westphal and Zajac (1998) explain:

*The symbolic adoption of new long term incentive plans may be particularly effective in this regard, because it not only meets the specific demands of corporate stakeholders for greater managerial accountability but also reifies basic, meritocratic values and associates them with the CEO and his or her decision making. (p. 147)*

Such symbolic actions and communications affect power and control relationships within a firm and exemplify social theories of agency. As Westphal and Zajac (1998) explain symbolic strategies are a means of responding to investors calls for visible governance reforms. Further, they argue, that the extent that firms comply with the wishes of investors through symbolic action rather than substantive change is evidence that the influence of investors is less than expected.

Within an organisation, strategies, whether substantive or symbolic, may be the subject of a disjunctional discourse, which produces conflict and misunderstanding. It can result that some actors (management) within an organisation internalise change as substantive while others (staff) internalise the same changes as symbolic (Kostova & Roth, 2002). This comes about because the actors involved have not commonly objectified the discourse and internalised differing subjective interpretations. For an institutionalisation process to be fully completed there is a need for internalization and objectification (Kostova & Roth, 2002). However, objectification does not exhaust institutionalisation (Hasselbladh & Kallinikos, 2000). Indeed, when ideals, discourses and techniques are

not coherent, subjectification, i.e. the invisible side of the institutionalisation process, is hindered. A more invisible side of institutionalisation lies in the internalisation of the new rationales by organisational actors, meaning “the way actors understand their roles and enact them according to, against, or regardless of these new rationales” (Dambrin et al., 2007, p. 203).

In the same way, Meyer (2008) points out, national states promote world norms with which they have no capacity or will to implement. Meyer (2008) continues to argue that, “given the enormously exaggerated models of the proper actor – individuals and organizations alike – characteristic of the modern world, any respectable reform should have excellent prospects for disimplementation” (p. 804). Similarly, Brunsson (1989) observes there is often within institutions a contrast between policy talk and practical action. This accounts for the high frequency of organisational reforms and the lack of consequences for much reform (Brunsson & Olsen, 1993).

What is called “loose coupling” is a source of considerable tension. It arises when powerful and interested actors create rules and processes in institutions. These actors are desirous of control and expecting them to be implemented in practice. Meyer (2008) explains that such practices may not be implemented as intended because local participants simply cheat on the organised actor, sub-optimally going their own way and violating the rules. Meyer and Rowan (1977) offer alternative explanations for loose coupling. They argue that many activities are performed beyond the purview of

managers. In particular, delegated performance in organisations that encourage professionalism, where activities are likely to be delegated, are likely to experience little close supervision. In such cases, if goals are ambiguous, the staff concerned may subjectify implementation and output or outcomes data on performance may be eliminated or rendered invisible. Moreover, in such circumstances inspection and evaluation may be ceremonialised. Meyer and Rowan (1977) argue decoupling is not sustainable if it is not coupled with “the logic of confidence and good faith” and ceremonial inspection and evaluation. “The assumption that things are as they seem, that employees and managers are performing their roles properly, allows an organisation to perform its daily routines in a decouple structure. Bourguignon, Saulpic and Zarlowski (2006) in their case study of French Inf-Rail explain how the diffusion of management innovations allowed their adoption without implementation. In doing so, the organisation could conform to their environment while buffering the technical core of their operations from environmental pressures and uncertainties. Bourguignon, Saulpic and Zarlowski (2006) also observe that, “Appearance rather than the fact of conformity is often presumed to be sufficient to attain legitimacy” (p.5). What is interesting in this thesis is whether there is a disjunction between management who assume that their staff were implementing the substantial changes, and the staff who treated the proposed changes as symbolic. Because of geographical distance and different cultural and social environments, such a disjunction may come about when good faith is assumed. As Bourguignon et al. (2006) argue in their study of French Inf-

Rail: the assumption that things are as they seem, that staff are performing their roles allows an organisation to perform.

Bourguignon et al.'s (2006) explanation of this kind of decoupling between the formal structure and work practices is interpreted in terms of the actors' resistance to change, power games and the willingness to appear legitimate in the eyes of both external and internal constituencies. Bourguignon et al. (2006) argue that because the foundations for external and internal legitimacy are clearly different, by formally adopting new management strategies the external legitimacy of management is preserved while actual practices remain aligned with the working rules and routines of the staff. The case study of Bourguignon et al. (2006) illustrates the importance of actors' behaviours regarding the adoption of innovations. What is important is not whether a new management strategy is an innovation but whether it is perceived by actors as an innovation.

Dowling and Pfeffer (1975) refer to substantive legitimating techniques when institutions adapt their outputs, methods of operation and goals to conform to prevailing definitions of legitimacy. By contrast, symbolic strategies, which may involve decoupling, attempt through communication to become identified with symbols, values or institutions which have a strong base of legitimacy. Scott (2008b) comments that, "Organizations are also more likely to decouple structure from practice when there are highly symbolic gains from adoption but equally high cost associated with

implementation” (p. 172). Such decoupling could or could not apply to the Chinese government’s welcome of western professional accounting bodies or, indeed, to those professional bodies considering entry to an emerging overseas market, where neither institution wants to bear the high cost of substantive implementation.

Suchman (1995) points out that because of, “the almost limitless malleability of symbols and rituals in contrast to the hardness of material resources and outcomes, the former provides ready targets for manipulation by managers” (p. 576). For institutionalists, and for this thesis this observation “of ready targets” is important in distinguishing within a matrix framework (see Table 4-1 and Table 4-2) the substantive strategies from the symbolic. A study by Kaplan and Harrison (1993) found that symbolic strategies included lobbying to gain indemnification for directors. Miles (1982) found that symbolic strategies by tobacco firms led them to hire lobbyists and set up their own scientific centres to fund studies. As Scott (2008b) observes, “Organizations are affected and even penetrated by their environments but they are also capable of responding to these influence attempts creatively and strategically” (p.178). Deegan (2006) explains the difference between symbolic and substantive is not necessarily clear cut. Legitimising techniques might be “symbolic as not actually reflect any real change in underlying activities or they might be substantive and reflect actual change in corporate activities, or they might be a mixture of both” (Deegan, 2006, p. 173). This view is echoed by Ashforth and Gibbs (1990) where they point out that substantive or symbolic management techniques are not exclusive and may be a mixture

of both with varying levels of intensity. However, to be successful, they rely on disclosure.

Ashforth and Gibbs (1990) go on to say that when an organisation moves into a new area of operation in which it has no past reputation (similar to CPA Australia's situation in China), such an organisation suffers from the liability of newness. They argue that those new institutions need to proactively engage in activities to win acceptance.

O'Donovan (2002) observes "the main difference is that strategies for repairing legitimacy are reactive, usually to an unforeseen and immediate crisis, whereas techniques to gain legitimacy are usually proactive and not normally related to crisis" (p.350).

Van Staden and Hooks (2007) are quick to point out that there have been criticisms for not knowing for certain which legitimacy strategies (symbolic or substantive) organisations are following. Previous studies (Guthrie et al., 2004; Khan & Ali, 2010; Oliveras, Gowthorpe, Kasperskaya, & Perramon, 2008) that utilised legitimacy theory have not been explicit on whether they are referring to the symbolic or substantive approach of legitimising strategies. To respond to such a call in the empirical studies of legitimacy theory, it is a feature of this thesis to explore the legitimising strategies that institutions (Chinese government and the Chinese professional body - CICPA, and Western professional bodies such as CPA Australia) are following.

In terms of the legitimising strategies adopted by individuals, the substantive



legitimising strategy suggests that Chinese accounting graduates and accountants will take actions and effort to achieve a western professional qualification. Whereas symbolic actions are taken by individuals to improve the congruence between their performance and social expectations with the eventual aim of increasing the appearance of legitimacy without action or effort (Sethi, 1975). In such symbolic cases, these Chinese accounting graduates and accountants may be granted a western professional membership without taking the professional examinations. More important is to recognise that symbolic legitimising strategies are often concealed and somewhat ceremonial but, nonetheless, symbolic drivers may be behind a surface substantive response. Moreover, for Chinese accounting graduates and accountants there is further legitimisation to be gained when the Chinese government agrees to converge to IFRS and allow entry of Western professional bodies.

The division of strategies into symbolic and substantive referred to in the literature is important to the analysis of the findings in this thesis. As Deegan (2006) and Ashforth and Gibbs (1990) point out such a division is neither clear cut nor mutually exclusive, and the same applies for the purposes of this thesis. The data analysis of this thesis is to determine the more dominant strategy adopted. At the same time, the analysis cross-matches with the one of the three forms of isomorphism: Coercive, mimetic and normative (see Chapter 3) and one of the three elements of legitimisation: Pragmatic, moral and cognitive (Suchman, 1995). As shown in Table 4-1, a matrix of analytical framework is built by cross-matching institutional legitimising strategies with the three

forms of isomorphism. This framework is used to analyse the findings of the current study to investigate the research question 1 and 2. The research question 1 investigates how China views the Western professional accounting bodies and how China is influenced by the Western international institutions. It continues to ask whether Chinese government's actions and strategies of legitimising itself internationally are considered as symbolic or substantive. The research question 2 looks into CPA Australia's experience and issues of western professional accounting bodies as to expanding into China. It further explores whether such a global expansion strategy undertaken by CPA Australia is symbolic or substantive, and whether the implementation is decoupled from the strategies initiated by the head office.

Table 4-1 Analytical Framework for Research Question 1 and 2

<b>Organisational Legitimising Strategies</b>	<b>New Institutional Sociology – Homogeneous Isomorphism</b>		
	Coercive Isomorphism	Mimetic Isomorphism	Normative Isomorphism
Symbolic/Decoupling			
Combination of Symbolic and Substantive			
Substantive			

As shown in Table 4-2, a matrix of analytical framework is constructed by combining individual legitimising strategies with Suchman (1995)'s three elements of legitimisation. Such a framework is used to analyse the findings of this thesis to answer

the research question 3. The research question 3 asks how individual accountants and graduates view western professional qualifications, and whether these individuals' actions towards becoming members of western professional bodies may be described as symbolic or substantive.

Table 4-2 Analytical Framework for Research Question 3

<b>Towards membership of a western profession</b>	<b>Legitimacy Elements</b>		
	Pragmatic	Moral	Cognitive
Symbolic inaction			
Substantive actions			

To summary, for institutions and individuals to achieve legitimacy, they will adopt either substantive or symbolic or some combination of both. By drawing from the literature, this section explains how these legitimising strategies may be used. It also provides a brief explanation on how is the analytical framework developed. The analytical framework for the three key research questions is further explained in greater details in Chapter 5 and Appendix 5.

## **4.6 Governments and Transnational Institutions**

This section revisits the inter-connectedness of Western international institutions that is discussed in Chapter 2 of this thesis. It goes further to discuss the tensions that arise among institutions as a result of significant differences in cultural, social and political

environments in which different national governance systems have developed. The section continues to draw attention to the possible difficulties in the convergence of institutional systems and its likely result of a more symbolic rather than substantive form of convergence. It is the interest of this thesis to investigate the role of symbolic and substantive convergence among various institutional systems.

Some researchers have considered differences in national corporate systems from political, cultural, and historical perspectives (Boyd, Carroll, & Howard, 1996; Bradley, Schipani, Sundaram, & Walsh, 1999; Guillen, 2000; Roe, 2003). Tricker (1990) argues that the institutional approach to corporate governance suggests that national governance systems are affected by cultural differences. Whether national differences are political or embedded in cultural diversity, the fact of such differences is of concern to this thesis. The main assumptions of this area of institutional research have been that each country's system of governance has developed in response to particular political, historical and cultural influences. Such developments legitimise the organisations involved. Hofstede and Bond (1988) argue that there is a philosophical dividing line which makes Western thinking different from Eastern thinking. Thus, in the case of China, such influences are from communist governance and economic systems, as well as the influence of Confucian and other long held beliefs and philosophies (Lockett, 1988). Western researchers have concentrated on two approaches to understanding national governance differences: the varieties of capitalism approach (Hall & Soskice, 2001; Thelen, 2004) and the business perspective approach (Lockett, 1988; Morgan,

Whitley, & Moen, 2005; Whitley, 1999). These approaches are aligned with the embeddedness themes intrinsic to institutional theory.

The variety of capitalism approach promotes the notion that economic systems of developed nations have in common some degree of cohesion and complementarity.

With a focus on diversity, the argument is that social actors develop distinctive strategies and structures to capitalise on the institutions available for market or non-market coordination in the economy (Hall & Soskice, 2001). For example, research on Japanese business models suggests that their interlocking structures of governance results in a competitive advantage (Gerlach, 1992). The variety of capitalism approaches views various national governance systems as part of a system of interconnected institutions that reinforce each other creating both stability and resistance to change – a view which is significant to this thesis. In this respect, there are two types of economies: the liberal market economies of the Anglo-Saxon countries, and the more government direct economies of the developed European countries, such as Germany, France and Scandinavia (Fiss, 2008). The suggestion is that viewing these two types of economies offers a framework for understanding the connections between organisational governance systems and the greater political economy (Fiss, 2008). Such systems may be characterised inter-organisation relations based on arms-length contracting or repeated cooperative connections and maybe either state organised or highly coordinated (Dore, 1986).

From the perspective of this thesis, as discussed in Chapter 2, the inter-connectedness of the Anglo-Saxon model is significant. Djelic and Quack (2003) and Djelic and Sahlin-Andersson (2006) demonstrate how national institutional systems are increasingly nested within transnational higher-order institutional frames. For example, from the Anglo-Saxon countries, it can be argued that, with regard to accounting, the IASB, the MNEs, the professional accounting bodies (ICAEW, CIMA, CPAA, ACCA, etc.) and the Big 4 accounting firms are interconnected and mutually reinforcing (Perera, 1989). As Fiss (2008) points out, “Such insights are highly relevant for the study of corporate governance and particularly regarding the potential for convergence in governance systems” (p. 401). Thus, the export of these mutually reinforcing organisations to countries like China may be seen as colonising (Antwi, 2009; Doupnik & Perera, 2007; Saudagaran, 2004; *The Economist*, 2012a) as the process of convergence with local Chinese institutions, operating with divergent governance systems, has the potential to generate conflict. That is why the question raised in this thesis as to how China views these Anglo-Saxon institutions with some intention of convergence is interesting.

Fiss (2008) comments that studies should emphasise the importance of conflict and inconsistency with regard to the importations of practices from one institutional context to another. Such a comment is relevant to the current issues that China has with the PCAOB and the American SEC which claim a right of access to the audit papers of the Chinese firms – a practice which China claims violates their secrecy laws (*The Economist*, 2012a). Fiss (2008) further adds, “such systems are frequently less than

coherent but instead are marked by considerable tensions between different governance models and institutional logics, a process that will lead to considerable change” (p. 401). The possibility is that such change may not necessarily mean greater convergence. Other researchers question the likelihood of convergence, finding persistence in national systems alongside the convergence process (Aguilera & Jackson, 2003; Fiss & Zajac, 2004; Jackson & Moerke, 2005). In the case of Romania, Albu, Albu, Bunea, Calu, & Girbina (2011) consider that Romania cannot be regarded as a country displaying a successful IFRS implementation, but as one with low conformity and manifesting resistance to change. As shown earlier in Chapter 2, convergence of institutional systems across cultures is not easily achieved, and the result is often more symbolic than substantial. Tensions can arise because so-called transnational institutions are legitimised where they originate but are less likely to gain legitimisation in different social and political environments except possibly in a symbolic sense. Fiss (2008) argues that once we expand the focus of inquiry beyond the currently dominating Anglo-Saxon governance environment, convergence of institutional systems may take a mantle of neutrality and inevitability, but the governance models hides power relations. The persistence of national systems seeking convergence in developing countries is a phenomenon of interest to researchers (Allen, 2005; Miller & O'Leary, 1987). Fiss (2008) asks, “How are governance models and practices propagated in such environments and do they take hold or do they remain externally imposed orders that meet with resistance from established interest groups? What is the role of symbolic and

surface compliance in this regard?” (p. 402). It is this question of the role of symbolic and surface compliance that exercises this study.

This section re-enforces the embeddedness of western international institutions. It goes further to discuss the tensions that arise among institutions as a result of differences in cultural, social, and political environment in which national government system have developed. As a result, it is argued that these institutions may be legitimised in their domestic environment however may be less likely to gain legitimacy in a different national environment except possibly in a symbolic sense.

#### **4.7 Summary**

The chapter illustrates how strategic approaches to legitimacy may provide a framework to consider responses from institutions and individuals. The argument reflects more the approach of individual agency and how such agency may use legitimacy as a resource for “symbolic” or “substantive” purposes. The first section on legitimacy and organisational heterogeneity is important because it identifies the complexities of institutional analysis and argument. It brings in the concepts of instrumental and pluralistic agency rather than explaining actions through structural determinants. By introducing pluralistic agencies it is possible to argue for organisational heterogeneity. There then follows a discussion as to how the notion of a social contract is linked to legitimacy. The section shows how institutions such as professional bodies seek to avoid a legitimacy gap. The chapter also illustrates how symbolic and substantive strategies



may be used by institutions as a means of legitimisation; first, some substantive models are cited, followed by more symbolic models. However, of interest to this thesis is the third model illustrated, which show a disjunction between the theoretical substantive strategies of management and their reduction to symbolic practices by staff. Such a disjunction is shown from the literature to emphasise how important symbolic strategies are for institutions claiming and possibly gaining legitimacy. It is shown that individuals also are capable of exercising symbolic and more substantive strategies with respect to multiple memberships of professions. The final section is about governments and the convergence with transnational institutions. In particular, the relationship of dominant Anglo-Saxon transnational institutions with developing countries is discussed. The literature shows that in particular with communist and ex-communist countries, such countries have difficulty in converging with Anglo-Saxon transnational institutions. Because the governance systems of Anglo-Saxon institutions has evolved from a different culture and a different economy, convergence often takes the form of being more symbolic than substantive in developing economies.

From the literature reviewed in this chapter and the previous one it is apparent that there exists many gaps among the complexities of concepts and arguments advanced. This thesis will use elements of NIS to consider how government, professional and individual agencies may adopt substantive and symbolic strategies to implement and to respond to change. The thesis also employs legitimacy theory in terms of its specific elements: pragmatic, moral and cognitive. Thus, for individuals, concepts from both

theories are combined within a contextual matrix comprising substantive and symbolic responses drawn from NIS while elements of legitimacy – pragmatic, moral and cognitive – are employed as the other axis of the matrix.

Deegan and Unerman (2006)'s study emphasises that the different perspectives undertaken by each researcher to study the same phenomenon leading to the adoption of alternative theoretical perspectives. Furthermore, "theories are abstraction of reality and hence particular theories cannot be expected to provide full account or description of particular behaviour" (Deegan & Unerman, 2006, p. 268).

This thesis acknowledges that there are other theories being used or discussed in social studies such as agency and signalling theory (Bozzolan, Favotto, & Ricceri, 2003), political economy accounting theory (Abeysekera, 2011; Abeysekera & Guthrie, 2005), stakeholder theory (Guthrie, Petty, & Ricceri, 2006). All of these theories should not be seen as competing theories and instead they should be seen as a complement to each other with one being chosen as best representing the view of a particular researcher. A recent paper written by Yi and Davey (2010) try to capture the variation in the usage of theory by integrating several theories such as agency theory, signalling theory, stakeholder theory and legitimacy theory into one integrated theoretical framework.

This thesis does not attempt to discuss all available theories and instead opts to focus only on the theories that are advanced as the most relevant to explain the findings within the context of individual interviewee responses.

Thus, to analyse the empirical findings, this study draws from the literature a matrix combining concepts drawn from institutional and legitimacy theories. Such a matrix being a product of the extant literature allows this thesis to make its own unique contribution. Following a review of literature in Chapter 2 and the discussion of the theoretical framework in Chapters 3 and 4, the next chapter explains the research methodology and research method adopted in this thesis.

## **CHAPTER 5: Research Methodology and Method**

### **5.1 *Introduction***

This chapter discusses the research methodology and the research methods employed. Following a summary and review of the research questions in section 5.2, the section 5.3 discusses the research methodology. The research adopts a naturalistic inquiry to inform the data analysis and this section considers aspects of naturalistic inquiry such as ontology, epistemology, generalisation and causal linkages. Section 5.4 explains the data collection methods adopted in terms of, first, the primary data collection method – the qualitative interview method. This is followed by a discussion of purposeful sampling and participant selection. The secondary data collection method adopted – qualitative document analysis – is discussed at the end of section 5.4. The data analysis is explained in section 5.5, and how the analytical framework is used to interpret the empirical data is described. The data evaluation is detailed in section 5.6. Finally, ethical implications of the current study are discussed at the end of this chapter (section 5.7).

## **5.2 Research Questions**

The three key research questions investigated in this thesis are:

**Research Question 1:** How does China view the western accounting professions?

**Research Question 2:** How do western professional accounting bodies experience their expansion into China – using the case of CPA Australia – and what problems have emerged for them?

**Research Question 3:** How do Chinese accountants and accounting graduates view membership of a western professional accounting body and what are their actions (symbolic or substantive) in respect of membership?

As discussed in Chapter 2, the aim of this thesis is to study the phenomenon of the expansion into China of western professional accounting bodies. The research aim is accomplished by looking at the three main research subjects involved in this phenomenon: the Chinese government, western professional bodies, and Chinese accounting graduates and accountants. The first two research subjects are institutional organisations whereas the last research subject is individuals.

One of the institutional organisations involved in this global expansion story, then, is the Chinese government. It is important to investigate how the Chinese government as an institutional organisation is affected by western institutional organisations in terms of various forms of homogeneous isomorphism. As discussed in Chapter 2, the strong

coercive influence of international institutions such as the WTO, the World Bank and the IASB raises the question as to whether the actions taken by the Chinese government to legitimise itself in the eyes of these institutions is symbolic or substantive. It is therefore important to analyse further what the organisational legitimising strategies adopted by the Chinese government are.

The other aspect of this situation is the number of western professional accounting bodies that are establishing an increasingly strong presence in the Asian market. This thesis takes CPA Australia as a study subject and aims to explore its experiences in expanding into the mainland China market. Most importantly, the thesis aims to find out whether there are problems or issues in CPA Australia's expansion. As discussed in Chapter 2, the globalisation promoted by Anglo-Saxon institutions has often been more symbolic than substantive and has engendered some criticisms. Whether CPA Australia's expansion into China has been decoupled is the main theme of this part of the research. The last research subject is the informed individual Chinese accounting graduates and accountants. This thesis aims to uncover the elements of individual legitimisation and further analyse their actions (symbolic or substantive) as to belonging to western professional accounting bodies.

### 5.3 Research Methodology: The Naturalistic Paradigm

This section discusses the naturalistic inquiry approach and its appropriateness as the methodological framework for this research. Lincoln and Guba (1985) consider that there are five axioms in the naturalistic paradigm. They define axioms “as the set of undemonstrated ‘basic beliefs’ accepted by convention or established by practice as the building blocks of some conceptual or theoretical structure or system” (p.33). These axioms constitute and explain the characteristics of naturalistic inquiry and include ontology, epistemology, generalisation, causal linkages, and axiology (Lincoln & Guba, 1985). As Lincoln and Guba (1985) note, qualitative research follows the naturalistic paradigm, which is in opposition to the positivistic paradigm. Table 5-1 (shown below) was constructed by Lincoln and Guba (1985, p. 37) to explain the axioms of the naturalistic paradigm and the ways in which it differs, contrasts and even conflicts with the positivistic paradigm.

Table 5-1 Contrasting Positivist and Naturalist Axioms

Axioms About	Positivist Paradigm	Naturalist Paradigm
<b>The nature of reality</b>	Reality is single, tangible and fragmentable.	Realities are multiple, constructed, and holistic.
<b>The relationship of knower to known</b>	Knower and known are independent, a dualism.	Knower and known are interactive, inseparable.
<b>The possibility of generalisation</b>	Time- and context-free generalisations (nomothetic statements) are possible.	Only time- and context-bound working hypotheses (idiographic statements) are possible.

<b>The possibility of causal linkages</b>	There are real causes, temporally precedent to or simultaneous with their effects.	All entities are in a state of mutual simultaneous shaping, so that it is impossible to distinguish causes from effects.
<b>The role of values</b>	Inquiry is value-free.	Inquiry is value-bound.

*Note.* From Lincoln and Guba (1985, p. 37).

All research methodological approaches are inevitably subjective (Hopper, Annisette, Dastoor, Uddin, & Wickramasinghe, 1995) because the choice of research topic, data collection and analytical methods will be affected by a researcher's value judgements. As Laughlin (1995) argues, a researcher's "insights are inevitably subjective because no knowledge is generated distinct from the observer whose reasoning and experiential powers are not uniform or determined" (p. 71). Even though there is no single best approach to understanding the empirical world (Lye, Perera, & Rahman, 2006), naturalistic methodology is considered more suitable than other approaches to understanding the phenomenon this thesis seeks to explore.

The thesis takes a naturalistic inquiry approach to study the phenomenon of the expansion into China of western professional accounting bodies. CPA Australia operates in both the western world and emerging markets like China, Vietnam, India and other Southeast Asian countries. In addition, when CPA Australia extends its operations overseas many people from different social and cultural backgrounds are involved. As Patton (2002) argues, when qualitative research is conducted in a real-world context and researchers do not try to influence the phenomenon of interest, qualitative research



designs are naturalistic. Similarly, Denzin and Lincoln (2005) define qualitative research as involving “an interpretive, naturalistic approach to the world. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them” (p. 3). The three research questions cited in section 5.2 relate to social realities which are perceived by people and interpreted by them, rather than referring to something that exists objectively “out there”.

The objective of this thesis is consistent with the naturalistic paradigm where the research is exploratory and the findings are not statistically generalised. The singular view as suggested by Llewellyn and Northcott (2007) and the common view, both of which are important to naturalistic inquiry as they provide different dimensions of realities, are valued when interpreting and analysing the data. The nature, questions and aims of this study are suitably aligned with a qualitative research approach. The five axioms are discussed in more detail in the following sections where the appropriateness of adopting a naturalistic paradigm as the methodological framework for this thesis is considered.

### **5.3.1 The Nature of Reality (Ontology)**

Naturalistic inquiries from an ontological perspective support realities that are “multiple, constructed and holistic”. This approach is opposed to the positivist paradigm

in which the reality is “single, tangible and fragmentable” (Lincoln & Guba, 1985). From an ontological perspective the positivist’s (and to an extent post-positivist’s) argument that there exists a single reality to be seen as “objective, empirical and rational” (Covaleski & Dirsmith, 1990, p. 549) does not fit into the current research. Different individual experiences, beliefs, opinions and understandings form diverse social backgrounds. Institutions also develop sets of beliefs that become embedded (Leicht & Fennell, 2008). Even though individuals may share aspects of their characters with one another in clusters of common interest, for instance beliefs and cultural features, this does not exclude the existence of multiple realities. As noted in section 5.2, the third research question explores the viewpoints of Chinese accounting graduates and accountants about belonging to a western professional body. Their views may vary as a result of their different educational backgrounds, work experiences, and personal interests. Such “complex and multi-faceted realities” (Lye et al., 2006, p. 134) cannot be explained by the positivist paradigm which believes in the existence of a single reality. Lye et al. (2006) argue that the naturalistic approach enhances understanding of the phenomena by exploring beneath the surface.

Lincoln and Guba (1985) take the discussion about reality further, suggesting that it might exist at any one of four levels: objective reality, constructed reality, created reality and perceived reality. Objective reality is also called naïve realism or hypothetical realism. It asserts that there is a tangible reality (Lincoln & Guba, 1985) that exists independently of human cognition. The work of social science is to discover important

facts and processes that constitute this reality. The processes are out there, waiting to be uncovered (Rossman & Rallis, 1998). The diversity among institutions and individuals of concern to this thesis suggests that there are multiple interpretations of realities. Convergence on a single tangible reality is thus unlikely, and investigation into objective reality is therefore not applicable to this research.

Constructed reality asserts that it is dubious whether there is a reality and created reality suggests that there is no reality at all (Lincoln & Guba, 1985). For the present study, the view is taken that there are multiple realities. Therefore, both constructed and created realities are not suitable for this study.

Perceived reality asserts that there is a reality, but that one cannot know it fully. It can be appreciated only from particular vantage points, which can be called perceptions (Lincoln & Guba, 1985). Generally speaking, professional accounting bodies are highly institutionalised and complex in terms of the environment they operate in and the service they provide. This thesis seeks to explore the various opinions and perceptions of different people regarding the expansion of CPA Australia into China. Perception is defined by Lincoln and Guba (1985) as “a partial, incomplete view of something that is nevertheless real and capable of different interpretation when seen from different viewpoints” (p. 83). Different viewpoints assist in explaining the existence of multiple realities in complex social settings.

Since the recognition and measurement of institutional and individual drives involve

differing opinions and perceptions, and since the professional accounting sector is complex and diverse in nature, no one can know all of reality at any particular moment. Reality for anyone is at best only a partial picture of the whole. For that reason, only the concept of perceived reality appears a more suitable fit with the current study.

### **5.3.2 The Relationship of Knower and Known (Epistemology)**

The naturalistic paradigm suggests that the relationship between the knower and known is “interactive and inseparable” which is opposed to the positivist paradigm in which the relationship is “independent and a dualism” (Lincoln & Guba, 1985). Grant and Giddings (2002) explain that the positivist researcher is expected to maintain an objective position in relation to the subjects of the research. Positivists believe that such an objective stance is very important because a researcher could unconsciously bias the data collected. However, Hammersley and Atkinson (1983) state that it is not possible for a person to escape from the social world in order to study it. Similarly, Lincoln and Guba (1985) argue that observation not only disturbs and shapes but is in turn shaped by what is observed, especially when both investigator and respondent are human beings. Rossman and Rallis (1998) concur with this view and further explain that this means a relationship always exists between the researcher and those being researched.

Relationships and relationship building are core aspects of the accounting profession and its institutions. In particular, relationship (*Guan Xi* – “关系”) plays a crucial role in

Chinese social and business life (Luo, 1997; Tung, Worm, & Fang, 2008; Weidenbaum, 1996). *Guan* in Chinese means gate, and *Xi* means special connections among people who get through the Guan (gate) (Hwang, 1987). It is always difficult for outsiders to pass through the gate because of the exclusiveness of *Guan Xi* networks (Wang, 2007). According to Hwang (1987), Guanxi operate in three circles: the innermost one is kinships (*Qin Qi* – “亲戚”) and closest friends; the middle circle is friends that owe each other favours (*Ren Qing* – “人情”); and the last and the outermost circle is acquaintances (*Ren Shi* – “认识”). Since the researcher has connections with CPA Australia, many interviewees were happy to meet with the researcher after an introduction from friends and acquaintances they were familiar with. The researcher gained introductions to practitioners and informed observers of the professional accounting bodies allowing her to build relationships with interviewees. By establishing a person-to-person relationship with the respondent, the researcher is better able to understand the respondent (Fontana & Frey, 2005).

It is an advantage that the research was carried out by an insider in the Chinese culture rather than by a non-Chinese. Merriam et al. (2001) state that it is “commonly assumed that being an insider means easy access, the ability to ask more meaningful questions and read non-verbal cues, and most importantly being able to project a more truthful, authentic understanding of the culture under study” (p. 411). In the current study, the researcher had access to participants, spoke the local language (Mandarin) and had a thorough understanding of Chinese culture. Ease of accessibility earns greater trust from

participants and an increased ability to ask meaningful questions. Speaking the local language and having a Chinese face allowed the researcher to communicate with participants in a more detailed and transparent manner. It also allowed the researcher to better interpret the significance of the perspectives and experiences of the interviewees. Even though some studies assert that insiders are not able to critically evaluate a situation and are likely to avoid asking questions that may be seen by participants as critical and negative (Bishop, 2005; Smith, 2005), the advantages discussed above clearly outweigh the disadvantages in the context of the current study.

Hence this study prefers an approach involving interaction and the establishment of close relationships between the researcher and participants because meaningful human research is impossible if the researcher cannot gain the full understanding and cooperation of the respondents (Lincoln & Guba, 1985).

### **5.3.3 The Possibility of Generalisation**

The third axiom of a naturalistic paradigm as outlined by Lincoln and Guba (1985) is the possibility of generalisation. The aim of a naturalistic paradigm is “to develop an ideographic body of knowledge in the form of ‘working hypotheses’ that describe the individual case” (p. 38). In contrast, a positivist paradigm suggests that time and context-free generalisations are possible. The notion of naturalistic generalisation was originally introduced by Robert Stake (1978). Stake (1978) acknowledges that case

studies are often considered not to be suitable bases for statistical generalisation; however, case-study based research may be “epistemologically in harmony with the reader’s experience and thus to that person a natural basis for generalisation” (p.5).

Generalisation in qualitative research is often considered impossible as a result of the restricted scope of a study (Bryman & Bell, 2007). However, Lincoln and Guba (1985) argue that qualitative research could provide the “data base” or “thick description” that enables someone interested in transferability to make a judgment on whether transfer is possible. Stake (1978) also argues that for all readers, one of the most effective and powerful means of enhancing understanding is to provide information in the form in which people normally experience it. In this way, readers may be able to make naturalistic generalisations that are useful extensions of their understanding (Lincoln & Guba, 1985). This study adopts the notion that bringing together the experiences and perspectives of people involved with international accounting institutions adds to knowledge which is transferable. The objective of this research is consistent with a naturalistic paradigm where the findings are not statistically generalised, but naturalistically generalised. Although naturalistic generalisations are bound by the context and time-frame in which the original experiences occur, they do increase our understanding.

### 5.3.4 The Possibility of Causal Linkages

The fourth axiom of naturalistic inquiry is the possibility of causal linkages. The positivist paradigm suggests that every action can be explained as the effect of a cause that precedes it, or as the simultaneous occurrence of cause and effect (Lincoln & Guba, 1985). Lincoln and Guba (1985) argue that in a naturalistic paradigm, all entities are in a state of “mutual simultaneous shaping”, so it is “impossible to distinguish causes from effects” (p. 37). Each entity is influencing others and is influenced by others simultaneously. As Lincoln and Guba (1985) explain:

*Everything influences everything else, in the here and now. Many elements are implicated in any given action, and each element interacts with all of the others in ways that change them all while simultaneously resulting in something that we as outside observers label as outcomes or effects. But the interaction has no directionality, no need to produce that particular outcome; it simply happens as a product of the interaction – the mutual shaping. (p. 151-152)*

In this research it is seen that relationships exist between the Chinese government, the professional accounting bodies, their potential members and informed observers. These relationships are between the staff of the professional accounting bodies, Chinese government officials and ex-officials, the members of professional accounting bodies, and accounting graduates and senior academics interested in accounting institutions. The Chinese government may or may not be influenced by international accounting institutions including western professional accounting bodies. On the other hand, the western professional accounting bodies that operate in the Chinese market are regulated



by Chinese law and restricted by the scope of practice defined in regulations. The demands of members and potential members influence a professional accounting body to recognise and measure its achievements in terms of outputs and outcomes. Senior academics have influence over their students who may become members of the accounting profession after graduation, while in their turn these academics might be influenced by the accounting professional bodies and the Chinese government. Therefore, all the entities concerned in this study are in a state of mutual simultaneous shaping. It is impossible to distinguish causes from effects. The concept of causality does not fit with the current study, whereas the concept of mutual simultaneous shaping fits well.

### **5.3.5 The Role of Value in the Inquiry**

The last axiom of naturalistic inquiry is the role of value. In the positivist paradigm, an inquiry is “value-free”, while in the naturalist paradigm, an inquiry is “value-bound” and influenced by five corollaries: “the value of the inquirer, the chosen research paradigm, the choice of theory, the social context of the inquiry and whether the inquiry is value-resonant or value-dissonant” (Lincoln & Guba, 1985).

First, the values of the inquirer are the personal values of the researcher. The value-free approach suggests that the inquirer makes no value judgment on the data being collected and on the manner in which they were collected and analysed. By contrast, the

naturalistic inquiry approach suggests that the values of the researcher are an inseparable part of the research process (Lincoln & Guba, 1985). This is because inquiries are influenced by the researcher's values, expressed in the choice of the research topic, and its framing, bounding and focus. The data collected are inevitably analysed from the personal perspective of the researcher.

Second, the chosen research paradigm in the current study is the naturalistic paradigm, which guides the investigation into the research problems identified. With regard to the current research, there are multiple interpretations of realities in the accounting profession. As the naturalistic paradigm suggests, individual actors involved in this sector may have different values and therefore construct their own realities, which are distinguished from those of others. To appreciate the significance of the perceived values of various individuals in a social context, the researcher, using the naturalistic paradigm, needs to understand how individuals construct their own realities within their social contexts.

Third, the choice of theories for this research reflects its dual aspect: NIS theory (discussed in Chapter 3) and legitimacy theory (discussed in Chapter 4). This thesis uses elements of NIS to consider how government and professional accounting bodies may respond to isomorphic influences. The thesis employs legitimacy theory (in terms of its specific elements: pragmatic, moral and cognitive) to study what are the drives for the Chinese individual accountants and accounting graduates to achieve western

professional accounting qualifications. This thesis also draws on substantive and symbolic legitimising strategies to investigate how government, professional accounting bodies and individuals implement and respond to change. Both theories are used to guide the collection of data and to frame the analysis of the findings.

Fourth, reference to the social context is inevitable with a naturalistic inquiry, as participants are observed within the context of their natural or normal operating environment. This inquiry was influenced by the values that are embedded in the context of the accounting profession. The researcher respected the context and culture in which the study took place: she was sensitive to the context of the research and immersed herself in the setting and situation. With regard to the first research question described in section 5.2, participants were observed and interviewed within a context influenced by the Chinese government and the Chinese accounting profession. The researcher respects and understands the Chinese culture and is sensitively aware that the interview responses were coming from participants who lived in a communist state. The second research question deals with western professional accounting bodies which have a completely different social context – a western capitalist setting. While observing participants such as CPA Australia's operational staff and senior managers in their Melbourne head office, the researcher always bore in mind the significant differences between these two social contexts so that underlying issues and conflicts could be detected in the study.

Lastly, whether the inquiry is value-resonant (reinforcing or congruent) or value-dissonant (conflicting) is established in relation to the above four corollaries (Lincoln & Guba, 1985). In this study the first three corollaries – the underlying value base of the inquirer, the selected paradigm and the choice of theory – are congruent and reinforce each other, meaning the inquiry is value-resonant. However, the fourth corollary – social context – suggests there might be conflicts between the Chinese and the western sets of values.

The naturalistic inquiry approach adopted in the current study is value-bound. It is crucial to respect the different roles these underlying values play and understand their tendency to be either congruent or conflicting.

## **5.4 Data Collection**

The following section outlines and discusses the data collection of the current study, including both primary and secondary methods for data collection and the selection of research participants.

### **5.4.1 Primary Data Collection: Qualitative Interview Method**

This section justifies the use of the semi-structured interview method as the main method for data collection. It also describes in detail how the semi-structured interviews were conducted. This research aims to explore participants' attitudes, behaviours and

experiences through interviews. A qualitative interviews utilises open-ended questions that allow for individual variations, and attempt to obtain in-depth opinions from participants (Lincoln & Guba, 1985; Patton, 2002). There are several advantages of using these interviews for data collection that make them appropriate for this study. First, interviews enable interaction between the researcher and participants and allow the researcher to understand participants' experiences and perceptions (Bryman & Bell, 2007; Taylor & Bogdan, 1998a). Second, interviews allow the researcher to obtain a more complete picture of an interviewee's point of view because interviewees are not constrained by a questionnaire which offers only very limited options (Taylor & Bogdan, 1998b). When semi-structured interview method is adopted, fewer people took part than would have if a survey had been used, but the contact with interviewees tended to last considerably longer (Bryman & Bell, 2007; Lincoln & Guba, 1985; Patton, 2002). Qualitative interviewing encourages interviewees to talk about a particular issue or range of topics and collects qualitative data by allowing new questions to be brought up during the interview. In-depth information around the topic from this qualitative interview can be followed up and relevant contexts brought into focus, so that situated knowledge can be produced (Mason, 2002).

Compared with structured and unstructured interviews, semi-structured interviews can provide reliable qualitative data as they allow the researcher to develop a thorough understanding of the topic of interest (Seale, 1999). Such technique provides flexibility in exploring topics of particular interest to participants or the researcher (Bryman &

Bell, 2007; Taylor & Bogdan, 1998b) . In a semi-structured interview, key interview questions are consistent to ensure comparability of responses, which in turn assists data analysis (Fontana & Frey, 2000; Moll, Major, et al., 2006; Patton, 2002). Moreover, the semi-structured interview allows more scope for elaboration and general discussion than if the respondent was just presented with a set of fixed questions demanding fixed responses (Bryman & Bell, 2007; Qu & Dumay, 2011). As the main purpose of the current study was to explore different perspectives on the matter in question, a semi-structured interview was therefore considered to be an appropriate primary data collection method.

A list of questions or general topics that the interviewer wants to explore during each interview is called an interview guide, and it is prepared for the semi-structured interviews conducted in the current study (Appendix 4). An interview guide ensures that similar topics are explored with each interviewee (Bryman & Bell, 2007; Lofland & Lofland, 1984), and any differences between responses can be compared (Qu & Dumay, 2011). It also allows the researcher to make efficient use of limited interview time (Patton, 2002), helps to keep interactions focused, and provides more systematic and comprehensive interviewing of multiple participants. The interview guides can be modified over time to focus attention on areas of particular importance, or to exclude questions the researcher has found to be less relevant (Lofland & Lofland, 1984).

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 follow-up phone calls is to clarify unclear responses from the interviewees.

Nevertheless, a few weaknesses of a semi-structured interview method shall also be noted. First, the standardised wording and terminology used in the interview questions might diminish the natural quality of the responses (Hannabuss, 1996; Patton, 2002). However, in the current research all the interviewees were studying, researching or working in the accounting field; therefore they were familiar with the accounting terminology used in the interview guide. Nonetheless, they would not have been familiar with NIS theory, legitimacy theory, and the relevant theoretical terminology. To minimise the possibility of a negative impact on the data collection process, plain language was used in the interview. This was to make interviewees more relaxed, not feel overwhelmed by the formal interview questions, and able to answer questions as naturally as possible. Second, it is significant to note the time-consuming nature of semi-structured interviews (Robson, 1993). However, the time spent is worthwhile as rich data can be collected. Third, from the participants' point of view, such an interview approach could be difficult as they would have to fit a one-hour interview into their busy schedules (Sekaran, 2003). The willingness of interviewees to engage in such a

lengthy interview process can be a constraint on using this type of data collection method.

It was particularly difficult in this study because the audit partners and senior accountants were very busy. Therefore, the researcher prearranged all the interviews at times and places which were convenient to the interviewees. Interviews were conducted at either the participant's place of employment or another suitable prearranged public location if so desired. The researcher was also very flexible about any unexpected changes in the interview schedules. The researcher and interviewees exchanged mobile phone numbers while making the interview arrangements so that the researcher could be reached immediately by the interviewees if they had to change the meeting date or place.

In terms of the protection of privacy and confidentiality, prior to the transcription of the interviews, for ethical reasons each participant was labelled with a code to provide anonymity (Bryman & Bell, 2007). The researcher recorded the interviews by both digital recordings and note taking. Ethical considerations are discussed in more detail in section 5.7 of this chapter.

#### **5.4.2 Purposeful Sampling**

Probability and non-probability are two major sampling methods. Probability sampling is used in quantitative research, and particularly in surveys, to produce a sample which



is statistically representative of a whole population; this sampling method is also known as representative sampling (Ritchie, Lewis, & Elam, 2003). It contrasts with non-probability sampling which does not aim to produce a statistically representative sample, and the probability of units being selected for the sample is not known (Ritchie et al., 2003). When such a sampling method is adopted, relatively small samples are selected for in-depth study. This approach is also known as purposeful sampling (Patton, 2002). Naturalistic inquiry relies on purposeful sampling (Lincoln & Guba, 1985), and typically involves focusing on information-rich cases, or even a single case, which will enhance understanding of the questions under study (Burgess, 1984; Patton, 2002). Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of a research project (Patton, 2002). Compared with the representative sampling approach, the purposeful sampling approach is useful for ensuring that participants are suitably experienced to provide the necessary relevant and detailed data needed (Bryman & Bell, 2007; Patton, 2002).

Patton (2002) identifies different types of purposeful sampling including: (1) extreme or deviant case sampling, (2) intensity sampling, (3) maximum variation (heterogeneity) sampling, (4) homogeneous sampling, (5) typical case sampling, (6) critical case sampling, (7) snowball or chain sampling, (8) criterion sampling, and (9) theory-based sampling. For the purposes of this research, a snowball or chain sampling approach was followed, which means getting to know some participants and having them introduce you to others (Taylor & Bogdan, 1998b). The key to snowballing is to locate

information-rich key informants and ask them to recommend people for the researcher to interview. However, one of the potential drawbacks of the snowball technique is that it can limit the diversity of informants. This potential drawback can be mitigated by specifying the characteristics required of new sample members, making sure they are dissimilar to the existing participants in particular ways (Ritchie et al., 2003). This study then purposefully selected a range of informed interviewees both internal and external to the accounting profession. Furthermore, the internal sample was drawn from different levels, from young accounting graduates to senior accountants and partners in accounting firms.

This strategy was particularly useful in this research as it identified potential participants who had good sources of information. The information-rich key informants are senior staff at CPA Australia in Melbourne. The higher-level organisational managers recommended other more junior staff to the researcher to interview. One of the senior advisors in CPA Australia's Melbourne head office is an ex-official of the Ministry of Finance in China. He helped the researcher make initial contact with a number of government officials who work in the central or local CICPA offices and the Ministry of Finance. Also, because the researcher is involved in international collaboration activities with various Chinese universities, she has been able to target for interviews some senior academic staff in the Accounting Departments of these Chinese universities. Some of these senior academics who are familiar with the profession in turn recommended to the researcher various senior partners in accounting firms. They

also introduced a number of their accounting graduates to the researcher. Therefore, the snowball grew bigger and bigger as new information-rich informants accumulated. The next section addresses the process for selecting interview participants.

### **5.4.3 The Selection of Participants**

The selection of research participants for this study was guided by the research questions shown in section 5.2. Patton (2002) suggests that the underlying principle in purposeful sampling is to select information-rich cases from which the researcher can learn a lot about matters of specific importance. Hence in the current study, it was important to select participants who had significant knowledge of and experience in the research topic. In order to explore the motivations of institutions and individuals, it was necessary to select participants from both internal and external key stakeholders at each level of the accounting profession, and to include potential stakeholders. Interviewee stakeholders either have direct interests in, or have observed the expansion of, western professional accounting bodies in China. Five main groups of interviewee stakeholders were identified:

- (1) Key personnel from relevant government agencies in China
  - a. Key personnel in CICPA
  - b. Relevant government officials, for example, key personnel in the Ministry of Finance

(2) Key personnel from CPA Australia

- a. Key personnel in CPA Australia who initiated the strategic move into China, or who are directly involved in, or have observed the development of, the Chinese market
- b. CPA Australia operational managers in mainland China

(3) Practitioners who are interested in joining or who have already joined western professional accounting bodies, Chinese accountants practising in public accounting firms, state-owned enterprises, or private corporate firms who are:

- a. Members of both CICPA and a western professional accounting body, in other words, holding MPM
- b. Holders of western professional qualifications
- c. CICPA members who do not hold any western professional qualifications

(4) Accounting graduates who are interested in joining or who have already joined a western professional accounting body

- a. Chinese accounting graduates who are studying overseas
- b. Chinese accounting graduates in China

(5) Accounting academics in Chinese universities who are interested or involved in the accounting profession and who are:

- a. Members of a western professional body and/or CICPA
- b. Not holders of any professional accounting qualifications

The selection of interview participants was made in accordance with the theoretical

framework articulated in Chapters 3 and 4 and the naturalistic paradigm discussed in section 5.3. There were three reasons for selecting the above for interviews. First, interviewees from group 1 were CICPA key personnel appointed by the Ministry of Finance in China and relevant government officials such as key personnel of the Ministry of Finance. As discussed in Chapter 3, section 3.4.1 Coercive Isomorphism, interviews with relevant government officials provided insights into the external influences facing the Chinese government and partly addressed the first research question as to how China views the expansion of western professional accounting bodies. Second, interviewees from group 2 were involved in the global expansion of CPA Australia. Interviews with key personnel of CPA Australia provided useful perspectives as to the influence of various forms of homogeneous isomorphism discussed in Chapter 3, which may have partly addressed the question of how the strategy of expanding into the Chinese market was initiated and what issues and problems have emerged from this process. Third, interviewees from groups 3, 4 and 5 were Chinese accountants, graduates, and academics either inside or outside the western accounting profession. They were recognised as important individual actors who may have exercised internal influences or external influences in the process of the expansion of CPA Australia. Interviews with these participants provided very useful perspectives in the analysis of the first two research questions. Moreover, these individual actors expressed their views about belonging to a western professional accounting body, which addressed the third research question. The individuals at these levels had a broad

perspective of professional accounting organisations and were expected to be informed about the problems and issues that the three key research questions sought to investigate.

The interviews, informal conversations and follow-up phone calls conducted in this study are summarised in Table 5-2. Forty-five participants were selected for in-depth interviews. They included four key personnel from relevant government agencies, six key personnel from CPA Australia, sixteen senior accountants in China, ten Chinese accounting graduates who have gained or are currently considering western professional accounting body membership, and nine senior academics at Chinese universities with connections or an interest in the accounting profession. As shown in Table 5-2, an overall of 69 interactions were made with 45 interviewees. Each of the 45 participants was interviewed once and therefore the overall number of interviews conducted in the current study was 45. Seven informal conversations were conducted with interviewees who are key personnel from CPA Australia and four informal conversations were conducted with some of the senior accountants interviewed. Thirteen follow-up phone calls were made with interviewees from various groups.

Table 5-2 Summary of Interviews, Informal Conversations and Follow-up Phone Calls

<b>Groups of Interviewees (Refer to section 5.4.2)</b>	<b>Number of Interviews</b>	<b>Number of Informal Conversations</b>	<b>Number of Follow-Up Phone Calls</b>
<b>1. Key personnel from relevant government agencies in China</b>	4	0	2
<b>2. Key personnel from CPA Australia</b>	6	7	4
<b>3. Senior accountants in China</b>	16	4	3
<b>4. Chinese accounting graduates</b>	10	0	0
<b>5. Chinese accounting academics</b>	9	0	4
<b>Total</b>	45	11	13

The interview participants included both management and officials at the top level, as well as practitioners and academics who work in the accounting field. The top management team of CPA Australia provided guidelines, strategic plans and decisions about approaches to expansion and growth in the Chinese market. Useful information also came from the four government officials about research-related policies and regulations as well as about how the Chinese government views its relationship with various western professional accounting bodies. The views of practitioners in the accounting profession and academics who conduct research in this area were also recorded. In contrast to the government officials who may need to be cautious about expressing their views regarding some critical issues, they were more open about what they knew as insiders. Young Chinese accounting graduates interviewed were also very open and transparent about how they viewed different western accounting bodies, and

what efforts they have made to join one of these professional accounting bodies. The next section discusses the sample size in naturalistic inquiry and saturation.

#### **5.4.4 Number of Participants: Saturation**

Patton (2002) suggests that there are no rules for the number of participants selected in a qualitative inquiry. It depends on what the researcher wants to know, the purpose of the inquiry, what the critical issues are, what will be useful, what will be credible and what can be achieved within the constrained time and resources. As Patton (2002) comments:

*The validity, meaningfulness, and insights generated from qualitative inquiry have more to do with the information richness of the cases selected and the observational/analytical capabilities of the researcher than with sample size. (p. 245)*

It can be seen that the sampling strategies discussed in section 5.4.2 support the study's purpose, and the interview participants are information-rich key informants. Such sampling strategies enable the researcher to ask more meaningful questions and get more valuable insights from respondents. As Lincoln and Guba (1985) suggest, the purpose of maximum variation can be best achieved by choosing each unit of the sample after the contribution of the information provided by the previous unit has been analysed. Each successive unit is selected to either extend information the researcher has already obtained, or to obtain contradictory information, or to fill in gaps in the information. They also suggest that the sample may be refined or continuously adjusted to focus more particularly on the sample units that seem most relevant (Lincoln &



Guba, 1985).

The current study achieved the purpose of maximum variation by following the suggestions of Lincoln and Guba (1985). The first batch of interviews was conducted with a number of participants who were introduced by a CPA Australia senior advisor at the end of 2011. After several interviews were completed in China, the researcher returned to New Zealand and started analysing the interview data. By analysing the information obtained from these interviews and responding to the opinions of the interviewees, the researcher was able to adjust the focus of the sample. The first batch of participants interviewed was largely from Beijing and Shanghai. The researcher was aware of the fact that the views given by the interviewees from Beijing were unique as Beijing is the political centre of China, and most of the SOEs are located in Beijing. Interviewees in Shanghai were more internationalised than interviewees in Beijing because of Shanghai's position as the international business centre of China. Most multinational enterprises are situated in Shanghai.

After analysing the interview data collected, the researcher was able to identify what had been missing in the picture. That was the largest province in terms of economic development – Guangdong, as well as the fast-growing economic zone – Shenzhen. Views from the south had not been taken. This resulted in gaps in information requiring the researcher to return to China in mid-2012 to conduct a series of interviews with accountants and government officials in the south, including some in Guangzhou and

Shenzhen. A number of accounting students from the southwest region who were doing ACCA study were also interviewed to provide a different perspective. In this way, the researcher was able to continuously refine the sample to achieve maximum variation within the available time and resources.

The criterion for determining when to stop sampling, detailed by Lincoln and Guba (1985), is when information redundancy is reached. That is the point at which no new information is being obtained from interviewees and themes begin to emerge in the data (Denzin & Lincoln, 2005). Unlike conventional sampling which is based on statistical considerations, naturalistic sampling is based on informational considerations. The purpose of naturalistic sampling is to maximise information rather than facilitate generalisation. In the current study, information redundancy was reached when a total of 69 interactions were made with 45 interviewees, including 45 in-depth interviews, eleven informal conversations, and thirteen follow-up phone calls. The next section discusses the secondary data collection method used in this thesis – qualitative document analysis.

#### **5.4.5 Secondary Data Collection: Qualitative Document Analysis**

This section discusses the adoption of the qualitative document analysis method as the second method of data collection in this study. According to Altheide (2000), as with other qualitative research, the main focus of qualitative document analysis is on

discovery and interpretation. This includes searching for underlying meanings and themes.

In addition to the primary data of semi-structured interviews, qualitative document analysis was another appropriate research method used in the current study. The use of documents as sources of evidence has a long and worthy tradition in social research. Documentation can take many forms including print and electronic media, audiotapes, visuals (for example, photos and film), internet materials, information bases, and so forth (Altheide, Coyle, DeVriese, & Schneider, 2008; Prior, 2004).

The current study 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 and CPA Australia sites) that relate to the entry of foreign professions 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).

Some documents studied in the current research such as annual reports and articles from the magazines of professional bodies are in the public domain, whereas other documents such as document No.15 - the organisational charts of CPA Australia before and after the restructuring of their Asian regional office are not. The material from CPA Australia

provided valuable background information about the organisation's internal environment and enabled the researcher to discover some of the key findings in the research. A list of the documents seen and analysed is provided in Appendix 6.

The various types of documentation obtained proved to be useful for the purpose of this research. First, as seen in Appendix 6, Document Nos 1- 6 and 11-14 include five samples of legislative documents issued by the Chinese government, one profile page for the Chinese member of the IASB (Dr Zhang Wei-Guo), three pieces of guidance and explanatory documents issued by the CICPA, as well as one article published in *The Economist*. To explore the first research question – how does the Chinese government view western professional bodies – it is important to understand the background development of Chinese accounting standards, their progress towards convergence with international accounting standards, and the development of the Chinese accounting profession. Therefore legislative documents issued by the Chinese government were analysed to gain a better understanding of this background. As a result, the researcher was able to shape more precisely the interview questions addressed in the semi-structured interviews with the government officials. Another important use of legislative documents in the current study was to triangulate with the interview responses to improve the trustworthiness of the research. More discussion of triangulation is provided in section 5.6.1 of this chapter.

Second, as shown in Appendix 6, Document Nos 7-10 are documents promulgated by

CPA Australia. These documents include CPA Australia's website, CPA Australia's professional magazines, and CPA Australia's annual reports. They were used to gain insights into the progress of CPA Australia's expansion into China. Document No. 15 is a confidential organisational chart explaining the implied power influences before and after the restructuring of their Asian regional office. It was drawn up and explained to the researcher by the senior manager in the Melbourne head office. This document is confidential and not publicly available; the power dimensions and implied relationships among operational managers would have not been understood without the explanation given to the researcher by the senior manager. As mentioned in the previous paragraph, these documents were mainly used to understand the progress of CPA Australia's expansion into China. To enhance the trustworthiness of this study, such documents were also used to triangulate with responses from interview participants, to seek congruence or detect any conflict (Denzin & Lincoln, 2005).

To cope with the large number of documents available for analysis, the researcher used a grading system to rank them in terms of relevance. Table 5-3 which is provided below illustrates the grading system.

Table 5-3 Grading System for Document Analysis

<b>Grade</b>	<b>Relevance to the Research Questions</b>
<b>Grade 1A</b>	Very relevant to research question 1
<b>Grade 1B</b>	Somewhat relevant to research question 1
<b>Grade 1C</b>	Maybe relevant to research question 1
<b>Grade 2A</b>	Very relevant to research question 2
<b>Grade 2B</b>	Somewhat relevant to research question 2
<b>Grade 2C</b>	Maybe relevant to research question 2
<b>Grade 3A</b>	Very relevant to research question 3
<b>Grade 3B</b>	Somewhat relevant to research question 3
<b>Grade 3C</b>	Maybe relevant to research question 3

## ***5.5 Data Analysis and Analytical Framework***

For the purpose of this study, thematic analysis was used to analyse the qualitative data. Thematic analysis is “a method for identifying, analysing and reporting patterns (themes) within data” (Braun & Clarke, 2006, p. 79). It is about identifying and coding relevant concepts, and then capturing themes from the collected data. Thematic analysis is a flexible research tool that can provide a rich, complex and detailed description of data (Braun & Clarke, 2006). This section first describes the procedure of data analysis in the current study, and this is followed by a detailed discussion on the analytical framework – the three matrices developed for the study.

### **5.5.1 Procedure of Data Analysis**

The thematic analysis conducted in this thesis follows the phases and criteria suggested by Braun and Clarke (2006). In the first phase, data collected from interviews (using a digital recorder) were accurately and fully transcribed. For this study, the majority of the interviews were conducted in Chinese. To prevent loss of meaning through interpretation, interviews conducted in Chinese were transcribed in Chinese instead of English. Then the data were read repeatedly to ensure that the researcher was familiar with them. The process was aided by the use of various sources including digital files, transcripts, and interview notes made during and after the interviews.

In the second phase of data analysis, the researcher systematically and comprehensively pooled the data into the relevant analytical framework (three matrices as shown in Appendix 5) developed from the theories (Taylor & Bogdan, 1998a). These matrices are discussed in more detail in section 5.5.2. This data reduction process was done manually. In the third phase, the researcher grouped findings to more aggregated levels of concepts and themes. Themes were carefully cross-checked with the original data to ensure they were distinctive and consistent rather than vague (Bedard & Gendron, 2004; Taylor & Bogdan, 1998a). Fourth, the themes were reviewed by structuring them into the three matrices. Fifth, each theme was repeatedly refined and shaped to fit into cells within the matrices. Translation from Chinese to English occurred after the data were analysed and when the thematic themes were finalised. The translation process focused

on capturing the key phrases and key ideas rather than translating whole sentences word for word. This was to avoid the meaning of the key findings being lost (Braun & Clarke, 2006). Finally, a carefully constructed analysis of the findings of the three research questions is presented in Part Two of this thesis, in Chapters 6, 7 and 8.

Throughout the data interpretation phases it was important to ensure that the collected data were accurately interpreted and correctly analysed rather than simply paraphrased. Data interpretation is the most important aspect of data analysis. At this stage, the research moves from description to interpretation (Taylor & Bogdan, 1998b). A mismatch between analysis and data often happens and it is critical to check for consistency (Braun & Clarke, 2006). To ensure the quality of the thematic analysis, a detailed time-frame was constructed so that sufficient time was allocated to complete all phases of the analysis.

### **5.5.2 Analytical Framework: Three Matrices**

The data gathered were analysed by applying a framework adapted from the NIS and legitimacy theory literature for the questions relating to the Chinese government, CPA Australia and individuals regarding their choice of membership in a western professional accounting body. In this way, the data gained from interviews and documents were analysed with regard to the elements of isomorphism and legitimacy as identified by DiMaggio and Powell (1983) and Suchman (1995). As with all qualitative



research, there is an element of subjectivity in the interpretation of the interviews:

"Multiple meanings are always present in data – there is no right meaning, only the most accurate meaning from a particular perspective" (Downe-Wamboldt, 1992, p. 319). By contrast, once meanings are ascribed to the interview data, analysis into the three matrices should be replicable by any researcher.

For this study, as shown in Appendix 5, a matrix was developed for each of the three research questions. For the first research question – the welcome given by the Chinese government to western professional accounting bodies – Matrix 1 in Appendix 5 allows a dual consideration of data and permits the placement of interpretation into one of nine cells. On the horizontal axis of the matrix the cells are aligned according to NIS isomorphism: coercive isomorphism (enforced by others), mimetic isomorphism (copied from others), and normative isomorphism (institutional entrepreneurship). Thus, the Chinese government could have acted because it was necessary to gain acceptance by international institutions such as the WTO, the IASB, multinational enterprises and the Big 4 accounting firms (coercive isomorphism); or because it sought to copy other countries, western countries in particular, where multiple professional accounting bodies operate (mimetic isomorphism); or because institutional entrepreneurs within the government saw potential knowledge sharing and contributions resulting from having western professional bodies in China (normative isomorphism). The vertical axis of the analysis asks whether the organisational legitimising strategies of change are symbolic/decoupling, a combination of both, or substantive. With regard to these

classifications, as Suchman (1995) points out, substantive includes strategies to gain improvements in output and/or achieve technical efficiencies, while symbolic strategies are followed to shape the institutional context by more ceremonial changes. Where symbolic considerations are paramount some element of decoupling may be present. Thus, it could be that the Chinese welcome western professional bodies to gain improvements in the sector, or simply for appearance's sake, or some combination of both. When using this framework it is important to realise that these boxes are not mutually exclusive. Thus, on the vertical axis there is a middle box – substantive/symbolic – to encompass those findings which appear to involve a mixture of strategic goals.

In terms of the second research question – CPA Australia's experiences in its expansion into China – Matrix 2 in Appendix 5 is designed so that analysis findings from interview responses can be placed in one of nine cells. On the horizontal axis, as for Matrix 1, there are columns for the NIS isomorphisms where possible responses are listed, such as: the move into China was enforced by a changing external environment or by external pressures such as government regulations (coercive isomorphism); driven by a need to copy other organisations such as the ACCA (mimetic isomorphism); or driven by senior officials of CPA Australia who saw an opportunity in the Chinese market (normative isomorphism). By contrast, as for the first research question, the vertical axis comprises three rows: symbolic/decoupling, a combination of substantive and symbolic, and substantive. Such an arrangement of rows allows different

interpretations along a continuum: is CPA Australia extending its core business (substantive); is the drive partly core business but partly aimed at a low-cost way of window dressing CPA Australia's international capabilities and shaping its institutional context; or is it entirely symbolic.

To answer the third research question – the attitudes of individuals to a western professional accounting qualification – the method of analysing the individual interview responses was similar to the method adopted for the first two research questions, except that the horizontal axis utilises elements of legitimacy theory drawn from Suchman (1995), and the vertical axis shows individual legitimising strategies rather than organisational legitimising strategies. Thus, as shown in Matrix 3 in Appendix 5, the columns are labelled: individuals motivated by narrow self-interest, believing that by joining a western professional body they will gain a direct benefit (pragmatic); responses indicating that they think they should do this as it is a good and right thing to do for the longer term (moral); or individuals recognise the value of belonging to a western professional accounting body and it is this recognition that draws them to belong (cognitive). The vertical axis consists of two rows: substantive action and symbolic inaction. Such an arrangement assists in the interpretation of different actions taken by the individuals interviewed: whether they would be willing to complete a study programme and take examinations to gain a western professional qualification (substantive action); or whether they are unwilling to make any effort towards acquiring a western professional qualification (symbolic inaction).

Lincoln and Guba (1985) note that many researchers strive to improve the data processing at the level of data analytical techniques, in other words, the research method. The use of matrices are strongly recommended by Miles and Huberman (1984) to improve data reduction and data display, which is the technique adopted for this research. As suggested by Miles and Huberman (1984), matrices can display reduced data in a systematic way. This allows further thought about the research questions and careful consideration of what portions of the data are needed to answer these questions. It also enables a more focused and coherent analysis and organisation of information. Three matrices were developed to report the findings of this study. For each matrix, each cell reports the findings in terms of what was found in most of the interviews, or in some of the interviews, or in none of the interviews. The analytical framework of these three matrices was constructed in such a way that other researchers who analyse the interview data collected in this study, using this analytical framework, could reach similar findings.

## **5.6 *Data Evaluation***

In qualitative research, data evaluation is critical. Findings of qualitative research are often criticised as being unreliable, invalid, not statistically generalisable and therefore untrustworthy when compared with findings of quantitative research (Ahrens, 2004; Alvesson, 2003; Qu & Dumay, 2011). To ensure the trustworthiness of qualitative research, a variety of suggestions concerning data evaluation have been made by

researchers (Alvesson, 2003; Greene, 1998; Lillis, 2006; Lincoln & Guba, 1985; Patton, 2002; Qu & Dumay, 2011; Robson, 1993). Rather than optimising the technique of the qualitative interview or trying to get the interviewees to be honest, Alvesson (2003) suggests that the researcher should spend more time reflecting on the process of questioning as well as the meaning of the interview findings. Qu and Dumay (2011) advocate the use of a more reflexive approach where the researcher should be able to step out of the interview and reflect on how the researcher himself/herself, or other environmental factors, may have impacted on the data collected. Most importantly, Lillis (2006) emphasises maintaining a balance between allowing for the richness of interview data and ensuring the trustworthiness of the way the research is conducted. Trustworthiness is concerned not only with data collection and data analysis (Patton, 2002), but also with the findings and whether the findings of an inquiry are worthy of attention, and of taking into account (Lincoln & Guba, 1985).

In the conventional positivist paradigm, the evaluation criteria of quantitative research are internal validity, external validity, reliability, and objectivity (Bryman & Bell, 2011). However, to establish the trustworthiness of a naturalistic inquiry, a different set of evaluation criteria needs to be used in qualitative research – credibility, transferability, dependability and confirmability (Lincoln & Guba, 1985; Robson, 1993). Each criterion is discussed in detail in the following sections.

### **5.6.1 Credibility**

Credibility is the naturalist's substitute for the positivist's internal validity (Lincoln & Guba, 1985). The implementation of credibility encompasses two goals: first, to enhance the probability that the findings and interpretations will be found credible; second, to have the findings approved by the constructors of the multiple realities being studied. Two techniques were utilised in the current study to increase the probability that credible findings and interpretations would be produced: triangulation and prolonged engagement.

Triangulation was used in this study to improve the credibility of the findings. As Denzin (1978) suggests, triangulation can be achieved by using multiple and different sources, methods, investigators and theories. For this study, the qualitative document analysis method was used to verify an interview respondent's recollections about what happened. For instance, two interviewees talked about the dramatic change in the legal authority of the Shenzhen CICPA office as a result of a change in leadership in the Ministry of Finance. To verify the interviewees' responses, the researcher found legal documents No. 3 and No. 4 (see Appendix 6) which were issued in 1995 and 2003. The change in the legal authority of the CICPA office in the Shenzhen special zone was apparent when the two legal documents were compared. The effect of the change in leadership was also verified by searching the relevant website for profiles of the two leaders. To further improve credibility, the interviewees' responses were verified by

comparisons with responses from a different source – another ex-official of the Ministry of Finance. In addition, CPA Australia’s annual reports were analysed to confirm or contrast with responses from officials from CPA Australia.

Lincoln and Guba (1985) suggest ‘prolonged engagement’ as another way of enhancing the credibility of qualitative research. Prolonged engagement means the researcher is involved with the research topic and issues associated with it for a long period so that he or she is able to detect and consider any biases or distortions that could have occurred in data collection and analysis. This research commenced in September 2010 and the final interviews and follow-up phone calls were completed in January 2013. During this prolonged period, the researcher was able to engage with the interviewees through follow-up interviews. For instance, an informal conversation was conducted with one interviewee on 10 September 2010, then a formal interview with the same interviewee took place on 16 July 2012. This was followed by a number of email conversations and finally two phone calls on 13 September 2012, and 21 January 2013. Next, transferability as a criterion of data evaluation is discussed.

### **5.6.2 Transferability**

Transferability is the naturalist’s substitute for the positivist’s criterion of external validity. In the positivist paradigm, external validity (applicability) is established when the sample is representative of the population, and then generalisation will apply to all

contexts within the same population (Lincoln & Guba, 1985). However, such a statement does not apply to naturalistic inquiry. Transferability considers whether the original investigator is able to provide sufficient descriptive data to allow readers to make a judgement on the context to which transferability might be sought. It shifts the burden of proof of applicability from the researcher to the reader who seeks to make an application elsewhere. To make a judgement on the contextual similarity, the reader needs to accumulate sufficient empirical evidence about the context (Lincoln & Guba, 1985).

Transferability of the findings of the current study is established by providing as much descriptive information as possible about the context of the research to make a similarity judgement possible. Dependability in terms of data evaluation is considered in the next section.

### **5.6.3 Dependability**

Naturalists use dependability as a substitute criterion for reliability in the positivist's paradigm (Lincoln & Guba, 1985). Reliability is defined as what is stable, consistent and predictable and it is often confirmed by successful replication – similar research done under similar conditions yielding similar findings (Lincoln & Guba, 1985). The concept of dependability is broader than reliability as it includes factors of both instability and changes caused by the design of the research (Lincoln & Guba, 1985).



Lincoln and Guba (1985) suggest that the use of triangulation can improve credibility, and that a demonstration of credibility is sufficient to establish dependability. As discussed in section 5.6.1, in the current research triangulation of methods and sources was used to establish credibility. Hence the dependability of the findings was also enhanced. However, Lincoln and Guba (1985) also consider this technique to be a weak approach as it does not deal with the dependability issue in principle. Therefore two other techniques were also used in the current study to establish dependability.

One technique used to establish dependability was the use of a semi-structured interview guide (see Appendix 4). This assured the comparability of interview data by putting the same questions to each interviewee within the same category (Patton, 2002). The other technique adopted was the careful assessment of the interviews to decide whether there had been any inquirer bias (Denzin & Lincoln, 2005). In particular, the researcher assessed whether interview participants were interrupted in the middle of their statements. The researcher always waited for interviewees to finish their statements or comments, and then probed further if necessary (Lincoln & Guba, 1985). The drawback of waiting for interviewees to finish their comments is that sometimes these comments may drift from the main topics of the interview. The interview guide was very useful here in ensuring that the researcher could always come back to the main topics. Next, confirmability, the final data evaluation criterion, is considered.

#### **5.6.4 Confirmability**

Confirmability is the naturalist's substitute for the positivist's criterion of objectivity.

Scriven (1973) provides a qualitative definition for objectivity as "reliable, factual, confirmable or confirmed" (p. 95-96). In the naturalistic paradigm, confirmability considers whether the characteristics of the data are confirmable and logical (Lincoln & Guba, 1985).

Guba (1981) suggests that triangulation is again one of the techniques that can establish confirmability and the adoption of this technique in this research study is discussed in section 5.6.1. Furthermore, the three matrices (see Appendix 5) constructed for data analysis were used to link findings to specific interviewees and important quotes from them. In this way, the researcher was able to assess whether or not each finding was confirmed.

### **5.7 *Ethical Implications***

Ethical approval indicating that the conduct of the interviews followed the ethical guidelines issued by the Auckland University of Technology Ethics Committee (AUTEC) was required. An ethics application was made and approved by AUTEC on 22 November 2011 (see Appendix 1). The reference number of the ethics application is 11/287. The ethics application also included: the Participants Information Sheets (see Appendix 2), the Informed Consent Forms (see Appendix 3), and the Semi-structured

Interview Guides (see Appendix 4). To protect the privacy and confidentiality of the research participants, a number of methods were adopted in this research. First, all communication and research activities were conducted in an honest and respectful way. The researcher advised participants about the background of the research, their rights in the conduct of the research and assured confidentiality. Second, strategies were implemented to protect any information relating to the identities of participants unless permission was given to disclose titles and organisations of the interviewees. Strategies include assigning a code to each interview transcript, and assigning pseudonyms to the names of participants. Third, there was no power imbalance inherent in the relationships between the participants and researcher because the participants were completely independent from the researcher. Last, Hofstede (1980) and Lockett (1988) suggest that Chinese culture displays a certain degree of uncertainty avoidance. People often feel threatened by ambiguous situations. Therefore, the researcher first wrote to participants explaining the purpose of this research and describing the type of information that she was interested in collecting, and then followed up with a polite phone call to clarify any ambiguities. The researcher also used the Participants Information Sheet (see Appendix 2) to describe the broad objectives of the research, to ask for permission to record the interview, and to highlight the participant's right to refuse to answer any questions.

## **5.8 Summary**

This chapter is organised first, to review the research question. Second, it considers naturalistic inquiry and its philosophical axioms. Third, the data collection section begins by considering the primary data collection method – the qualitative interview. This is followed by a discussion of the secondary data collection method – qualitative document analysis. Fourth, the analytical framework is described to inform the reader about how data were analysed. This framework is original in that it combines elements of two theories with which an analysis can be conducted. Finally, the chapter discusses data evaluation and the ethical implications of the research. The aim of the chapter is to fully apprise readers about how the empirical data have been obtained and interpreted so that in Part Two where the findings are presented and discussed the method is thoroughly understood.

## **Part Two: Findings and Discussion**

### **CHAPTER 6: China in the Globalisation of Accounting**

#### **6.1 *Introduction***

As discussed in Part One of this thesis, extensive research has been done on the formal professionalisation process of the western professions in their jurisdictions. However, Leicht and Fennell (2008) argue that the penetrability of boundaries resulting from the embeddedness of the Anglo-Saxon professional bodies is more likely to be observed outside the western jurisdictions. The expansion of these western professional bodies outside their jurisdictions has not yet been studied in the literature. Many researchers have drawn attention to the growing embeddedness in the Big 4 accounting firms, the Anglo-Saxon professional bodies, the MNEs, and international institutions such as the IASB, the IMF and the WTO (Albu et al., 2011; Larson, 1997; Samuel, 2006; Sikka, 2001). The growth of these interrelationships has caused global tensions because there have been signs in China of a “push-back” against this institutional network (Ebrahimi, 2012). To investigate the phenomenon of the western professional accounting bodies’ expansion into China, this chapter discusses how the Chinese government as an institutional organisation is affected by the western institutional organisations in terms of various forms of homogeneous isomorphism. Furthermore, this chapter explains whether the actions taken by the Chinese government to legitimise itself in the eyes of

these international institutions are symbolic or substantive.

The key research question dealt with in this chapter is: How does China view the western professional accounting bodies? To answer this, the next section of this chapter (section 6.2) presents the findings from the interviews with current and ex-Chinese government officials, key CICPA personnel, senior accountants in China and Chinese academics in accounting. The findings were analysed according to the analytical framework detailed in Appendix 5 of this thesis. Themes presented in this section are informed by the theoretical framework discussed in Chapters 3 and 4, in terms of coercive, mimetic and normative isomorphism, and the substantive and symbolic elements of the findings are also considered. Following the section on the findings and analysis is a discussion of the implications of these findings and their integration with NIS and legitimacy theory in terms of the themes arising from the analysis (section 6.3). The last section (section 6.4) concludes the chapter.

## **6.2 *Findings and Analysis***

### **6.2.1 Coercive Isomorphism**

Perera (1989) refers to the need for non-Anglo-Saxon countries to develop accounting according to their own cultural environments and suggests that their governments may need to control the profession to safeguard the public interest. Most of the interviewees, including government officials, accepted to some extent the views expressed by Perera

(1989). The government official from the Ministry of Finance 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 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. (Interviewee No. 10)*

The Ministry of Finance in China has absolute legal power to govern the accounting service industry, and its duties extend to monitoring the local professional accounting body, the CICPA. Interviewees' comments are verified by analysis of the legal documents. As stated in Article 5 of the Law of the People's Republic of China for Certified Public Accountants:

*The Finance Department of the State Council, and the finance departments of provinces, autonomous regions and municipalities directly under the Central Government shall supervise and provide guidance to CPAs, accounting firms and CICPA according to the law. (National People's Congress, 1993)*

Furthermore, the law gives the Ministry of Finance authority to approve the registration of CPA firms in Article 26: "Public accounting firms approved by the financial departments of the people's governments of provinces, autonomous regions or municipalities directly under the Central Government shall be filed with the Finance Department of the State Council for the record" (National People's Congress, 1993). The Ministry of Finance also has absolute authority to impose penalties on CPAs and

CPA firms, which is clearly stated in Article 39:

*If a public accounting firm violates the provisions of Article 20 or Article 21 of this Law, the financial department of the people's government at or above the provincial level shall give a warning to the firm, confiscate its illegal income and may concurrently impose a fine of not less than one time, but not more than five times the value of the illegal income. If the circumstances are serious, the financial department of the people's government at or above the provincial level may also suspend its business operation or revoke its business licence. (National People's Congress, 1993)*

This thesis found that there is a very high level of government control over the profession and the professional body in China even after 30 years of economic reform. As suggested by Perera (1989), this may not necessarily be a negative for a communist country, as China is developing its own accounting industry according to its particular social and cultural environments. Strong control by the Ministry of Finance may be better than the CICPA in safeguarding the public interest.

Since the accounting profession in China is under strong government control, its collaboration with global accounting institutions, such as the World Bank, the IASB, western accounting firms, and professional bodies, is directed by the government. The Chinese government's coercive power cannot be ignored in analysing the internationalisation of Chinese accounting standards. The government plays a critical role in the process of internationalisation, and all changes and adoptions depend on the government's decision making.

As Callao, Jarne, and Lai'nez (2007) suggest, with reference to communist and ex-



communist countries, a lack of political will rooted in local culture and a strong national outlook have prevented a truly international harmonised framework. However, according to the report of the Institute of Chartered Accountants of Scotland (ICAS) (2010), the China's Ministry of Finance is very supportive of China converging with the principle-based standards issued by the IASB. Some issues remain to be resolved: disclosure of business-related parties, fair value, reversal of impairment losses, and treatment of government grants. Many of the interviewees agreed with this viewpoint, including government officials, senior accountants and academic researchers. Their main argument was that convergence with international standards is welcome, but that adoption of them would be a step too far and not compatible with the Chinese cultural environment. As the official from the Ministry of Finance 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. (Interviewee No. 10)*

The ICAS (2010) report makes the point that the IFRS are complex and difficult, and when translated into local languages, may be easily misinterpreted because of their complexity and the use of English terms which are not easily translatable. Other interviewees expressed a similar viewpoint with regard to adoption of the IFRS. As a senior official from the CICPA 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. (Interviewee No. 11)*

A senior academic explained these differences between China and the West in terms of the economic, social and cultural environments. He believed these differences would prevent China from adopting the IFRS:

*With regard to full adoption, I think we may need to modify the standards to adapt them to the special conditions in China, including differences in language, culture and regional economic development. China is a developing country, not a developed country, therefore we are converging and we are not able to completely adopt the IFRS...another problem is China's economy is still largely dominated by SOEs...certainly the influence of cultural differences is significant. Chinese culture and western culture are very different. (Interviewee No. 9)*

Interestingly, most senior accountants believe that Chinese accounting standards are not much different from the IFRS in principle. However, when the researcher probed further, they admitted that there are differences in practice, especially for those accountants who have western professional accounting qualifications and become aware of the differences after completing the western professional programme. As a senior accountant who recently completed the CPA Australia programme and gained CPA 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, last year I went to Australia to study (the CPA Australia programme) via the International Partnership Programme (IPP) and 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. (Interviewee No. 12)*

Despite the strong power of the Chinese government in setting accounting standards and in the administration of the Chinese accounting profession, the coercive power of the government over the accounting field is limited when it encounters western professional accounting bodies. Thus, the attitude of government officials to western professional accounting bodies is coloured by their inability to control and discipline these foreign professional accounting bodies. One CICPA official from the Beijing office declared that in Chinese eyes they are not so much professional accounting bodies as foreign investment companies:

*So far all the western professional accounting bodies have entered China in the form of foreign investment companies. As with CPA Australia, they may be registered as not-for-profit organisations in Australia but operate in a similar way to a company...they are companies in Chinese eyes...Chinese law does not allow them to register as a society or a non-government organisation in China, and therefore they have to register as a foreign investment company which is regulated under the relevant foreign investment law. Certainly, they call themselves the CPA Australia representative office and the ACCA Beijing office when they promote themselves to the public. (Interviewee No. 11)*

This view was endorsed by the official from the Ministry of Finance. She also expressed her concern about the regulation of western professional accounting bodies in China and admitted that this is a very sensitive issue and that the Chinese government has to deal

with it very carefully:

*There is no law giving power to the Ministry of Finance to govern the western professional accounting bodies in China. There is some discussion in the relevant government departments. The government also considers this a sensitive issue as it may impact on relationships with western countries. They recognise this problem and want to regulate, but haven't worked out a solution. (Interviewee No. 10)*

These views indicate that CPA Australia, the ACCA and other western professional accounting bodies are not regarded as professional accounting bodies but as foreign companies by responsible officials. As the literature cited in Chapter 2 makes clear, there remains a cultural divide between Anglo-Saxon perceptions of how the accounting industry should operate and China's view of the accounting operation as being much more a part of government control and direction. Interviewees did not foresee any change or possible compromise in this position, continuing to make the point that China will develop in its own way but will borrow or adapt what other systems can offer.

The question of how coercive the international institutional bodies have been in forcing China to welcome these changes was largely dismissed by most interviewees. The government officials unanimously rejected the issue of coercion. However, the government official from the Ministry of Finance complained about inequities with regard to reciprocity in professional accounting practice:

*There are quite a few Chinese enterprises that invest overseas, such as in Australia and New Zealand...it is very difficult for Chinese auditors to get visas when they need to conduct auditing work for subsidiaries of these Chinese enterprises overseas. In contrast, the Chinese*

*government is open to foreign auditors and always grants visas to auditors. This is not fair. (Interviewee No. 10)*

Many senior accountants and academics believe that there has been coercion by international institutions, especially MNEs. In particular, an academic researcher 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 in 2009 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. (Interviewee No. 21)*

Such a view is also endorsed by the ex-official of the Ministry of Finance in China. He has been working in the CPA Australia Melbourne head office as a senior advisor since 2000. He differs from those government officials interviewed in China in that he is more open to the questions about the coercive power imposed on China by the international institutional bodies. As he recalls, the adoption of the IFRS was largely because of external influences from MNEs:

*MNEs with operations in China needed to consolidate the accounts of their Chinese subsidiaries with the accounts of their parent companies. During that period, China used its own accounting standards, which were very different from the international accounting standards. To consolidate their accounts, these Chinese subsidiaries had to prepare another set of accounts using the international standards, which resulted in doubled costs. The Big 4 were the only accounting firms that could prepare these accounts at that time. With regard to the Chinese government, lobbying from the MNEs was the main reason for adopting the IFRS. China models itself on the US, so why didn't we adopt the US GAAP? That was because we feel that the IFRS have been more widely*

*adopted internationally and have a very good reputation. (Interviewee No. 3)*

While Irvine and Lucas (2006) observe that there are pressures on developing countries from the World Bank or the MNEs to adopt or converge with the IFRS, it is interesting that with regard to coercion, the government officials interviewed unanimously denied such a possibility. On the other hand, the accountants and academics interviewed largely agreed that there was some coercion from international bodies such as the WTO, the IMF, the IASB, MNEs, and the Big 4. A probable reason for this divide between interviewees is that to admit to being coerced is to admit to being weak and therefore lose face. Government officials are likely to feel this more keenly. However, some interviewees referred to a gentle form of coercion applied by the Big 4 accounting firms on their entry into the Chinese market, which was to cultivate relationships with very senior government officials including the Prime Minister:

*With regard to your question about how the Big 4 could audit most of the large state-owned enterprises (SOEs) in China, this was something to do with our government. To our surprise, our government opened its doors completely to the Big 4 in the accounting service industry. The reason was because the Big 4 were so professional in their public relations! To give you an example, as the director of an accounting firm it is a matter of prestige for me to make friends with the CEO or the CFO of a large corporation. The Big 4 were totally different! They made friends with our Prime Minister, the President of the Ministry of Finance, and provincial government officials! We can never compete with them. (Interviewee No. 31)*

The same interviewee commented further on western colonialism in the accounting industry: “This is another form of colonialism if we consider the accounting industry as

the boundary of a country” (Interviewee No. 31). It seems that most of the interviewees view the entry of these accounting bodies as a form of western colonialism and that because the colonialism is not voluntary, it represents a subtle form of coercion.

The result of the successful colonialism of the Chinese accounting field is that forms of Chinese resistance have surfaced especially around the area of national security. Many senior accountants and academics raised concerns about national security as a result of SOEs being audited by the Big 4. An accounting professor from one of the top universities in Beijing explains why China is increasingly concerned about national security:

*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. (Interviewee No. 9)*

The accounting professor’s explanation is consistent with the story told by the partner of Grant Thornton Shanghai with regard to a conflict between the US and China:

*Secrecy and privacy are the big issues right now, because the PCAOB in the US has created problems in the recent case with Deloitte Shanghai. This firm audited one US-listed company [called Longtop], so the PCAOB asked for information about that company. They wanted to review the work papers, and of course Deloitte refused to comply because in China we are not allowed to release private and confidential information. So that secrecy law was introduced. Of course this is*

*really a conflict between the US and China. They have not yet reached a compromise on who can review what. (Interviewee No. 16)*

Because of the concern about national information security as evidenced above, senior accountants and academics interviewed believe that the Chinese government is slowly closing its doors to the Big 4. The partner from Grant Thornton Shanghai is aware of the Chinese government's tendency to move away from the Big 4 as audit leaders. He commented:

*Yes, the Chinese government might prefer local audit firms to the Big 4 and there is a tendency, I think, for the Chinese government to move those big SOEs away from the Big 4 because of those issues. Also, they don't like the kind of monopoly exercised by the Big 4 or, as you call it, domination. (Interviewee No.16)*

The partner of Deloitte Beijing reveals that big Chinese local firms are taking over some of their clients (especially SOEs) with support from the government. However, most of the big corporations (including major banks) are still audited by the Big 4. However, he pointed out that one of the major banks had moved its audit to a big local accounting firm (Interviewee No. 37). The partner of RSM (a top Chinese accounting firm) confirmed that RSM had just won the contract in a bid against the Big 4 (Interviewee No. 14). The director of a Chinese accounting firm strongly supported the tightening-up of policies; however, he thought it was a bit late for the government to realise the drawbacks of opening up to the Big 4:

*At the moment, [the Chinese government] wants to restrict the operations of the Big 4, which I think should have been done a long time ago. More importantly, the service provided by the Big 4 concerns top national secrets in China. Our government did not realise this until*



*the Big 4 had found out all our secrets. It's too late as we have already made a big mistake. (Interviewee No. 31)*

This director represents the interests of Chinese accounting firms. It seems that Chinese accounting firms are keen to see the Chinese government moving away from the Big 4 and believe that the recent policy of domesticating the Big 4 firms is just a start. Article 11 of the Big 4 domesticating policy requires the chief partner in accounting firms to have the CICPA qualification as well as Chinese nationality (Ministry of Finance, 2012). According to Article 7 (4) of the policy:

*On the date that the Big 4 are transformed into the special partnership accounting firms, the proportion of partners who do not have the CICPA qualification shall be lower than 40 per cent; by 31 December 2014, this proportion shall not be higher than 35 per cent; this proportion shall not be higher than 25 per cent by 31 December 2016 and shall not be higher than 20 per cent by 31 December 2017. (Ministry of Finance, 2012)*

However, a senior consultant from Ernst and Young 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. (Interviewee No. 34)*

In summary, responses were divided as to the extent of coercion applied to China from foreign sources. Most interviewees acknowledged that there has been some form of colonialism which is now increasingly resented. The division was between the government officials on the one hand, and accountants and academics on the other. The

government officials resisted the idea that China has been subject to any form of coercion, while the accountants and academics considered that a coercive influence has been at work, resulting in a colonialism of the accounting field by the western institutions. Because many of the SOEs have moved away from the Big 4, it would seem that China is increasingly resisting that influence. Such resistance indicates that initially there have been some isomorphic coercive forces which brought the western institutions into China.

### **6.2.2 Mimetic Isomorphism**

With regard to mimetic isomorphism, feelings around “loss of face” are also factors governing responses to the question of how much China is copying others. Again, to admit to copying is to admit that the Chinese systems are inferior. One senior academic observer interviewed raised this point:

*Face is very important in China and especially in government circles. Acknowledgement of copying, if recognised at all, is likely to be explained in terms of taking the best the others have to offer and being open to new learning. Otherwise, just to admit to copying is to admit to having inferior systems. (Interviewee No. 44)*

Consistent with the observation above is the interview with the CICPA Beijing official, who with specific regard to the nature of the accounting profession declared:

*Certainly we have done lots of preparation work to improve CICPA examination models. We analysed and borrowed the examination models of many internationally recognised professional accounting bodies. Now the Chinese CPA exam also includes both technical and*

*professional components. This is to make mutual recognition easier and also provide a platform for CICPA to collaborate with western professional accounting bodies. (Interviewee No. 11)*

The CICPA official reinforced the point that copying described as learning from others and taking the best from them is appropriate and therefore not a sign of weakness.

While his response in the former part of the interview can be seen as an admission of a reactive approach, in the latter the official emphasised a more proactive element of mimetic isomorphism, that is, aligning with other international professions will facilitate future mutual recognition. Thus the first part of the CICPA official's comment referred to substantive changes that have been introduced, whereas the latter comment was more symbolic than substantive. The same official looks forward to what he called "the gold standard" of professional membership in which China will share and will be symbolic of the best in international professional accounting: "We started to improve the CICPA examination model in 2008. By 2010, we had officially adopted a new examination model. Generally speaking, the purpose of such an improvement was to improve 'the gold standard' of CICPA" (Interviewee No. 11). However, the ICAS (2010) report denies such an improvement and makes the point that most of the CICPA exam is multiple-choice and memory-based. There is little in the exam which requires candidates to think and apply judgement.

Most interviewees disliked the allegation that China is copying from foreign practices. They preferred to say that China is learning from the best foreign sources. How much China is learning is debatable, as the ICAS (2010) report demonstrates. Currently the

CICPA exam is mostly memory-based and technical, which indicates that while China has promised the IASB to promote thinking and judgement, such a promise appears symbolic in the absence of any substantive changes being made to the examination format. To conclude the section on mimetic isomorphism, the viewpoints of the interviewees are valid but their responses do raise the question of how much learning from the best can be seen as a form of mimetic isomorphism.

### **6.2.3 Normative Isomorphism**

The normative isomorphic findings were derived in two parts. First, there were the normative isomorphic influences which explain, in terms of learned experiences, why senior Chinese officials are influenced by international institutions such as the World Bank, the WTO, the Big 4, and so forth. Second, from the interviews there arose normative expressions as to which professional accounting body China should be mostly influenced by.

An example of the first kind of influence arose when several interviewees, including three former government officials and several senior accountants, referred to the normative influence of Mr Li Yong, the former Secretary General of the CICPA. Two former senior CICPA officials in Shenzhen special economic zone related that when Li Yong was in charge of CICPA Beijing, he granted independence to the profession in Shenzhen along western lines, making it similar to the profession in Hong Kong

(Interviewees Nos 32 and 33). In their view, Shenzhen was fortunate that Li Yong had spent much of his working life within the international organisations overseas and had been influenced by their methods and practices:

*The CICPA office in Shenzhen special economic zone was very special at that time. We had law-making authority. Similar to HKICPA, we had administrative authority to impose penalties, administer registrations and so forth. We had the 1995 Administrative Regulations of Shenzhen Special Economic Zone on Certified Public Accountants, which gave us legislative power to regulate the accounting profession in Shenzhen. (Interviewee No. 32)*

However, the independence enjoyed within the Shenzhen special economic zone was short-lived. When Li Yong was appointed to another position, the Assistant to the President of the Ministry of Finance, his replacement, Ms Feng Shuping made her impact by reversing many of his decisions and ideas. Her actions caused disagreement with and tension between the Ministry of Finance and the CICPA (Interviewees Nos 3, 32 and 33), with the result that the Shenzhen branch of the CICPA lost its independence and was governed by the Ministry of Finance in Beijing. Therefore, the two former officials, believing the change to be a backward step and not in the interests of the accounting profession, resigned their posts (Interviewees Nos 32 and 33). The short-lived normative influence of Li Yong is referred to with some regret:

*Our old chief, Li Yong, who is currently the Vice President of the Ministry of Finance, used to work in PWC in the US and the World Bank. He was familiar with situations overseas. He was very supportive of the independent model of the CICPA Shenzhen office and advocated this model. However, his successor took away the legislative power from the CICPA Shenzhen office once Li Yong left. (Interviewee No. 33)*

The removal of legislative power is apparent when comparing the original 1995 administrative regulations with the amended 2003 regulations published by the Standing Committee of Shenzhen Municipal People's Congress. In the original 1995 administrative regulations, according to Article 32 Responsibilities of CICPA Shenzhen office, the CICPA Shenzhen office had authority to "approve the establishment of CPA firms and CICPA registration", "make codes of practice and relevant regulations" and "impose administrative penalties on CPA firms and CIPAs that violate the regulations" (Standing Committee of Shenzhen Municipal People's Congress, 1995). These legislative and administrative powers were completely removed from the amended 2003 regulations. Instead, the municipal Ministry of Finance department was given the legislative and administrative power (Standing Committee of Shenzhen Municipal People's Congress, 2003).

However, Ms Feng, the woman who replaced Li Yong and who had a more Maoist outlook, has since been replaced by another official of the Ministry of Finance. Like Li Yong, he has had wide international experience and has slowly begun to liberalise and decentralise the profession in China:

*The Vice President of the Ministry of Finance, Wang Jun, has played a significant role in developing the accounting industry in China. He has been involved in administrative work in the accounting industry in various government departments. He has a very strong relationship with accounting and wants to do something different. Two of his initiatives are the continuous training of outstanding professional accountants and the internationalisation of accountants. (Interviewee No. 3)*

Therefore, as is revealed by the above interviewees, an individual's effort has very limited impact in the development of the Chinese accounting system. As the ex-official of the Ministry of Finance commented: "China's very special political system restrains the normative influence of these leaders in the field" (Interviewee No. 3). From the time of the Cultural Revolution, both major and minor officials within the governmental structure have refrained from normative comments as these can be viewed negatively. This reflects the coercive power of the Maoist tradition of centralised control and an appearance of harmony.

The second element of normative isomorphism 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 Ministry of Finance official held the view that the CICPA is more like the ICAEW than other accounting bodies: "CICPA is the professional accounting body in China, it is similar to CPA Australia; oh no, I think it would be more similar to the chartered accountants' organisations" (Interviewee No. 10).

Other interviewees said it may be possible one day for China to engage in mutual recognition with the GAA, but most were sceptical, saying that they thought China

would never want complete mutual recognition because of jurisdictional and territorial issues. However, most interviewees look forward to exemptions on the basis of membership of the CICPA. 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). This is the best exemption that China can give and reflects the high value that China puts on the GAA. According to a CICPA Beijing official:

*CICPA has mutual recognition with HKICPA and ICAEW, which means CICPA gives four paper exemptions to HKICPA and ICAEW members, leaving two papers to complete including taxation and commercial law. ...These professional accounting bodies seem to belong to different circles, for instance, ICAEW and HKICPA and some seven or eight professional accounting bodies have reciprocal relationships. (Interviewee No. 11)*

On the other hand, the interviewee also recognises that the ACCA and CPA Australia do not belong to the GAA.

*It is quite obvious in Hong Kong that if a person 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 as well. They are obviously in a different circle. This may be because of history or is a reflection of the current status. (Interviewee No. 11)*

A CICPA Guangdong official also made reference to the perceived inferiority of the ACCA, and as with CPA Australia, to ICAEW:

*The CICPA qualification is a typical practising licence, which means that if you have it you can sign audit reports in China. However, having the ACCA qualification does not allow the practitioners to sign audit*



*reports in the UK. The ACCA qualification is inferior to the ICAEW qualification in the UK. (Interviewee No. 29)*

According to ICAEW (2013), the audit qualification in UK is issued by the ICAEW under delegated powers from the UK Companies Act. ACCA member need to gain an audit qualification with ACCA so that ICAEW will recognise it and grant the audit qualification to the ACCA member. Several interviewees suggested indirectly that the ACCA and CPA Australia qualifications are inferior. The main CICPA webpage seems to bear this out because it shows only CICPA's link with the ICAEW and the HKICPA, while their links with CPA Australia are relegated to a minor page which is very hard to find.

Another aspect of the normative regard for western professional accounting bodies is that they can be seen as foreign investment companies rather than professional accounting bodies. For example, the ACCA is viewed as a training institution rather than a profession. This is confirmed by the CICPA Guangdong official: "To describe it in an improper way, ACCA is an international training institution, and it is operated as a commercial entity" (Interviewee No. 29). That the ACCA is seen as a commercial entity rather than a profession, and by default CPA Australia, is a surprising finding, in particular because the ICAEW is not perceived in the same light.

#### **6.2.4 Legitimising Strategies**

Lastly, the first research question attempts to answer the question of whether the

Chinese government welcomes the entry of western professional accounting bodies (including the ACCA, the CGA, the HKICPA, CPA Australia, the CIMA and the ICAEW) because the presence of such foreign professions further legitimises China's claim to have a strong voice in international accounting and financial organisations. Not surprisingly, none of the government officials interviewed expressed the view that China wants or needs to legitimise itself by welcoming these western professional accounting bodies into China. However, they all spoke very proudly of China's stronger voice in international accounting and standard-setting. A government official from Ministry of Finance said:

*In the past, they [the IASB] listened more to European countries. Now they actually pay lots of attention to us. China has a much stronger voice internationally. ...Officials of the IASB came to China to communicate with enterprises and accounting firms and also listened to our [Ministry of Finance] opinions. The newly appointed Chairman of the IASB also visited China right after he was appointed. It shows that China is becoming more important in international accounting standard-setting. (Interviewee No. 10)*

In the remarks made by Hans Hoogervorst (IASB, 2011), IASB Chairman, in Beijing, he emphasised that IASB is supportive of China becoming a global leader in financial reporting:

*In accounting, China has made tremendous progress by building an accounting profession and setting in place a process of continuous convergence with IFRS. ...This development is also welcomed by important international bodies like ESMA, the European securities regulator and the World Bank. Still, I believe that China's path to becoming a global leader in financial reporting is not fully fulfilled. If China does want to become a global leader in financial reporting, then the IASB stands ready to support this ambition.*

Both the government official (Interviewee No. 10) and the official of CICPA Beijing (Interviewee No. 11) proudly mentioned about the appointment of a Chinese, Dr. Zhang Wei-Guo, as a member of the IASB (IASB, 2013a). On the other hand, many senior accountants and academics believe that socially it will further legitimise the Chinese accounting profession when an increasing number of Chinese CPAs hold western professional accounting qualifications as well. As explained by a PWC partner in Beijing who has achieved the CPA Australia qualification:

*Maybe it sounds ceremonial, but I actually feel that when more and more Chinese CPAs hold western professional accounting qualifications, we can better represent China in international conferences like the World Congress of Accountants meeting that was held in Kuala Lumpur... so that we are doing a good thing for both ourselves and our country (Interviewee No. 24).*

It was a feature of the interview responses that accountants and academics were unanimously agreed that it was in the interests of the country to have more Chinese CPAs holding western professional accounting qualifications. Therefore, even though government officials denied this practitioner's response that dual membership will further legitimise the Chinese accounting profession on a global scale, the conclusion can be drawn that the Chinese government might be seeking self-interested legitimisation by welcoming these western professional accounting institutions to operate in China.

With regard to the legitimising strategies, both substantive and symbolic strategies may have been adopted as they are not mutually exclusive. The Chinese government has a

number of collaborative programmes with western professional accounting bodies like CPA Australia, the ICAEW and the HKICPA with the aim of improving the technical competency of Chinese CPAs. Therefore, such collaborative activities can be considered substantive legitimising strategies. However, as reported in section 6.2.3, the perception of the ACCA as a commercial training institution can be seen as unreasonable in terms of functionality, because in every respect the ACCA acts like any other professional accounting body would in China. By contrast, the willingness to collaborate with the ICAEW and the HKICPA can be seen as more a symbolic than a substantive move in improving international recognition and Chinese prestige. Symbolic considerations concern image and reputation, whereas substantive considerations are more about functionality and operation (Aldrich & Fiol, 1994). The constant reference by interviewees to the gold standard of professional membership may be seen as motivated more by symbolic than substantive considerations.

### **6.3 Discussion**

The findings of the first research question are presented in the above sections and are analysed according to the analytical framework (see Appendix 5). Themes that have arisen from the above sections are informed by the theoretical framework. The implications of the findings are discussed in this section, that is, how China views the western accounting professions in terms of three forms of institutional pressure and influence: coercive, mimetic and normative isomorphism. The discussion also considers

the organisational legitimising strategies (either symbolic or substantive, or a mixture of both) adopted by the Chinese government.

With regard to the first research question, much of the theoretical argument centres on an explanation by way of coercive isomorphism, that is, an alliance of westernised global bodies (the WTO, the IMF, the IASB, the Big 4 accounting firms, MNEs and so forth) had a significant impact on the Chinese government. The growing embeddedness of these large international institutional and corporate actors have been criticised by many researchers who argue that the dominance of these institutional and corporate actors means standard-setting just serves the interests of a few powerful groups and excludes other stakeholders (Albu et al., 2011; Larson, 1997; Leicht & Fennell, 2008; Sikka, 2001).

Saundagaran (2004), Douplik 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 thesis 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.

This thesis 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. 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, as some interviewees point out, such a policy may not work

as effectively as the Chinese government expects.

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 thesis found that the CICPA, which is the only legally recognised professional accounting body in China, is strongly controlled by the Ministry of Finance. The CICPA has to report noncompliance cases and the registration of accounting firms to the Ministry of Finance. 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 thesis found that the majority of the Chinese government officials, accountants and academic researchers 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. It was also admitted that there are still quite a few differences in practice between the Chinese accounting standards and the international accounting standards.

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. In Chapter 2, several researchers (Callao et al., 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 of 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 former vice presidents of the Ministry of Finance in China, Mr Li Yong and Ms Feng Shuping, 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. 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 to in Chapter 3 as institutional entrepreneurship (DiMaggio, 1988; Fligstein, 1991; Hardy et al., 2004; H. Leblebici et al., 1991). The findings of this thesis 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 is the high regard for the ICAEW. Once again, the term gold standard was applied with reference to the ICAEW. It seems from the interview responses that the ICAEW represents a professional ideal to which China should aspire. 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. This low ranking of CPA Australia, and how it may have come about, is a feature of the findings in the next chapter.

The last aspect of the first research question 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 thesis 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 making presence 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 thesis 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 in section 6.2.1 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 thesis. Therefore, it is concluded 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.

## **6.4 Summary**

In summary, with regard to the first research question, “How does China view the western professional accounting bodies?” the thesis has in this section analysed the question in terms of coercive, mimetic and normative isomorphism. The coercive effect on the Chinese government is evident, as is the weakness of the Chinese professional accounting body – the CICPA. Therefore the government plays a very important role in the development of standards and the acceptance of international institutions. It becomes clear that, for China, the adoption of the IFRS is a step too far and convergence is more appropriate. By accepting the presence of the foreign professional accounting bodies, the Chinese government is limiting its own authority and therefore tends to deny that they are professional accounting bodies but rather foreign investment corporations. The ICAEW, which has a limited presence in China and is seen as the most respected professional accounting body, is viewed differently in China, as is the HKICPA. The interviewees were divided as to the coercive pressure on the Chinese

government. The officials denied any coercion while other interviewees maintained that the international institutions did have some coercive influence on the accounting field in China. In summary, the overall finding is that initially coercion by international bodies was a strong factor in driving accounting changes such as convergence with the IFRS and the welcoming of western accounting institutions into China.

For many interviewees mimetic isomorphism is seen not so much as copying but as learning from the best. However, the extent of the learning (or copying) is questionable as the ICAS report has found. Although the government officials maintain that China is learning from the best, much of their learning could be symbolic rather than substantive.

In terms of normative isomorphism, there are two elements: first, the normative element introduced by Chinese officials who have worked or gained experience overseas. There does seem to be an effect brought about by senior officials with experience overseas as against periods when senior officials without overseas experience took control of the Ministry of Finance. However, their individual impact was restricted and minimised by the Chinese political system and Maoist traditions. Second, regarding the question of which professional accounting body China should follow, respondents talked about the gold standard, which is a reference to the superiority of the ICAEW. More recently, normative influences have grown stronger as China searches for the gold standard in the accounting field and is less welcoming of some of the foreign accounting institutions that initially entered the accounting field. It is apparent from the interviews that China

wants international reciprocity but on its own terms and only with what it considers are the best that foreign professional accounting bodies have to offer.

The last implication of the findings is that the Chinese government may be gaining pragmatic legitimacy through a combination of substantive and symbolic organisational legitimising strategies. It is evident from the findings of this research that the Chinese government has made substantive efforts in improving technical efficiency. However, because of the prevailing Chinese cultural, social and political environments, some decoupling may have occurred. It is concluded that, similar to China's convergence with the IFRS, China's welcome of western professional accounting bodies is seen as a symbolic window-dressing strategy to gain legitimacy in the eyes of the world and powerful international institutions. The next chapter presents the findings of Research Question 2, and discusses the key implications emerging from the findings.



# **CHAPTER 7: The Decoupling of CPA Australia's Global Expansionary Strategies**

## **7.1 *Introduction***

The findings presented and discussed in Chapter 6 show that a number of western professional accounting bodies have entered China. The first mover was the ACCA, which arrived in mainland China twenty years ago, and was followed by others such as the CGA, the CIMA, the ICAEW, the HKICPA and CPA Australia. As explained in previous chapters, the expansion of these western professional accounting bodies outside their territories has not yet been studied. This chapter deals with the second research question, which relates to how western professional accounting bodies have experienced their expansion into China. The empirical research is focused on the case of CPA Australia in particular, and what problems have emerged for CPA Australia in the process of its expansion.

This chapter explains the motives for CPA Australia's expansion using NIS theory and legitimacy theory. With regard to the problems that emerged from the interviews, this thesis borrows from NIS, in particular employing the concept of decoupling which was discussed in Chapter 3. As Scott (2001) points out, institutions are transported by cultures, structures, and routines as they operate at multiple levels of jurisdiction. NIS offers theoretical explanations of the influence of the external environment to answer

why professional accounting bodies are seeking growth in overseas territories. NIS also offers the paradox that what an organisation actually achieves and what its structures and practices suggest it should accomplish are often quite different (Fogarty, 1996). Organisations play active roles in shaping their institutional contexts whereas the strategies they employ may be largely symbolic and do not result in substantive change (Dowling & Pfeffer, 1975; Parson, 1956; Perrow, 1970; Thompson, 1967/2003). It raises the concern as to what extent the entry into China of western professional accounting bodies, such as CPA Australia, is an attempt to legitimise their procedures and structures in a symbolic sense as opposed to increasing their membership or technical efficiency.

This chapter is structured in this manner: Section 7.2 explains the findings, which are in part derived from three top officials in the Melbourne head office of CPA Australia who were interviewed about CPA Australia's policies in China, and from two operational managers in China as well as the Country Manager in New Zealand. Contributions to the findings were made from 29 informed observers including four Chinese government officials, sixteen senior accountants in China and nine Chinese accounting academics as to how they perceived the expansion of CPA Australia into China. The findings are analysed using the analytical framework discussed in section 5.5 of the thesis. Themes emerging from this section are informed by the theoretical framework discussed in Part One, Chapters 3 and 4. Section 7.3 is a discussion of the key implications of these findings and their incorporation with legitimacy and NIS theory. Section 7.4 is a

conclusion to the chapter.

## **7.2 Findings and Analysis**

### **7.2.1 Motives, Contributions, and Competition**

The Strategy General Manager in the Melbourne head office who initiated the strategic move into the mainland China market was interviewed. He explained the two models that CPA Australia follows: 1) a pure business model, and 2) a more public interest aspect. These two models are the fundamental motives for CPA Australia to enter an emerging market similar to mainland China's. In addition to the for-profit incentives, his explanation emphasised the contributions that could be made by CPA Australia in advancing the accounting profession and contributing to sustainable economic growth in China. His explanation of these two models is as follows:

*First, [we follow] a pure business model. We have an aging population. Large numbers of our members are close to their retirement date. We've built a whole range of infrastructure to provide a whole range of services to our members that rely on fees to fund our future operations. So we need to ensure continuous membership growth. Second, there is a more public interest aspect. We fundamentally believe that accountants are important. They analyse, report and control, which means their organisations have better governance, greater transparency in producing financial reports. When these organisations are doing things better, owners of capital can make better use of capital, and therefore increase the standard of living. We are not the only driver of sustained economic growth, but if we do what we do well, which is to train people and make sure we have a strong, competent, independent accounting profession, this will lead to a better society and community. (Interviewee No. 1)*

He further pointed out that CPA Australia does not want to grow its membership by relying purely on the tertiary market in Australia:

*If we rely totally on Australian universities, and Australian universities are subjected to a major shock caused by many of the international students going to universities elsewhere in the region, there would be huge implications for our businesses. So we don't rely on our existing channels, we have to go broader. (Interviewee No. 1)*

It seems that the strategy of expanding into the mainland China market was a result of both self-interested financial motives and moral drive. On the one hand, CPA Australia is expecting more income to be generated from membership fees in the emerging market; on the other hand, CPA Australia is hoping to achieve technical success and efficiency so that more Chinese accountants can achieve greater competency through the CPA Australia programme. The latter motive was then emphasised by other CPA Australia officials in the Melbourne head office as the overwhelming reason for their drive into China.

The CPA Australia officials interviewed about their policies for the most part emphasised the contribution that CPA Australia could make to China in terms of supplementing professional membership with the CICPA. As explained in an interview with the Business Development General Manager:

*CICPA, we believe is in a stage of great development. Because China itself is looking to connect with the world, we believe CPA Australia should be of interest to the Chinese accountants... This is because the CPA Australia qualification, right now, is a bit better understood than the CICPA one on a global scale. Of course, the CICPA qualification is going to be very much required at a local level, for licensing and*

*relevant local things. So we don't ever see ourselves as competing with CICPA. We get the sense that China would probably realistically use more professional qualified accountants and that is a capacity issue. We, like all others, have stars in our eyes and look at the size of the available market. (Interviewee No. 2)*

In particular, the Strategy General Manager pointed out that the two main purposes of opening offices in mainland China are to recruit returning graduates from Australian universities, and to recruit local Chinese accountants who have never intended to go overseas for education:

*We want to be in China to cater for those people who were in the Australian education system and returned home with a CPA passport. We are also there because we fundamentally believe we can make the case to Chinese accountants who have never intended to come to Australia but see that what we offer will provide them with relevance, recognition and market ability around the world. (Interviewee No. 1)*

The CPA Australia officials spoke at great length about these contributions and in glowing terms as to their investment in China. CPA Australia's Senior Advisor, who is Chinese, used to work as a senior official in the Ministry of Finance in China. His wide and deep connections in China were a key factor in the success of CPA Australia's entry into the mainland market. He set up the first CPA Australia office in Beijing in 2002 and then opened the second office in Shanghai in 2006. In mid-2012, the third CPA Australia office was successfully opened in Guangzhou by the same Senior Advisor. CPA Australia shows its commitment to the mainland China market by employing an ex-official of the Ministry of Finance. The Strategy General Manager claimed that the representative offices in the three largest cities of mainland China were established in

ten years, which also shows a great commitment: “It means people can connect with our people locally rather than having to apply to Australia” (Interviewee No. 1).

Moreover, the Senior Advisor proudly introduced the subject of CPA Australia’s major collaboration with the CICPA, which is called the International Partnership Programme (IPP). The IPP was initiated by CPA Australia to provide accounting education and opportunities to gain CPA Australia membership to a number of developing countries in the Asia-Pacific region. CPA Australia facilitates this programme by applying funding from the Australian government and provides full scholarships to accountants who are selected to participate in this programme. The programme has included China since 2006. However, the Australian government did not want to fully fund Chinese accountants, and so the Chinese government has contributed half the expenses as China was also very keen to internationalise its domestic accounting profession. The CICPA selected the best accountants and sent them to Melbourne to complete a three-month intensive training programme in CPA Australia’s head office (CICPA, 2010). These accountants are exempted from two of the six papers in the CPA programme. After completing the course, they take the exams and if they pass they receive full membership of CPA Australia. The Senior Advisor emphasised that the collaboration between the CICPA and CPA Australia was established earlier and operated more successfully than the collaboration programmes between the CICPA, the ICAEW and the HKICPA:

*From CICPA's point of view, their collaboration programmes with ICAEW and HKICPA are not run as smoothly as the IPP. In the IPP, the first batch of sixteen Chinese accountants came to Melbourne in 2007 and all of them successfully passed the exams and gained full memberships. The second batch of accountants came in 2008 and all of them received full memberships. CICPA sees this programme as very effective and efficient. (Interviewee No. 3)*

It was more difficult to get the CPA Australia officials to refer to problems they had encountered. However, after follow-up interviews, they eventually gave some examples of issues either resolved or to be resolved, and more easily admitted the difficulties of arriving late in China and the challenges of competing with the ACCA. This is evident in the interview with the Strategy General Manager:

*We came into China later than some others. ACCA was very early. They've been very strategic. CGA has also been in China for some time. Because we haven't had the first mover advantage, we need to find other ways that we can make an impact. (Interviewee No. 1)*

The Business Development General Manager thought CPA Australia has three main competitors, the ACCA, the CIMA and the ICAEW. He explained further: "ACCA and CIMA are strong in English post-colonial regions. They are very strong in Hong Kong, Singapore, Malaysia, Sri Lanka, and India" (Interviewee No. 2).

The Operational Manager in Beijing confirmed this view:

*We face competition from other professional accounting bodies in the US, the UK and Canada. A major competitor in China is ACCA, and ACCA has been in China longer. It has 23 years of history in China and has a bigger market share. CPA Australia is not unique. (Interviewee No. 13)*

Similarly, the Operational Manager in Shanghai saw competition as the main challenge

for CPA Australia's operations in mainland China:

*We have many competitors who are quite aggressive, such as ACCA who have had their footprint here in China for over 23 years. They have the highest recognition among accountants, and even among the general public. Even non-accountants know ACCA, at least know their name. Other competitors are CGA from Canada, the Association of International Accountants (AIA) from the UK, ICAEW from the UK, and also CIMA from the UK, HKICPA from Hong Kong, and AICPA from the US. Everybody is trying to get their market share in the mainland China market. Competition is the main challenge.*  
(Interviewee No. 17)

However, the officials held firmly to the view that CPA Australia was a more worthwhile professional accounting body to belong to than the ACCA because of its origins in Australia. They saw Australia as being more important to China than other countries because it is part of the Asia-Pacific region and many Chinese students are educated in Australia, a fact that gives CPA Australia an advantage when they return to China. The Strategy General Manager proudly promoted CPA Australia's qualification programme as a globally relevant programme, which "moves from an Australian focus to a global focus". He also pointed out that after taking the programme, "candidates become well-rounded people, not just focused on the technical side, because the CPA Australia programme contains four elements: technical, personal effectiveness, business, and leadership skills" (Interviewee No. 1).

Although their arguments seemed to them to be very persuasive, their views were not widely held by informed observers. The CPA Australia members interviewed were in agreement with the value of the content of the CPA Australia programme; however, they



have not experienced career advancement as a result of gaining CPA Australia membership. A partner at Grant Thornton Beijing reflects on her own experience as to the usefulness of CPA Australia membership:

*From my own experience, I am not certain about how useful CPA Australia membership is, but I feel that it is still useful in terms of broadening my vision and improving my understanding of international accounting standards and auditing procedures. In other aspects like client base or career perspective, I have not seen much improvement. It is probably a long-term process and it will take a long time to improve my client base and so advance my personal career. (Interviewee No. 12)*

With regard to CPA Australia's uniqueness to China, informed observers seem not to agree with this because many of them see western accounting bodies as being similar.

As a partner (CPA Australia member) from Yong Tuo Beijing comments:

*There is not much difference between these western professional accounting bodies. If you do not intend to work in or migrate to this country, there is really not much difference. I think the ACA qualification of ICAEW is more difficult to achieve, and it is highly recognised in practice because it is the 'golden standard' in this field. Even though ICAEW is not as well-known as ACCA in China, it is well recognised among large accounting firms in China. (Interviewee No. 15)*

It is interesting to note that even though the interviewee has a CPA Australia qualification, she sees ICAEW qualification as being more prestigious than any other western professional accounting qualification and she refers to it as the "golden standard" in this field. Similarly, an academic from a well-ranked Chinese university with a strong focus on accounting and finance comments:

*ACCA, CIMA and other western professional accounting qualifications are very similar to me, the only difference is they are from different countries...students think in the same way. At the moment, internationalisation is the most popular topic in China. In the accounting field, the IFRS represents the most important part of this internationalisation process. No matter which western qualification you take, they offer you the option of learning the IFRS. For instance, ACCA's programme offers a choice between the UK GAAP and the IFRS. Certainly, the IFRS is the most popular option for Chinese. Therefore, all of those western professional accounting qualifications are international to Chinese, and as a result we feel they are almost the same. (Interviewee No. 21)*

### **7.2.2 Decoupling**

The most important issue to arise came about after interviews with the operational staff in China. These interviews were arranged after receiving permission and support from the management in the Melbourne head office. According to the initial interview with the General Manager in Melbourne, the main motive for supporting this research was that he wanted to find out what was going on. In spite of head office support, the operational staff were reluctant to be interviewed, claiming that every separate question required specific approval from the head office before they could answer. As a result, the interviews could not really proceed because of the defensive attitude of the operational staff. After returning and reporting the situation to the top officials in Melbourne, the researcher was assured by them that the operational staff would welcome a follow-up interview and their responses would be different. Thus, follow-up interviews with the operational staff were arranged and while to some extent the welcome was slightly warmer, a defensive attitude again came to the fore and made

interviewing virtually impossible.

When the Operational Manager in Beijing, who is in charge of the mainland China region, was asked about CPA Australia's global expansion strategy, she strongly disagreed with this description and responded as follows:

*I don't think it is a global expansion. We are here to help the local Chinese professional accounting body and the local government, and to train local accountants. We communicate with government officials, teachers in the universities, and accountants by saying that 'we come to help you'. Otherwise local bodies and the government will not be able to accept [CPA Australia]. CPA Australia is serving local needs. We are here to respond to local demand...it is too sensitive to say 'global expansion'. We will lose the market forever. You cannot say 'global strategy' nor become a 'global body'. (Interviewee No. 13)*

Such a conservative and cautious response completely contradicts the announcement of a global expansion strategy in CPA Australia's magazine (CPA Australia, 2011a). Also, she made no reference to Chinese graduates returning from Australian universities, which the Strategy General Manager identified as the main purpose of opening offices in mainland China.

It was obvious that there was a disconnect between the officials in Melbourne and the operational staff in China. Such decoupling is referred to in Chapter 3 where the literature shows that strategies developed by management may be re-interpreted by operational staff to suit the situation as they perceive it (Hasselbladh & Kallinikos, 2000; Kostova & Roth, 2002). With this disconnect in mind, follow-up interviews were conducted with officials in Melbourne as to why their operational staff were so

defensive. The officials eventually admitted that there was a problem with the operational staff in China who it seemed would interpret policies as they perceived them. For example, the head operational manager of greater China opened CPA Australia's first office in Hong Kong and subsequently recruited the staff in Beijing and Shanghai. Her influence with these staff members remained very strong. From the start she was very much against interviews being conducted with the operational staff. As one official commented:

*She is very influential in Hong Kong and still has a strong influence over the operational staff in mainland China even though she has been re-positioned. Her successor is struggling to compete with her in the region as both want to be the boss in Asia. I understand that she has been serving CPA Australia for quite a long time and she means well; however, what I was not pleased to see is that when there is disagreement, she will still do things in her own way. (Interviewee No. 1)*

This explanation enabled the researcher to understand why it was difficult to conduct interviews with the operational staff in China. It is also probable that the operational staff were aware that their interpretation of CPA Australia's strategies had diverged significantly from those of the Melbourne head office, and that made the researcher's interview questions very sensitive.

Further examples were given to the researcher of the head operational manager acting unilaterally. When CPA Australia and the CICPA were in discussion about signing an agreement with regard to mutual exemptions, the CICPA exempted only three papers for CPA Australia members, leaving the tax and law papers and one more accounting paper

for CPA Australia members to complete. The top management of CPA Australia recognised that long-term damage to its reputation would result if this agreement were signed, while the head operational manager in China was very keen to sign.

Another decoupling problem arose because the head operational manager in Hong Kong had granted a number of memberships through the special admission process via the local council of CPA Australia. An anonymous CPA Australia official verified that CPA Australia had given out many memberships in Asian countries, thus artificially building up membership numbers. As a result, further follow-up interviews were conducted among operational managers in China, again with support from Melbourne. Once again, the responses from the two operational managers in Beijing and Shanghai were defensive but they justified giving memberships to some well-known partners in the Big 4 and in top local accounting firms because these individuals were good exemplars for their employees, and they believed that employees would be strongly influenced by their bosses' choice of professional membership. Enough information was elicited to ascertain that much of the local growth had been obtained in this artificial way by granting full CPA Australia membership to various academics, accountants and business people. Such a liberal conferment of professional status without examination achieved the objective of the local office by raising membership numbers and revenue from fees.

It became clear from the interviews with the local operational managers that they were fixated on running their offices at a surplus. It seems that this is how they interpreted

their role and that this was the key performance indicator of their success. To be seen as successful, they had all adopted a formula by which they could raise membership numbers and so increase revenue. From the distance of Melbourne, it seems that the local strategy has worked and head office is pleased that its Asian offices are so quickly running at a profit. The Senior Advisor of CPA Australia's Melbourne head office comments:

*CPA Australia's two representative offices are running at a surplus. A principle of CPA Australia is that representative offices are allowed to be at a reasonable loss for the first three years. If they continue to lose from the third year onwards, the operational manager will be under pressure. (Interviewee No. 3)*

According to the 2011 CPA Australia Annual Report, China (excluding Hong Kong) generated a surplus before tax of AUD 422,000, whereas New Zealand and Vietnam suffered losses of AUD 146,000 and AUD 137,000 respectively (CPA Australia, 2011c).

It seems that the operational managers, by unwittingly establishing a financial target based on membership, and then giving such a target extreme priority may have contributed to the unintended consequence that in the long term the value of CPA Australia membership may be debased. However, it also became apparent from subsequent interviews with the top managers in Melbourne that they were unaware of the extent to which such a strategy had been employed at the local level in China. There is some awareness that this may be a problem because it was admitted that there had been some criticism of the head operational manager of greater China for granting too

many CPA Australia memberships without examination. It is a finding of this thesis that the extent of this disconnect with respect to conferring CPA Australia status has not been fully appreciated.

A third disconnect is around the subject of students returning from overseas, and the lack of focus on the tertiary market within China. All the local operational managers in China expressed the opinion that returning students were unimportant sources of membership. That educational institutions overseas might provide useful connections for them was not appreciated. In contrast, the New Zealand country manager expressed the view that many of the Chinese CPA Australia passport holders should be of interest to the local operational managers in China. This latter view also reflected the views of the top managers in Melbourne. They believed these returning students to be an important source of future memberships and accordingly wanted them to be welcomed by the local offices in China. Indeed, the top officials stated that to be the reason for opening branches in China. However, the operational managers in China denied that students returning from Australasia are or could be an important source of future memberships. In this respect, they saw visitors from Australasian universities not as stakeholders but as casual observers.

Through interviews conducted across first- tier cities (such as Beijing, Shanghai, Guangzhou and Shenzhen) to third-tier cities (such as Harbin, Nanchang) in China as well as interviews conducted in New Zealand with graduates who planned to return to

China after study, it seems that many of these graduates returning from Australian and New Zealand universities had made up their minds to join CPA Australia before they returned to China. Many of them choose CPA Australia because of their educational background in Australian universities. As explained by a senior consultant in Ernst & Young Beijing

*Lots of my colleagues are graduates from Australian universities. Therefore it is relatively easy for them to do a CPA Australia programme. Certainly it is more costly than the local CICPA exams but relatively easy for them because of their educational background in Australia. (Interviewee No. 34)*

Even though it is not statistically generalisable, this finding shows that the top management in Melbourne believes that returning graduates provide one of the main sources of membership of CPA Australia. However, it is also a finding of this research that the local operational managers deny that this source of membership is important.

The findings presented above are serious examples of decoupling. Decoupling, as defined by Weick (1976), is an intentional or unintentional separation between organisational structures and external expectations. The present findings reveal that the operational managers have boosted local membership numbers by awarding special memberships and at the same time have neglected to recruit members by normal means through universities.

The positive substantial finding is that according to the officials in Melbourne, their offices in China have passed break-even points in the three years since their opening



and so the award of special membership by operational managers may have had financial benefits. Nonetheless, membership by special award eventually undermines the professional credibility of CPA Australia. It is interesting that three of the informed observers interviewed for this thesis have been awarded special memberships. The attitude of these recipients to receiving membership despite having made on their part no effort to gain it may be described as indifferent. One professor described the membership award as a gift, the title just adding letters after her name (Interviewee No. 36). A senior partner in a top Chinese accounting firm and Shenzhen Municipal People's Congress member said: "It is not necessary, but if you give it to me I will not refuse it". (Interviewee No. 33) On the other hand, another senior partner questioned the wisdom of such an award: "People may question the credibility of such an award as they know we will not take the CPA Australia exams. This does not sound good, does it?" (Interviewee No. 32)

Reflecting on the decoupling, it is interesting to observe that the operational managers are all Chinese females and known to each other. The senior officials in Melbourne are all male and Australian. The gender difference is accentuated by the geographical distance between the top officials and the operational managers who seem to re-interpret policies given to them by head office according to how they perceive the expansion into China should be conducted. The geographical distance and the cultural difference caused by gender and ethnic factors can partly explain the lack of communication and the disconnect between the parties involved. From the interviews

conducted together with the views of the informed observers, it seems that the extent of the decoupling is not yet fully apparent to the Melbourne head office.

### **7.3 Discussion**

The above section presents the findings for the second research question. These findings are analysed according to the analytical framework (see Appendix 5) and the themes emerging from the above section are informed by the theoretical framework.

Implications of the findings are discussed in this section in relation to the research question: How do western professional accounting bodies experience their expansion into China, with particular reference to the experience of CPA Australia, and what problems have emerged for them? This thesis attempts to explain the motives for CPA Australia's expansion using legitimacy theory, and it borrows the concept of decoupling from NIS theory, which is discussed in Chapter 3.

The second research question considers why CPA Australia entered the Chinese market and the strategies that CPA Australia adopted. First, the motives of CPA Australia are discussed with respect to legitimacy theory. Euske and Euske (1991) define legitimacy as organisational compliance with the expectations of key external constituencies.

Therefore, as opposed to technical efficiency, legitimacy can be the main criterion for survival and growth. The findings from the above section show that CPA Australia's expansion into China was mainly motivated by legitimacy rather than efficiency or

control over resources. As DiMaggio and Powell (1983) state: “Organisations tend to model themselves after similar organisations in their field that they perceive to be more legitimate or successful”. In the case of CPA Australia, they perceive the ACCA as one of their main competitors in the Chinese market and see it as being very successful in this field. It is argued that when organisations follow others that they perceive as being more legitimate and successful, a kind of mimetic isomorphism follows, resulting in a more substantive strategy (Deegan, 2006). Since CPA Australia expanded into China it has been facing severe competition, and its survival is dependent on being seen as legitimate. In such circumstances, according to legitimacy theory, they are likely to pursue substantive strategies to secure their position (Deegan et al., 2002).

Drawing on the three elements of legitimacy described by Suchman (1995), the findings of this thesis are that both financial self-interest motives and more moral public-interest motives drove the expansion into the mainland China market. In terms of the pragmatic, financial self-interest motives, DiMaggio and Powell (1983) explain that when an organisation depends on the same source for its funding and legitimacy (i.e. its membership) that it will be more influenced by its members than those organisations which depend on different sources of membership. The findings of this chapter support the literature as CPA Australia’s senior management in the Melbourne head office acknowledged that sole reliance on Australian local members could not guarantee long-term sustainable growth in CPA Australia’s income. Therefore, the implication made from CPA Australia’s senior manager’s remark is that CPA Australia’s expansion into

China was driven by financial gain.

However, the senior managers of CPA Australia claim that the moral motive for seeking technical success and efficiency, that is, increasing the competency of more Chinese accountants through the CPA Australia programme, is the overriding driver. It is to be noted that the senior managers of CPA Australia emphasise both verbally and in their publications their commitment to high professional standards of accounting and to maintaining the high esteem in which CPA Australia is held in Australia and overseas. Such a commitment is the overriding goal of CPA Australia. On the basis of such a moral commitment, CPA Australia is likely to adopt substantive strategies to gain legitimisation and to survive in the new field (Deegan, 2006; Deegan et al., 2002). However, in Chapter 4 of this thesis, Selznick (1949) warns that moral legitimacy carries with it a substantial likelihood of unanticipated goal displacement and possibly public cynicism. The findings of this thesis contradict the argument of Deegan (2006) and Deegan et al. (2002) but support the claim made by Selznick (1949). There is effective decoupling taking place because the operational managers in China have re-interpreted these strategies to the effect that key financial performance indicators have become the dominant driver rather than the overriding moral motive of improving Chinese professional standards.

It is a major finding of this research that this goal has become somewhat decoupled from the reality on the ground in China. Is this a case of unintended consequences or is

it that head office management are willing to turn a blind eye to the true situation as they realise their commitment to high professional standards is more symbolic than substantive? To these questions the present research is unable to find an answer.

Many researchers have observed that in order to gain legitimacy, formal structures and procedures can be detached from everyday practices so as not to disturb daily operations (Carruthers, 1995; Meyer & Rowan, 1977; Ribeiro & Scapens, 2006). Decoupling is significant when there is a substantial discrepancy between formal structures and organisational practice. Such discrepancy occurs when rules and procedures become cultural rather than technical processes (Carruthers, 1995; Ribeiro & Scapens, 2006). The literature mentioned above is consistent with the findings of this research, which will now be discussed further.

The first sign of such decoupling occurred when, after open and friendly interviews in the Melbourne head office with senior managers, the reception at interviews with local Chinese operational managers was defensive and unhelpful. It was puzzling to have an assurance from Melbourne of a warm response and then to learn that the local managers would answer questions only if specifically and formally approved by the Melbourne office. Such a defensive attitude made a credible interview scarcely possible, so it was necessary to re-visit Melbourne to get formal approval from surprised top officials to re-interview the local managers. Even on the return visit, armed with sanctions from Melbourne, little real progress was made. As to the claim that Australian universities

had many Chinese accounting students, who upon graduation would return to China and could become CPA Australia members – this was airily dismissed as being of no importance. In Chapter 4 of this thesis, Ashforth and Gibbs (1990) point out that when an organisation enters a new area of operation in which it has no past reputation (similar to CPA Australia's situation in the mainland China market), such an organisation suffers from the pressure of newness. To gain legitimacy, the organisation usually adopts proactive rather than reactive strategies. The latter are used mainly for repairing legitimacy (O'Donovan, 2002). The findings of this chapter support the literature as CPA Australia is relatively new to the mainland China market and is keen to gain legitimacy by being proactive in the field. Furthermore, Westphal and Zajac (1998) point out that the actions of late entrants to a new field are more likely to decouple in response to pressures. Oliver (1991) reinforces the argument that when organisations face institutional pressures, they can seek compromise and engage in avoidance tactics. Such tactics clearly apply to the case of CPA Australia's operation in China where the local operational managers have prioritised different objectives and understandings to those of the senior management in Melbourne. Evidence of such re-interpretation of objectives is the disagreement that occurred between the Greater China Regional Manager and the Melbourne head office regarding the mutual recognition agreement between the CICPA and CPA Australia.

As mentioned previously, decoupling occurs when rules and procedures become cultural rather than technical processes (Carruthers, 1995; Ribeiro & Scapens, 2006). A key

assumption of institutional theory is that an organisation adopts structures and practices that reflect the environment in which it operates. To be more legitimate, the formal organisational structures should conform to the social beliefs and expectations of external parties (Euske & Euske, 1991). In the case of CPA Australia, the operational managers in China adapted practices to the local environment and social expectations. The regional managers, being local Chinese females, each with over fifteen years of marketing experience in China, were very conscious of how to deal with Chinese officials. They believed that “global expansion” was too sensitive an issue to be advocated in China. That is why these managers emphasised that entering the Chinese market was not a part of CPA Australia’s global expansion strategy, but was intended to help the Chinese accounting profession grow in competence. In addition to this adaptation to the Chinese cultural and social environment, the coercive power of the Chinese government could lead to further modifications to their practices in China, or even the creation of new institutional forms (C. Chiang, 2010; Scott, 2008a).

Westphal and Zajac (1994) in their study found that actors (in this case the local operational managers in China) can engage in manipulative symbolic action in order to satisfy senior management (in this case the top management in the Melbourne head office) that their strategic actions are being employed. It has become apparent that the local operational managers in China modified the substantive, proactive strategies required by the top management in the Melbourne head office. Instead of focusing on recruiting members from mature and tertiary markets, they have adopted more symbolic

strategies to recruit members in a faster way – granting membership through special admission.

From interviews with accountants and academics it has become apparent that CPA Australia's operational managers in China have been conferring memberships on senior people in the accounting field to the extent that this practice is regarded with scepticism and as a result CPA Australia membership has been debased in value. As the literature observes: "It is hard to maintain appearances if the decoupling becomes too transparent" (Carruthers, 1995, p. 319). The ideal appearance as expressed in CPA Australia's literature is of a responsible professional accounting body dedicated to furthering high standards in accounting and requiring high standards of its members (CPA Australia, 2010, 2011b). In this case, CPA Australia's global strategies are ineffective in China as it is not possible to maintain a credible appearance and gain legitimacy in the eyes of the Chinese government and accountants when membership is granted freely without qualifying procedures.

Arguably, the financial pressures were present when CPA Australia made the decision to enter the Chinese market. It was learned from interviews at the Melbourne head office that it was hoped that the regional offices in China would be financially self-sustainable within a short time. The regional budgets became, by default, key performance indicators and were interpreted as such by the local operational managers. Somewhere in the process the high-minded and more professional motive became secondary to



income generation.

It is interesting to note that Lounsbury (2007) argues that performance and efficiency are not universal triggers for decision-makers, but are institutionally contingent. In this case, self-sustainable financial performance goals have resulted in distinctly different outcomes because of different logic being applied to groups of actors in different geographical locations. For instance, CPA Australia's operational manager in New Zealand who is also under the same financial performance pressure may act differently from the operational managers in China because of the different logics that exist in different geographical, social and cultural environments.

So why did decoupling persist between operational managers in China and CPA Australia top management in the Melbourne head office? In addition to the explanations given in the literature, there may be added cultural and gender differences in that top management were Australian male and operational managers were Chinese female. Hofstede and Bond (1988) explain that there is a philosophical dividing line which makes western thinking different from eastern thinking. Cultural differences can be very apparent across subsidiaries within the same multinational corporation. Hofstede and Bond (1988) further argue that significant cultural differences between local managers and headquarters can easily lead to conflicts over policies, which are highly likely to occur in marketing and personnel. The research results of Hofstede and Bond (1988) can be adapted to explain the decoupling occurring between the local operational

managers in China and the top management in Melbourne. The local operational managers are mainly responsible for developing Chinese markets and therefore fall into the category that Hofstede and Bond (1988) describe as being where “cultural diversity is largest”. (p.21) Policy conflicts are highly likely to occur in marketing as marketing is “relatively culture-dependent” (Hofstede & Bond, 1988, p. 21). To overcome these problems, the Australian top managers may have needed to impress more the importance of the prestige and high standards demanded of members of CPA Australia to their local managers. Instead, it appears the key performance indicators in the form of regional financial sustainability were interpreted by the operational managers as the goal. Having narrowed their performance goals, they were able to find a quick way to achieve financial viability by granting memberships freely. The 2011 CPA Australia annual report reveals that China, excluding Hong Kong, generated a surplus before tax of AUD 422,000 whereas New Zealand by comparison suffered a loss of AUD 146,000. This is a great financial result in China in such a short time but it also explains the defensive attitude of the regional managers to questions about the fast growth in local membership and why these regional offices became financially self-sustainable so quickly.

How then to apply the “So what?” question to this finding: How does it add to the literature? What is exceptional is that the research concerns an Anglo-Saxon professional accounting body in the process of expansion beyond its traditional market. In terms of culture and language, the target market is very different from the home

market. Such differences accentuate and widen the gap between the top managers in the home country and the operational managers in the target market. The gender divide is also remarkable, raising the question as to why the top male managers selected female operational managers in China; what was the gender advantage they perceived? These questions are beyond the scope of this thesis but do indicate an interesting direction for further research. However, what has emerged will serve to enrich the literature which seeks to explain why organisations decouple.

## **7.4 Summary**

In summary, with regard to the question of how western professional accounting bodies experienced their expansion into China, with particular focus on the case of CPA Australia, and what problems emerged for them, the thesis has in this section analysed the question in two aspects: first, CPA Australia's motives, contributions and its market competitors; and second, the decoupling between the operational managers in China and the head office in Melbourne that has emerged as a finding from the interviews.

First, two main motives for CPA Australia to open offices in China have been identified as recruiting graduates returning from Australian universities, and recruiting local Chinese accountants who have never intended going overseas for education. CPA Australia's General Manager was very honest about the commercial motives and the business model that CPA Australia adopted in developing its global market. CPA Australia as a new entrant to the Chinese market has been seeking legitimacy in the eyes

of the Chinese government and the local accounting profession. It can be argued that CPA Australia's expansion into China is mainly driven by pragmatic and moral elements of legitimacy. All the CPA Australia officials interviewed were very positive about CPA Australia's contribution to the development of the Chinese accounting profession. They also readily admitted the difficulties of arriving late in China, and named a few international professional accounting bodies as their main competitors, including the ACCA, the AIA, the CIMA, and the ICAEW from the UK, the CGA from Canada, the HKICPA from Hong Kong, and the AICPA from the US. Apart from noting the threat posed by this competition, the majority of the CPA Australia officials interviewed were generally very positive about the progress they have made in China. It also became apparent that to gain legitimacy in the new field, CPA Australia has tended to follow successful models, such as the ACCA. To survive in the market, CPA Australia has had to adopt substantive, proactive strategies to gain legitimacy in China. However, such substantive strategies have been re-interpreted and implemented differently by the local operational managers in China.

The most important issue emerged when the interviews could not proceed as the operational managers in China were defensive in answering interview questions. It became apparent that the operational managers in mainland China were, and maybe still are, strongly influenced by the ex-greater China regional manager. She was found in this research to have reinterpreted the strategies of CPA Australia's Melbourne head office. This finding explains how operational managers have awarded membership to a number

of accountants by going through the special admission process via the local council in China. In this way, they have recruited a sufficient number of members to keep the operation at a financial surplus and to achieve a satisfactory performance review. However, CPA Australia head office's strategic objectives of developing the tertiary market in China and accommodating graduates returning from Australian universities have been frustrated by the Chinese local operational managers. These managers do not see returning students as an important source of future memberships, which clearly contradicts the view of top management in Melbourne. It can be concluded that CPA Australia's top management initiated a substantive, proactive expansionary strategy to gain legitimacy in the Chinese market. However, because of the various reasons discussed in the above section, such strategies have been internalised and re-interpreted by the operational managers in China. As a result, the actual practices in China are decoupled from the objectives and goals prescribed by the head office. It seems that the Melbourne head office is not yet fully aware of such serious decoupling. The next chapter presents the findings of the third research question and discusses the key implications arising from the analysis.

## **CHAPTER 8: The Question of Western Professional Memberships**

### **8.1 *Introduction***

Chapters 6 and 7 present the findings related to the institutional organisations involved in the “global expansion story” in China. Key implications are discussed by integrating the findings with NIS and legitimacy theory. In terms of legitimacy theory, organisational legitimacy strategies and the three forms of homogeneous isomorphism from NIS are adopted to analyse and inform the findings. Following on from Chapters 6 and 7, this chapter focuses on examining the findings from the perspective of informed individual Chinese accounting graduates, academics and accountants. Elements of individual legitimisation and the strategies adopted by the individuals are the main focus of the analysis in this chapter.

The third research question asked in this thesis is how individual accountants, academics and graduates view western professional accounting qualifications. To analyse the findings, the thesis borrows the three elements of legitimacy theory identified by Suchman (1995): pragmatic, moral, and cognitive (Aldrich & Fiol, 1994; Hooper & Xu, 2012; Suchman & Eyre, 1992). The study further analyses these elements in terms of whether actions directed towards becoming a member of a western professional accounting body may be described as symbolic or substantive. Symbolic actions are defined by Sethi (1975) as inaction or making no effort. Their ultimate

purpose is to increase the appearance of legitimacy by improving the congruence between individual performance and social expectations. As Deegan (2006) stated, there is no clear-cut distinction between symbolic and substantive legitimising techniques. These legitimising strategies are not mutually exclusive and there may be a mixture of both (Ashforth & Gibbs, 1990; Deegan, 2006). To analyse the actions of the informed individual, the most dominant strategy taken by each interviewee was identified.

This chapter is structured in this manner: Section 8.2 presents the findings from the informed individual Chinese accounting graduates, academics and accountants.

Findings are analysed based on the analytical framework set out in section 5.5 of this thesis. Themes arising from the findings are then informed by the theoretical framework discussed in Chapter 4, in terms of the three elements of legitimacy as well as the symbolic and substantive individual legitimising strategies. Section 8.3 is a discussion of the key implications of these findings and their integration with legitimacy theory. Section 8.4 summarises the chapter.

## **8.2 *Findings and Analysis***

The approach taken in the analysis of the findings is explained by a matrix of legitimacy (shown below in Table 8-1). The analysis reflects the interpretation of the perceptions of legitimacy as enunciated by accountants and graduates in China with regard to acquiring membership of a western professional accounting body. The problem with explaining such a phenomenon within a legitimacy framework is that while legitimacy

theory may provide the necessary theorisation, it is often not sufficient in itself (Deegan, 2006; Deephouse & Suchman, 2008). However, to lend some analytical and explanatory depth to the third research question, the thesis teases out Suchman's (1995) three elements of legitimacy: pragmatic, cognitive and moral. The thesis emphasises that probing questions were applied to drill down into the third research question and these investigations revealed the uncertainty of interviewees as to their choice of the best future accounting environment. This uncertainty was widespread among interviewees, and the Ministry of Finance officials in China also recognised that uncertainty and confusion pervade this area. Such is the level of uncertainty that many accounting graduates and accounting practitioners in China look to the Chinese government to make a decision for them:

*Our accountants are facing a very complicated problem because there are too many choices. I think not all of the western professional accounting bodies are good; instead, there is a mix of good and not-so-good professional accounting bodies in the Chinese market. Therefore people are confused and uncertain about them. They would feel more certain in choosing a professional accounting body that has government approval...I have received many inquiries from graduates and accountants with regard to the value of an ACCA qualification. It is a difficult question for me. It is their own choice, and all I can tell them is an ACCA qualification does not allow them to sign audit reports in China. (Interviewee No. 10)*

The level of uncertainty extends to Chinese government officials who pointed out in answer to the inquiries as to what to do, that the government could not help them and they must come to their own decision as to which western professional accounting body to belong to:



*They also ask me which western professional accounting qualification they should take, ACCA, CPA Australia or ACA? I do not know that either...achieving these qualifications is very costly and takes time as well. The government cannot make decisions for individuals on such a big investment in money and time. There is no government that can make such a decision for you. (Interviewee No. 10)*

Thus, although the findings of this thesis imply that all interviewees are seeking legitimisation within their careers, and that for them this is a necessary condition, they suffer from some level of uncertainty over the choice of western professional accounting qualifications that this involves.

With regard to the necessary condition of legitimisation, the thesis extends the analysis in terms of Suchman's (1995) three elements of legitimacy: pragmatic, moral and cognitive. Pragmatic legitimacy rests on calculations of self-interest and normally appeals to consequentialist values and beliefs (Aldrich & Fiol, 1994; Suchman, 1995). Moral legitimacy, as discussed in Chapter 4, is achieved when individuals do what others think they should do. They may want to seek approval from others for their actions (Suchman & Eyre, 1992). The last element – cognitive legitimacy – as DiMaggio and Powell (1991) suggested, could be based on comprehensibility or taken-for-grantedness. In the case of this study, cognitive legitimacy based on taken-for-grantedness may be applied, because senior accountants, academics and graduates in China may be motivated by taken-for-granted assumptions as to the international status of the western professional accounting bodies. However, these three elements are not independent but to some degree mutually dependent, so to deepen the analysis, the

thesis cites the most significant elements while acknowledging that all three elements are combined in different measures to provide the legitimisation of choice.

Table 8-1 illustrates the findings and how the responses have clustered around the various elements in terms of substantive actions taken or symbolic inaction. Thirty-two interviewees' responses have been analysed and are shown in the table. Other interviewees have not been included for reasons of non-applicability or inability to give a decisive response, often because of a lack of knowledge of and experience in what western professional accounting bodies have to offer to accountants and graduates in China.

Table 8-1 Matrix of Interviewees' Perceptions

<b>Towards membership of a western professional accounting body</b>	<b>Legitimacy Elements</b>		
	Pragmatic	Moral	Cognitive
Symbolic inaction			32, 33, 36
Substantive actions	5, 6, 8, 12, 14, 15, 19, 21, 22, 23, 24, 25, 26, 27, 30, 34, 37, 38	39, 41, 42	4, 7, 9, 16, 20, 31, 40, 43,

### 8.2.1 Pragmatic-Substantive

From the table above, it can be seen that most interviewees' responses are clustered around pragmatic-substantive. In other words, the predominant motive expressed was to

better their opportunities in the job market and strengthen their career base. The emphasis on job opportunities is illustrated by this response: “Most students choose the ACCA course because there are more job opportunities, and they see statistics of how many accountants in the Big 4 have ACCA qualifications in China” (Interviewee No. 21). Another interviewee reinforced the same point: “Ninety nine per cent of students make their choice of majors based on job opportunities” (Interviewee No. 20). Other respondents thought that the global reach of the western professional accounting bodies is important from a long-term career prospects: “Students may want to study overseas and think the ACCA course is more relevant. Also it is a better choice for job hunting in MNEs” (Interviewee No. 4). The overseas career element was a feature of many of the interviewee responses: “Students think ACCA and CGA qualifications are useful if they look for jobs in MNEs, or go overseas. They are hoping that these western professional accounting qualifications will help if they look for jobs when they study abroad” (Interviewee No. 27).

A second feature of pragmatic-substantive analysis was the response from major employers who see a direct advantage for accountants in having a western professional accounting qualification. A partner from Deloitte Beijing expressed his view: “Our clients are mainly MNEs that come from overseas. Our team doesn’t require CICPA qualification. Holding a western professional accounting qualification would be good as we deal a lot with MNEs, which means a lot of communication in English” (Interviewee No. 37).

Other employers saw a benefit from having MPM, in other words, both Chinese and western professional memberships. A partner from a major Chinese accounting firm – RSM – observed:

*We need both CICPA and a western professional accounting qualification. We welcome graduates returning from overseas. We have lots of clients and lack professional accountants. Holding joint professional membership is a great advantage. We encourage our employees to take a combination of CICPA and HKICPA or ICAEW because we have branches in Hong Kong and Singapore. We prefer those employees who possess both qualifications when we send our staff overseas for training. Such training will accelerate their promotion. (Interviewee No. 14)*

An interesting observation made by a partner from Grant Thornton Shanghai and agreed with by many senior accountants interviewed, was that there is a much greater demand for western professional accounting qualifications in Shanghai because they have a much larger international client base:

*The Shanghai branch was originally set up as such by Hong Kong. So we are already ahead of the Beijing head office. We are more international based. In fact, almost all of our clients are international clients. Whereas if you look at Beijing, they handle most of the Asian listed companies as well as SOEs. (Interviewee No. 16)*

The third pragmatic-substantive finding that has emerged from this study of perceptions by accountants and graduates as to membership of a western professional accounting body relates to CPA Australia and ACCA memberships being cheaper, quicker and easier to gain than it is for other western professional accounting bodies. A partner at the Li Xin accounting firm, Guangzhou branch, pointed out:

*I saw others pass ACCA exams and then I thought maybe I should try it. At that time, ACCA was promoting lots of supplementary benefits including living allowances and a waiver of exam fees, similar to the IPP programme run by CPA Australia. ACCA also exempted five papers based on the degree that I completed in Guangzhou Jinan University. Therefore it was a cheaper and quicker way for me to gain a western professional accounting qualification. (Interviewee No. 30)*

Some of the consultants in Ernst & Young Beijing were reported by the following interviewee (No. 34) as being in agreement that the CPA Australia programme was easier for them because they were graduates returning from Australian universities. However, if these western professional accounting bodies do not subsidise their courses, they will not be cheaper than the domestic CICPA examinations for Chinese accountants:

*Lots of my colleagues are graduates from Australian universities. Therefore it is relatively easy for them to do the CPA Australia programme. Certainly it is more costly than the domestic CICPA exams but relatively easy for them because of their educational background in Australia. (Interviewee No. 34)*

In this respect, being considered easier is more important than being cheaper. According to one interviewee and supported by another, the CPA Australia programme's examination is the easiest for foreign students because of the large proportion of multiple-choice questions compared with the NZICA and the ACCA examinations:

*Compared with the NZICA examinations, I think the CPA Australia examinations are easier. NZICA has a workshop and exams that require lots of writing skills. I am a quiet person and do not like talking, but the NZICA workshop requires you to present your thoughts. I do not think I am good at writing and presentation, therefore the CPA Australia examination is relatively easy for me. The CPA Australia exams are full of multiple-choice questions and that is why they are*

*easier to pass. I may fail if they require lots of writing. (Interviewee No. 6)*

This was supported by the views of a partner from Grant Thornton Shanghai who added:

*I have serious doubts about some of the Australian universities. Because I'm not only seeing this in China, but maybe in the UK and Malaysia as well, some people claim they have CPA Australia and they graduate from some quite reputable universities. They cannot figure out simple debit and credit things! I was told that CPA Australia exams are multiple-choice. So I really have doubts about the kind of quality... Personally, that is not the firm's view, I will pick ACCA because of the greater proportion of written work in their exams... You need more analysis in that sense. For me, CPA Australia is just testing your knowledge about what is right and wrong, it doesn't really make you think too much... If I was given three choices, I would choose ICAEW; for the second choice I would prefer NZICA or even the Australian CA. (Interviewee No. 16)*

Finally, with regard to the easier, cheaper and quicker observations, there was some agreement among interviewees that the IPP programme provided by CPA Australia best met the needs of Chinese accountants who were seeking a western professional accounting qualification for these pragmatic considerations:

*I got CPA Australia membership via the IPP programme, which was the fourth year of the IPP and I was one of the last batch of Chinese accountants. Therefore I was very lucky. Most importantly, I got the membership after only a three-month intensive programme in Melbourne. There were seventeen of us, and almost all of us passed the exams and got CPA Australia membership. (Interviewee No. 12)*

Another participant in the programme explained why CPA Australia membership is viewed as quicker and cheaper. The programme lasted for three months, which is quick for achieving professional membership, and because it was supported by the Chinese

and Australian governments, it was cheaper:

*Here are some reasons for choosing the CPA Australia programme. The most important reason is this IPP programme is sponsored by the government and our government paid most of the fees, about two-thirds. Each of us paid 40,000 RMB (8,000 NZD). Second, the programme is intensive and can be done in three months, which is really quick... When the Australian government withdrew its support, the expenses of the programme were tightly controlled by CPA Australia. (Interviewee No. 23)*

### **8.2.2 Cognitive-Substantive**

As shown in Table 8-1, interviewee responses were analysed as cognitive-substantive when interviewees' motives were interpreted as being driven mostly by recognition of the value of belonging to a western professional accounting body. When this value was interpreted as being uppermost in the minds of the respondents it was coded as cognitive. It was also substantive when the respondents had either joined a western professional accounting body by passing the required examinations or had the firm intention of doing so. An example of the cognitive value of belonging to a strong professional accounting body was explained by a partner from Grant Thornton Shanghai:

*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. For most of the people I spoke to, when they ask which body you are from, when I said ICAEW, they were like "Oh! That's the most difficult, the most prestigious!" (Interviewee No. 16)*

The response of another interviewee currently working outside China was interpreted as being cognitive in terms of her choice of western professional accounting bodies because she was aware of the recognition received by these professional accounting bodies in different territories:

*As I am in New Zealand, I would prefer the NZICA qualification to CPA Australia because people recognise NZICA in New Zealand more easily. However, if I were in Australia, I probably would choose CPA Australia because it is better recognised in Australia. Recognition is what is most important. Because Australia is bigger and economically stronger than New Zealand, if I return to China I will do the CPA Australia qualification. I recognise that CPA Australia is more powerful than NZICA and has more authority. (Interviewee No. 7)*

It is interesting that professors of accounting in China who were interviewed made the same point that western professional accounting membership allows students to become recognised as having a good standard of English and a good understanding of international accounting standards. They saw this recognition as being important in China in the future as an increasing number of MNEs will require accountants with bilingual capacity. As a professor of financial accounting and auditing commented:

*If families can financially support their children to study abroad, these students should acquire western professional accounting membership and then come back to China. It will not be difficult for them to complete the domestic CICPA qualification later on. The most important thing for these students is to be aware of two different cultures, to speak two different languages, and to understand the international accounting systems. (Interviewee No. 9)*

In the same vein, a professor of management accounting explained why China needs more professional accountants with western professional accounting qualifications:



*There are over ten million people who work in the accounting service industry in China, but we are still short of people in this field. The problem is not that we lack people; instead, we have too many accounting clerks who can only do book-keeping jobs. China has a great demand for professional accountants who are experienced, independent, and have a good understanding of international accounting. If graduates can achieve a western professional accounting qualification like ACCA, they will be very competitive because of their mastery of English, and have a good understanding of international accounting standards. They then will be able to start their career at a much higher level than others. (Interviewee No. 20)*

### **8.2.3 Moral-Substantive**

According to Table 8-1, interviewee numbers 39, 41 and 42 are categorised as moral-substantive. They are considered moral because their choices of professional accounting membership are strongly influenced by their families. That is, they followed a course of action directed at obtaining membership of a foreign professional accounting body by examination because they were advised that they should join an overseas professional accounting body. Thus, they chose to take a particular professional accounting qualification because they had been told to do so. Interviewee number 39 is a third year undergraduate female student who is a major in the ACCA. Her uncle who worked in a municipal finance department recommended the ACCA qualification to her. As explained by the student:

*In fact, it was my uncle who recommended the ACCA course to me. He works in a municipal financial department and knows that the ACCA course is a very internationalised, valuable course. Because my English is quite good, he thought I was capable of doing this course. Actually he recommended me to choose this university as well. My mum trusted*

*his advice as he is very experienced in accounting and knows a lot about what is happening in this field. (Interviewee No. 39)*

By mid-2012 when this interview was conducted, this 3<sup>rd</sup> year undergraduate accounting student had passed eleven ACCA papers and just completed three more ACCA exams. Her hard work and successful completion of the ACCA exams demonstrates that she has made substantive actions towards achieving a western professional accounting qualification.

Similarly, the other two interviewees are also third year undergraduate students who were advised by their relatives to choose a particular professional accounting body. Interviewee number 41 explained that his parents made the decision for him, whereas interviewee number 42 said her aunty who worked in an accounting firm gave her advice in choosing a professional accounting body. She said she had listened to her advice because: “My aunty works as a consultant in an accounting firm, and she prepares accounts for a number of companies. She has several streams of income and I think she is very successful as a female. I quite admire her life style” (Interviewee No.42).

#### **8.2.4 Cognitive-Symbolic**

Interviewee responses were analysed as cognitive when interviewees’ motives were interpreted as being driven mostly by recognition of the value of belonging to a western professional accounting body. When this value was interpreted as being uppermost in

the minds of the respondents it was coded as cognitive. Differing from the interviewees categorised as cognitive-substantive, interviewee numbers 32, 33 and 36 were considered cognitive-symbolic (see Table 8-1). They recognised the value of a western professional accounting qualification; however, they did not make any substantive effort to gain one. In most cases, their professional memberships were awarded as a gift by a western professional accounting body.

Interviewee numbers 32 and 33 are both partners in large local accounting firms and they are also Honorary Professors of a top-ten university in China. In addition to all these glamorous titles, they are both representatives in the municipal people's congress committee. During interviews, they mentioned that CPA Australia wanted to award them Fellow CPA membership without taking any examinations. Interviewee number 33 said: "I will not refuse it if they (CPA Australia) give the membership to me. It adds more to my titles and it is an honour. However, I am not very keen to make any effort to take it".

On the other hand, a Management Accounting Professor from a top-ten Chinese university proudly mentioned that she was awarded CPA Australia membership as a gift. She recognises the value of the CPA Australia qualification. She explained further why this qualification is useful to her:

*I teach MBA courses. As you know, most MBA students are quite mature and in management positions. They respect me a lot not only because of my knowledge in the field, but also my western professional accounting qualifications...I also have CIMA membership. Both CPA*

*Australia and CIMA memberships are very good titles for me.*  
(Interviewee No, 36)

### **8.2.5 Pragmatic-Symbolic and Moral-Symbolic**

Table 8-1 shows the pragmatic-symbolic and moral-symbolic are for coding purposes empty cells. Of the 32 interviewees that were able to provide a decisive answer to this research question, none of their responses were analysed as pragmatic-symbolic or moral-symbolic. Such findings will be discussed further in section 8.3.

## **8.3 Discussion**

The findings of the third research question are presented in the above section. These findings are analysed according to the analytical framework (see section 5.5). The themes emerging from the findings are informed by the theoretical framework in this section. It discusses the implications of the findings, that is, how Chinese accountants and accounting graduates view membership of western professional accounting bodies and what their actions (symbolic or substantive) are in respect of that membership. To examine the findings presented in the above section, this thesis uses the three elements of legitimacy theory identified by Suchman (1995): pragmatic, moral, and cognitive. This thesis further analyses these elements in terms of whether actions towards gaining membership of a western professional accounting body may be symbolic, in the sense of a respondent's inaction, or substantive, in the sense of a respondent actively seeking membership.

The third research question is not unconnected with the former research questions. As explained in Chapter 5, the first two questions concern the institutions involved in the “global expansion story” of western professional accounting bodies, whereas the third research question focuses on the individual actors involved in this story. This third question seeks to explore how accountants and accounting graduates in China view the western professional accounting bodies and their membership choices; it also investigates the extent to which they are willing to commit substantively, in terms of qualifying by examination. Actions are viewed as symbolic when interviewees were happy to receive the membership but unwilling to do anything substantive to gain it.

Two themes emerging from the findings that must be considered in the context of this question are: uncertainty and legitimacy. Uncertainty arose as a feature of the interview responses because graduates and accountants do not know what to do for their best career prospects, as the extent to which China will embrace globalisation in the future remains, for most interviewees, a big unknown. Accountants and accounting graduates in China, while seeking to enhance their legitimacy have no certainty as to how to do this. In particular, as Hofstede (1980) and Lockett (1988) claimed, Chinese have a very high level of uncertainty avoidance. Graduates and accountants in China may want to avoid uncertainty by seeking advice from the government. However, neither deductive nor inductive reasoning can draw for them conclusions as to their future direction. They have to fall back on making inferences from what little evidence is available. Such

reasoning may be unsatisfactory and barely sufficient but often it is all that is available.

As described in the study of Gray, Kouhy and Lavers (1995), legitimacy emerges as Chinese graduates and accountants engage in constructing a social contract by joining a western professional accounting body. As a result, they gain credibility (Guthrie et al., 2004). The social contract exists between the individual and the professional accounting body that grants status and recognition. For these individuals, membership of a recognised professional accounting body is necessary for them to enjoy continued access to the accounting market, and hence to gain legitimisation in the larger social environment (Campbell et al., 2003). However, the findings of this thesis show that membership of a western professional accounting body is voluntary in China, even though the Chinese government has been encouraging accountants to gain such membership in addition to the CICPA qualification. Therefore, western membership can only be considered as part of non-legislated societal expectations that embody only the implicit terms of the social contract (Gray et al., 1995). As suggested by Lindblom (1994), individuals can apply a number of combative strategies when legitimacy is in question. Since the CICPA qualification is recognised only within China, Chinese accountants try to gain legitimacy internationally by belonging to a western professional accounting body.

From the analysis of the findings, as summarised in Table 8-1, the pragmatic motive and substantive action became the predominant driver for graduates and accountants seeking

job opportunities both in China and overseas. The pragmatic element of legitimacy relies on the self-interest of individuals and can be achieved by cost-benefit appraisals (Hooper & Xu, 2012; Suchman, 1995). Such a pragmatic motive normally appeals to consequentialist values and beliefs (Aldrich & Fiol, 1994; Suchman, 1995). It implies that the majority of the Chinese graduates, academics and accountants interviewed perceived that having a western professional accounting qualification would allow them to gain legitimacy. As a result, they were willing to make an effort to achieve such a qualification. Employers also believed having an overseas professional accounting qualification to be an advantage. Another interesting feature of the analysis was that the most internationalised city, Shanghai, exhibited a much greater demand for western professional accounting qualifications. This seems to be a reflection of the extent of international business conducted in Shanghai. As highlighted by Meyer and Rowan (1977), multiple forms of rationality may exist as institutional environments are often pluralistic; in other words, institutional approaches can be used to explain not only homogeneity, but also the existence of heterogeneity. As noted in the findings of this chapter, different geographical areas in China have very different political and commercial preferences. For instance, Beijing as the political centre of China is where the majority of the SOEs are located. Fluent English and a good knowledge of international accounting standards are not as highly demanded as they are in Shanghai. In contrast, Shanghai is the centre of MNEs and these corporations require accountants to have a good command of the English language as well as international accounting

knowledge. Therefore compared with the situation in Shanghai, western professional accounting qualifications are relatively not in high demand in Beijing and the domestic CICPA qualification is the most sought after. Also, it appears that in the first-tier large cities in China (such as Beijing, Shanghai, Guangzhou and Shenzhen) there is a higher demand for western professional accounting qualifications than in second-tier cities (such as Hangzhou and Shenyang). On balance, it would seem that there is a market for western professional accounting qualifications as providing additional legitimacy to the CICPA qualification and such a market may be subject to how China adopts the principles of globalisation.

Analysis of the findings shows that the second most popular response to this research question was coded as cognitive-substantive. In the case of this study, cognitive legitimacy based on the taken-for-grantedness interpretation suggested by DiMaggio and Powell (1983) may be applied. This is because the Chinese accountants, academics and graduates interviewed may have been motivated by taken-for-granted assumptions as to the international status of the western professional accounting bodies. A cognitive classification means interviewees' motives were interpreted as being driven mostly by recognition of the value of belonging to a western professional accounting body. A substantive classification means that actions were taken by interviewees to achieve that qualification. The responses in this category were partly driven by a search for legitimacy and once again the phrase "the gold standard" was used by interviewees to



express their desire to go for the best possible professional accounting body. The problem is that there is uncertainty as to which professional accounting body is the best, but it would seem from the responses of many interviewees that the ICAEW comes closest to this.

Among students at universities, moral-substantive coding seems most appropriate.

Moral legitimacy can be achieved by ethical judgements (Hooper & Xu, 2012).

Suchman and Eyre (1992) explain that a moral motive of legitimacy is achieved when individuals do what others think they should do. Individuals may want to seek approval from others for their actions particularly when they are very uncertain about their choice of actions. In the case of this thesis, Chinese students generally reflected a high level of uncertainty and sought advice as to the best qualification they should pursue from various sources such as teachers, parents and relatives. They tried to get certainty from people they admired or trusted because of their limited knowledge about the global accounting field. Usually, university lecturers are the main source of advice as many Chinese universities run specific ACCA and CGA undergraduate courses. However, where students have relatives who work in the accounting field, they would seem to be the strongest moral influence.

The cognitive-symbolic coding adopted in this thesis recognises the value of belonging to a western professional accounting body. However, where no substantive effort or action was taken to achieve a western professional accounting qualification, the

responses were accordingly coded as symbolic. An example of such a classification would be the case of the two senior accountants from Shenzhen who were offered CPA Australia membership without any examination. Since the recipients were not required to make any effort or take any action, there can be no aspect of uncertainty regarding this situation. Arguably some sense of self-legitimation was involved in their acceptance of the offer.

The pragmatic-symbolic and moral-symbolic are for coding purposes empty cells. To be categorised as pragmatic-symbolic, accountants would have to see gaining membership of a western professional accounting body as being in their own interests but be unwilling to take any action to achieve this. The result is somewhat contradictory, and therefore the cell is empty. An illustration of this empty cell is the case of a female partner in a large domestic accounting firm in Beijing who did not take any substantive action to belong to a western professional accounting body because she did not see it as in her own interest. Her case was therefore not applicable to this cell. At the time of the interview, she had not gained such a membership through special admission or as a gift from a western professional accounting body. With regard to moral-symbolic, the context would be slightly different. It would mean receiving advice about acquiring the professional accounting qualification but not making any effort to gain a western membership. This did not apply to any of the interviewees in this research.

As discussed above, the pragmatic motive of advancing an accounting career appears to

be the dominant driver for interviewees. This means that they may not necessarily join a western professional accounting body because of its brand or value (cognitive element of legitimacy). It seems that many of these interviewees made their decisions without a good understanding of the differences between western professional accounting bodies. Such a phenomenon of blindly joining any western professional accounting body available to them is worth further analysis. As has been recognised in previous studies, Chinese people have a high level of uncertainty avoidance (Hofstede, 1980; Lockett, 1988), so it is interesting that the findings of this chapter show that they are still very keen to join a western professional accounting body without much thought as to its relevance and value. Such a phenomenon reveals that the marketing campaigns of these western professional accounting bodies have been very aggressive. Those Chinese graduates and accountants who lack an understanding of western professional accounting bodies may be misled into making blind decisions to gain a professional accounting qualification that is not worth as much as they have been told.

## **8.4 Summary**

In summary, the thesis has in this section drawn on the three elements of legitimacy theory identified by Suchman (1995), pragmatic, moral and cognitive, and sought answers as to how Chinese graduates, academics and accountants view the western professional accounting qualifications. The study further cross-analysed whether their individual actions towards becoming a member of a western professional accounting

body can be described as symbolic or substantive. A matrix of interviewees' perceptions (shown above in Table 8-1) was constructed to explain the findings. It is a finding of this study that uncertainty of choice was widespread among interviewees, and that such uncertainty even extended to the government officials. Despite this level of uncertainty, the thesis also found that a majority of the interviewees sought legitimisation within their careers.

Legitimacy and uncertainty are the two main themes arising from the findings. It is important to acknowledge the existence of uncertainty in the context of the third research question. Chinese experience high levels of uncertainty and therefore Chinese graduates and accountants are keen to seek certainty in their choice of professional accounting qualifications. However, such certainty is hard to achieve given that information is limited and the marketing campaign of western professional accounting bodies is very aggressive in China. It can also be concluded that, to gain legitimacy, Chinese graduates and accountants are keen to construct an implied social contract by belonging to a western professional accounting body. By cross-analysing interviewees' responses using the analytical framework as shown in Appendix 5, the most significant driver of interviewees' legitimising actions and the legitimising strategies were identified.

It is also a finding of this research that a majority of the Chinese graduates and accountants interviewed take substantive actions to achieve western professional

accounting qualifications, and that these substantive actions are mainly driven by pragmatic motives such as seeking better job opportunities. A number of employers also expressed their support for pragmatic actions, as having a western professional accounting qualification is seen as a competitive advantage in career development. As observed by interviewees, the demand for western professional accounting qualifications is much greater in Shanghai than in Beijing. This may be because there are a greater number of multinational corporations based in Shanghai, whereas the majority of large corporations in Beijing are SOEs. Another interesting finding emerging from the pragmatic-substantive analysis is that CPA Australia and ACCA qualifications are perceived to be cheaper, quicker and easier to obtain than other western professional accounting qualifications.

The second most popular driver for legitimacy is cognitive-substantive. In this respect, interviewees are motivated mostly by recognition of the value of belonging to a western professional accounting body and they are determined to take substantive actions towards achieving this end. Surprisingly, not only practitioners are aware of the value of a western professional accounting qualification, but Chinese academics have also recognised the benefits of holding dual professional accounting qualifications (both western and domestic CICPA qualifications).

The third category, from the cross-analysis, is called moral-substantive. Three Chinese university students identified as being in this category were interviewed. This

classification was because their decision to belong to a western professional accounting body was strongly influenced by others, usually relatives and family. To satisfy the expectations of family and relatives, these students had worked very hard to pass the ACCA global exams. Their actions were therefore substantive. Cognitive-symbolic is the fourth category and two senior accountants and one professor were identified as belonging in it. These three interviewees recognised the value of a western professional accounting qualification, but did not want to make any substantive effort to acquire it. In fact, their memberships were awarded by the western professional accounting bodies as gifts. Lastly, no interviewee responses could be identified as being either pragmatic-symbolic or moral-symbolic.

Part Two (including Chapters 6, 7, and 8) of this thesis identifies the findings from the empirical investigation and provides a discussion of the key implications that have emerged from the findings. The next and final chapter will provide a conclusion, suggestions for future research, and a contribution to theory, method and practice.

## **PART THREE: CONCLUSION**

### **CHAPTER 9: Conclusion and Implications**

#### **9.1 *Introduction***

In the context of the globalisation of accounting, the growing embeddedness of Anglo-Saxon institutions including the Big 4 accounting firms, MNEs, professional accounting bodies and international organisations such as the IASB, the IMF and the WTO has been highlighted by many researchers (Albu et al., 2011; Leicht & Fennell, 2008; Samuel, 2006). The domination of these institutions has raised many concerns in developing countries, as it could be viewed as a new form of colonialism (Larson, 1997; Saudagaran, 2004; Sikka, 2001). The aim of this thesis has been to answer three research questions concerning the impact of western accounting institutions in China. Theoretically, the approach to each question has been slightly different. The first question – as to how do China view western accounting institutions and foreign professional accounting bodies' entry into its domestic market – is looked at through the lens of NIS theory and organisational legitimising strategies adopted from legitimacy theory. In particular, the isomorphic features of NIS are used to explain the findings uncovered. The second research question, examining the motives and strategies of CPA Australia driving their entry into the mainland China market, makes use of the NIS concept of decoupling. The third research question, concerning the views of Chinese accountants and accounting graduates about western professional accounting bodies,

employs legitimacy theory which arguably is a close offshoot of NIS. Chapter 1 presented the background to the study, outlining the purpose and scope of the research, the research problem and the justification for undertaking the research. Part One of the thesis, Chapters 2, 3, 4 and 5, includes the literature review, and the theoretical and methodological framework. Part Two, containing Chapters 6, 7 and 8, provides the findings from the empirical research and discusses the key implications of the findings of each of the three research questions in turn, while drawing on the relevant literature supporting or contradicting these findings as explained in terms of the theory applied. Section 9.2 of this final chapter presents the study's conclusions drawn from the three research questions proposed in Chapter 1. Section 9.3 outlines the research contributions that this thesis makes. Section 9.4 outlines the limitations of the research, and section 9.5 concludes with suggestions for further research into issues not fully answered.

## ***9.2 Addressing the Three Research Questions***

### **9.2.1 Research Question 1**

First, the findings with regard to China's view of western professional accounting bodies entering the mainland China market may be summarised as a belief 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 first 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 thesis 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 research. 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. As discussed above, the ICAEW was regarded by most of the interviewees as the most prestigious professional accounting body, whereas the ACCA and CPA Australia were seen as secondary to the ICAEW. The inferior status of CPA Australia and how such a view may have come about is a feature of the findings of the second research question.

### **9.2.2 Research Question 2**

Second, CPA Australia's strategies for entry into the Chinese market have been decoupled as a result of a disconnection found between the Melbourne head office and the China regional offices. This study has shown that CPA Australia's expansion into the mainland China market has been driven by motives of financial self-interest and more public-interest, moral motives. It was found in this study that, because of its newness in the Chinese accounting field, CPA Australia has tended to mimic successful models such as the ACCA and adopt substantive and proactive strategies to gain legitimacy in China.

However, the operational managers in China have adopted strategies that are different from those originally proposed by the Melbourne head office – a characteristic of decoupling described in the literature. The findings show that such decoupling has come

about as a result of interpretations about what is important. The first evidence of this decoupling arose when the local operational managers in China made it very difficult to conduct interviews even though the senior manager in the Melbourne head office strongly supported the research study being undertaken in China. The Chinese operational managers also dismissed the claim made by the head office that graduates returning from Australian universities are an important source of membership. It appears that the operational managers in China are very sensitive about the way in which they deal with Chinese officials and claimed that CPA Australia's entry into the China market was not for the purpose of "global expansion", but to help the Chinese accounting profession to develop in competence.

CPA Australia entered the Chinese market much later than other western professional accounting bodies such as the ACCA and the CGA, and, as the literature shows, late entrants to a new field are likely to decouple their actions in response to pressures. This clearly applies to CPA Australia's operations in mainland China where the local operational managers have prioritised different objectives and understandings from those of the senior management in Melbourne. One example of such decoupling occurred when the CICPA and CPA Australia were discussing a mutual recognition agreement. It appears that the Greater China Regional Manager was very keen to sign an agreement which had been rejected by the senior manager in the Melbourne head office because it would have been likely to damage the image and reputation of CPA Australia in the long term. Another case of decoupling became apparent when the

operational managers in China modified the substantive, proactive strategies required by the head office. According to the Melbourne head office of CPA Australia, their overriding goal is to make a worthwhile contribution to the Chinese accounting profession by maintaining high standards of professional expertise. In contrast, the regional managers in China are more concerned about running their offices at a profit and see a bottom line surplus as the overriding goal of their operations. The more moral and professional mission has become secondary to financial gains. To accomplish the financial target, operational managers in China have adopted symbolic strategies to build up the membership base, giving out memberships through the special admission process rather than recruiting members from mature and tertiary markets in China.

As a result, CPA Australia's global strategies have become decoupled and are thus challenged in China. The implication of the findings is that it is hard for CPA Australia to maintain its ideals and gain legitimacy when decoupling becomes too transparent in the eyes of the Chinese accounting profession. Comparisons between CPA Australia's operations in China and in New Zealand show that the self-sustainable financial performance goals have led to very different outcomes. The operational managers in China have re-interpreted the performance goals and considered financial sustainability to be more important than the high professional status of CPA Australia. The New Zealand Regional Manager, under similar financial performance pressure, may have acted differently. In addition to the explanations provided in the literature for decoupling, the large cultural diversity between Australia and China is considered a

possible cause.

### **9.2.3 Research Question 3**

Third, when interviewing Chinese accounting graduates and accountants about their career prospects, it was soon evident that an aura of uncertainty surrounded the question. Hofstede (1980)'s landmark research reveals that Chinese people have a low tolerance for uncertainty. As part of the globalisation of accounting, China is converging its standards with the IFRS. Since the Chinese accounting profession is only recognised within China, Chinese accounting graduates and accountants seek to gain legitimacy internationally. By gaining membership in a respected western accounting association, accountants and accounting graduates can also hope to meet the non-legislated societal expectations of the accounting field and gain legitimacy internationally. However, this study found that interviewees were uncertain about their choice of a western professional accounting body. A side effect of this uncertainty was that many interviewees tried to rank the western professional bodies when looking for the best one to join. The term "the gold standard" was used by the Chinese accountants interviewed in this study to express their willingness to belong to the best professional accounting body in the global accounting field. It appeared that the western professional accounting body with a minimal presence in China – the ICAEW – was the most highly regarded. Accounting graduates, however, have to seek advice from their teachers, parents and relatives who have more knowledge about the domestic market in China and the global

accounting field. Those not able to seek advice from knowledgeable people have to rely on how the professional accounting bodies advertise and present themselves.

The dominant motive for Chinese accountants and accounting graduates to gain legitimacy, according to the interviewees, appeared to be the pragmatic one of advancing their accounting careers. Interviewees were willing to take substantive actions by completing the professional programme and examinations. This followed the cognitive-substantive drive for legitimacy when interviewees recognised the value of belonging to a western professional accounting body. Not only accounting practitioners but also accounting academics are aware of the benefits of holding MPMs. The majority of accounting graduates interviewed fell into the substantive category with an even distribution among the pragmatic, moral and cognitive categories. Because of a lack of certainty about how to gain legitimacy in the accounting field, they tended to rely on advice given by knowledgeable people they could trust, quite often such people as their parents or relatives. The last category is cognitive-symbolic and included three interviewees who were offered membership of CPA Australia through the special admission process. In contrast with the interviewees who were willing to take substantive actions to achieve membership, these three interviewees showed no commitment to passing professional examinations. The fact that a pragmatic motive appeared to be the dominant driver implies that these Chinese accountants and accounting graduates do not necessarily join a western professional accounting body as a result of the recognition of its brand or value. It seems that many interviewees were

uncertain about the future benefits of such a membership and they did not have a good understanding of the differences between western professional accounting bodies. This phenomenon of blindly joining any western professional accounting body available may contribute to the aggressive marketing campaigns of some of these bodies. Chinese accountants and accounting graduates who do not have sufficient knowledge about them are likely to be misled by their marketing promotions. This phenomenon is beyond the scope of this study and worthy of further research. The following sections outline the contributions and limitations of this thesis and make recommendations for future research.

### **9.3 *Contributions***

This thesis makes a significant contribution to the knowledge, theory, literature, methodology and practice. This section summarises this contribution.

#### **9.3.1 Contribution to Theory and Literature**

This thesis makes a contribution to current knowledge through the application of NIS theory to the field of professional accounting. It is perhaps the first application of isomorphism in its various forms to the Chinese government as an institutional organisation. By drilling down into the various forms of isomorphism, the thesis can complement the extant literature with respect to the Chinese government's welcoming of western professional accounting bodies. It is a finding of this thesis that the coercive



element of homogeneous isomorphism was the predominant factor in this welcome.

Second, as explained in the summary of background literature in Chapter 2, this thesis has also been concerned to explain how western professional accounting bodies expand into China and what problems have emerged for them, this question not having been addressed in the literature. The concept of decoupling was used in the context of a professional accounting body and as such will strengthen the literature around the phenomenon of decoupling and possibly help establish what factors could predict decoupling. With regard to the latter point, this thesis introduces the important issue of power dynamics in mediating a desire to decouple (Boxenbaum & Jonsson, 2008). The power dynamics discussed in this thesis notes interesting differences in the areas of culture and geography. The finding is that a cultural and geographical disconnect has emerged between the operational managers in China and top management in the Melbourne head office. Such a finding will add new elements to the literature on decoupling as the literature searched does not cite cultural and geographical differences as mediating a desire to decouple.

Third, in the process of drilling down, the thesis has used Suchman (1995)'s trichotomy of pragmatic, normative and cognitive legitimacy to add to the literature on professional legitimacy. However, to enrich the analysis of the responses from both institutional organisations and individuals, this thesis combined Suchman (1995)'s trichotomy with the concepts of substantive and symbolic legitimising strategies. By resolving these

analytical elements into a matrix, the finding was that the motive of pragmatic legitimacy coupled with substantive action was the predominant response to the third research question. This response illustrates a desire by interviewees to prioritise their self-interest in advancing their accounting careers. The second most common motive of legitimacy was cognitive, coupled with substantive action, where interviewees expressed a desire to join a western professional accounting body because they recognised the value of doing so. The contribution results from employing Suchman (1995)'s trichotomy with legitimising strategies in a way that supports the literature where these concepts are used separately, and further adds to the literature by combining these concepts in a research context.

### **9.3.2 Contribution to Methodology**

This thesis also makes a contribution to analytical method. With respect to the first two research questions, the Chinese government and CPA Australia, as institutional organisations, were analysed by applying the three forms of homogeneous isomorphism from NIS theory together with symbolic or substantive organisational legitimising strategies. An analytical framework combining NIS and legitimacy theory was adopted in analysing the first two research questions because legitimacy is a central concept in organisational institutionalism. In answering the third research question, a matrix of legitimacy was constructed to code interviewees' motives and actions as to the choice of western professional accounting qualifications. The combination of legitimising

strategies with Suchman (1995)'s three elements of legitimacy in this matrix created a new analytical method to analyse motives and behaviour in making a critical career decision, which, in this thesis, involves choosing a western professional accounting qualification. It was also important to distinguish the legitimising strategies in terms of being either a symbolic action, which is in fact inaction posing as action, or a substantive action, where something is happening to achieve an end.

### **9.3.3 Contribution to Practice**

The first contribution to practice concerns the development of the accounting field in communist or ex-communist countries. China is a good example of the situation in developing communist countries like Vietnam, Cuba and Romania. Specifically, the development of the Chinese accounting profession establishes an exemplar for these communist countries. China's attitude to and the strategies it employs in the globalisation of accounting are studied in this research. The motives of the Chinese government and the difficulties it faces in opening its doors to western professional accounting bodies are revealed in the findings of this thesis. More importantly, the series of push-back actions taken by the Chinese government in the international accounting field can be better understood and explained by the findings of this study.

The second contribution to practice is that the findings of this thesis provide an in-depth, critical review of the expansion of a western professional accounting body into

the mainland China market. CPA Australia was the first western professional accounting body in the Asia-Pacific region to enter China, doing so while the majority of the chartered accountant professional accounting bodies were still operating within their domestic territories. It seems that CPA Australia's global expansion strategy is now threatened by internal decoupling. While the operational managers in China are narrowly focused on achieving financial performance targets, they are in the view of this thesis undermining the longer term goal of CPA Australia to be a reputable professional body with high accounting standards.

The third contribution to practice is to show how Chinese accounting graduates and accountants view the future of accounting in terms of how it is practised. That is, given the excessive amounts of time and money required to achieve a western professional accounting qualification, the findings of this thesis explain why there is still an increasing number of graduates and accountants who are keen to join a western professional accounting body. As discussed in Chapter 8 and section 9.2.3 in this chapter, a phenomenon of blindly joining any western professional accounting body available to them has been identified. Examination of this phenomenon reveals that very aggressive marketing and promotional activities have been widespread in China to persuade young graduates and accountants that holding a western professional accounting qualification will advance their accounting careers in a big way. In addition to explaining their choices of professional accounting qualifications, this thesis also hopes to bring this phenomenon into the spotlight so that more attention can be paid to

this issue.

## **9.4 *Limitations***

This section outlines the limitations of the research undertaken. As stated by Sadler (1981), naturalistic inquirers pursue their tasks sensitively and sequentially. It is these same characteristics that make naturalistic inquiries more vulnerable. A number of information processing limitations have been pointed out by many researchers. One of the main challenges is there is not explicit guidelines for determining saturation (Bowen, 2008). Sadler (1981) outlines thirteen cognitive limitations in addition to ethical compromises and value inertias. Some of these are data overload, persistence in focusing on the first few stimuli received, difficulty in accessing information, internal consistency, information redundancy, uneven reliability of information from various sources, and consistency in judgment.

The findings and conclusions of this thesis should be considered in light of the research limitations. The obvious limitations are common to all qualitative research studies. It is not possible to draw statistical conclusions as the questions asked of the 45 interviewees sought depth and reasoning rather than yes/no type answers. The reasoned answers given by the social actors interviewed represent their interpretations of events and may be biased towards preferences and prejudices unknown to the researcher (Sadler, 1981). In turn, the researcher was also engaged as a social actor and may have unintentionally misinterpreted answers and so conveyed a wrong meaning (Lincoln & Guba, 1985;

Sadler, 1981). Such shortcomings are risks all research findings are exposed to.

The second limitation occurred because there may have been some sensitivity preventing interviewees from disclosing their true feelings. It is a feature of Chinese culture that Chinese people are secretive and do not readily confide in strangers, and because they are so polite they say what they feel the interviewer wants to hear (Gray, 1988; Hofstede, 1980; Lockett, 1988). Even though the researcher acknowledges that Chinese people are opening up a lot more than in the past as a result of the economic reforms and the open door policy, they may be too polite to criticise the professional accounting bodies with which this research is concerned. It is hoped that such sensitivities have been overcome by the friendliness of the interviewer who, being young and female, would not have been seen as intimidating and threatening.

The third limitation is around the sensitivity of the research findings concerning the decoupling between the operational managers in China and the top management in the Melbourne head office of CPA Australia. As suggested by Sadler (1981), availability of information is one limitation in naturalistic data processing. Very often information that is difficult to retrieve tends to receive less attention. It is not the case in this study as such decoupling has been noticed and identified as a significant issue. While the findings have revealed the existence of decoupling, it has been impossible, however, to probe any further into this issue than has been indicated in this study.

Finally, this study has adopted a number of the techniques suggested by Adams (1982)

in data processing and analysis to improve the credibility of the research including: (1) giving an oral debriefing to key respondents at the end of the visit; (2) strategically using direct quotes; (3) employing triangulation and multi-method approaches: primary data was collected by semi-structured interviews and secondary data was collected to conduct documentary analysis so as to triangulate with the interview data collected; and (4) reporting qualitative findings thoroughly.

## **9.5 *Directions for Future Research***

What is exceptional in this research is that it concerns an Anglo-Saxon professional accounting body in the process of expansion beyond its traditional market. Beyond the analysis and explanation offered with regard to the three research questions, this thesis reveals that further research into this area is needed.

First, for western professional accounting bodies, the target market in terms of culture and language is very different from the home market. Such a difference accentuates and widens the gap between the top managers in the home country and the operational managers in the target market. The gender divide is also remarkable, raising the question as to why the top male managers selected female operational managers in China: what was the gender advantage they perceived? These questions are beyond the scope of this thesis but do point in an interesting direction for further research. However, what has emerged will serve to enrich the literature seeking to explain why organisations decouple.

Second, as noted by Anderson-Gough, Grey and Robson (1998), studies of professional socialisation explore the nature of professions and highlight how individuals are shaped into qualified members of these professions. For the accounting profession, the socialisation of accountants occurs within the context of an institutional fragmentation of professional accounting bodies. There has been little study of the socialisation of accountants. This thesis focuses more on the decision-making and behaviour of Chinese accountants and accounting graduates in becoming members of western professional accounting bodies. There is an opportunity for further research to investigate the socialisation of Chinese accounting graduates in the audit firms, in particular the top accounting firms including the Big 4 and the Top 10 Chinese CPA firms.

Third, another interesting area that is beyond the scope of this study but worthy of further investigation is the ethical practices of Chinese accountants. Anderson-Gough et al. (1998) emphasise that the study of professionalisation has moved towards the study of modes of conduct. Demonstration of appropriate ways of being a professional accountant and creating and maintaining appropriate professional behaviour (i.e. socialisation) are central to the study of professionalisation. Since China has been converging with the IFRS, more judgmental rather than rule-based decision-making has been required from Chinese professional accountants. Therefore ethical practice has become an important issue for the Chinese accounting profession in ensuring ethical decisions can be made in accounting practice.



Finally, there is an opportunity to further investigate the coercive power of the Chinese government in the process of the socialisation of Chinese accountants. As found in this thesis, the Chinese accountancy profession is under government control. Government officials, perhaps surprisingly, talked about accelerating the socialisation of accountants by gradually reducing the power of the government. In this way, it would be expected that the Chinese accounting profession would become more independent. While it is beyond the scope of this study, it does suggest an interesting research topic, looking at the socialisation of accountancy through a comparison of China with the Anglo-Saxon countries.

## **9.6 Conclusion**

This thesis tells a global expansionary story of a western professional accounting body – CPA Australia – in mainland China. It involves three research questions concerning (1) the global expansion of western professional accounting bodies and China's control of its domestic accounting field, (2) the impact of CPA Australia and its programme of expansion into China, and (3) the impact of these changes on Chinese accounting graduates and accountants and their choice of a professional accounting body. These three research questions are interlinked. The incentive for this study was the professionalisation of accounting and the embeddedness of international organisations (such the IASB, the WTO, and the World Bank), MNEs, professional accounting bodies and the Big 4 firms. This research makes a contribution to current knowledge through

the application of NIS theory to the field of the accounting profession. The study also makes a methodological contribution by the construction of analytical matrices which combine three forms of homogeneous isomorphism from NIS theory and elements of legitimacy theory. The in-depth interviews which provided the empirical data for this study are triangulated with qualitative documentary analysis to enhance the credibility of the findings. The research also contributes to practice, in particular the critical review of the expansion of into China by CPA Australia has revealed that their global expansion strategy is threatened by internal decoupling.

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 the three areas of research undertaken can promote the further globalisation of accounting as 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 suggests a number of important directions for future research.

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## Appendix 1: Ethics Application Approval Letter



### MEMORANDUM

Auckland University of Technology Ethics Committee (AUTEC)

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To: Keith Hooper

From: **Dr Rosemary Godbold** Executive Secretary, AUTEC

Date: 22 November 2011

Subject: Ethics Application Number 11/287 **Why China is adopting western professional standards: The case of CPA Australia.**

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Dear Keith

Thank you for providing written evidence as requested. I am pleased to advise that it satisfies the points raised by the Auckland University of Technology Ethics Committee (AUTEC) at their meeting on 31 October 2011 and I have approved your ethics application. This delegated approval is made in accordance with section 5.3.2.3 of AUTEC's *Applying for Ethics Approval: Guidelines and Procedures* and is subject to endorsement at AUTEC's meeting on 12 December 2011.

Your ethics application is approved for a period of three years until 22 November 2014. I advise that as part of the ethics approval process, you are required to submit the following to AUTEC:

- A brief annual progress report using form EA2, which is available online through <http://www.aut.ac.nz/research/research-ethics/ethics>. When necessary this form may also be used to request an extension of the approval at least one month prior to its expiry on 22 November 2014;
- A brief report on the status of the project using form EA3, which is available online through <http://www.aut.ac.nz/research/research-ethics/ethics>. This report

is to be submitted either when the approval expires on 22 November 2014 or on completion of the project, whichever comes sooner;

It is a condition of approval that AUTECH is notified of any adverse events or if the research does not commence. AUTECH approval needs to be sought for any alteration to the research, including any alteration of or addition to any documents that are provided to participants. You are reminded that, as applicant, you are responsible for ensuring that research undertaken under this approval occurs within the parameters outlined in the approved application.

Please note that AUTECH grants ethical approval only. If you require management approval from an institution or organisation for your research, then you will need to make the arrangements necessary to obtain this. Also, if your research is undertaken within a jurisdiction outside New Zealand, you will need to make the arrangements necessary to meet the legal and ethical requirements that apply within that jurisdiction.

When communicating with us about this application, we ask that you use the application number and study title to enable us to provide you with prompt service. Should you have any further enquiries regarding this matter, you are welcome to contact me by email at [ethics@aut.ac.nz](mailto:ethics@aut.ac.nz) or by telephone on 921 9999 at extension 6902.

On behalf of AUTECH and myself, I wish you success with your research and look forward to reading about it in your reports.

Yours sincerely

Dr Rosemary Godbold

**Executive Secretary**

**Auckland University of Technology Ethics Committee**

## Appendix 2: Participation Information Sheet

### Participant Information Sheet



#### **Date Information Sheet Produced:**

1 December 2011

#### **Project Title**

An investigation into the western professional accounting bodies' expansion in China, using the case of CPA Australia

#### **An Invitation**

I am Hedy Jiaying Huang, a PhD candidate from the Faculty of Business, AUT University, New Zealand. You are invited to participate in a research project on why China is welcoming western professional accounting bodies with reference to the introduction of CPA Australia.

Participation in the project will involve a 45-minute to 1-hour interview. Your participation in this project is completely voluntary and you may withdraw at any time prior to the completion of the research data collection.

#### **What is the purpose of this research?**

This research aims to discover why China is welcoming western professional accounting bodies like CPA Australia and why Chinese accountants and graduates of accounting are increasingly interested in joining a Western professional accounting body in addition to belonging to the local Chinese government-controlled profession. I am undertaking this research for my PhD thesis at AUT University. Some conference papers would be expected to follow, and then be submitted to journals such as the Accounting History Journal and the Accounting, Auditing & Accountability Journal.

#### **How was I identified and why am I being invited to participate in this research?**

You may have been referred by CPA Australia or your colleagues or friends. As you have been identified as an informed observer of the relevant research topic, I am very interested in your experiences and perceptions about the topic.

**What will happen in this research?**

The research project involves interviews. You will be asked to sign a participation Consent Form and take part in a 45-minute to 1-hour interview at a time and place that is convenient to both you and me. As highlighted previously, the interview questions will focus on your experiences as a member of professional accounting bodies. The interview will be recorded via digital recorder and note-taking. This will be analysed by identifying, analysing and reporting common patterns.

**What are the discomforts and risks?**

You may feel uncomfortable when discussing questions regarding your personal experiences. However, the level of discomfort and risk will be very limited as there are no sensitive questions and all your responses will be confidential.

**How will these discomforts and risks be alleviated?**

You do not have to answer any questions that you do not want to answer. In addition to that, you may withdraw yourself or any information that you have provided for this project at any time prior to the completion of data collection, without being disadvantaged in any way.

**What are the benefits?**

This research will provide a clearer picture of what are the main influences on the adoption of western professional accounting standards in China and why western professional accounting qualifications are increasingly popular in China. This research may also assist the Chinese Government in finding ways to improve the overall quality and international recognition of its local professional accounting body (Chinese Institute of Certified Public Accountants). As stated previously this research will also assist me to complete my PhD.

**How will my privacy be protected?**

In terms of privacy issues, firstly, the Privacy Act 1993 will be strictly complied with. The data collected from the interview will be used only for the purpose for which it is collected. You have the right to access information held by the researcher at any time. Secondly, strategies will be implemented to protect your organisation and your identity, including assigning a code to each interview transcript, and assigning pseudonyms to your organisation and your name.



In terms of confidentiality, please be assured that all information collected and referred to in the research report will be confidential. I will keep interview content strictly confidential and will not mention it to any other participant. Hard copies of interview data and Consent Forms will be stored separately, confidentially and securely, in locked cupboards on AUT premises. After 6 years it will be destroyed by AUT's commercial office document destruction service.

**What are the costs of participating in this research?**

Participating in this research will cost 45 minutes to 1 hour of your time.

What opportunity do I have to consider this invitation?

Your participation in the interview will be greatly appreciated. I will make a follow-up phone call to you within 2 weeks of your receiving the invitation email (with Information Sheet and Consent Form attached) to answer any query regarding your research participation. You are also welcome to contact me at any time to seek further information or clarify any concern. Please be assured that participation in this research is absolutely voluntary and you have the right to withdraw at any time up to the completion of the data collection without adverse consequences of any kind. To make a withdrawal request, please contact me using the contact details provided at the end of the Information Sheet.

**How do I agree to participate in this research?**

Your participation in the interview will be greatly appreciated. I would be grateful if you could inform me of your agreement by completing the Consent Form enclosed. Keep one copy of the form and return the other copy to me via email. Another option is that once you have agreed to an interview I can bring a copy of the Consent Form for you to sign at the start of the interview.

**Will I receive feedback on the results of this research?**

A copy of the research outcome will be available to you upon request. If you wish to receive a copy, please indicate this on the attached Consent Form. I will email/post one copy to you when the report is finalised.

**What do I do if I have concerns about this research?**

Any concerns regarding the nature of this project should be notified in the first instance to the Project Supervisor, *Professor Keith Hooper*, [keith.hooper@aut.ac.nz](mailto:keith.hooper@aut.ac.nz), 649-

9219999 ext 5758.

Concerns regarding the conduct of the research should be notified to the Executive Secretary, AUTECH, Dr Rosemary Godbold, [rosemary.godbold@aut.ac.nz](mailto:rosemary.godbold@aut.ac.nz) , 921 9999 ext 6902.

**Whom do I contact for further information about this research?**

***Researcher Contact Details:***

Hedy Jiaying Huang, [hedy.huang@aut.ac.nz](mailto:hedy.huang@aut.ac.nz), 649-921 9999 ext 5723

***Project Supervisor Contact Details:***

Professor Keith Hooper, [keith.hooper@aut.ac.nz](mailto:keith.hooper@aut.ac.nz), 649-921 9999 ext 5758

Approved by the Auckland University of Technology Ethics Committee on *22 November 2011*, AUTECH Reference number

*11/287.*

## Appendix 3: Informed Consent Form

### Consent Form

#### For interview participants



*Project Title:*                    **An investigation into the western professional accounting bodies' expansion in China, using the case of CPA Australia**

*Project Supervisors:*    **Prof. Keith Hooper and Dr Rowena Sinclair**

*Researcher:*                    **Hedy Jiaying Huang**

- ☐ I have read and understood the information provided about this research project in the Information Sheet dated 1 December 2011.
- ☐ I have had an opportunity to ask questions and to have them answered.
- ☐ I understand that notes will be taken during the interviews and that the interviews will also be audiotaped and transcribed.
- ☐ I understand that I may withdraw myself or any information that I have provided for this project at any time prior to completion of data collection, without being disadvantaged in any way.
- ☐ If I withdraw, I understand that all relevant information, including tapes and transcripts, or parts thereof, will be destroyed.
- ☐ I agree to take part in this research.
- ☐ I wish to receive a copy of the report from the research (please tick one):  
Yes ☐ No ☐

Participant's signature: .....

Participant's name: .....

Participant's contact details (if appropriate):  
.....  
.....

Date:

*Approved by the Auckland University of Technology Ethics Committee on 22 November 2011*

*AUTEC Reference number 11/287*

*Note: The participant should retain a copy of this form.*

## Appendix 4: Semi-structured Interview Guide

Interview Number: \_\_\_\_\_

Interview Date: \_\_\_\_\_

Interview Place: \_\_\_\_\_

### Profile of the Interviewee

**Age:** 20-30, 30-40, 40-50, 50+

**Gender:** Female/Male

**Type of Interviewee:** CICPA Key Personnel/CPA Australia Key Personnel/Informed Observer

**Educational Background:**

**Work Experience:**

**Current Position & Organisational Profile:**

**Location:**

**Member/provisional member of a profession?**

Yes: CICPA, ACCA, CPA AUSTRALIA, HKICPA, CGA, ICAEW, NZICA, other/  
No

**Familiar with any of the following professional accounting qualifications?**

Yes: CICPA, ACCA, CPA AUSTRALIA, HKICPA, CGA, ICAEW, NZICA, other/  
No

**Relationship with the professional accounting body?**

Work for a professional accounting body/member/provisional member/teaching its programme/ other

## **Interviewee Group 1:**

### **Key personnel from relevant government agencies in China**

#### **Section One:**

1. Why did CICPA coordinate with international professional accounting bodies?
2. In your opinion, what is the ultimate goal of CICPA in coordinating with these western professional accounting bodies?
3. How did CICPA coordinate with international professional accounting bodies?
4. Do you think the reciprocal agreement with international professional accounting bodies will give CICPA global status?
5. How do you view the international influence of the Big 4 accounting firms?
6. In recent years, the business opportunities of the Big 4 in China have shrunk a little. Do you think this will have a negative impact on Chinese accountants?
7. From your point of view, what are the factors that influenced the Chinese government to open up its accounting service market?
8. Do you think the IFRS standards and practices of the western professional accounting bodies would fit into China? Are there any obstacles or issues?
9. What relevant programmes are being undertaken in local CICPA offices?
10. Do you think it is possible in the future to adopt the programme content of the Anglo-Saxon professional accounting bodies and conduct part of the exam in English? Or should an international version of the CICPA exam in English be made?
11. Do you think China would prefer to modify its practices and develop its own professional training programme to suit its economic and social environments, that is, make it unique and still written in Chinese?
12. If the IFRS are adopted, do you think Chinese accountants need to have a good level of English to better understand them?
13. What do you think about the recent Big 4 domesticating policies, in particular the requirements for partners to have CICPA qualifications and Chinese nationality? What are the reasons for these regulations? What are the reactions of the Big 4?

14. Do you measure how many CICPA members are trained via the joint training programmes with CICPA and western bodies and how many eventually receive western professional accounting qualifications?
15. Every year how many CICPA members complete western professional accounting qualifications without going through the government-supported/-sponsored joint training programmes?
16. Can you introduce the graduate internship programme sponsored by CICPA? What are its objectives? How many top graduates are trained overseas via internship programmes sponsored by CICPA?
17. Do you think China needs more CICPA members holding western professional accounting qualifications to cope with the demands of economic development? Does the Chinese government want more Chinese accountants to gain western professional accounting qualifications? What are the drivers for change?
18. In the 30 Guiding Principles, it is specifically mentioned that CICPA will focus on joint training programmes with western professional accounting bodies to cultivate more qualified western professional accounting members. Does this principle reflect the future development direction of the Chinese accounting profession as part of the national economic development plan?

**Section Two:**

19. From your point of view, why do these western professional accounting bodies enter China? What are their purposes and incentives, and how do they operate?
20. How would you comment on their operations in China? Do you think some of them are successful?
21. How will the practices of these western professional accounting bodies impact on the development of the Chinese accounting profession?
22. Do you see these professional accounting bodies as being the same as (similar to) or different from each other? Why?

**Section Three:**

23. Based on what you've heard/observed, why do you think Chinese accountants and graduates want/not want to achieve western professional accounting qualifications?
24. Have you observed any issues or difficulties that they have in seeking a western professional accounting qualifications?
25. An increasing number of western professional accounting bodies are entering China, which makes the decision as to the choice of designations more difficult and complicated. Do you think this phenomenon is good for the development of the Chinese accounting profession?
26. How can recent graduates and junior accountants choose between so many different western professional accounting qualifications? Could you please provide some advice?
27. Is there any other thing that you would like to share with me?

**Interviewee Group 2: Key personnel from western professional accounting bodies (CPA Australia)**

1. What do you think were the motives for initiating the strategy of developing the Chinese market?
2. What was the expectation when the strategic move into China was made?
3. Have you made a lot of progress? Has the expansion in China been as successful as was planned?
4. What do you think are the obstacles/challenges that CPA Australia faces in China?
5. What do you think are the opportunities/strengths that CPA Australia has in China?
6. What regulations do you have to comply with in China? What are the differences from the practices in Australia?
7. From your point of view, who are your major competitors in China? Why?
8. Of the various sectors (education, public practice, SMEs, corporates, government, not for profit), from which do you recruit the most members in China? Why?
9. Do you focus on developing the tertiary market (by accrediting universities to conduct CPA Australia programme training courses) or do you focus on recruiting mature CICPA members/accountants from the workplace? Or do you focus on both?
10. How do you implement various strategies to develop the tertiary and/or workplace market?
11. Do you have a number of CPA Australia provisional or full members in China who have overseas educational backgrounds in the Asia-Pacific region (e.g. Australia and New Zealand)?
12. Is there any other thing that you would like to share with me?



### **Interviewee Groups 3, 4 and 5: Informed observers**

#### **Section One:**

1. Why did CICPA coordinate with international professional accounting bodies?
2. Are you aware of some of the joint programmes between CICPA and western professional accounting bodies?
3. CICPA is not well recognised internationally, and is seen as a profession dominated by the government. Do you agree?
4. Do you think the reciprocal agreement with international professional accounting bodies will give CICPA global status?
5. How do you view the international influence of the Big 4 accounting firms?
6. In recent years, the business opportunities of the Big 4 in China have shrunk a little. Do you think this will have a negative impact on Chinese accountants?
7. From your point of view, what were the factors that influenced the Chinese government to open up its accounting service market?
8. Do you think the IFRS standards and practices of the western profession would fit into China? Are there any obstacles or issues?
9. If the IFRS are adopted, do you think Chinese accountants need to have good level of English to better understand them?
10. What do you think about the recent Big 4 domesticating policies, in particular the requirements for partners to have CICPA qualifications and Chinese nationality? What are the reasons for these regulations? What are the reactions of the Big 4?
11. Do you think China needs more CICPA members holding western professional accounting qualifications to cope with the demands of economic development?
12. Is an accounting profession important in China as CICPA has no standard-setting role?

#### **Section Two:**

13. Can you briefly talk about the western professional accounting bodies that you are familiar with?
14. From your point of view, why do these western professional accounting bodies enter China? What are their purposes and incentives, and how do they operate?

15. How would you comment on their operations in China? Do you think some of them are successful?
16. How will the practices of these western professional accounting bodies impact on the development of the Chinese accounting profession?
17. Do you see these professional accounting bodies as being the same as (similar to) or different from each other? Why?

**Section Three:**

18. Why did you choose this western professional accounting qualification?/Why are you currently doing this western professional accounting qualification?/ Why don't you join a western professional accounting body?
19. What were the main factors that influenced you to make the above decision?
20. What do you see as the main benefits of joining a western professional accounting body in China? What are the costs/obstacles?
21. Do you have colleagues/friends who also have western professional accounting qualifications? Do you know which factors drove them to join?
22. What are your views about other western professional accounting qualifications?
23. (For employers) What qualities do you demand from employees, especially graduates?
24. (For employers) Will the recruitment criteria differ in different cities in China?
25. (For employers) Would you have a preference between an employee who holds CICPA membership and another employee who has a western professional accounting qualification? Why?
26. (For university lecturers/professors) What do you know about the CPA Australia or the ACCA or CICPA major undergraduate programmes in Chinese universities?
27. (For university lecturers/professors) What do you think are the motives of students in enrolling in the CPA Australia, ACCA or CICPA specialisation programmes?

28. (For university lecturers/professors) Would you recommend your students acquire CICPA or western professional accounting qualifications? Why?
29. An increasing number of western professional accounting bodies are entering China, which makes the decision as to the choice of designations more difficult and complicated. Do you think this phenomenon is good for the development of the Chinese accounting profession?
30. Is there any other thing that you would like to share with me?

## Appendix 5: Analytical Framework

Matrix 1 – Analytical Framework for Research Question 1

<b>Isomorphism</b> <b>Organisational Legitimising</b> <b>Strategies</b>	<b>Coercive</b> <i>Enforced by others</i>	<b>Mimetic</b> <i>Copied from others</i>	<b>Normative</b> <i>Institutional entrepreneurship</i>
<b>Symbolic/Decoupling</b> <i>Window-dressing, focus on appearance and shaping institutional context</i>	The Chinese government was coerced into accepting international institutions (the WTO, the IASB, MNEs, and the Big 4). However, its actions were ceremonial because it did not want to accept these institutions.	The Chinese government copied some practices of the western professional accounting bodies to improve the appearance of the Chinese accounting profession internationally without making any fundamental improvements in the Chinese accounting system.	Some institutional entrepreneurs in the Chinese government saw the potential benefits of knowledge sharing and contributions from having western professional accounting bodies in China. Their actions were ceremonial because they were aimed at improving international recognition of the Chinese accounting profession without making substantial changes.

<b>Combination of Symbolic and Substantive</b>	<p>The Chinese government was coerced by international institutions.</p> <p>It adopted a mixture of both symbolic and substantive strategies.</p>	<p>The Chinese government copied others.</p> <p>It adopted a mixture of both symbolic and substantive strategies.</p>	<p>Institutional entrepreneurs in the Chinese government saw the potential benefits of having western professional accounting bodies in China.</p> <p>The Chinese government adopted a mixture of both symbolic and substantive strategies.</p>
<b>Substantive</b> <i>Reflect actual change and implementation</i>	<p>The Chinese government opened its accounting service industry to western professional accounting bodies. It was coerced by international institutions to act and showed a strong willingness to make substantive changes in its accounting system and profession.</p>	<p>Because of the relevance and importance of these western professional accounting bodies, the Chinese government copied their practices into the Chinese professional accounting body to make substantive improvements in its accounting system and profession.</p>	<p>These institutional entrepreneurs saw the potential benefits of having western professional accounting bodies in China. Their actions were substantive and aimed at improving the competence level of Chinese accountants and advancing the Chinese accounting system.</p>

**Matrix 2 – Analytical Framework for Research Question 2**

<b>Isomorphism</b>  <b>Organisational Legitimising Strategies</b>	<b>Coercive</b> <i>Enforced by others</i>	<b>Mimetic</b> <i>Copied from others</i>	<b>Normative</b> <i>Institutional entrepreneurship</i>
<b>Symbolic/Decoupling</b> <i>Window-dressing, focus on appearance and shaping institutional context</i>	CPA Australia’s move into China was a response to external pressures such as the policy changes made by the Australian government. However, their expansion into China was a symbolic strategy because being a “global professional accounting body” looked more attractive to potential members.	CPA Australia copied the global strategies of other professional accounting bodies (e.g. ACCA). However, its actions were largely window-dressing and aimed at creating the appearance of a “global professional accounting body”.	There were some institutional entrepreneurs in CPA Australia’s senior management team who initiated this expansion strategy, even though it was window-dressing.

<b>Combination of Symbolic and Substantive</b>	<p>CPA Australia's move into China was enforced by external pressures. CPA Australia adopted a mixture of symbolic and substantive strategies.</p>	<p>CPA Australia copied others. CPA Australia adopted a mixture of symbolic and substantive strategies.</p>	<p>The expansion into China was initiated by some institutional entrepreneurs in CPA Australia. CPA Australia adopted a mixture of symbolic and substantive strategies.</p>
<b>Substantive</b> <i>Reflect actual change and implementation</i>	<p>In a response to external pressures caused by the change in the local market and government policies, CPA Australia realised the need for change in its core business practices and wanted to expand its operations into overseas markets in a substantive way.</p>	<p>CPA Australia copied the global strategies of others. Its aim was to change its core business practices. The implementation of this expansion strategy into overseas markets was largely substantive in nature.</p>	<p>The institutional entrepreneurs initiated CPA Australia's expansion strategy. They aimed to change CPA Australia's operations and core business practices in a fundamental and substantive way.</p>

**Matrix 3 – Analytical Framework for Research Question 3**

Towards Membership of a Western Professional Accounting body	Legitimacy Elements		
	<b>Pragmatic</b> <i>Self-interest</i>	<b>Moral</b> <i>Should do</i>	<b>Cognitive</b> <i>Recognise value</i>
<b>Symbolic Inaction</b>	<p>Individuals were motivated by narrow self-interest and believed that by joining a western professional accounting body that they would gain a direct benefit. However, individuals were not willing to make efforts to gain a professional accounting qualification.</p>	<p>Individuals thought they should do this or were persuaded that it was a good and right thing to do for the longer term. However, they did not want to make efforts to gain a professional accounting qualification.</p>	<p>Individuals recognised the value of belonging to a western professional accounting body; however, they did not want to make efforts to gain a professional accounting qualification.</p>



<b>Substantive</b>	Individuals were motivated by narrow self-interest and were willing to make substantive efforts to acquire a western professional accounting qualification.	Individuals were influenced by their relatives or older and respected acquaintances, and were willing to make substantive efforts to gain a western professional accounting qualification.	Individuals recognised the value of belonging to a western professional accounting body and this recognition persuaded them to make efforts to become a member of a western professional accounting body.
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## Appendix 6: List of Documents

No.	Document Name	Reference
1	中华人民共和国注册会计师法  The Law of the People's Republic of China for Certified Public Accountants	National People's Congress. (1993). The Law of the People's Republic of China for Certified Public Accountants. Adopted at the 4th Meeting of the Standing Committee of the Eighth National People's Congress and promulgated by Order No. 13 of the President of the People's Republic of China on October 31, 1993. <a href="http://www.npc.gov.cn/englishnpc/Law/2007-12/12/content_1383805.htm">http://www.npc.gov.cn/englishnpc/Law/2007-12/12/content_1383805.htm</a>
2	中国企业会计准则  Chinese Accounting Standards for Enterprises	National People's Congress. (1993). <i>Chairman Order (1993) Number 17: Chinese Accounting Standards for Enterprises Beijing: The Standing Committee of the National People's Congress</i> . Retrieved from <a href="http://fgk.mof.gov.cn/do_moflaw/do_file_summary.nsf/vwFile/64908E26A5A476FC48256E070020798C?OpenDocument">http://fgk.mof.gov.cn/do_moflaw/do_file_summary.nsf/vwFile/64908E26A5A476FC48256E070020798C?OpenDocument</a>
3	深圳经济特区注册会计师管理条例 1995  1995 Administrative Regulations of Shenzhen Special Economic Zone on Certified Public	Standing Committee of Shenzhen Municipal People's Congress. (1995). <i>Administrative Regulations of Shenzhen Special Economic Zone on Certified Public Accountants</i> . Shenzhen: Adopted at the 28th Meeting of the first session of

	Accountants	the Standing Committee of Shenzhen Municipal People's Congress on February 24, 1995. Retrieved from <a href="http://fzj.sz.gov.cn/laws/2LAW8a1.aspx">http://fzj.sz.gov.cn/laws/2LAW8a1.aspx</a>
4	深圳经济特区注册会计师条例 2003 2003 Regulations of Shenzhen Special Economic Zone on Certified Public Accountants	Standing Committee of Shenzhen Municipal People's Congress. (2003). <i>Regulations of Shenzhen Special Economic Zone on Certified Public Accountants</i> . Shenzhen: Originally adopted at the 28th Meeting of the first session of the Standing Committee of Shenzhen Municipal People's Congress on February 24, 1995. 1st amendment in accordance with the decision of the 28th Meeting of the third session of the Standing Committee of Shenzhen Municipal People's Congress on October 28, 2003.
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