

# **EXPLORING THE DISCURSIVE CONSTRUCTION OF FAIR VALUE ACCOUNTING IN CHINA**

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# EXPLORING THE DISCURSIVE CONSTRUCTION OF FAIR VALUE ACCOUNTING IN CHINA

## ABSTRACT

This paper explores the adoption of fair value accounting (FVA) in China. Given China's rejection of FVA measurements in the past, the adoption of FVA was a transformative and significant event. This paper shows how this shift in accounting measurement was made possible through the mobilisation discourses associated with market economies within the context of a socialist political system. In so doing, we show how accounting discourse can be used to create and reinforce ideological commitments to neoliberalism. The paper relies on Norman Fairclough's Critical Discourse Analysis (CDA) to study the connections between discursive practices and wider social and cultural relations. We argue that FVA as a discourse enables the appearance of an 'efficient' and 'free' market whilst simultaneously obscuring the shift in ideology towards neoliberalisation that is a feature of China's adoption of market valuations of this kind. The analysis of keywords and phrases such as 'market economy', 'value relevance', 'market efficiency' and 'opening-up', show how discourse is mobilised to produce accounting regulation within China despite the apparent contradictions that exist between market valuations, state regulations and the ideals of a socialist government. This reflects the socio-cognitive aspect of discourse that has the potential to naturalise particular power relations. This paper draws on discourses produced both from power (government, media, leading academics) and those present within forms of dissent to show how discourse functioned to enable regulatory change within China, whilst also obscuring China's growing commitments to the ideals of neoliberalism.

**Keywords:** Fair Value Accounting, Critical Discourse Analysis, Neoliberalism, Chinese Accounting Standards, Accounting Discourse

## 1. INTRODUCTION

The ongoing (2007-2013) global financial crisis (GFC) has put accounting, particularly fair value accounting (FVA), at the centre of public debate. FVA requires that banks and other financial institutions revalue assets with reference to ‘current market prices’, which declined sharply during the credit crisis. The decrements of fair value are also to be included as part of loss and profit according to the accounting standards based on FVA. As a result, this accounting treatment wiped off much of the value of assets and impacted profits. This forced many institutions to become unviable, including the biggest financial institutions<sup>1</sup> in the US. This effect has led to a vigorous debate about the pros and cons of FVA among accounting academics, regulators and broader communities across the world.

Despite the controversies, ‘fair value’ as a form of accounting measurement has grown in popularity and the use of FVA is required in many standards by both the International Financial Reporting Standards (IFRS) and the US Generally Accepted Accounting Principles (GAAP). In China, FVA was previously prohibited; but it has been fully incorporated into many Chinese accounting standards (CAS) since January 2007 after China converged the CAS with the IFRS. Many Chinese academics (Ge 2006, Liu & Zhang 2006, Wang, L. 2006, Lu et al. 2007)<sup>2</sup> have recognised the adoption of FVA as the most significant change in the new CAS. The introduction of FVA has been controversial, sparking debate from both the accounting community and the broader public (Zhang 2012). Given the emerging power of the Chinese economy, understanding China’s experience in adopting FVA is critical to our understanding of both accounting regulation in practice and the role accounting is playing in the restructuring of global political and economic systems. Despite this, there has been little research documented in English on the progress of FVA in China.

This paper contributes to this topical area with a different approach to many of the extant studies on FVA. Existing discussions focus predominantly on the technical aspects of FVA. For proponents, FVA provides the most relevant financial information for users as supported by empirical findings (Holthausen & Watts 2001, Hoogendoorn 2003, Khurana & Kim 2003, Storm 2003, Barth 2004). Using similarly technical logic, this ‘mark-to-market’ accounting approach has been increasingly challenged, particularly since the GFC. The major thrust of the criticism centres on the ‘unreliable’ implementation of fair-value-based measurement methods given the significant amount of subjective ‘professional’ judgement involved (Dietrich et al. 2001, Landsman 2007, Benston 2008, Ronen 2008, Ryan 2008, Sunder 2008, Laux & Leuz 2009, Zack 2009). Instead of extending critique of FVA’s technical problems, this paper explores the ideological dimension of FVA in China and its implications in the increasingly neoliberalised global capitalism. To do this we use a form of Critical Discourse Analysis (CDA) that has developed within the discipline of linguistics since the 1980s (Fairclough 2003). CDA provides an analytical framework to examine the relationships between discursive practices and wider social and cultural relations, with an aim to reveal how discursive practices are ideologically shaped by power relations (Fairclough 1992). According to Fairclough (1992, p. 64), discourse – spoken or written language use, is “a practice not just of representing the world, but of signifying the world, constituting and constructing the world in meaning”. From this perspective, discourse functions to represent the world and also works to (re)produce reality through active constructions of particular

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<sup>1</sup>This refers to Lehman Brothers Holdings Inc., which declared bankruptcy in 2008.

<sup>2</sup> The in-text citations here include the author initials for Wang, L. (2006) in order to differentiate ambiguous citations from other authors who have the same surname and published articles in the same year. This approach is applied hereafter in this paper.

meanings. This is what CDA refers to as the social importance of discourse: social relations, social identities or power dominance can be consolidated or contested through language use in political and ideological processes.

It should be noted that since the 1980s, there has been a substantial body of literature highlighting what might be termed rhetorical and ideological dimensions of accounting language (McCloskey 1985, Lehman & Tinker 1987, Hines 1988, Williams 1989, Tinker 1991, Mouck 1992, Arrington & Francis 1993, Shearer & Arrington 1993, Walters-York 1996, Reiter 1998, Young 2003). To a large extent, this literature provides theoretical discussion indicating the significance of an understanding of accounting discourse as a symbolic mediator that has played a powerful role in shaping and constructing accounting and organisational knowledge, practices and structures. As Lehman and Tinker (1987, p. 503) suggested “discursive accounting practices are more productively regarded as ideological weapons for participating in conflicts over the distribution of social wealth.”

There have been also studies that analyse various accounting discourses. They are, however, largely ‘textually oriented’, analysing specific accounting texts such as textbooks (Davidson 2005, Ferguson et al. 2005); annual reports (Beattie et al. 2004, Abeysekera & Guthrie 2005); accounting standards issued by the FASB (Young 2003); and social and environmental reports (Freeman & Stagliano 2002, Livesey & Kearins 2002, Freeman & Jaggi 2005, Laine 2005, Tregidga & Milne 2006). In contrast to this paper, these studies focus on specific accounting ‘texts’, and elaborate less on explicit and systematic methods associated with methodical discourse analysis. The accounting research that has explicitly adopted a systematic discourse analysis method, such as CDA, still represents an emerging research area as it has developed mostly after the early 21<sup>st</sup> century (Gallhofer et al. 2001, Craig & Amernic 2004, Llewellyn & Northcott 2005, Burchell & Cook 2006, Craig & Amernic 2006, Ezzamel et al. 2007, Ferguson 2007, Craig & Amernic 2008, Ferguson et al. 2009, Cortese et al. 2010, Seal 2010). Contributing to this area, this paper focuses on the application of a systematic discourse analysis method (Fairclough’s three-dimensional CDA framework) in researching the adoption of FVA in China from a critical perspective.

As follows, section 2 explains the theoretical foundations of CDA. Section 3 then illustrates Fairclough’s three-dimensional CDA framework and how it is related to the research question of this paper. The application of this framework is demonstrated in Section 4 where the mainstream and alternative discourses of FVA in China are analysed. Section 5 summaries the key issues raised in this paper and explores the implications that its findings may have for the future development.

## **2. THEORISING DISCOURSE**

In Fairclough’s CDA framework, the term ‘discourse’ is defined as a multi-level social practice: it is not only a ‘text’ that represents meaning, but also a process in which the production, distribution and consumption of the ‘text’ interact with other social elements that leads to certain social consequences. This definition is derived from Harvey’s (1996) theory of discourse which argues that discourse internalises power, social relations, material practices, beliefs/values/desires and institutions/rituals. This inter-relationship enables discourse to internalise social practices and hold out the possibility to be both reflexive and transformative.

Fairclough (1989, 1992, 1995) draws on Foucault’s earlier studies to reinforce this view of discourse. Foucault, according to Fairclough’s interpretation, regarded discourse as actively constituting or constructing society in a dialectical way: discourse constitutes the

objects of knowledge, social subjects and forms of 'self'. The use of the discourse in return impacts our social relationships and conceptual frameworks. Moreover, discourse always draws upon and potentially transforms other contemporary and historical discourses, and hence any given type of discourse practice results inevitably from combinations of others, and is established by its relationship to others (Fairclough 1989). This understanding of discourse highlights the dialectical relationships among the multi-level process of discourse production, distribution and consumption at a societal level.

Theorising discourse in this way implies that discourse is a form of social practice located in a complex and socially interacting network. This forms a crucial foundation for theorising in this paper. Firstly, discourse is not a one-way vehicle for representation but is also interactive and is vital to the construction of our reality. Second, it proposes a dialectical relationship between discourse and its underlying social structure: the latter is both a condition and an effect of the former. On the one hand, discourse is constrained by social structure in a fundamental way through various factors, such as social class, education, law, norms and conventions, with both a discursive and a non-discursive form. On the other hand, discourse contributes to the constitution of all these dimensions of social structure through its influence in shaping people's understanding. The constructive effects of discourse, according to Fairclough(1992, p. 64), are realised through "what are variously referred to as 'social identities' and 'subject positions' for social 'subjects' and types of 'self'... [and] social relationships between people...[and] systems of knowledge and belief".

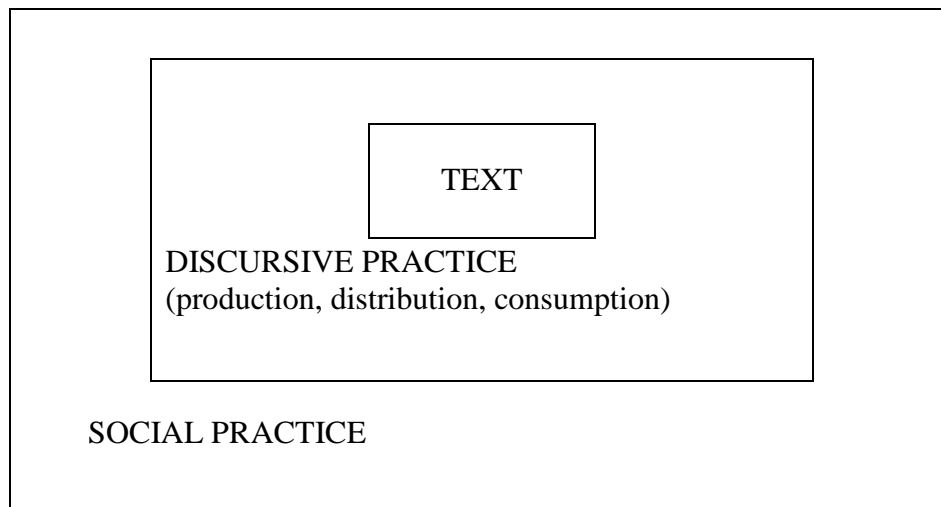
CDA is a language analysis method that combines traditional discourse analysis<sup>3</sup>with a critical social theory that argues language produces and reinforces ideology (Fairclough 1992). This view holds that on the one hand the way people use discourse is fundamentally shaped by their position in the political and ideological system, on the other the discourse produced serves to reproduce existing social relations and structures in the social and ideological change.

In line with the dialectical view of discourse, hegemony underpins the inter-relationship between discourse and other social practices. Drawing on the work of Althusser(1971) and Gramsci (1971), Fairclough argues that discourse plays a fundamental role in materialising ideologies in a hegemonic fashion. As Fairclough(1992, p. 92) described: "[h]egemony is about constructing alliances, and integrating rather than simply dominating, subordinate classes, through concessions or through ideological means, to win their consent." This suggests that in a civil society it is essential to maintain power dominance through consensus forming that is deeply ideological but not overtly coercive. And this process is largely enabled through discursive practice in which ideological struggles are (re)structured and (re)articulated. Fairclough(1989) indicates that "[t]he ideologies embedded in discursive practices are most effective when they become naturalized, and achieve the status of 'common sense'" (1992, p. 87).CDA supports an analysis of this relationship between discourse, ideology and power. It exposes this ideological dimension of discursive practices, making a significant contribution to knowledge because of the way ideology is built into conventions making it hard to identify and critique (Fairclough 1992).This particular interest in hegemony and ideology enables CDA to work beyond the text itself to attend to other social dimensions for a reflexive analysis of power and values, which is regarded by many (Flyvbjerg 2001) as the prerequisite for enlightened political, economic and cultural development in any society.

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<sup>3</sup> This approach focuses on the structure, grammar and vocabulary of texts (Fairclough 1992).

Based on this conception, Fairclough (1992) proposes the following three-dimensional framework for a critical analysis of a particular discourse:



*Three-dimensional conception of discourse (Fairclough 1992, p. 73)*

This framework sets out from the discourse itself (the representation of the reality by ‘text’ for instance); this ‘text’ dimension is then understood in the process of how that particular ‘text’ is produced, distributed and consumed at a societal level as a discursive practice; both the ‘text’ itself and the discursive practice are socially constructed in particular economic, political and institutional contexts. Ideology and especially hegemony are centred in this three-dimensional framework: discourse, as a dimension of social practice, is not only produced under strong influences of power relations, but also articulated to restructure or challenge existing hegemonies in terms of “how the discursive event stands in relation to hegemonies and hegemonic struggles – whether, for example, it is contesting existing hegemonic practices and relations, or on the contrary taking them as given” (Fairclough 1992, p. 9). This is also what Fairclough (1992, p. 91) refers to as the ideological dimension of discourse: “discursive practices are ideologically invested in so far as they incorporate significations which contribute to sustaining or restructuring power relations”. Given this focus, CDA is able to conduct a critical analysis of the socio-cognitive process in which discourse practice interacts with prevailing hegemonic powers in broader socio-political contexts.

### **3. THE THREE-DIMENSIONAL CDA FRAMEWORK**

As has been theorised, a better understanding of discourse requires an investigation beyond the text itself, as the discourse is a process rather than a product – the whole process of social interaction of producing and interpreting the text within a specific socio-political context. The three dimensions of discourse work together to produce the constitutive effects of discourse within social practices. Given this, the discourses used to mobilise FVA in China provide the focus of this paper and are considered in the context of broader social practice. This section further explains the three dimensions individually, highlighting the fundamental role of power relation underlying the discursive construction of FVA in China this paper investigates.

#### **3.1 Discourse as Text**

The first dimension of the CDA framework focuses on the formal features of texts, such as vocabulary, grammar, cohesion and text structure. These can be viewed as ascending in

scale: vocabulary deals mainly with individual words; grammar deals with words combined into clauses and sentences; cohesion deals with how clauses and sentences are linked together; and text structure deals with large-scale organisational properties of texts (Fairclough 2001). This layer of analysis follows closely with traditional linguistic analysis. With a different emphasis, CDA maintains that the signs<sup>4</sup> of a text are socially motivated; in other words, there are often good reasons why particular signifiers/forms are combined with particular signifiers/meanings (Fairclough 2001). At the vocabulary level, the analysis is interested in the politico-ideological significance of wordings – or, as Fairclough (1992, p. 76) described, “how word meanings come into contention with wider struggles and assesses the import of metaphors employed.”

This level of analysis, however, is of limited value to this paper because the majority of the text is translated from Chinese to English. The translation would inevitably change the original structures of the ‘texts’, which disenables the application of this layer of analysis. The translation, however, does not necessarily impair the value of CDA in this paper as the focus will be on the latter two layers. However, for CDA to be understood, it is important to consider the importance of the text. In particular, the paper mobilises a form of textual analysis - keyword analysis:

Although two different discursive formations may have certain words or expressions in common, the relationships between these and other words and expressions will differ in the two cases, and so too will the meanings of these shared words or expressions, because it is their relationship to others that determines their meaning. (Fairclough 1992, p. 31)

Some examples of this kind of keyword analysis can be found in, for example, Williams (1976), Boje (1995) and Leitch and Davenport (2005) where researchers analysed the meanings ascribed to a word in context by examining the other words associated with it. Each keyword is drawn out and interpreted according to its use in relation to other words. The application of this approach in this paper can be identified in Section 4 where keywords, such as ‘market’ and ‘relevance’ are discussed with reference to their politico-ideological implications in the adoption of FVA in China.

### **3.2 Discourse as Discursive Practice**

This second dimension focuses on the processes of text production, distribution and consumption to reveal the potential values of discourse for three variables, including the ‘field’ (the social event which the discourse is a part of), the ‘tenor’ (the social participants involved and the relations between them) and the ‘mode’ (the part discourse plays in the activity) (Chouliaraki & Fairclough 1999). The analysis in this dimension highlights the concept of intertextuality, as Fairclough (1992, pp. 84-85) explains:

In terms of production, an intertextual perspective stresses the historicity of texts: how they always constitute additions to existing ‘chains’ of speech communication’ (Bakhtin 1986: 94) consisting of prior texts to which they respond. In terms of distribution, an intertextual perspective is helpful in exploring relatively stable networks which texts move along, undergoing

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<sup>4</sup> In linguistics, signs are the means through which we make meanings; it can be in the forms of words, images, sounds or actions. It is composed of two parts: a ‘signifier’ – the form which the sign takes; and the ‘signified’ – the concept it represents. (Halliday & Hasan 1989)

predictable transformations as they shift from one text type to another (for instance, political speeches are often transformed into news reports). And in terms of consumptions, an intertextual perspective is helpful in stressing that it is not just ‘the text’, not indeed just the texts that intertextually constitute it, that shape interpretation, but also those other texts which interpreters variably bring to the interpretation process.

In this sense, by checking how the ‘tenor’ (the social participants involved and the relations between them) articulates the reality discursively in the ‘field’ (the activity which the discourse is a part of), it becomes clearer how certain reality or understanding that is communicated or represented through discourses is produced, distributed and then consumed in the society. The intertextuality – consistency of certain text identified during these processes, can be conceptualised as the possibilities and limitations for intertextual processes within particular hegemonic struggles. Fairclough (1992, p. 103) defines them as the “processes of contesting and restructuring orders of discourse as processes of hegemonic struggle in the sphere of discourse, which have effects upon, as well as being affected by, hegemonic struggle in the wider sense.”

This provides a crucial foundation for studying social events, given the inherent affinity between the ‘truth’ and how it can only be communicated or represented through discourse. In this paper, the ‘field’ would relate to the event –the adoption of FVA in China. The ‘tenor’ would be those social participants involved and the relations between them: for instance, the positions of government officials or the identity of the authors of the academic journal articles in later sections. The ‘mode’ refers to the part that those discourses play in the ‘field’ and its relations with other social practices in terms of their role in sustaining or challenging existing hegemonies. In analysing the distribution of the discourse, the focus of the analysis is the consistency among these discourses, or in other words, their intertextuality – the sense in which the text responds to previous texts. The analysis indicates that the various key players have presented similar comments, and that particular words or ideas have been consistently used across the various discursive spaces (the Chinese government, academia, official media and international bodies), which has definite influences on the mainstream understanding of this event in Chinese society. This intertextuality is further contrasted by alternative discourses which have not been presented in mainstream media to demonstrate the partialities in representing and rationalising this social event by the key players. The characteristics of the institution within which the media message is produced and the technologies employed in production are also considered. This layer of analysis explores the relatively stable networks along which texts move and undergo possibly predictable transformations. The social identity of the key players and the complexity of the distribution process (such as the media censorship in China) would influence the consumptions or interpretations of the discourse in Chinese society.

### **3.3 Discourse as Social Practice**

As explained earlier, this dimension views discourse as a crucial part of the social practices that (re)produce existing social power relations. As such, “discursive interaction is an active, reflexive, interpretative and collaborative process of representing the world, while simultaneously negotiating social relations with others and one’s own identity” (Chouliaraki & Fairclough 1999, p. 46). During this process, ideologies are invested into any discursive practice, because meanings are produced through interpretations of texts, and texts are open to diverse interpretations that may also differ under various ideological influences (Fairclough 1989).



Therefore, discursive elements of practices are as real as other physical elements in that they have effects upon and within practices. However, those discursive representations can be ‘mere’ words, even ‘empty’ words, and changes in discourse that appear to constitute changes in social practices can be highly uncertain. Moreover, all these can be ideologically embedded to various extents. An effective way to discover this relationship, as CDA proposes, is to identify the ‘traces’ of the element of hegemony (struggles over certain power relations) in the production and interpretation of discourse (the first and second dimensions of discourse). This is achieved by placing discourse in the broader socio-institutional context in which it is practiced, considering how a part of the discursive practice is linked to prevailing social and ideological forces.

This approach makes the discourse analysis ‘critical’ in the sense of enabling people to be more critical of the ideologically invested discourses, to which they are subjected in the event under investigation (e.g., the adoption of FVA). According to Fairclough (1989), this is a facet of hegemonic struggle that contributes in varying degrees to the reproduction or transformation that destabilises the constraints of existing social and power relations. In this paper, those discourses associated with the adoption of FVA in China are more like choices of words or expressions rather than a ‘true and fair’ representation of the reality. Much more important information could be revealed when attention is drawn to the assumptions and motivations behind that particular selection process, and how they are attuned to the dominant socio-ideological hegemony.

This focus on hegemony has oriented this paper to search what ideological power dominates contemporary social order, and how the discursive practice – the adoption of FVA in China, interacts with this hegemony. Studies in the field of political economy have demonstrated dramatic transformations in human societies across the world since the 1980s, as a result of the expansion of neoliberal policies in forms of deregulation, privatisation and delegation of public services to for-profit organisations (Clarke 2005, Harvey 2005, MacGregor 2005, Ong 2006). The fundamental force underlying this transformation is the belief in a ‘free-market’ orientated social system where the ‘invisible’ power of market mechanism would ultimately secure the best possible socio-economic outcomes for all. The successful proliferation of this free-market ideology has allowed the neoliberal values to become kind of ‘common-sense’ criterion to judge practices across a vast range of social and political activities (Harvey 2005). By identifying the common ‘traces’ of this neoliberal hegemony that have been invested in the production and articulation of the discourses (the first and second dimensions of CDA framework, see Section 4), this paper reveals a discursive dimension of this accounting event – the adoption of FVA in China that serves social and ideological purposes in sustaining the privileged positions of this hegemonic power.

### **3.4 Sources of Data**

Similar to the approach adopted by Ding and Graham (2007), the sources of data this paper examines are archival and cover the following categories:

- 1) Academic literature by Chinese scholars published in Chinese academic journals<sup>5</sup>.
- 2) Official government announcements and regulations.
- 3) Chinese news media, including newspaper and internet.

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<sup>5</sup> This is based on the journal ranking list released by the Academic Degrees Committee of the State Council of China (available from [http://spa.swufe.edu.cn/xszj/Article\\_Show.asp?ArticleID=1090](http://spa.swufe.edu.cn/xszj/Article_Show.asp?ArticleID=1090)).

- 4) Economic and accounting data related to Chinese capital markets. It is mainly from the websites of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)); the Shenzhen Stock Exchange ([www.szse.com.cn](http://www.szse.com.cn)); and the Wind Info database<sup>6</sup> ([www.wind.com.cn](http://www.wind.com.cn)).

It should be noted that the majority of the data is taken from Chinese sources and translated by the author, with original Chinese texts in the footnotes. The ex ante and ex post uses of discourses during this event<sup>7</sup> are collected for analysis.

## **4. THE DISCURSIVE CONSTRUCTION OF FAIR VALUE ACCOUNTING IN CHINA**

### **4.1 Academic Discourse of Fair Value Accounting**

The Chinese accounting academic journal, *Accounting Research*, represents a vital discursive space for investigating academic discourses. *Accounting Research* is a peer-reviewed accounting journal published by the Accounting Society of China (ASC)<sup>8</sup>. It is the only accounting journal in the top academic journal ranking lists released by the Academic Degrees Committee of the State Council (ADCSC)<sup>9</sup>. Articles published in that journal are considered to be of high quality, and are the most influential among the Chinese accounting community, including academics and practitioners. The opinions expressed by this journal, therefore, can be seen as the most authoritative and influential guide among Chinese accounting academics. This background defines a distinct identity for the ‘tenor’ of the debate (people who publish paper in this journal) in this discursive practice.

*Accounting Research* is published monthly, with about 13 articles in each issue. During the research period (2006-2010), 25 articles directly addressed the issue of FVA, among which 20 articles can be regarded as supportive of FVA, and two are against it and the rest maintain a neutral position<sup>10</sup>. The major referential ideas of the supporters are:

- 1) FVA provides more relevant information than other traditional measurement methods, such as historical cost accounting (Ge & Xu 2006, Liu & Zhang 2006, Lu 2006, Ge 2007, Wang & Hu 2007);
- 2) FVA enhances China’s participation in the globalisation of the IFRS (Wang, L. 2006);
- 3) The application of FVA signifies that China has well established a market economy (Liu & Zhang 2006, Wang, L. 2006);

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<sup>6</sup> Wind Info is a leading service provider of financial data, information and software in China. It serves more than 90 percent of financial enterprises and most of the financial research institutions and regulatory committees. Its data is frequently quoted by Chinese and English media, research reports and academic theses (see <http://www.wind.com.cn/En/aboutus.html>).

<sup>7</sup> This period is defined from March 2006 (the time when China announced to adopt the IFRS, which led to the use of FVA) to the end of 2010 (three years after the FVA is introduced).

<sup>8</sup> The Accounting Society of China is founded and recognised by the Ministry of Finance, China as the only national association representing the accounting profession in China.

<sup>9</sup> This ranking list is recognised as the most authoritative among the major universities in China (accessed 26 March 2011, available from: [http://spa.swufe.edu.cn/xszj/Article\\_Show.asp?ArticleID=1090](http://spa.swufe.edu.cn/xszj/Article_Show.asp?ArticleID=1090)).

<sup>10</sup> Details of the discourses are set out in Appendix (the Appendices of this paper are available upon request).

- 4) The use of FVA benefits the development of Chinese capital markets in providing useful information for decision-making for market participants (Jiang & Zhang 2007, Wang, H. 2007, Xia & Shao 2007).

During the period, there were 10 articles discussing the relationship between FVA and the 2007 global financial crisis (GFC). Whilst acknowledging the debates about FVA occurring in the Western countries during the crisis (Huang 2009, Liu, S. 2009, Yu 2009), the theme of the discussion is not to blame FVA; for example, Liu, S. (2009, p. 8) writes that FVA “was not the cause of the crisis. The core issue is to improve the evaluation of fair value (i.e. the pricing or quotation system)<sup>11</sup>”. The focus of the discussion is how to solve the problems caused by FVA through “improving the regulatory environment, providing more operational guidelines and promoting asset appraisal for financial reporting purposes<sup>12</sup>” (Pan 2009, p. 3). Similar suggestions are provided by Liu (2009), Chen and Lu (2009), Zhi and Tong (2010) .

There are few contrasting or negative viewpoints identified in this journal. One of these few, Luo (2006) focuses narrowly on the banking industry, highlighting the difficulties of obtaining a ‘fair’ value under the market conditions in China at the time; Li (2008) raises some general concerns that China is still in a transition period toward a market economy. The remaining alternative views (Lu et al. 2007, Liu & Sun 2008, Sun & Du 2008) do not take firm stands.

From the above, these discourses have projected a very positive image of the adoption of FVA in China. This type of discursive construction, given the prestigious position of this journal, will significantly influence how this event can be understood in China. This effect can be further demonstrated by the ‘intertextuality’ identified across various discursive spaces this paper examines as follows.

## 4.2 Government and Media Discourse

As FVA is technical, it requires particular knowledge of accounting. As such, discussions of FVA are largely absent in government or public media discourses. However, academic discourses presented in Section 4.1 are reflected in these public discussions as they present FVA as an essential and natural part of the convergence of CAS with the IFRS.

Within these official discourses, the Chinese government has promoted the view that accounting plays a critical role in the facilitation of China’s socio-economic development. This is reflected in the comments of leading government officials: JinRenqing’s (Minister of Finance) comment that the new CAS represents “an important contribution on the part of fiscal and accounting work to economic and social development<sup>13</sup>”; and in Chen, Yugui (Secretary-General of Chinese Institute of Certified Public Accountants [CICPA])’s that it “play(s) a very important role in the development of China’s socialist market economy”; and in Dong, Dasheng (Deputy Auditor-General of National Audit Office)’s that it is “a significant part of the infrastructure in China’s socialist market economic system”.

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<sup>11</sup>Original Chinese text: “美国金融危机爆发之初, 公允价值会计被指责为具有经济顺周期性。我们认为, 这不是问题的关键, 公允价值的形成过程(即定价机制或报价系统) 才是完善公允价值相关准则的核心问题”.

<sup>12</sup>Original Chinese text: “本文认为, 应当通过完善相关规范制度、提供必要的操作指南、推动财务报告目的资产评估业务的发展来解决现实中存在的问题”.

<sup>13</sup> Full quotations and references of these government discourses in this section (section 4.2) are outlined in Appendix. They are therefore not referenced here for ease of reading.

More specifically, newly ‘modernised’ accounting standards (and FVA implicitly) are seen to be critical to China’s future economic position within a globalised market economy. Specifically:

- 1) The establishment of a market-oriented economic system: for instance, the new CAS “improve market economic system” by Jin Renqing (Minister of Finance); or they “reflect the demands of China’s market-oriented economic development” by China Banking Regulatory Commission.
- 2) The expansion of ‘opening-up’ policy (participation into world markets): for instance, the new CAS “expand opening-up” by Jin Renqing (Minister of Finance); or they are “supporting the “open-up” policy” by Wang, Jun (the Vice-Minister of the Ministry of Finance); or they “enhances the level of ‘opening-up’ of Chinese economy” by Chen, Yugui (the Secretary-General of CICPA).
- 3) The convergence of national standards with international ones. For instance, the new CAS “reflects the requirement for convergence with the international auditing standards” by Lou, Jiwei (the Vice-Minister of Ministry of Finance& Chinese Accounting Standard Commission Chairman); or it “conforms to the trend of global convergence” by Chen, Yugui (the Secretary-General of CICPA).
- 4) The preference of financial capital and the need to strengthen the development of Chinese capital markets. For instance, without the convergence it “would provide misleading information and impact the exchange of capitals” by Wang, Jun (the Vice-Minister of the MOF); or the convergence meets “the needs of innovation in the security market” by Fan, Fuchun (the Deputy Chairman of the Chinese Securities Regulatory Commission).

Within this discussion of accounting and economic development, the notion of ‘market economy’ is seen to be an essential part of the reform process. Ideas such as the ‘opening up’ of domestic markets or more active participation in global capital markets are strongly tied to processes of neoliberalisation. These discourses indicate China’s preference for a reform agenda that aligns with neoliberalism, and that they are actively working to institute the ‘free market’. Neoliberal capitalism requires active management and strong state intervention (Harvey 2005, Munck 2005), and, as implied within these government discourses, accounting technologies can be a significant part of this process.

This support for the new accounting technology has been quoted by various sources in the public media including television, radio and the internet. To shed further light, the internet is chosen as the data source for this analysis: online versions of major media are the same as their ‘paper’ versions; the internet offers powerful searching and sorting functions; and the materials can be accessed easily from outside of China without compromising the information content. This paper identifies the website [www.news.cn](http://www.news.cn) (its English version has a domain name of its own: chinaview.cn) as the main site of references. It is the online news service of Xinhua News Agency – the official press agency of the government of the PRC and the largest PRC source of information and press conferences. Xinhua is an institution of the State Council of China and reports directly to the Communist Party of China’s Public Information Department<sup>14</sup>; Xinhua’s opinion represents the authoritative voice in mainland

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<sup>14</sup> This can also be seen from its English version website: [http://news.xinhuanet.com/english/2007-08/31/content\\_6637522.htm](http://news.xinhuanet.com/english/2007-08/31/content_6637522.htm).

China, as other media must follow it to ensure they are ‘politically correct’<sup>15</sup>(Esarey 2006, Zhu 2009).

Appendix 3 lists all the news items that could be identified from Xinhua’s website between 2006 and 2007<sup>16</sup> that directly addressed the new accounting standards<sup>17</sup>. No specific content was screened out during this process and we looked for both supportive and critical statements. As shown from the data (with all the key sentences underlined in Appendix 3), the news items articulate advantages of the new accounting standards. Specifically, they argue the new standards contribute to the confidence of investors; the development of Chinese capital markets; the credibility of financial information prepared by listed companies; and the globalisation of Chinese economy. Somewhat ironically, the convergence of Chinese accounting with international practices has been described as a positive step that improves China’s ‘socialist’ market economy.

The presentation of the government and media discourses provides evidence of the similarity among the assertions made by the high-profile Chinese academics, government, and the most authoritative media outlet. This is a type of consistency, or in CDA’s term – intertextuality, of those major referential ideas that have been put forward by different discourse players across different discursive spaces. Given the controversies associated with the internationalisation of the IFRS and the adoption of FVA in Western economies, the reality created by these discourses is clearly one-sided: those people had chosen not to talk about the potential problems or difficulties with the event. These discourses could be regarded as the mainstream, given the prestigious status of the journal and the central authority of the government and its control over Chinese media. So this type of narrowness not only implies a kind of collaboration between key players that effaces the complexity and multiplicity of the event under investigation, but also helps fracture the possibility of any benevolent effect from the adoption of globalised accounting regulations and techniques.

Those keywords, such as “market economy”; “capital market”; “relevance”; “investors”; “opening-up”; “globalisation”, that have been reiterated throughout these discourses, as viewed through the third dimension of CDA framework, are “a set of ‘traces’ of the production process or a set of ‘cues’ for the interpretation process that forms part of the ‘socio-cognitive’ dimensions of text production and interpretation within the interplay of discourse participants”(Fairclough 1989, p. 80). This ‘socio-cognitive’ dimension is present in the interactions between discourses and dominant ideology. Based on our data, both the production and distribution of the discourses reflects a commitment to neoliberalism that is obscured by the technical and natural need to move towards standardised accounting practice. In our view, this works to strengthen the existing hegemony.

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<sup>15</sup> The strict media control by the government in China has been well-known and well-researched. More detail can be found in other social studies, such as Esarey (2006), Zhu (2009).

<sup>16</sup> 2006 was the time when the government announced the decision of adopting IFRS, and 2007 was the year when the new CAS was implemented. Therefore most of the news that covered the CAS only emerged within 2006 and 2007.

<sup>17</sup> The author searched the website with the key word ‘the new accounting standard’. The web links of the news items are shown in the reference list of this paper.

### 4.3 Alternative Discourses

A commitment to neoliberalism is also reflected in ‘alternative’ discourses that are present within discussion in China. The research reveals that Chinese academics and practitioners have discussed the problems of adopting FVA in other media outlets, including the internet, newspapers and other less influential academic journals<sup>18</sup>. Their voices, however, have been given limited space in the debate. For instance, the journals drawn upon in this section could only be identified from those ranked as B or C in the journal-ranking lists released by the Academic Degrees Committee of the State Council (2008); and most of the PhD theses discussed here are normally not accessible to the public<sup>19</sup>. Based on the third dimension of CDA framework, this lack of access and prestige exposes the narrowness and exclusivity of the mainstream discourses in establishing the major referential idea for FVA in China.

Within the alternative discourses, there have been many concerns about the feasibility of applying FVA in Chinese society, and a quite considerable literature has engaged with the limitations and possibilities of FVA in terms of the ‘reliable’ information it provides. As outlined in Appendix 4, much of the criticism is focused on the market conditions in China. Some critics have expressed general concerns that there are considerable barriers for a full implementation of FVA as China lacks active markets in which a fair value is derived (Bi 2006, Cheng & Gao 2006, Liu, R. 2006, Zhou & Li 2006). Some notified the problems with Chinese accounting professionals, as Xia (2006, A05) proposed, in the financial newspaper *Securities Times*, that “the promulgation of the new accounting standards leads to significant challenges towards the accountant” in the following aspects: “one is the technical difficulties of applying the standards, the other one is the complexity of professional judgements thus leading to more frequent creative accounting<sup>20</sup>.” Similar concerns can be identified from Liu (2006), Sun and Liu (2006), Zhang (2006), Su (2007), Dai (2007), Wang (2007), Xu (2007) and Liu (2008)<sup>21</sup>.

Many scholars expand the argument further with a focus on specific technical aspects of the market mechanism. Much of the discussion can be found from some websites specialising in accounting and finance. These discourses focus on the problems of the major supporting factors, such as the law and regulatory supervision and enforcement (Guo 2006, Liu, R. 2006, Wang, D. L. 2006, Liu 2008); Chinese government’s strong influences on the corporate governance of Chinese listed companies (Liu, R. 2006); accountants’ knowledge (Yang 2006, Tu & Li 2009); and the appraisal institutions for evaluating fair value (Lv 2006, Sun & Liu 2006, Wang, H. 2006), that are essential if the reliability of accounting disclosure based on fair-value measurement is to be achieved.

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<sup>18</sup> In comparison to the *Accounting Research* journal.

<sup>19</sup> This is because it requires registration fees for a membership or a fee for each access through *National Knowledge Infrastructure of China* (CNKI) – the biggest academic database in China: <http://eng.cnki.net/grid2008/index.htm>.

<sup>20</sup> Original Chinese text: “新会计准则的出台对实务界提出了严峻的挑战，主要表现在两个方面，一个是会计准则的技术难度系数加大，另外一个为会计自由裁量权加大，更依赖会计人员的职业判断，导致财务数据操纵概率增大”。

<sup>21</sup> These are all PhD theses identified from the CNKI database.

The relevant references could be readily extended. However, the purpose here, instead of providing a comprehensive representation of alternative views, is to demonstrate that the dominant discourses that have been presented in previous sections did not emerge in a linear fashion. This section makes visible the contradictions and contests within the emergent dominant discourses on FVA through the alternative arguments articulated by academics and practitioners who were frustrated by the potential problems associated with the adoption of FVA.

This analysis also involves the constitutive and constructive effects of discourse that Fairclough (1992, 2001) proposes: the expression of the alternative discourses itself, rather than being absolutely accurate, contains greater significance through exposing the fact that the 'mainstream' discourses are only one 'narrative' amongst many others. A discussion of alternatives exposes the control and exclusion required for a singular narrative to exist. Such control is necessary in order to maintain certain systems of thought and action. In this sense, allowing the 'not said' to be considered, as this section provides, opens up possibilities of meaning and challenges the operations of domination in discourse that try to obscure knowledge of FVA.

Based on the third dimension of CDA framework, attention is also given to the connection between these discourses and the hegemonic ideology. It is revealed that the alternative discussions all direct to the current institutional factors that have failed to ensure an ideal market condition for the implementation of FVA. An assumption of this is: FVA could be successful if an ideal market condition is in place in China. So, in spite of the opposition to FVA, alternative discourses unconsciously align with the supporters, sharing the same belief in the benevolence of a free-market mechanism. The power of neoliberal ideas has been implicated in this discourse practice by creating a conceptual boundary, which limits the language that people could use in understanding the change. As shown in the analysis of this paper, this covert power can be very difficult to detect as it's been fundamentally built into every dimension of the discourse practice as a type of common-sense knowledge which people may have taken for granted.

## **5. SUMMARY AND REFLECTIONS**

This paper has explored the adoption of FVA with a particular focus on discourse. This approach is influenced by an appreciation of the central role of discourse in social changes. Discourse is not only a vehicle for representing meaning in communication, but also a symbolic mediator in (re)constructing knowledge and hence practices – the 'social importance' of discourse that CDA emphasises. This social function of discourse, according to Fairclough, is enabled through the role of discourse in configuring ideologies to establish or maintain certain hegemonic status. Examining how a particular social practice is transcended by its discursive representations in power struggles helps reveal relationships that are typically not transparent to the people involved. This explains the 'critical' part of the phrase, which implies a disclosure of hidden connections and causes, and interventions such as providing resources for those who may be disadvantaged.

To achieve this aim, this paper has focused on the discourses of the adoption of FVA in terms of its social conditions and effects at various levels (situational, institutional and societal) within the three-dimensional analytical framework suggested by Fairclough. The first dimension perceives discourse in a more linguistic manner as 'text' that represents the world; the second dimension concerns the discursive process in which the 'text' is produced, distributed and consumed; the third dimension views discourse as a mode of social practice

that is shaped by ideological forces (socio-structural conventions, norms and codes) in signifying and constructing the world. This ideological implication is embedded within the first and second dimensions of discourse practice: as well as being shaped by the social structure, discourse helps construct social identities, social relationships between people and systems of knowledge and belief by naturalising particular power relations and ideologies (Fairclough 1992).

At the ‘text’ level, the analysis has shown, the adoption of FVA has been highly praised by the key players with influential discourses circulated among mainstream media outlets. This new accounting technology, according to those high-profile academics and government officials, signifies an enormous advance that is logical and beneficial for the development of Chinese market economy, and particularly the capital markets. While this view has received considerable attention as manifested in alternative discourses (Section 4.3), a ‘suspicious’ discursive consistency has been revealed by the intertextuality in the process where the supportive discourses are produced, distributed and consumed. The leading Chinese academics, government, and official media, who have both the political power and the ability to influence knowledge, have effectively created a favourable ‘social identity’ for this event. The multiplicity of the meaning underlying this social change is overtly obscured therefore.

The analysis of keywords, such as “market economy”; “capital market”; “relevance”; “investors”; “opening-up”; “globalisation”, provides clues as to the assumptions of the discursive practice that align with a hegemonic ideology – neoliberalism. In a general sense, neoliberal theories suggest that markets are superior to other social mechanisms for allocating resources and organising the economy. From Adam Smith’s view of the ‘invisible hand’, to the theories of Nobel Laureates Hayek and Milton Friedman, the hegemony of the free-market has been promoted extensively in public policy-makings since the 1980<sup>th</sup> (Harvey 2005). It argues that the economic efficiency created by neoliberal markets enhances overall output and improves living standards for all people because the improved economic opportunities will ‘trickle down’ to the poorest (Johnston 2005). A further extension of this doctrine suggests that the globalisation of free markets is the best way to extend these benefits to the whole world.

In this paper, the power of this hegemony is covert, but has been made visible after connecting the discourse practice with socio-political context in the way the three-dimensional CDA framework proposes. The discursive consistency within mainstream discourses and the marginalisation, or limited access, of the alternative discourses are the products of complex and contesting realities, social struggles and mediations implicated in the event this paper investigates. The analysis suggests that both the mainstream and alternative discourses have been framed within a conceptual boundary circumscribed by neoliberal ideas – the benevolence of free-market. The exposure of this type of discursive singularity opens up the possibility that meaning can be challenged and discursive domination that obscured the knowledge of FVA can come into question. As such, the pros and cons of this penetration of neoliberalism in this accounting event could be better understood by incorporating theories and research findings from other social studies on neoliberal ideology. This may present a potential area for future research.



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