Global Accounting Standards And Curriculum
Gyan Chandra, (E-mail: chandrg@muohio.edu), Miami University, Ohio

Abstract

Offshoring of technology jobs and its adverse economic effects on the U.S. economy are making daily headlines. Globalization of economy and advances in information technology have accelerated offshoring to low labor cost countries like China and India. The latter have the advantage of abundant educated manpower, low labor cost and high entrepreneurial spirit. However, just as globalization is taking lower-value jobs overseas, it is also creating markets for higher-value U.S. services and goods in those countries. Development of global accounting standards could further accelerate offshoring of jobs in financial services. It is time that business schools prepare their graduates to face the challenge through appropriate curriculum changes.

1. Introduction

Two changes of immense importance have been impacting the world for the last fifty years: globalization of economy and rapid advances in technology, especially, in information technology. It is difficult to argue which of the two is more important as the two are feeding each other. In fact, largely due to the accelerating pace of scientific advances, knowledge is expanding at an unprecedented rate. There is no question the scientific advances of the earlier years had profound effect on our lives, but the recent advances in information technology (IT) have impacted our lives in a way that no other advances in the past did. IT has given enormous computing power, speed and digital memory at a very low cost to both businesses and individuals alike. It has created a worldwide information democracy as rich and poor nations have access to the same information on a real time basis. The Internet is bridging the distance between people. The developments in one part of globe can be shared by the rest of the globe on a real time basis. Ideas, capital and resources move with the touch of a key. IT has enabled us to enter the age of knowledge-based living and economy. Once the scientists and engineers mastered digitizing data, graphics, color, and sound and reassembling the digits into a meaningful whole at a fast speed and low cost, the world was set for the IT age and revolution.

Globalization is unstoppable. Added by the advances in IT, globalization is impacting national economies, social institutions and people’s lives in infinite ways. Although capital has always moved in search of higher return, modern information technology is moving it ever faster. International trade in goods and services has grown phenomenally and has increased global economic interdependence. Just as after World War II, nations formed mutual security pacts (e.g., NATO), currently, nations are busy forming trading alliances and blocks (e.g., North American Free Trade Agreement (NAFTA), Asian Pacific Economic Cooperation (APEC), Association of Southeast Asian Nations (ASEAN), Free Trade Area of Americas (FTAA), etc.). The European Union is likely to grow from 15 to 25 nations and the Euro is a reality. Judged by the amount of international trade and direct foreign investment, the impact of globalization is huge. Advances in IT are leading to a one-world economy. To wit, the U.S. economic recession of the last three years was not confined to the U.S. alone. It quickly spread to the rest of the free world. The much touted recent gains in U.S. productivity are largely attributed to the cheap imports from China and the outsourcing of IT jobs to India, Hungary, Philippines, Singapore and other countries.

The combination of IT and globalization has created an economy, often called the new world economy. It is characterized by the dominance of technology (research and development (R&D)) and is idea based. Intangibles and intellectual property are its by-words. It is capital intensive and knowledge-based. It requires large scale of
operation to spread high fixed costs of R&D. It is intensely competitive and has led governments to remove controls and open national economic borders. The following recaps some of these characteristics:

A. Domination of technology, especially information technology:
   - Creation of wealth from information/knowledge
   - Heavy emphasis on R&D, opening of new frontiers of knowledge
   - Miniaturization and automation
   - Digitization/computerization of data, colors, graphics, pictures and sound
   - Fast transmission of digitized information on line, wireless and the Internet
   - Emergence of intellectual property and science-based industries
   - Emergence of new economic mantra: creation of value
   - Shorter product lives, shorter decision horizons
   - Democratization of information

B. Globalization of economy and emergence of multinational firms:
   - Huge growth in international trade
   - Global movement of capital, goods, ideas and talent
   - Acceptance of the concept of global economic interdependency
   - Cross listing of stocks on the world stock exchanges and increased cross border trading of securities, e.g., GM, GE, Microsoft, Toyota, DaimlerChrysler, Sony, etc.
   - Relocation of companies for cheaper capital and resources
   - Large scale outsourcing and offshoring of economic activities overseas to take advantage of low labor cost

C. Expansion of the scale of business and domination of large organizations:
   - Growth via large scale mergers and acquisitions, e.g., America On Line acquiring Time-Warner in a $135 billion deal; Chevron acquiring Texaco in a $35 billion deal; Daimler Benz acquiring Chrysler for $30 billion; Bank of America acquiring Fleet Boston in an over $50 billion transaction, etc.
   - The most common currency of payments in mega acquisitions and mergers: stocks
   - Pressure on the management to have ever increasing earnings per share
   - Pooling of individual investors’ savings into unit trusts, mutual funds, exchange traded funds (ETF)
   - Emergence of pension and retirement funds as major investors

D. Deregulation and emergence of free markets:
   - Market orientation and deregulation of economy
   - Democratization of investor class
   - New model of business--imagining consumer needs, creating the demand for products
   - Importance of consumer satisfaction with better and more innovative products

These developments are restructuring the U.S. economy. One highly visible sign of this change has been the phenomenal growth of offshoring activities. Until a decade ago, only the manufacturing jobs went overseas in search of cheaper labor and material, but the advances in IT have led to offshoring of service jobs as well. Read.

Late last month, Ranbaxy announced a deal with GlaxoSmithKline PLC to collaborate on new drug research. The agreement is the first for the large Anglo-American company in the developing world and shows how the outsourcing of work abroad is extending into higher-value, skill-based fields. Indeed companies such as General
Motors Corp., General Electric Co., and Ford Motor Co. are already tapping Indian science and engineering talent for sophisticated research and development and auto design.

A few years ago, Glaxo’s partnership with Ranbaxy would have been unthinkable. Indian pharmaceutical firms earned the ire of Western companies by copying their drugs and selling generic versions cheaply in the local market (Slater 2003, A 14).

Or

**Google to Open Center in India**

The closely held Mountain View, Calif., company will open a center in Bangalaore in March, and hopes to hire about 100 engineers initially, said Wayne Rosing, Google’s vice president of engineering.

The expansion comes amid much contention about the “offshore” trend among U.S. companies. Many technology and other companies have opened offices in countries such as India and China to take advantage of the cheaper labor, while cutting jobs in the U.S. Google, however, says this new center isn’t a cost-cutting or outsourcing move (Mangalindan 2003).

Or

Moving work from the United States to countries where labor is cheaper isn't new. Over the last 50 years, textile, automobile and steel manufacturers all shipped jobs overseas. Now, it's IT's turn.

Call centers and assembly plants were first to go, but lately, software development hubs have begun popping up in China, India and other countries.

This week, IBM (Quote, Chart) said it would shift 3,000 jobs to developing countries. In fairness, Big Blue noted it would add 4,500 here this year, for a net gain of 1,500. But workers there, and at other IT bellwethers, remain wary. IDC found U.S. companies spent $16.3 billion on offshore technology services last year. The research group expects that figure to hit $46 billion by 2007. In addition to IBM, Accenture and Hewlett-Packard are boosting their presence overseas (Haley 2004).

A simple search on the subject from Google produced a long list of articles published in the recent issues of periodicals (http://www.rttsweb.com/services/outsourcing/research.cfm). The purpose of this paper is to examine how globalization is impacting business schools and how the latter can prepare their graduates to meet the challenges of the new world economy through appropriate changes in the curriculum. These are relatively new developments and little attention was paid in the past to these issues except for the fact that globalization has been included in the curriculum of business schools as a topic of general discussion. This paper takes a close look at the accounting curriculum challenges globalization and offshoring have created. Undoubtedly, changes in accounting curriculum alone will not suffice and business schools have to adopt a holistic view of business education. Admittedly, accounting is only a small piece of the puzzle, but it is an important one.

2. Accounting

Just as English has become the international language of science and technology, accounting has been the language of business and financial endeavors. A language is like rules of a game. A commonly understood and widely accepted language does have some advantages. It brings efficiency in communication, reduces replication and lowers the cost of inventorying and communicating ideas. Accounting is often explained as the process of recording, summarizing, analyzing, interpreting and communicating financial information. Its principal objective is to provide information for decision making. It has long served as a tool to evaluate performance and control business operations. From the ancient system of Marwari Bahi Khata (or Muria) in India to Lucas Pacioli’s (Summa de Arithmetica, Geometrica, Proportioni et Proportionalita, 1494) extolling of the virtues of the bookkeeping system of the Venetian merchants (called the double-entry system of bookkeeping) and to other such systems in
other countries, accounting has played a major role in the development of business and economies. Accounting is economic system neutral. Both the capitalistic and socialistic systems equally depend on it. In fact, some consider it as the most important tool that led to the growth of free markets, mercantilism, and capitalism. Notwithstanding the political system, governments need a system of maintaining financial records and generating information for decision making and that service is provided by accounting.

**Need for Accounting Standards.** Like physical sciences (which have laws of nature), accounting does not have natural laws that are universally accepted. Accounting standards are societal and not natural. In the past, almost every country that could afford has tried to develop its own accounting standards. Because of its highly developed economy, the U.S. has had the advantage of an early start and lead in developing accounting standards. Accounting standards developed and followed in the U.S. are known as the *generally accepted accounting principles (GAAP).*

The U.S. capital markets are highly developed and competitive. They attract corporations seeking capital from all over the world. If a corporation wants its securities traded here, it has to play by the rules of the U.S. capital markets and those rules include following the U.S. GAAP. A public company subject to the Securities and Exchange Commission (SEC) jurisdiction is required to file its audited annual financial statements with the SEC. A foreign company has one of two choices. Either it should prepare its financial statements according to the U.S. GAAP or provide a reconciliation of its income and net assets to the U.S. GAAP. Either way, it is a cumbersome and costly exercise.

Because of the advanced level of its economy and a highly developed system of setting accounting standards and regulating capital markets, the U.S. GAAP have dominated much of the free world. They are based on much research and deliberation, and are arrived at by due process in an open environment. They are rigorous, detailed, transparent, and enforceable. The United States enjoys the world’s largest capital markets and in spite of all its blemishes, still most large corporations seeking capital like to have their stocks listed on the New York Stock Exchange (NYSE). Large corporations and governments from all over the world want to tap the U.S. capital markets for reasons of their huge size, robustness, low cost, competition, efficiency and transparency. The U.S. capital markets have been regulated by the SEC since its creation by the U.S. Congress through an act in 1934. The SEC does not consider other countries’ accounting standards rigorous enough to accept them as substitutes of U.S. GAAP.

In spite of several recent high profile corporate accounting scandals in the U.S., the country’s capital markets have continued to function fairly smoothly. Even the recent allegations against Wall Street investment banks and the mutual fund industry by several states, and the U.S. Justice Department’s charges against the foreign exchange traders have not resulted in a run on U.S. capital markets. The markets have shown enormous resiliency due to their transparency, effective regulation, public trust, and their capacity to adapt. Over the decades, the U.S. has also developed an organized structure to formulate standards for accounting and reporting. Probably, no other country offers a better environment for capital markets to flourish. There is little wonder that the world looks to the U.S. for economic leadership.

With the phenomenal increase and interest in cross-border securities trading, the need for globally accepted accounting standards has also grown. While the ultimate goal is to have a set of generally accepted global accounting standards (GAGAS), convergence of the existing U.S. and international accounting standards has been accepted as a very important and laudable goal by businessmen and accountants in the short run. Serious efforts are underway to converge the U.S. generally accepted accounting principles (GAAP) and the international financial reporting standards (IFRS) into one set of *generally accepted global accounting standards (GAGAS or GAS).* Emergence of GAGAS will be akin to creating a *McDonald effect*—standard and comparable financial statements regardless of where a corporation is incorporated. These developments have immense significance as they are and will only accelerate offshoring of accounting and financial services.
3. International Accounting Standards

Generally accepted global accounting standards are no longer a luxury, but a necessity. The lack of international standards is very costly to corporations, investors, regulators and to the society. Consider the case of Infosys Technologies Ltd (INFY), a prominent IT company from India whose securities are traded as ADR on the NASDAQ. To get its stock traded in the U.S., it had to meet the SEC filing requirements. These requirements include preparing financial statements under the U.S. GAAP and having them audited by an SEC acceptable public accounting firm. Effectively, Infosys ended up preparing two sets of financial statements, one under the U.S. GAAP and the other under its home country (India) GAAP. Were its securities to be traded on ten other foreign stock exchanges, would Infosys be following the GAAP of 12 different countries? Needless to say, the acceptance of international accounting standards eliminate this wasteful exercise of preparing financial statements under multiple sets of accounting standards and the expense of doing it. There are some very definite advantages of having a set of high quality comprehensive GAGAS. All participants in the capital markets will benefit from them. These benefits include:

- By attracting a bigger pool of investors, companies can lower their cost of capital.
- By diversifying investment portfolio internationally, investors can lower their risk.
- With more comparable information, the market regulators can regulate better and lower the cost of regulation.
- With comparable information, global merger and acquisition activities can be carried out more efficiently and economically.
- With standardized information, the cost of accounting and consolidating financial statements can be reduced.
- With uniform standards, the cost of training accountants can be lowered.
- Global accounting standards can also give rise to global accounting certification like the GCPA (Global Certified Public Accountant) or the GCA (Global Chartered Accountant).
- With standardized information, the international agencies can easily and cheaply compile worldwide statistics.

The development of international accounting standards started with the formation of the International Accounting Standards Committee (IASC) in 1973. The latter was created through an agreement reached by the professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America. The IASC’s membership included all of the professional accountancy bodies that were members of the International Federation of Accountants (IFAC). At one time its membership included more than 150 accounting organizations from over 100 countries. The IASC’s efforts were supported by the business community, financial analysts, stock exchanges, securities regulators, lawyers and bankers worldwide (Chandra 2003). Its standards came to be known as the International Accounting Standards (IAS).

The objective of IASC was to achieve global uniformity in accounting principles for financial reporting. It worked closely with the national standard setting bodies, securities regulatory agencies and stock exchanges in individual countries and intergovernmental organizations like the European Commission and the UN agencies. The IASC represented highly diverse interests, cultures, economies and political thinking and had no enforcement powers. It depended on the member nations for enforcement and that was possible only if the member nations adopted IAS as their own and were willing to enforce them through their securities and companies laws. Unfortunately, neither the U.S. SEC nor the International Organization of Securities Commissions (IOSCO) accepted the IASC standards. Without the U.S. acceptance of the IASC standards, they had little practical use. The U.K. authorities too followed the U.S.’s lead. To the SEC, international standards lacked rigor and they were difficult to interpret.

In the past, most countries had accepted the philosophy of harmonization of accounting standards. The logic was that different nations could have different standards as long as the financial statements prepared under the standards of one country could be adapted to the standards of another country and the differences could be
reconciled. But with the growth in size and complexities of business, the differences in national accounting standards have only mushroomed. Increasingly, companies have realized that accepting GAGAS is the way to cut the waste of maintaining multiple sets of account books. Even the U.S. accounting profession realized this and started looking outward and FASB started cooperating with the IASC and other foreign standard-setters on individual projects. Everyone realized that the cost of developing accounting standards collectively would be lower and the standards will have a bigger following. A bigger following itself has an advantage as it acquires an aura of moral authority and a force of its own. Such standards will also be easier to enforce. There would be economies of scale and the developing nations with little or no experience of formulating accounting standards would also be able to participate in the process. Finally, accounting is a use and a user oriented discipline and both the users and preparers demand a set of accounting standards that are acceptable worldwide.

A clear connection between the efficient and effective US capital markets and the high quality of US financial reporting standards is evident. The strength of our capital markets may, in part, be credited to the completeness and transparency of information provided to investors and creditors. Recently, Lawrence Summers, secretary-designate of the US Treasury perhaps said it best, "The single most important innovation shaping (the American capital) market was the idea of generally accepted accounting principles. We need something similar internationally."

I believe, that one day, we should have—and will have—one global standard setter and one set of global financial reporting standards. Demand will drive that result. But we must achieve this goal with an independent, open due-process system and high-quality standards (Jenkins 1999, 5).

Although agreeing in principle to the desirability of having GAGAS, in the past both the SEC and FASB have been very critical of the organizational arrangement of international standard-setting. In their view, the IASC structure lacked objectivity and independence. Consequently, the standards lacked rigor and were difficult to enforce. The SEC was also unwilling to accept the less rigorous international standards, lest it was accused of using dual accounting standards—one set of accounting standards with the U.S. registrants and another set (less rigorous ones) with the foreign registrants (Pownall and Schipper 1999).

Recent Developments. Somehow, a number of recent developments have resulted in the softening of the SEC and FASB position.

First: The failure of several big high profile corporations and the revelation of accounting scandals in the U.S. in the last few years have humbled the once mighty SEC, FASB, NYSE, AICPA, and the Big Four international public accounting firms (namely, Deloitte & Touche, Ernst & Young, KPMG, and PricewaterhouseCoopers). The revelation of accounting abuses in Enron, WorldCom, Global Crossing, Ahold, Adelphia, MicroStrategy, Sunbeam, Tyco, Waste Management, etc., and the subsequent Congressional hearings and government investigations have established how the supposedly rigorous U.S. GAAP were taken advantage of to manage earnings and manipulate stock price for executives’ private gain. They provide ample evidence on the limitations of the U.S. GAAP, the weaknesses of their rule-based approach and the holes in the self-regulatory system that the U.S. public accounting profession had followed. The collapse of the prestigious public accounting firm of Arthur Andersen as a result of its audit failure of Enron has shaken public trust in the system (Levitt 2002). These failures have resulted in the loss of billions of dollars of investor savings and employee retirement benefits.

The much talked about collapse of Enron was of enormous consequence. Just as in the wake of the market crash of 1929 the U.S. Congress was moved to enact the securities regulation of 1933-34, Enron’s collapse pressed it again to pass the Sarbanes-Oxley Act (SOX) in 2002. The SOA has essentially tightened both corporate governance and oversight of the public accounting profession. Enron’s collapse also resulted in the end of self-regulation of the accounting profession. The act replaced the former Public Oversight Board (POB) with a five-member Public Company Accounting Oversight Board (PCAOB). Unfortunately, the excesses of the Internet euphoria (or the irrational exuberance) that led to the stock market bubble in the 1990s were not confined to accounting alone. Investigations have revealed harmful conflicts of interest between investment research and investment banking functions of the big Wall Street banks, abuses of market-timing and late securities trading in the $7 trillion huge
U.S. mutual fund industry, and the conflict (and the outlandish remuneration package of its chief executive) between the regulatory and commercial functions at the NYSE. Although not all of these developments directly relate to accounting, they have certainly tarnished the image of the U.S. capital markets, the much touted virtues of self-regulatory system, and have softened the arrogant attitude about the superiority of American accounting standards. The U.S. regulators are much more receptive and accommodative to the viewpoints of foreign and international standard-setters than they have ever been.

Second: Just as the SEC and FASB expect high standards from the IASC, the organized capital markets of the U.S., especially the NYSE and NASDAQ, are eager to list the stocks of major foreign corporations for U.S. trading. They are afraid of the consequences of having too many rigid U.S. accounting standards for foreign corporations. These corporations may not come to the U.S. stock exchanges, and the latter will lose their prominence to other major exchanges of the world. The London Stock Exchange, an equally important exchange for international corporations, has shown more flexibility as it accepts financial statements prepared under the U.K., U.S., IASC or EU accounting standards. That seems to be a more accommodating stand than the one taken by the NYSE.

Third: The IASC was much criticized by the FASB for the lack of detailed operational rules in the IASC standards and the role of politics in its standard-setting process (Zeff 2002). The FASB very much wanted high quality accounting standards and in its view it is possible only if (1) there is organizational independence, (2) the standards are set with an open and due process, and (3) standard-setters possess sound technical expertise (devoid of politics). Fortunately, with the creation of the International Accounting Standards Board (IASB) as a replacement to the IASC along the lines of the FASB, the U.S. opposition to accepting the IAS has considerably diminished (FASB 1998, McGregor 1999).

Lately, the rule-heavy FASB standards have come under very severe criticism both from the U.S. Congress and the SEC. In fact, there is a major controversy raging whether the accounting standards should be rule or principles-based (FASB, October 21, 2002). The FASB is looking into a proposal to de-emphasize detailed rules and actively pursue the principles-based standards approach taken by the IASC. In short, for a variety of reasons the U.S. is showing an increasing amount of flexibility and accommodation in accounting matters and more can be expected.

Restructuring of the IASC. While the foregoing developments were taking place in the U.S., the IASC and the rest of the world were experiencing their own predicaments. First, the impact of the collapse of Arthur Andersen, Enron, WorldCom and other high profile corporations was not confined to the U.S. capital markets alone. The shock was felt worldwide and the accounting profession worldwide realized its vulnerabilities.

The United States, indeed the whole world, has been shocked by the scale and speed of the Enron collapse. We who are on the outside learn a little more every day, but it still remains to be seen whether the financial reporting that preceded Enron’s collapse was a result of flawed accounting standards, incorrect application of existing standards, auditing mistakes, or plain deceit. We owe an obligation to the investors, employees, and others who have suffered to ensure, to the best of our ability, that the lessons are learned. If there are weaknesses in the accounting standards, we should acknowledge that fact and come forward with improvements (Tweedie 2002, 13-14).

Secondly, regardless of the problems experienced by the U.S. capital markets, they are still the dominant and leading markets. The IASC could not go very far as long as the IAS did not have acceptance in the U.S. The latter’s acceptance of the IAS is extremely crucial for the success of the IASC. Thirdly, the most important SEC complaint against the IAS was rooted into their lack of quality and rigor. The IASC itself had realized those problems in its standards and wanted to resolve them. Fourthly, as the EU was moving forward with its plan of ever growing economic integration, it had mandated the 7,000 EU based corporations to prepare their consolidated financial statements under the IAS by 2005 (After the creation of the IASB in 2001, the IAS are called the International Financial Reporting Standards (IFRS)). By 2005, IFRS will be required for reporting by some or all domestic listed companies in at least 60 countries, and permitted in another 21 (Pacter 2003). An even larger number of countries will allow IFRS for foreign issuers. The IASC had limited resources, experience and clout. The FASB has all of these and joining hands could only benefit both parties. Were the IASC not being able to
comply with the EU mandate, it would mean not only the loss of its face but also the acceptance of U.S. GAAP by default—a prospect the IASC did not relish. The emotions of accounting nationalism are high enough (or against the U.S. dominance on accounting matters) that many countries would revolt on the prospect of accepting one more American institution or made in the U.S.A. GAAP. Fifthly, strategically the IASC realized that because of the recent accounting scandals and other developments in the U.S., the U.S. authorities, especially, the FASB and SEC, were in a more flexible, accommodating, and cooperating mood than they have ever been. It was in the best interest of the IASC, the FASB, and the other accounting organizations of the world to swallow their pride and petty differences. Adoption of a forward-looking, quality oriented, convergence of accounting standards will serve everyone extremely well. Fortunately, the convergence efforts have been well received by the world capital markets.

Change often requires the sacrifice of old. The IASC had been under pressure to change for some time from the U.S., the Group of Four Plus One (U.K., U.S., Canada, Australia and New Zealand), the International Organization of Securities Exchange Commissions (IOSCO), the EU, the European Accounting Standards Board (EASB), and other world accounting organizations. As a result, in 2001, the International Accounting Standards Board (IASB) was formed to replace the IASC. It was increasingly realized that the old structure of IASC could not effectively serve the need for developing GAGAS in the new world economy. The IASB has been established as an independent foundation. The new organization has three bodies, the Trustees and the Board, as well as a Standing Interpretations Committee (SIC) and a Standards Advisory Council (SAC). The Trustees appoint the Board members, exercise oversight and raise the funds needed, whereas the Board has the sole responsibility for setting accounting standards. Exhibit 1 presents the organizational structure of the IASB.

4. Convergence of Accounting Standards

The International Accounting Standards Board is an independent, privately-funded accounting standard setter based in London, UK. Board Members come from nine countries and have a variety of functional backgrounds. The Board is committed to developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. In addition, the Board cooperates with national accounting standard setters to achieve convergence in accounting standards around the world (http://www.iasc.org.uk).

Although various attempts have been made in the past both by the FASB and the IASB to cooperate, conduct joint studies, and issue comparable accounting standards (e.g., on earnings per share), these attempts were somewhat informal and on individual project basis. As a part of the continuing effort to bring about a comprehensive convergence of accounting standards, the FASB and the IASB held a formal meeting on September 18, 2002 in Norwalk, Connecticut. The primary purpose of the meeting was to discuss projects that the two Boards have already undertaken jointly or will address jointly in the future to increase the international comparability of financial reporting. FASB Chairman Robert Herz observed: “We have growing cross-border flows, growing international merger and acquisition activity—and even though one year might tail off based on the markets, the trend of cross-border investing continues to increase substantially” (FASB, September 30, 2002, 2).

In October 2002, the FASB and the IASB issued a memorandum of understanding to formally commit themselves and their resources to the convergence of the U.S. and international accounting standards. Later they presented their agreement to the chairs of leading national standards setters in a meeting in London. As a follow up on the agreement, the two Boards added a joint short-term convergence project and committed to make their best efforts to arrive at common solutions to certain identified differences. The two Boards are also to direct their future efforts to work together on new standards so as to minimize the differences. Such efforts will obviously make the financial statements more comparable and improve their quality (FASB 2003; http://www.iasb.org.uk).

The FASB believes that the ideal outcome of cooperative international accounting standard-setting efforts would be the worldwide use of a single set of high-quality accounting standards for both domestic and cross-border financial
At present a single set of high-quality international accounting standards that is accepted in all capital markets does not exist. In the United States, for example, domestic firms that are registrants with the Securities and Exchange Commission (SEC) must file financial reports using U.S. generally accepted accounting principles (GAAP). Foreign firms filing with the SEC can use U.S. GAAP, their home country GAAP, or international standards—although if they use their home country GAAP or international standards, foreign issuers must provide a reconciliation to U.S. GAAP (http://www.fasb.org/intl).

In the testimony before the U.S. Congress the IASB Chairman Sir Tweedie reinforced the belief.

As I said at the outset, the IASB’s objective is to work toward a single set of high quality international financial reporting standards, produced in the private sector under principles of transparency, open meetings, and full due process. The international financial markets clearly want a single set of accounting standards that apply worldwide. We have no intention to “water down” existing standards in any jurisdiction. Instead, we plan to build a set of financial reporting standards that are the “gold standard.” In pursuit of that goal, we plan to pick the best of available standards produced by national standard setters.

No single group has a monopoly on the best in accounting, and we expect to learn from our colleagues. To the extent that the underlying rationale in U.S. GAAP is the best available and of high quality, we intend to incorporate that rationale into international standards. To the extent that another standard has a superior approach, we intend to adopt it. If no national standard adequately addresses the problem, as may be the case in accounting for leases or share-based payments, then we plan to work towards an international standard that does. We plan to develop standards based on clear principles, rather than rules that attempt to cover every eventuality. I hope that we can keep to that plan, but its success will depend on the professionalism and judgment of financial statement preparers, auditors, and securities regulators (Tweedie 2002, 13).
To achieve convergence of accounting standards, the FASB and the IASB agreed, as a matter of high priority, to work on both short-term and long-term convergence projects, continue progress on the current joint projects; and coordinate their efforts on several new initiatives (Tweedie 2003). The IASB constitution requires it to work together and in partnership with the national standard setters as they strive for convergence of accounting standards worldwide. In addition to working with the FASB, the IASB has also started a convergence project on post-employment benefits with the Australian Accounting Standards Board (AASB). The IASB has taken some other initiatives also with the objective of attaining convergence of the IFRS with the accounting standards of other countries. For example, with the Canadian Institute of Chartered Accountants, the FASB worked to develop a standard on segment reporting resulting in a very similar standard in the two countries. Finally, the IASB has a member resident in seven major economies: Australia/New Zealand, Canada, France, Germany, Japan, U.K. and the U.S.A. (http://www.fasb.org/intl/cooperative_efforts.shtml; IASB 2003).

5. Opportunities for Offshoring

With the cheap and worldwide availability of IT (call it the democratization of IT), and the developing countries giving a strong push to the education of science and engineering and organizing and developing the soft infrastructure, countries like China and India have a great opportunity to provide homes for the outsourced service activities of the more advanced economies of the U.S., Western Europe and Japan. As countries move up the ladder of economic growth, they tend to experience shortage of skilled labor. In the past, the popular solution was to import skilled labor from abroad (the colonial powers brought indentured labor to run farms and factories in the new world). Since that creates its own long-run socio-cultural problems, wholesale importation of labor has not happened in recent times. However, Germany provides an interesting case. In the post World War II era when its fast growing economy needed skilled labor in a hurry and it invited Turkish labor in fairly large numbers.

In more recent years, corporations have found a better way to take advantage of foreign cheap labor. Rather than bringing the guest workers and worrying about the long-run socio-cultural problems of assimilating foreign labor in the local culture, corporations themselves have become the guest employers in the large labor-supply countries. Although the trend started slowly, it has gained momentum in the last few years (see some of the articles written on the subject http://www.rttsweb.com/services/outourcing/research.cfm). There is even a world convention on the subject: Outsourcing World Summit (http://www.corbettassociates.com, February 23-25, 2004, Lake Buena Visa, Florida, John Sculley and Michael F. Corbett Keynote Leading Industry Event).

Economists have coined a variety of terms for the phenomenon, such as offshoring, outsourcing, contracting-out of country, etc. Initially, it was the manufacturing activity that moved overseas as a natural extension of past experience. The latest in the trend is the outsourcing of service activities. It all started with the writing of time consuming (and tedious) computer software codes for Y2K transition in India and other countries. Now, it has mushroomed to all kinds of back-office and high tech service activities. Thus in the last five years, thousands of high-pay, high-tech jobs have moved overseas from the U.S. and Western Europe to China, Hungary, India, Ireland, Israel, Philippine, Singapore, etc. where labor cost is low (one-tenth to one-half of what it costs in the U.S.). These jobs are not limited to just operating 1-800 call centers of GE, Citigroup and Microsoft. They have now moved to much higher value-added activities like back-office accounting and billing work, medical record transcription and storage, tax work, financial analysis and planning, investment research, architectural planning and designing, medical diagnosis (e.g., radiologist reading the x ray films), systems designing and developing, consulting, etc. Any and all services that do not require the physical presence of the service provider are now a fair
game for outsourcing. The cost differences between getting the work done domestically versus offshoring are large enough that in today’s environment of cutthroat competition and cost-cutting drive, no corporation can afford to ignore the opportunity. Additionally, firms are justifying offshoring as they gain time due to the time difference between the West and the East. An American company can literally function on a round-the-clock basis by offshoring work to China or India. Unquestionably, when countrywide accounting standards converge to form the GAGAS and the world capital markets talk the same accounting language (standards), there will be even more offshoring of accounting and financial services. For example, the GAGAS can open up, among others, the following types of services for offshoring.

1. Work as Global Certified Public or Chartered Accountants (GCPA/GCA).

2. Worldwide accounting and consulting services:
   - Designing and setting up systems
   - Book-keeping and accounting work
   - Legal support; expert witness; fraud detection
   - Forensic accounting
   - Audit support
   - Coaching and preparing for accounting and financial certifications

3. Tax and tax related work:
   - Preparing tax returns
   - Compliance work
   - Strategic tax planning

4. Investment: financial planning and management:
   - Research and advisory work
   - Data mining and massaging

5. Financial investigations.

6. Strategic management planning and consultancy.

7. Computerization and software development for all of the above.


6. Accounting Curriculum in the Globalized Economy

The current U.S. business school curriculum is premised in the belief that the U.S. economy has and will continue to have a commanding position in the world, manufacturing dominates the economy and service activities play a minor role. The U.S. enjoys an unsurpassable lead in science and technology, high U.S. labor cost is more than compensated by high labor productivity, and domestic jobs can be protected by restricting imports and imposing tariffs. Unfortunately, in recent years each one of those foundations has been subject to challenge. The advances in IT have whittled away many advantages the U.S. industry had long enjoyed. Here is a case in point. Although the U.S. industry has a lead in IT over the rest of the world, this lead still cannot compensate for the cost reduction, say, Accenture or Ernst & Young enjoy by offshoring their back-office work to India or Philippines. The labor cost in Philippines is one-tenth to one-fourth of what the offshorers incur in the U.S. The story is repeated in case after case of offshoring. As long as the U.S. believes in free world trade, the old remedy of protection, tariffs and restrictions is no longer available. Free trade has the equalizing effect on nations’ economies. The primary reason for free trade is the comparative cost advantage different nations enjoy. The U.S. imports a variety of goods
from overseas (it has a huge current unfavorable balance of trade with the rest of the world) because the imported goods are cheaper than the domestically produced goods (thanks to IT, now services (or the output of the services) have been added to that list). The imports have helped in controlling inflation and in lowering the cost of living for individuals and cost of production for industry. However, no nation has a permanent cost or technology advantage unless it keeps investing in itself to renew those advantages. Restructuring of the economy and social institutions is the price a nation pays when it accepts free trade as a means of economic growth.

Given the present situation with globalization and advances in IT, the U.S. has essentially four options. The first option is to ignore the developments and hope that globalization is a temporary fad and given time it will go away. This is hardly an option as globalization is not a fad, it is a fact. At one time, the typewriter manufacturers thought likewise about word processing machines. The latter only evolved into more sophisticated personal computers with word processing programs. One does not have to dwell on the fate of typewriter manufacturers to see the writing on the wall. The Underwood, Remington and Smith Corona have long gone into oblivion. The second option is to artificially restrict imports and prohibit offshoring by means of Congressional legislation. That also is not a very feasible option. The U.S. makes the case of free trade all over the world as it benefits everyone. It will be very unbecoming of the U.S. to now turn its face. It could only start a trade war with worldwide dire economic consequences. Also, it is a choice of artificial means and such means do not last long. At best, this will buy a little time for the U.S. It will not solve the long-term structural problem for the U.S. or any other country. The third option is for more and more Americans to work overseas as opportunities arise. That option also has limited scope as not too many can find work overseas. But certainly, at higher levels of technical competence and supervisory skills, more and more Americans have to prepare themselves, culturally, linguistically, and by outlook to accept well-paying overseas assignments. The option has some merit, but has its own limitations. The fourth option is to prepare and face the challenge head on. This involves effort at every level including the educational system and curriculum changes in business schools—the subject of this section of the paper.

The U.S. business schools have led the world in academic matters for most of the 20th century and there is no reason why they cannot continue to lead. Business is a dynamic institution and business schools have to act that way too. Ignoring the growing volume of offshoring and its effects will not make it go away. In fact, as more and more nations share the bounty of IT, more and more of them will offer a hospitable place for offshoring to the developed nations. No doubt it will both create and redistribute world wealth. By staying a few steps ahead of the game, the U.S. provides not only leadership but also maintains its economic lead. While inaction could result in mere redistribution of wealth, active management will lead to creation of new wealth in the world.

To cope with the challenges of offshoring, the following suggested changes in the curriculum of business schools have to be approached at two levels: one, the school wide basis, and two, in accounting. Since a holistic approach is needed to face the challenge of offshoring, the entire school curriculum needs to be overhauled. Every business discipline—accounting, finance, management, marketing, economics, quantitative analysis, etc.—has to change its orientation. The students have to be educated with the understanding that globalization is a fact of life and cannot be ignored. In particular, the following should be incorporated in the school curriculum:

1. At every level of learning the global view of economy should be introduced. For example, students have to grow with the understanding that resources can be availed of globally and not just nationally, labor can be brought in from abroad or work can be exported, and products and services can be sold worldwide.

2. Students need to have the experience of dealing with people who are different from themselves culturally, linguistically, racially, ethnically, religiously and geographically.

3. In addition to English, students need to have a high level of facility with one or more major world languages. Foreign travel for academic pursuits should be a necessary part of graduation requirements and should be considered a part of the cost of education. If needed, academic credits should be awarded for meaningful foreign travel experiences.
4. Internship/work experience with an international corporation/organization in a foreign setting should be a necessary part of education, and if needed appropriate credits should be awarded for the experience.

The second level of change in curriculum has a narrower focus as it deals with accounting curriculum. In addition to the above school wide changes in curriculum, accounting curriculum needs to adapt to the new world realities. Here the area of focus is financial accounting and auditing. Historically, financial accounting and auditing have emphasized only the U.S. GAAP. Since the beginning of 1970s, intermediate and higher-level accounting textbooks started introducing international accounting standards in footnotes and margins. The textbooks have now graduated to providing coverage of international accounting standards (including major foreign country standards) as separate topics following the coverage of the U.S. GAAP under each major topic and chapter. The time is ripe for the next step. Granted that the U.S. GAAP will not disappear anytime soon, the GAGAS should now be integrated and analyzed along with the U.S. GAAP on every topic. Likewise, the end-of-chapter assignments should be attempted side by side both under the U.S. and global GAAP. Similar appropriate changes should be incorporated in the auditing textbooks and courses. An important consequence of GAGAS will be the ease with which financial statements could be prepared and interpreted. That also means in today’s IT environment they could be prepared and interpreted anywhere in the world.

7. Conclusion

Advances in information technology are democratizing information among nations. Since information is a free good (cannot be physically consumed by its creator/buyer), no country has a permanent advantage in a knowledge-based economy and activity. Like water, economic activities—manufacturing and services—move from higher ground (read higher cost) to lower ground (lower cost) countries. Of late, more and more of high cost manufacturing and service industries are exporting (offshoring) their work abroad. This will only get worse when the leading nations converge their accounting standards and the generally accepted global accounting standards (GAGAS) emerge. If globalization has increased cross-border securities listing and trading, the GAGAS will accelerate offshoring even more. What we are experiencing is only the beginning of the changing new economic world and there is more to come. American business schools cannot afford to ignore the developments. They have to start preparing graduates for the challenge of offshoring. Business school curriculum in general, and accounting curriculum in particular, not only have to prepare graduates to manage businesses as they move abroad, but also prepare for higher value jobs at home as the lower-value jobs shrink and disappear in the U.S.

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8. References


Notes