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The adoption of international accounting standards in Bangladesh

An exploration of rationale and process

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Abstract

Purpose – This paper seeks to evaluate the recent decision of the Bangladeshi Government and accounting profession to adopt international accounting standards (IASs).

Design/methodology/approach – The paper uses a variety of archival data and interviews with key actors, including preparers and users of annual reports, members of the Securities and Exchange Commission, and members of the professional accounting bodies: ICAB and ICMAB.

Findings – The paper finds that institutional legitimisation is a major factor that drives the decision to adopt IASs because of the pressure exerted by key international donor/lending institutions on the Bangladeshi Government and professional accounting bodies. Such pressure results from not only the need to provide credibility to foreign investors but also the need for strong accountability arrangements with lending/donor agencies. However, the perceived undemocratic nature of the adoption process appears to be creating and enhancing conflict among various constituencies, resulting in very low compliance with these standards.

Originality/value – The paper contributes to the understanding of the diffusion of International Accounting Standards and the role of global agencies, such as the World Bank, within this process.

Keywords International accounting, Accounting standards, Developing countries, Bangladesh

Paper type Case study

Introduction

A growing number of studies have sought to question the relevance of international accounting standards (IASs) to developing or emerging economies (see for example, Susela, 1999; Banerjee *et al.*, 1998; Larson and Kenny, 1998, 1996; Watty and Carlson, 1998; Hassan, 1998; Al-Rai and Dahmash, 1998; Mirghani, 1998; Carlson, 1997; Wallace and Briston, 1993; Larson, 1993; Wallace, 1993; Hove, 1990 and Perera, 1989). Such studies draw on the argument that for accounting and reporting systems to be effective

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they must reflect the context within which they function (Hopwood, 1979; Burchell *et al.*, 1980). While it cannot be denied that some countries may have similar contextual variables, it has long been argued that the environments of developing countries significantly differ from the West and accounting technologies developed by and for the West may not be appropriate for addressing the problems in today's developing economies (see Points and Cunningham, 1998; Larson and Kenny, 1996; Hoarau, 1995 and Briston, 1978). Since the early 1980s, various bilateral and multilateral agencies have been instrumental in the diffusion of Western accounting standards to the developing world as part of the globalization trends (see Rahaman and Lawrence, 2001; Neu *et al.*, 2002). Wallace and Briston (1993, pp. 216-217) maintain that:

> Developing countries continue to adopt foreign accounting and educational systems. This is often expensive, and the adopting country has little control over the relevance of imported accounting. The main issue is whether the objectives of the assistance-granting country (or aid-agency) and receiving country are congruent. The biggest problem developing countries have is that of too many foreign "experts" marketing half-baked solutions to problems that neither they nor the recipient nations understand. Donor agencies should collaborate more closely with the recipient country to ensure that their assistance is delivered only in accordance with national accounting development plans.

Although the International Accounting Standard Committee[1], has since its establishment, sought to pronounce standards that will have universal applicability, recent writings have demonstrated how the Committee's pronouncements effectively mirror standards developed in the USA and the UK and are therefore unsuitable for developing countries in general (Larson and Kenny, 1998; Hoarau, 1995; Hove, 1990). Hoarau (1995) argues that IASs are based on Anglo-Saxon accounting models and, in fact, symbolise American hegemony with some manifestations of national sovereignty. However, "imperialist institutions" such as the World Bank and International Monetary Fund have become major active agents responsible for the proliferation of IASs in developing countries (Rahaman, 1997). Indeed, Points and Cunningham (1998) observe that foreign donor agencies are continuously trying to impose IASC standards on countries created out of the former Soviet Union instead of assisting on real accounting reforms in these countries.

Notwithstanding these views about the suitability of IASs to developing economies, after a long period without accounting standards of its own, the Bangladeshi accounting profession is seeking to adopt all applicable IASs in response to "many bilateral and multilateral agencies working in Bangladesh [that] have been urging upon the Government and loan/aid receiving agencies to adopt International Accounting Standards in order to ensure accountability and transparency in financial reporting" (Institute of Cost and Management Accountants of Bangladesh, 1999, p. 12). The paper draws on institutional theory as elaborated by Scott(1987) and DiMaggio and Powell(1983), among others, as a theoretical lens to explore the IAS adoption process in Bangladesh. Based on archival documents and interviews with members of the various institutions and accounting practitioners, the paper critically evaluates and problematises the process and rationale for the adoption of IASs in Bangladesh. Our focus is not to criticise the quality of IASs rather we contend that the decision to adopt IASs is driven by institutional legitimisation without a careful appreciation of the differing contextual variables in Bangladesh (see, Susela, 1999; Points and Cunningham, 1998). We argue that the country's heavy dependence on foreign aid which as of 1999 financed between "85% and 100% of the development budget of Bangladesh" (see Huq and Abrar, 1999, p. 2), is the principal rationale for the adoption of IASs. Indeed, over the last 31 years (from 1971 to 2002) Bangladesh has received a total of US$37.71 billion as grants and aid from donor countries and agencies (Table I provides recent trends in budget deficit financing from 1992-2001.) (*The New Nation*, June 15, 2002)[2]. We further argue that the IASs adoption process in Bangladesh is fraught with pitfalls leading to increased confusion and conflict among accounting practitioners and professional bodies. It is our view that the adoption process could be made less contentious through greater participation by all interested parties.

The rest of the paper is organised as follows: after a background discussion which profiles the accounting profession in Bangladesh, we review the literature on the relevance of IASs to developing countries more generally. We then discuss our data collection procedures together with the theoretical resource that is used to make sense of our empirical evidence. A discussion of IASs adoption and compliance in Bangladesh, highlighting the process and rationale, is then presented before summary insights and conclusions.

Background: a profile of the accounting profession in Bangladesh

Since the early 1970s the accounting profession in Bangladesh has witnessed a tremendous growth in membership numbers culminating into two main accounting professional bodies, the Institute of Chartered Accountants of Bangladesh (ICAB) and the Institute of Cost and Management Accountants of Bangladesh (ICMAB) established in 1973 and 1977 respectively. For example, the membership numbers of the ICAB grew from just 78 at its inception in 1972-1973 to about 700 as of June 2003[3]. Similarly, membership of the ICMAB has also grown steadily from 42 at its establishment to 697 as of July 2004. The accounting profession in Bangladesh is mainly controlled by these two bodies whose structures are "modelled on the United Kingdom" system (Parry and Grooves, 1990, p. 119). The principal objective of the two bodies is to promote the development of accountancy practice in Bangladesh through engaging in activities that enhance the recognition and independence of professional accountants in the country.

Year	External resource as % of ADP
1992/1993	73.77
1993/1994	64.17
1994/1995	56.97
1995/1996	57.75
1996/1997	51.07
1997/1998	54.75
1998/1999	68.95
1999/2000	50.15
2000/2001	47.64
2001/2002	51.31

Notes: Amount of external resource in annual development program (ADP) financing in Bangladesh: (AIMS of Bangladesh Ltd, Bulletin on Bangladesh National Budget 2002-2003)
Source: www.aims-bangladesh.com

Table I.
Evidence of external dependence

While the Companies Act 1994 legislates for companies operating in Bangladesh to prepare financial statements which show a "true and fair view" and the Laws on Securities and Exchange provide some guidelines for listed companies, the lack of accounting standards to guide the preparation of these reports has always been a problematic issue. Local investors, however, pay significant attention to the information provided in published annual reports of listed companies in making their investment decisions. For example, Karim *et al.* (1996) investigated different user groups' (including bankers, accountants, stock brokers, academics, tax officials and financial analysts) perception of published annual reports in Bangladesh and observed that those of listed companies were the most important source of information for investment decision making among all six groups of users. However, the same study also found that these groups of users had reservations concerning the reliability of the information provided in annual reports. These reservations centred on the diverse accounting methodologies (borrowed mainly from the UK, the USA and IASC), which guide corporate entities in preparing their annual reports.

The lack of accounting standards has made international lending/donor agencies very uneasy to the extent that, in recent times, these agencies have put the Government of Bangladesh under immense pressure to standardise financial reporting practices in the country. As a result, after a long period without any involvement or interference with the practice of accounting, the Government of Bangladesh has started lobbying the accounting profession to adopt all applicable IASs for use in Bangladesh (ICMAB, 1999).

As would be expected, professional accountants are divided on the issue. Although a large number of accountants in Bangladesh would prefer to "adapt" individual IASs to reflect Bangladesh's socio-economic and cultural environments, the ICAB has already adopted 21 IASs and 16 were "under consideration" as at the end of 1999 (ICAB, IAS Present Status, 1999)[4]. The questions then are what drives this adoption process and are these standards relevant to the cultural and socio-economic environment of Bangladesh? We review the literature on the relevance of IASs to developing countries more generally in the next section before attempting to address these questions.

The relevance of international accounting standards to developing countries: a review of the literature

The IASC (now IASB) was established in 1973 to "formulate and publish in the public interest basic standards to be observed in the presentation of audited accounts and financial statements and promoting their worldwide acceptance and observance" (Bailey and Wild, 1998, p. 7). Since its establishment, the Committee has pronounced 41 standards and a number of exposure drafts that seek to guide accountants, globally, on financial statement preparation and presentation. Various commentaries on these pronouncements have resulted in a large body of literature on the subject, including numerous studies on the relevance of these pronouncements to developing economies. There are also country-specific studies which have explored the relevance and importance of IASs within particular geographic contexts. A common view among these prior studies is the recommendation for modification of IASs to meet local environmental factors (see for example, Hassan, 1998; Al-Rai and Dahmash, 1998; Mirghani, 1998; Larson, 1993; Enthoven, 1973). While there are some developing countries in which IASs are used as national standards without any modifications (Wallace, 1993, p. 135), the existing literature only marginally informs us about the extent of compliance with IASs in those countries. The notable exception is Zimbabwe. Chamisa (2000) investigated the adoption and compliance with IASs in Zimbabwe and found IASs to be largely relevant to Zimbabwe's accounting and financial environment. However, noting the diversities in the developing world, Chamisa cautioned that IASs should not be regarded as "substitutes for the development of indigenous accounting standards in developing countries nor should it be regarded as a panacea for all the accounting inadequacies the developing world" (Chamisa, 2000, p. 273).

There are a number of studies which have criticised the roles of Western nations and donor agencies in the growing attempts by developing countries to adopt IASs (see for example, Hassan, 1998; Points and Cunningham, 1998; Wallace and Briston, 1993; Perera, 1989; Samuels, 1990; Briston, 1990 and Samuels and Oliga, 1982). Perhaps the most critical comment on this issue comes from Wallace and Briston (1993, pp. 216-217) when they argue that accounting and accountability problems would be unique to each developing country and donor agencies should collaborate more closely with the recipient country to ensure that their assistance is delivered only in accordance with the respective national accounting development plans. Earlier Wallace and Gernon (1991) criticised IASs and argued that implicit in the adoption of IASs is the view that accounting is both universal and essentially culture-free.

Some studies (Larson and Kenny, 1998, 1996; Hoarau, 1995; Hove, 1990) noted strong commonalities between IASs and those of the UK and US and argued that this was "by no means coincidental given the strong dominance of both the UK and the USA on the then Committee and the lesser involvement of developing countries" (Hove, 1990, p. 90). These studies argue that most of the IASs were "carbon copies" of standards originating from the UK and the USA with strong orientations towards maximising shareholders' wealth rather than the social functions of accounting. They argue that accounting should not be treated as the object of providing useful information to investors only, but a craft that serves the purpose of divergent interested groups. Since most developing countries would be pursuing different socio-economic development policies, the usefulness of standards developed with significant influence from the advanced industrialised nations remains contestable. The literature presents conflicting views on the association between IAS adoption and the level of economic growth. For example, Woolley (1998) investigated the linkage between the adoption of IASs and economic growth in a number of Asian countries. He observed that the mean economic growth rate of developing countries when grouped by their approach to adoption or non-adoption of IASs was not significantly different. Whereas a similar study on Africa observed a higher level of economic growth for those countries that adopted and modified IASs to meet local environmental factors (Larson, 1993).

It seems that a common trend that binds the literature together is that the role and relevance of the IASs in the developing world depend largely on the processes through which these standards are adopted. While exploring the status of IASs and the harmonisation drive, Carlson (1997) pointed out that there has been little analysis of the processes that are involved in the adoption of IASs by nations. Carlson recommended that IASC might achieve a greater level of adoption of IASs if it were to more fully examine the processes of adopting standards rather than assuming that nations will use their products. Carlson further recommended that to achieve harmonisation under the current approach, accountants and the IASC must demonstrate significant benefits to a wider group than just accountants. Watty and Carlson (1998) also noted the paucity of studies which critically explore the adoption process of IASs in developing countries and call for further country-specific research in this area. This paper partly responds to this call through a case study of Bangladesh.

Data collection and analysis

The main sources of data were interviews and archives. A total of 22 initial interviews were conducted over a five-week period from December 1999 to January 2000. Five further interviews were conducted in November and early December 2003 and June 2004 to provide more data to clarify issues which were either highly contested our ambiguous. Permission was granted for all 27 interviews to be recorded and later transcribed but respondent anonymity was guaranteed. A broad spectrum of respondents were selected for the interviews; including those involved directly in making decisions concerning the adoption process such as ICAB Council members and World Bank liaison personnel. Interviewees also included those involved in monitoring the compliance with IASs after they have been adopted; financial statement preparers and users; and commentators who have voiced their opinions on the adoption process at various forums (Table II provides interviewee profiles). Most interviewees were senior accountants in various sectors, academics including business law experts and business executives who were capable of providing informed views on the adoption process. The objective of the interviews with the lending and donor agencies was to explore the funding negotiation process as well as the motivation for such lending. In addition, interviews were conducted with a random sample of members of the two main professional accounting bodies (the ICAB and ICMAB). All interview questions were open-ended and unstructured to allow respondents to provide their views through a "free-flowing" discussion. Among the most critical issues discussed with respondents was the rationale for the wholesale adoption of IASs and the respondent's opinion in this regard. In particular respondents were asked to identify perceived major benefits and critical problems (to accounting practice, the accounting profession and the Bangladeshi economy) associated with the decision for a wholesale adoption of IASs. The length of most interviews ranged between 30 minutes and one hour. In addition, notes were taken of major issues raised by respondents not only for back-up purposes but also as a quick reference during subsequent interviews.

Corporate annual reports of 13 listed companies were randomly collected from various sectors (for the financial year ending June 2000) to examine the contents and identify any differences in the content of these reports under the current regime (see Table III for the list of companies which provided data for this research). As part of the content analysis of these annual reports, "follow-up interviews" were conducted with preparers of annual reports where further clarification was required. These clarifications principally centred on compliance issues. In addition to interviews and document analysis, informal discussions with senior executives and directors of government departments provided further evidence for this paper.

Pseudo initials	Institutional affiliation	Position	Reasons for selection	Number of interviews conducted
ANU	A multinational company	High level executive and elected member of ICAB Governing Council	Policy maker for ICAB, also financial report preparer	2
AMU	The Securities and Exchange Commission (SEC), Bangladesh	High level executive	Policymaker. SEC official responsible for IAS adoption issues	1
ASJ	SEC	Mid-level executive	Monitors compliance with IASs by listed companies	1
SMG	The Institute of Chartered Accountants of Bangladesh (ICAB)	Top-level executive of the ICAB (also a member of the ICAB)	A member of the policy and decision making team of the ICAB concerning the adoption of IASs	2
GC	ICAB	Mid-level executive of the ICAB (also a member of the ICAB)	A member of the policy and decision-making team of the ICAB concerning the adoption of IASs	2
ZMR	ICAB	Mid-level executive of the ICAB (also a member of the ICAB)	A member of the policy and decision-making team of the ICAB concerning the adoption of IASs	1
HMM	The World Bank, Dhaka, Bangladesh	High-level executive	Negotiator between the ICAB and the World Bank for the project funding	1
HMA	A listed company group	High-level accounts executive	Responsible for the company's financial reporting	3
AB	A listed company	High-level accounts executive	Responsible for the company's financial reporting	3
FMA	A chartered accountancy firm	Owner and principal of the firm. Also a senior member of the ICAB	Signs audit reports and monitors compliance with IASs for a number of listed client companies	3
AM	University of Dhaka	Senior academic accountant and a senior governing member of the Institute of Cost and Management Accountants of Bangladesh (ICMAB)	Highly involved in various workshops and study programs of the ICMAB	2
RS	A multinational bank	Senior level finance executive and former executive of Lever Brothers Bangladesh and a former executive of the SEC. Also a member of the ICMAB	Involved extensively in preparing external financial reports. Also monitored IAS compliance	2

Table II.
Interviewee profiles

(*continued*)

Pseudo initials	Institutional affiliation	Position	Reasons for selection	Number of interviews conducted
BS	University of Dhaka	Senior academic accountant and a senior member of the Institute of Cost and Management Accountants of Bangladesh (ICMAB)	Published critical comments on the applicability of the IASs in Bangladesh in various papers and journals	1
BMA	A chartered accountancy firm	Senior partner of one of the biggest CA firms in Bangladesh. former academic accountant, former President of the ICAB, former office bearer of the SAFA (South Asian Federation of Accountants)	Leading thinker on the implementation of IASs in Bangladesh. Extensive knowledge on the applicability of IASs in South Asian countries	1
AJU	A chartered accountancy firm	Partner of one of the biggest CA Firms in Bangladesh	Highly involved in various policy issues of the ICAB including policies relevant to IAS implementation	1
SS	An Australian University	Academic; Business Law	Experienced researcher in Bangladesh business law	1

Note: Pseudo initials are used and specific position titles are not given for anonymity reasons

Table II.

	Company name	Nature of business	Listed on Dhaka stock exchange?
1	Anam Sea Food Industries Limited	Export-oriented sea food cultivator	Yes
2	Apex Tannery Limited	Tannery products for domestic and foreign markets	Yes
3	Ashraf Textile Mills Limited	Textile products for domestic market	Yes
4	Atlas Bangladesh Limited	Engineering products for domestic market	Yes
5	Bangas Limited	Processed food and confectionery for domestic market	Yes
6	BOC Bangladesh Limited	British multinational producing fuel, power and chemical products	Yes
7	Chic Tex Limited	Textile products for domestic market	Yes
8	Desh Garments Limited	Export-oriented garment products	Yes
9	Islam Jute Mills Limited	Jute products for foreign and domestic markets	Yes
10	Monno Ceramic Industries Limited	Ceramic products for foreign and domestic markets	Yes
11	Niloy Cement Industries Limited	Cement for domestic market	Yes
12	Sonargaon Textile Limited	Textile products for domestic market	Yes
13	Square Pharmaceuticals Limited	Medicines for domestic market	Yes

Table III.
Companies which provided data for this study

Theoretical resource: institutional isomorphism

The study draws on new institutional sociology as a theoretical resource for appreciating the process and rationale for the adoption of IASs in Bangladesh. We note that institutional theories are characterised by a great variety of positions, which are sometimes complementary and sometimes conflicting (DiMaggio and Powell, 1991, p. 1)[5]. The perspective that guides our analyses recognises how the interdependencies among organisations can sometimes produce a web of relationships that reflect the distribution of power and other resources among them and hence making some organisations behave in certain defined ways. Institutional theorists have identified a number of different institutional elements of which institutional isomorphism as elaborated by DiMaggio and Powell (1991) has been extensively employed to make sense of accounting phenomena within the literature (see for example, Rahaman *et al.*, 2004).

DiMaggio and Powell (1983, p. 150) argue that organisations compete not just for resources and customers, but also for political power and institutional legitimacy, for social as well as economic fitness. They further argue that the concept of institutional isomorphism is a useful tool for understanding the politics and ceremony that pervade much modern organisational life. DiMaggio and Powell identified three mechanisms through which institutional isomorphic change occurs, these are:

(1) coercive isomorphism:

(2) mimetic isomorphism; and

(3) normative isomorphism[6].

They caution that "this typology is an analytic one" and the types are not always "empirically distinct". However, they pointed out that while the three types intermingle in empirical settings, they tend to drive from different conditions and may lead to different outcomes (Dimaggio and Powell, 1991, p. 150).

DiMaggio and Powell (1991, p. 150) note that coercive isomorphism results from both formal and informal pressures exerted on organisations by other organisations upon which they are dependent and by cultural expectations in the society within which organisations function. Such pressures are felt in a diversity of ways such as "force, persuasion, or invitations to join in collusion". The rationale underlying these institutional influences is primarily financial dependence (DiMaggio and Powell, 1991, p. 151). DiMaggio and Powell further note that in cases where alternative sources are either not readily available or require effort to locate, the stronger party to the transaction can coerce the weaker party to adopt its practices in order to accommodate the stronger party's needs (DiMaggio and Powell, 1991, p. 154). In other words, resource providing or controlling organisations are able to influence resource-dependent organisations. This appears to describe the relationship between the World Bank and most developing countries where the former is able to influence the field of policy-making in the latter largely because of its control of the much need economic capital (see Rahaman and Neu, 2003).

In explicating mimetic institutional isomorphism, DiMaggio and Powell (1983, p. 155) propose that organisations that are struggling to establish clear and well-defined technologies will most likely import institutionalised rules, processes and practices[7]. They argue that such organisations tend to model themselves on "the best in class" or industry leaders that they perceive to be more legitimate or successful.

Drawing on Meyer (1981), DiMaggio and Powell (1983, p. 152) indicate that it is easy to predict the organisation of newly emerging nation's administration without knowing anything about the nation itself, since "peripheral nations are far more isomorphic in administrative form and economic pattern than any theory of the world system of economic division of labour would lead one to expect". We argue that this theoretical argument is central to the current mode of diffusion of accounting standards across the developing world. IASs, which have their origins in the developed world, are not only perceived as superior but most developing nations have sought to "copy" these standards without a careful appreciation of their specific national accounting needs (see Wallace and Briston, 1993).

DiMaggio and Powell (1983, p. 152) argue that normative pressures stem primarily from professionalisation. In their view, members of professions are subject to the same coercive and mimetic pressures as organizations because of the interdependence among actors in the wider field. While various kinds of professionals within an organisation may differ from one another, they tend to exhibit much similarity to their professional counterparts in other organisations to promote their own legitimacy. In many cases, professional power and legitimacy is as much assigned by the state, which is the dominant actor in the field, as it is created by the activities of the professions.

These are the three institutional forces through which, according to DiMaggio and Powell (1983), institutional isomorphic changes occur. Meyer and Rowan (1977, p. 348) pointed out three crucial consequences of institutional isomorphism:

(1) they incorporate elements which are legitimated externally, rather than in terms of efficiency;

(2) they employ external or ceremonial assessment criteria to define the value of structural elements; and

(3) dependence on externally fixed institutions reduces turbulence and maintains stability.

The fulfillment of institutional isomorphism lends legitimacy which enables organisations to continue their operations. Such legitimacy takes various forms including the provision of economic or financial support for the organisation's operations. However, Meyer and Rowan (1977, p. 356) also observe that "organisations in search of external support and stability incorporate all sorts of incompatible structural elements leading to a concern for efficiency".

We conclude this section by observing that the use of an institutional perspective to explore and understand organisational changes involving accounting is not a new phenomenon (see for example, Irvine, 2000; Burns, 2000; Fogarthy, 1996; Carruthers, 1995; Scapens, 1994; Mouritsen, 1994; Covaleski *et al.*, 1993; Covaleski and Dirsmith, 1988a, b). These studies investigated the accounting discourses or phenomena in various organisations through exploring the inter-play between imposed accounting practices, routines, institutions, power, and politics. With the exception of Irvine (2000) the analyses of these studies involved a focus on the "internal workings of organizations". Irvine (2000) emphasised a non-profit organisation's ties with its external environment and observed that accounting practices have been used to achieve financial legitimacy of the organisation to receive funds from external sources. However none of these studies explored institutionalism and supranational organisations such as the United Nations or the World Bank. In a later work, DiMaggio and Powell (1991, p. 7) argue that nations, in an effort to realise joint gains, agree to bind themselves to international regimes that subsequently limit their freedom of action. We argue that the institutional arrangement among the donor agencies (such as the World Bank and the International Monetary Fund), the Government of Bangladesh and the IAS implementation authorities in Bangladesh is an appropriate interpretive issue for the application of the concept of institutional isomorphism. We therefore draw on the above discussion to explore the adoption of the IASs in Bangladesh.

IAS adoption and compliance in Bangladesh

The institutional actors involved in the adoption of IASs in Bangladesh include the Government of Bangladesh, the World Bank, Asian Development Bank (ADB) (www.adb.org) and the Institute of Chartered Accountants of Bangladesh (ICAB). The IASs adoption process was initiated in August 1999 following a US$200,000 World Bank grant to the Bangladeshi Government for the development of Accounting and Auditing Standards in Bangladesh. The World Bank's Institutional Development Fund (IDF) grant was targeted at enhancing the institutional capacity of the ICAB for the adoption of IASs in the country. On its part, the ICAB was required to provide the additional US$20,000 required to help accomplish this task. The Government then delegated the process to the Securities and Exchange Commission (SEC) as the main institution responsible for overseeing the process. As a high level corporate accounts executive noted:

> Although it appears like the adoption is initiated by SEC in actual fact it is initiated by the international agencies. The government tells us which standards to consider for adoption. It is a process that is really political . . . You don't know the bases for the choice of standard for adoption. . . . Money talks. It's all political . . . (Interviewee HMA).

The SEC then empowered the ICAB which is perceived as the expert institution on the issue, to adopt those standards specified by SEC and the Government of Bangladesh. Thus ICAB is recognised "as the sole authority in Bangladesh for adoption of International Accounting Standards and International Standards on Auditing", despite the existence of two professional bodies in the country (ICAB Circular 1/15/ICAB – 99, September 1999). In addition to making the adoption of IASs a lending/aid conditionality, the international agencies also directly influence the SEC and ICAB through financial and technical assistance to further speed up the adoption process (see Baree, 1999)[8]. A senior official of SEC remarked:

> There is a lot of assistance coming from them [World Bank]. They seem to have a keen interest in promoting the adoption of international standards. . . .They provide various forms of assistance to speed up the process in Bangladesh (Interviewee AMU).

After standards are reviewed and adopted, the ICAB labels them "Bangladesh Accounting Standards (BAS)" notwithstanding that most of these standards are carbon copies with the same numbers as the original IASs. Once the adoption process is over the SEC then has the responsibility, as delegated by the Government of Bangladesh, to monitor compliance with these standards by listed companies.

The current arrangement or adoption process does not include other interested parties such as accounting academics, ICMAB, the Federation of Bangladesh Chamber of Commerce and Industries (FBCCI), and general users of corporate financial statements. The members of the ICMAB have interests in the adoption process for two main reasons: First, the majority of the members hold high level financial positions in many organisations and their responsibility includes meeting external reporting requirements. Second, the Companies Act 1994 has made provisions for the audit of cost accounts by Cost and Management Accountants for companies engaged in production, distribution, marketing, transportation, processing, manufacturing, milling, extraction, and mining activities. These statutory cost audits have a strong impact on the external financial reporting of many organisations. The lack of consultation of the ICMAB makes some of its members very resentful of the process and in some cases there is evidence of attempts to emasculate it. A senior member of the ICMAB observed:

> They impose standards on us and expect us to comply with them. You can't get it that way. . . .There is no consultation and that is the main issue. Sometimes I just wonder what they think. It is all the money that the Government is getting from these guys (Interviewee RS).

Although there is no requirement in the Companies Act 1994 for compliance with IASs, some corporate annual report preparers of listed companies in Bangladesh, as mandated by the SEC, comply with these standards[9]. Advisers to the government (including the SEC) have noted that a requirement for mandatory compliance with IASs only amounts to a codification of existing practice and had the benefit of satisfying major Western lending/donor institutions (including the World Bank (www.worldbank.org), United Nations Development Programme (www.undp.org), Canadian International Development Agency, and ADB). Some requirements of these lending agencies have in recent times been incorporated into the Bangladeshi corporate legislation. For example, in response to the pressure from international lending/donor agencies, in 1998 the SEC, acting in accordance with government directive, issued an amended Rule which stipulated that:

> The financial statements of an issuer of a listed security shall be prepared in accordance with the requirements laid down in the Schedule and the International Accounting Standards as adopted by the Institute of Chartered Accountants of Bangladesh (Security and Exchange Commission Quarterly Review, 1998, p. 4).

Furthermore auditors of publicly listed companies are also directed to pay particular attention to compliance with IASs in the audit process. The SEC noted:

> The financial statements of an issuer of a listed security shall be audited by a chartered accountant in practice within the meaning of the Bangladesh Chartered Accountants Order, 1973 (P.O. 2 of 1973) in accordance with the International Standards of Auditing as adopted by the Institute of Chartered Accountants of Bangladesh . . . . (Security and Exchange Commission Quarterly Review, January-March 1998, p. 4).

Evidence from the interviews (see also Baree, 1999) also indicates that the lending/donor institutions, particularly the World Bank, did lobby the professional accounting bodies (in particular the ICAB) through the "Review of the Accountancy Profession and Professional Education in Bangladesh" currently underway[10]. Included in the Draft Terms of Reference for the review was the argument outlining the perceived benefits to external constituents:

> A review of the [accountancy profession and professional accounting education] can provide to the government, donors, and other stakeholders useful information, analysis, and

> recommendations in support of refining and improving the accountancy and auditing profession in Bangladesh (Terms of Reference for the Review of the Accountancy Profession and Professional Education – World Bank).

DiMaggio and Powell (1983) note that coercive isomorphism comes in various forms including the provision or withholding of resources to ensure the desired behaviour. As noted earlier, in September 1999 the ICAB received a grant totaling US$200,000 from the World Bank to facilitate the adoption process within the next two years. The SEC also received technical as well as financial assistance from Asian Development Bank (ADB) to support a number of projects which will ensure a smooth transition to the use of IASs. Arguably, these lending/donor institutions must have an interest in the exercise. An interview with a senior official of the World Bank who is also a member of ICAB, for example, indicated that an adoption of IASs is necessary because of the growing capital market in Bangladesh and the attraction this has for foreign private investments in the country. The interviewee elaborated:

> A key issue is the need to satisfy international investors. The government and international institutions protect their interest with these policies. They have a point. When you want your economy to grow, these are some of the sacrifices you have to make. This is happening all over the world. Look at China, Pakistan and other countries . . . Yes, those institutions provide assistance but that is good for Bangladesh. I think people are just making noise because they are not part of something good . . . (Interviewee HMM).

Immediately after political independence, the Dhaka Stock Exchange was suspended and all large and small enterprises with assets exceeding Taka 2.5 million were nationalized by the socialist regime in 1972. Following a 1975 change of government policy in favour of a market economy and a significant growth in the number of listed companies as well as the volume of trading, a second stock market, the Chittagong Stock Exchange was established in 1995 (Table IV provides additional information on the growth of listed companies from 1992 to 2002) (Uddin and Hopper, 2001, pp. 643-672). This growth has resulted in a significant amount of foreign private investment in the Bangladeshi economy (see also Huq and Abrar, 1999)[11]. However, Hoarau (1995) argues that accounting should not be treated as the object of providing

Year (ended in June)	No. of listed securities	No of securities (in millions)	Paid-up capital (taka in millions)	Market capitalisation (taka in millions)
1993	153	195.1	8,201.7	18,098.7
1994	156	214.4	9,268.0	32,715.0
1995	188	325.5	18,317.3	49,998.1
1996	201	375.3	21,754.1	67,727.6
1997	214	471.1	26,907.4	107,826.6
1998	224	523.2	30,211.5	62,264.4
1999	230	533.5	28,684.0	50,748.4
2000	239	685.7	30,717.0	54,004.0
2001	244	739.5	32,227.0	72,168.0
2002	257	1003.4	34,968.0	65,518.0

Notes: SEC Annual Report, 1993-1994 at 20; SEC Annual Report, 1996-1997 at 31; SEC Annual Report, 1997-1998 at 19; SEC Annual Report, 1999-2000 at 11; SEC Annual Report, 2000-2001 at 13 (in Bengali); SEC Annual Report, 2001-2002 at 14 (in Bengali)

Table IV.
Growth pattern of listed companies in the securities market in Bangladesh 1996-2002 (DSE)

useful information to investors alone but serves the purpose of divergent interest groups. This view was shared by a senior accounting academic who argued:

> . . .Investors are not the only users of financial reports. The government is giving them a privilege over other groups. We all know the reasons behind the government's policy here. . . (Interviewee AM).

In the IAS adoption process we observe some evidence of coercive isomorphism through financial enticement (DiMaggio and Powell, 1983). However, there is also sufficient evidence of a great deal of "confusion" and dissension among the principal institutions and other interest groups that would normally be required to work collaboratively towards ensuring a smooth and effective adoption of IASs (Hoarau, 1995). In particular, there is obvious tension between the two professional bodies provoked by the apparent lack of consultation with members of ICMAB. The SEC and Western lending institutions collaborate with the ICAB to the virtual exclusion of ICMAB and other interested parties. Some members of the ICMAB expressed dissatisfaction on grounds that the responsibility for adoption of IASs should have been delegated to an accounting standard setting committee, as in most countries, with representative members from both bodies and other interest groups such as academics and corporate leaders. Some respondents maintained that the whole exercise is flawed because of the undemocratic nature of the process. In particular, accounting academics are generally of the view that since various groups are interested in the process(es) of determining accounting standards for Bangladesh, it is totally undemocratic for the government to unilaterally pursue an adoption of IASs without much consultation. These groups generally oppose the process of IAS adoption and have particularly been critical of the government's position.

In an attempt to resolve this stalemate the Ministry of Commerce, acting on behalf of the Government of Bangladesh, issued a memorandum in October 1999, proposing the establishment of Bangladesh Accounting and Auditing Standards Monitoring Board which should involve all interested parties (ICAB, 1999, p. 19; ICMAB, 1999, p. 12). This proposal was rejected by ICAB which perceives itself as "the only competent legal authority in the country to adopt IAS . . . and there was no justification whatsoever for formation of the proposed Bangladesh Accounting and Auditing Standards Monitoring Board", (ICAB Annual Report, 1999, p. 19). This proposal is still under consideration by the government of Bangladesh and the ICMAB have started to actively lobby the World Bank Team for the establishment of the Board. (ICMAB, 2003, pp. 31-33). Both the ICAB and ICMAB have, however, strongly opposed the involvement of the Ministry of Finance in the establishment of the Board. The Ministry's involvement is opposed on the grounds that the majority of the proposed members of the Board would be Government bureaucrats having little or no knowledge about the accounting profession and accounting practice in the country. Respondents believe that the Ministry is "not sincere" about establishing the Board and simply wants to keep a bureaucratic control over the accounting standard determination and monitoring process in the country (Interviewee BMA). No progress has been made towards the development of an independent Board since then.

DiMaggio and Powell (1983) note that institutional pressures may sometimes face some pockets of resistance if the change involved is more political in its orientation. In the case examined, a major observable result of this undemocratic process of adopting

IASs is that compliance from financial statement preparers who are non-members of the ICAB is very minimal. It is therefore not surprising that most business graduates, who represent the majority of working accountants in various sectors of the Bangladeshi economy, appeared unaware or uninformed of the changes that are currently taking place in Bangladesh[12]. A respondent who is a Finance Director in the textile industry noted that:

> . . . we don't know what is going on in reality as far as the compliance with various IASs are concerned. . . .there is a communication gap between we the professional accountants [or managers], the ICAB, and the SEC . . . .We got surprise feedback for non-compliance with IASs but there was no prior instruction sent to us from SEC or ICAB. We have always thought that compliance with IASs was voluntary (Interviewee AB).

The above comment was made based on a letter addressed to the respondent's organisation from SEC requiring, among other things, an explanation "within 07 (seven) days of receipt of this letter, the reason as (sic) why your company did not comply with the . . . provisions of the Rules/Law [i.e. IASs]" ([SEC/SFD/12:27/99/284). Other corporate Finance Directors provided similar comments on the communication difficulties/gaps between the institutions involved in the adoption process and accountants on the ground that are required to "operationalise these standards". We find a problematic situation where IASs have legal backing (insofar as they concern external reporting of listed companies) but some preparers appear to be unaware of the changes taking place. This highlights some of the inadequacies of the adoption process.

Institutional isomorphism may sometimes require a cultural revolution if radical change is involved (Meyer and Rowan, 1977). The adoption and compliance with IASs will have major effects on the attitudes of some members of the Bangladeshi accounting profession. A senior official of SEC, who is also a member of ICAB, noted that some of the confusion is attributable to the attitudes of auditors who issue unqualified opinions on some financial statements that hardly comply with IASs. He raised the issue of lack of professional independence caused partly by the dual role some auditors perform: preparing and auditing the same financial statements. The SEC official elaborates:

> . . . we are a bit disappointed about the roles played by auditors concerning compliance with IASs for preparing financial statements . . . they are signing reports without properly investigating whether compliance is okay . . . If this continues like that we will never be able to make sure concerning the compliance with IASs in Bangladesh [sic] (Interviewee ASJ).

A member of ICAB in public practice responded to these views arguing that the market for professional services needs to be regulated jointly by ICAB and ICMAB if there is to be any improvement in ethical aspects of accounting practice in Bangladesh. He notes:

> . . .if I don't sign the reports of my clients, other practitioners [are] sitting there to replace me immediately. . .(Interviewee FMA).

Clearly, although the ICAB claims to be the "sole authority for the implementation of IASs in Bangladesh", the Institute is struggling to ensure compliance with these standards from its own members. Thus it would appear that in addition to dissension resulting from the adoption process, competition for clients is leading to a compromise of ethical standards among practicing accountants in the country. While there are provisions in the Code of Professional Conduct of both the ICAB and ICMAB prohibiting unethical behaviour, such as the above, these are hardly ever enforced. Indeed, there are currently no clear-cut disciplinary measures to check and penalise inappropriate behaviours by members of both professional accounting bodies.

Justification for the adoption of IASs

Although there was an overwhelming perception among respondents that the main driving force for a wholesale adoption of IASs are the Western donor/lending institutions, some respondents nonetheless saw certain benefits of the adoption of IASs. Some interviewees argued that there are key benefits to the Bangladeshi economy as a whole in spite of the institutional legitimisation that underlies the wholesale adoption of IASs. Principal among these views was the increased credibility that foreign investors, in particular, would give to financial reports of listed companies in Bangladesh. This group of annual reports users is increasingly becoming a greater force because of the large increase in direct foreign investments in recent times (see Huq and Abrar, 1999). Baree (1999, p. 5) observes that "a growing capital market with 232 listed securities in Dhaka Stock Exchange [alone] with a present market capitalisation of US$ 920,735,295", surely, provides sufficient grounds/justification for investors to require financial statements based on well-developed accounting standards, such as IASs. A senior official of the SEC noted:

> We are developing and these are changes that help the development process. Every country goes through these changes. The adoption of IASs is one of the positive changes that are happening in Bangladesh (Interviewee AMU).

The most common view among respondents who favoured a wholesale adoption was the issue of cost savings. These views are consistent with the literature which argues that developing accounting standards from scratch involves a huge financial outlay which most developing countries, including Bangladesh, would be unable to provide/justify, given the relative scarcity of financial resources in these countries (see Peasnell, 1993). Similarly, time-constraints were also viewed as key considerations, especially in the short-term, for respondents who favoured a wholesale adoption of IASs. Some respondent observed that although Bangladesh has the human resources for accounting standard setting, time constraints and cost considerations are critical issues that cannot be downplayed. The four major universities have foreign trained academic accountants many of whom have exposure to IASs as well as the standard setting process of those foreign countries. Furthermore, some Bangladesh accountants also hold practicing certificates of countries such as Australia, the UK, and the USA whose members are widely respected globally. As a senior academic noted:

> . . . We have the people who are capable of setting local standards, but where is the money to do that. . . .Yes, lack of [financial] resources is the main problem. This applies to other developing countries. . . .The easiest way out is to adopt IASs. They may not be exactly tailor-made for Bangladesh but they will provide a common accounting practice in the country . . . I think the government is doing the right thing (Interviewee AM).

From the government's perspective, adoption of IASs will ensure the continued support of international lending/donor institutions whose "benevolence" constitutes a substantial aspect of the Bangladeshi Government's financial resources. Some argue that, for various historical reasons, the Bangladeshi economy needs foreign assistance for survival, at least in the short-term, and a wholesale adoption of IASs will be a step in the right direction because of the confidence it would provide to donors/lending institutions. Furthermore, adoption of IASs would facilitate and enhance both the government and opposition's policy of seeking a competitive market economy through privatisation. Most senior accountants, especially those in public practice, strongly supported the call for a wholesale adoption on grounds of the need to strengthen accountability arrangements at all levels of Government as well as the private sector. As a public practitioner remarked:

> Accountability is one of the key issues that the government needs to address. The adoption of international accounting standards will go a long way to assist in this regard. With accountability, we can expect a change in culture or attitudes that will result in economic growth (Interviewee FMA).

Some respondents who were critical of a wholesale adoption of IASs identified major problems that will flow from such a policy. In particular, respondents raised the often argued case about IASs not being suitable for the cultural and socio-economic environment of developing countries such as Bangladesh (see, e.g. Briston, 1978; Hove, 1990). Wallace and Gernon (1991) argue that the harmonisation process through IAS has the implicit concept that accounting is both universal and culture-free. India, the country next door to Bangladesh, which has cultural and economic similarities with Bangladesh, did not go for the wholesale adoption of IASs. India has established its own set of accounting standards since 1976 with IASs as the bases rather than adopting IASs directly (Banerjee *et al.*, 1998; Wallace, 1993, p. 135). A senior member of the ICMAB observed:

> . . .Why can't we copy what India did about its accounting standards. They are our neighbours. . . .They did not do what we are trying to do. What reasons do we have? (Interviewee RS).

One of the main problems of the adoption of IASs is the lack of IAS for major sectors of the Bangladeshi economy. This includes the jute, tea, garment, and oil and gas sectors. As a senior academic noted:

> What we need are standards for our jute industry, tea industry, agricultural sector. . . .These are the main sectors of the Bangladeshi economy. But there are no IASs for these sectors. We should be developing standards for these sectors ourselves. . .(Interviewee AM)[13]

Furthermore, the concept of accountability is new and radical in Bangladesh and a culturally acceptable way of instilling this concept must be found rather than through the adoption of IASs. For example, corruption is becoming endemic in the Bangladeshi culture and should be the main focus, if accountability is required[14]. Without eradicating the culture which enhances corruption, accountability would continue to be seen as rhetoric. With the competition among auditing firms, some companies have taken it for granted that their auditors will do want the companies want or be fired. A number of malpractices in the corporate sector such as "insider trading" and "unacceptable profit manipulations", particularly during the tax holiday period (see Akkas, 1997, 1999), have neither been disclosed nor led to qualified audit reports. While these audit firms are not related to the major corporate scandals in the USA, the UK, and Australia, they nonetheless provide additional evidence of some of the global challenges of the accounting profession. As a senior academic and also member of the ICMAB argued:

> They are talking about accountability. But is that the way to make people more accountable?. . . They should find ways of stopping corruption. . . (Interviewee BS)

We argue that the adoption of IASs will simply not be enough for ensuring accountability in Bangladesh which is among the world's most corrupt nations (see Baree, 1999, p. 4 for similar argumentation). The Government of Bangladesh has a key role to play in ensuring accountability and transparency in the country. The use of IAS adoption to achieve this end is clearly misplaced. What is required is exemplary leadership. Bangladesh needs an accountable central government to lead from the front before any other aspect/sector of the economy is tackled. Surely, the accounting profession and the accounting industry have a role to play in the combat of corruption in Bangladesh through the audit function, exercise of professionalism, and the enforcement of disciplinary procedures against members who perpetrate or condone corrupt practices. Indeed, an effective audit function, for example, should prevent fraud and other corrupt practices. However, some respondents believe that the Bangladeshi accounting and auditing profession has not lived up to their responsibilities in this area (Interviewees SS; ANU; AM; BMA). A recent examination of the role of accounting in the global fight against corruption has been articulated by Everett *et al.* (2004) within the accounting literature.

Aside from corruption, other factors related to the country's accounting infrastructure such as the enforcement mechanisms, auditing functions, disciplinary procedures for non-compliance would impact on the quality of external reporting. While some of the above concerns are critical and require careful consideration, we argue that most of these issues can be resolved through the concerted efforts of the accounting profession, accounting industry and other institutions such as SEC and the Chamber of Commerce in Bangladesh. Such efforts will require the unhealthy rivalry between the members of ICAB and ICMAB to be set aside in the interest of accounting development in the country.

Summary insights and concluding remarks

We argue that the most problematic aspect of the adoption of IASs centres on the "process" of adoption rather than the content of the individual accounting standards. In its effort to satisfy Western lending/donor institutions, through institutional isomorphism (DiMaggio and Powell, 1983), the Government and its representative, the SEC, are pursuing the policy in a rather hurried and undemocratic fashion reflecting the dependency relationship between the Bangladeshi Government and these agencies (Rahaman and Neu, 2003 see also Meyer and Rowan, 1977). There appears to be very little consultation with various interested parties in accounting standards and how they are developed in Bangladesh. Such lack of consultation is producing dissension, especially from academics, the Federation of Bangladesh Chamber of Commerce and Industries, and members of ICMAB, which seems to throw the entire process in jeopardy. While there is a possibility that an all-inclusive approach could engender political lobbying problems, we argue that the problems resulting from the exclusive use of the ICAB for the adoption process and the lack of effective communication to interested parties is creating even greater compliance problems.

This has, in part, been recognized by the government through the talk about establishing an Accounting Standards Board in Bangladesh, similar to most countries[15]. For example, in developed countries such as the UK, the USA, and Australia, standard setting committees do not only include representatives from most interest groups but Exposure Drafts are circulated for comments from various professionals and the general public at large. This often has the result of minimising dissension and thus increasing acceptance of accounting standards developed by the committee (Hove, 1990). The absence of a coordinated structure for the adoption of IASs is mainly responsible for the dissension, confusion and communication problems that interested groups are currently experiencing. The ICAB and SEC appear to be uncritically supportive of the uncoordinated efforts by the World Bank and other lending/donor agencies to encourage the adoption of IASs in Bangladesh without reflecting on the long-term implications of such proposals. The ICAB and SEC are trying to convince the donor agencies that they are legitimate entities worthy of financial support (see DiMaggio and Powell, 1983). In order to gain this legitimacy, they are now trying to create myths about themselves through the perpetuation of symbolic and ceremonial activities (such as the wholesale adoption of the IASs) and stories about their activities. But, as Meyer and Rowan (1977) note:

> . . . their actual behaviour becomes severed from the socially constructed stories that they are creating because these stories do not necessarily have any connection to what the organisations actually do, but rather, they were used as forms of symbolic reassurance to mollify the influential donors.

In addition, the adoption of IASs should be perceived as a short-term solution to the current lack of local accounting standards in Bangladesh. Future expansion of emerging sectors, such as the garment export sector, would render problematic any institutionalized behaviours that seek the legitimation of external constituencies, as these changes will further highlight the limitations of importing readymade accounting standards. As the importance of the garment sector continues to grow in Bangladesh, there will eventually be a need for specific accounting standards for this sector, a need that may not be met by IASs. This would bring to light some of the inadequacies of the current adoption process. The long-term objective of the government and various other institutions promoting the adoption of IASs should therefore be to encourage Bangladesh to develop accounting standards that reflect the country's growing needs and level of socio-economic development. An accounting standard setting committee should be established with representatives from various interest groups, and made responsible for developing accounting standards which reflect Bangladesh's accounting needs. Future development assistance should therefore be targeted at providing the right infrastructure for the development of local standards rather than creating or facilitating a paternalistic relationship between Bangladesh and the now IASB, a neocolonialist situation that most countries would strive to avoid. In making this argument, we note that basic accounting principles such as revenue recognition, cost expensing and treatment of assets and liabilities etc. do not differ significantly from country to country, rather perceptions, values and beliefs about these principles do differ. Indeed, accounting standards (whether local or IASs) *per se*, do not improve the quality of financial reporting other environmental factors need to be carefully considered. This argument is evidenced by the financial reporting scandals in the USA, the UK, and Australia, among others, after several decades of standards.

We believe that in the long-term, IASs could be carefully examined and adapted to reflect the environment of Bangladesh. This not only has the obvious advantage of cost effectiveness, in a country with meagre resources, but also consistent with the calls for global harmonisation of accounting standards (see Peasnell, 1993). Other developing/emerging economies such as Malaysia and Singapore have benefited from a similar "adoption" process (see Susela, 1999). In particular, the level of confidence in published financial statements of listed companies in these countries has increased considerably. Making changes to IASs to reflect the Bangladeshi legal and socio-economic environment (or vice versa)[16] should be less cumbersome because, as argued earlier, Bangladesh does have the capacity/expertise to achieve this. We argue that IASs are not a "one-size-fit-all" solution to developing countries and some modification to either the standards or corporation laws in these countries may be required for an effective implementation of these standards. For example, the Company's Act 1994 makes it mandatory for nonlisted companies to comply with very general financial reporting and disclosures guidelines which are inconsistent with IASs. Similarly, contrary to IASs, the Companies Act 1994 requires capitalization of gains and losses arising from changes in foreign exchange rates under all circumstances. As an expert on Bangladeshi corporate law remarks:

> Most of the IASs which are adopted in Bangladesh are adopted directly without modification . . . IASs are highly sophisticated rules compared to the systems of developing countries. The various laws in Bangladesh such as SEC regulations, banking regulations and Companies Act are much less sophisticated than IASs . . . A wholesale importation of rules suitable for developed markets is not a solution to the problem. (SS).

A recent study on the compliance with IASs in Kuwait reveals a high level of non-compliance largely because no attempts were made to either modify the IASs to Kuwait's legal and socio-economic environment or align Kuwait's laws and regulations for consistency with IASs (Al-Anzi, 2000). Similarly, in the case of Bangladesh, changes are required to make the accounting standards consistent with the provisions of the Companies Act 1994 (in much the same way that Malaysia and Singapore have achieved)[17]. We do not, however, suggest that the use of locally developed accounting standards will necessarily result in significant improvements in financial reporting or compliance. Within the developing world context, India is one country that is currently struggling with compliance with locally developed accounting standards (albeit mostly derived from IASs). Pakistan directly adopted IASs about a decade ago without any modification and has failed miserably in terms of compliance with these standards (Interviewee BMA).

The World Bank is one of the key donor agencies financing the diffusion of accounting practices in the developing world (see Rahaman and Lawrence, 2001; Neu *et al.*, 2002). Its role in encouraging the adoption of IASs is Bangladesh is further evidence of how the Bank, through its lending activities, is influencing accounting practice globally. There is significant evidence that most development efforts of the World Bank have not profited the poorest in the developing countries rather these countries have made major sacrifices in exchange for the Bank's development efforts (see Caulfield, 1996; Rahaman and Neu, 2003). Caulfield (1996, p. 224) has provided an example of the political nature of the World Bank's relationship with Bangladesh:

> Another Bank staff described how lending programs get out of control. "When I worked on Bangladesh", he said, "we decided at a country program division meeting that the lending program for the next year should be slowed, because Bangladesh could not absorb any more money. Everyone agreed. Then the division chief spoke. He said he also completely agreed, but if he went to his director and told him the lending should be slowed down, "tomorrow you will have a new division chief".

Earlier, Robert Cassen & Associates (1994) observed that Bangladesh's degree of aid dependence has been excessive and has seriously distorted the development pattern. They recommended that the donors must take a long-term view of the aid commitment to Bangladesh. We argue that the aid provided by the donor agencies to adopt IASs in Bangladesh without considering the basic problems of the accounting infrastructure and institutions may face a similar outcome in the not too distant future.

Notes

1. International Accounting Standards Board after 2001
2. It is estimated that 52.7 per cent of the total budget deficit for the financial year 2001 and 2002 was financed by external sources including foreign grants and loans.
3. The ICAB also currently has about 2,719 articling students at various stages.
4. The number of IASs adopted as of the end of 2003 increased 30.
5. See also, for example, Lowndes (1996) who proposed a series of theoretical "vignettes" from the new institutionalism, which are the "mythic" institution,; the "efficient" institution; the "stable" institution; the "manipulated" institution; the "disaggregated" institution; and the "appropriate" institution. According to Lowndes, each vignette exposes a particular aspect of institutional life. Scott (1987) has pointed out four faces of institutional theory, which are, institutionalisation as a process of instilling value; institutionalisation as a process of creating reality; institutional systems as a class of elements; and institutions as distinct societal spheres.
6. Categorsied later by Scott (1995, pp. 14-45) as regulative pillar (coercive isomorphism), cognitive pillar (mimetic isomorphism) and the normative pillar (normative isomorphism).
7. Mizruchi and Fein (1999) examined the fate of the DiMaggio and Powell (1983) essay and observed that the discussion of mimetic isomorphism has received attention by the researchers disproportionate to its role in the essay.
8. These issues were also specifically evidenced in the following documents: ICAB advertisement to appoint Course Consultant and Survey Consultant under the World Bank financed project: "Development of accounting and auditing standards in Bangladesh"; Technical Assistance from the World Bank (Securities and Exchange Commission of Bangladesh Annual Report, 1997/1998).
9. The content analysis of annual reports collected indicated that some listed companies only partially complied with IASs. It was interesting to note that auditors did not qualify these reports (as discussed later in the paper).
10. The ICAB and the Government of Bangladesh are yet to conduct this review.
11. According to a recent report published by the United Nations Conference on Trade and Development (UNCTAD), Foreign Direct Investment in Bangladesh peaked at US$280 million in 2000 and has since fallen to US$79 million and US$45 million in 2001 and 2002 respectively. The UN Resident Coordinator in Bangladesh, Jorgen Lissner, has observed that corruption and bureaucracy were among the major factors obstructing foreign investment in Bangladesh (Source: www.Financialexpress-bd.com, accessed 5/9/2003).

12. It is important to note that while the title of "accountant" can be used by anyone without any restriction in Bangladesh, an auditor of publicly listed companies must be a qualified accountant and a member of the ICAB.
13. Although IAS 41 issued in 2001covers the agricultural sector, which is an important sector in Bangladesh, the adoption of the standard has been deferred following strong opposition from many ICAB members. The respondent mentions the agricultural sector as an example because the interview was conducted before IAS 41 was pronounced.
14. According to transparency international's 2002 ranking, Bangladesh was ranked the world's most corrupt country followed by Nigeria (source: www.transparency.org). In 1991 the monetary value of corruption in Bangladesh was estimated at Taka 231,980 million. This had grown to about Taka 700,000 million (1US $ = Taka 60) in 2002 (*The Daily Ittefaq*, May 13, 2004).
15. This proposal has been replaced with a new proposal calling for the establishment of an independent oversight body – the "Financial Reporting Council".
16. The legal and socio-economic environment includes the requirements of the Companies Act, SEC regulations, and the sociological and cultural systems in the country. Given that accounting is not a socially neutral craft, these should form the bases for any meaningful financial reporting standards.
17. We note that the differences in political environment between Bangladesh and these countries could not be downplayed.

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