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The Research on the Unilateral Supply of Accounting Policy and the Strategic Behavior of Its Implementation

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Abstract: This paper ,based on the fact that the accounting policy is unilaterally supplied by the government, from the perspective of empirical research and game analysis, summarizes the events by the form ,which violate the accounting policy and have existed, happened or disclosed in accounting field. According to the hypothesis of rational person and relevant egocentric motive, and based on the research approach of basic game analysis, we try to discuss the profit preference of policy supply, the arrangement of power and the reliability of accounting policy. Also we will explain the possible reason that why the accounting information widespread has the problem of distortion, anomie and misconduct. Furthermore, if there is a large-scale non-cooperative game when any policy implements. And when we condemn the corrupt behavior such as distortion, anomie and misconduct of the information, we should meditate the responsibility of the supply side of accounting policy.

Key words: The supply side of accounting policy; Implementing party; Profit conflict; Strategic behavior

1. INTRODUCTION

In recent years, the distortion, anomie and misconduct of accounting information are the prominent quality problems. Generally, the pattern of the logic analysis on these problems is that: in the principal-agent state, the information asymmetry results in the behavior: the producers of accounting information take use of information superiority, and thus make the adverse selection. The concrete manifestation is that: the excessive pursuit of self-interest; poor moral of accountants; weak legal constraint; inadequateness and efficiency of the power of government supervision.

The analysis above based on the firm theory logically seems right, however, we look over a proper reference system: when we condemn accountants selfish, who produce the accounting information, we based on the hypothesis that: the accounting information is fair and it is the product of the interest balance. We all know that the accounting policy, as a measure of the distribution on enterprise benefits, is only made and supplied by the government. According to Watts and Zimmerman (1999), as an interest group, the self-serving nature of government and government officials spurs them to pursuit for their maximal interest in

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participating in the political activities³ (DAI, 2002). However, in the rational person assumption, the aim of enterprise legal person is to seek for the maximal profit. Therefore, driven by the profit maximization, the accounting policy unilaterally supplied by the government and the measure of interest distribution run counter to enterprises' expectation of interests, even the bifurcation is quite serious. This provides a basic precondition that there is a game between the enterprises, government, their officials and relative interest subjects by gaining the initiative on making the accounting information.

In addition, the accounting policy provided by this unilateral supply system, has a characteristic of incompleteness, because the supply side of accounting policy has limited rationality⁴ (LU, 1996). If we accept that people will not be omniscient, based on the logic of limited rationality, the supply side of accounting policy also has limited cognitive ability, so incompleteness of accounting policy is bound to be an objective existence, and then it is a well prove that they constantly issue the supplementary regulations in the process of implementation on accounting policy. Meanwhile, incompleteness is the inherent defect of accounting policy, which provides a necessary condition for the interest subjects to game.

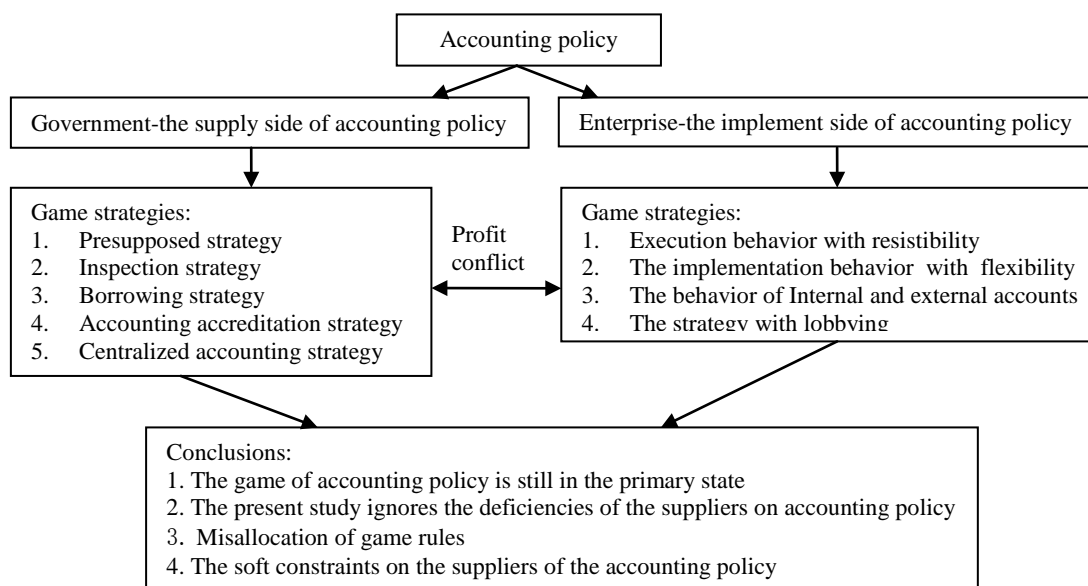


Figure1: Accounting Policy

The game between the interest subjects is both a profit-driven behavior, is also an interest conflict. From the perspective of the theory on social conflict, the conflict is an interactive stress state with the different interest subjects for different goals, gains and losses. And in accordance with western conflict theory, the behavioral intention of the game generally refers to the decision-making of a specific behavior. Based on the two dimensions: one is cooperation (that the other side is willing to meet the opponent's aspirations), the other is non-cooperation (that the other side refuses to meet the opponent's aspirations) (SONG, 2004). So, the non-cooperation behavior of the producers on accounting information is in the stress state with conflict. Studies show that people, in dealing with conflict, always have a basic deviation. Action stage is a stage that people openly try to achieve their respective desire. The extent of the conflict can be explained by the conflict continuum concept: the intensity of conflict has a continuous process of change from scratch. However, the

³ Their benefit preference would transfer the control of social resources to the government by various of provisions, including tax and accounting standards. Because of the existence of political activities, the various damages to enterprise are called political cost. (The specific contents include the cost of rent-seeking, the cost of tax control, and the cost of social contract and so on.)

⁴ The conception of the Bounded rationality is proposed by Simon and Arrow. In the words of Arrow, the bounded rationality is the behavior of People that is rational and conscious, but this rationality is also limited. In North's opinion, the conception of the bounded rationality consists of two aspects: first, the environment is complex. In the non personal exchange form, the world which people faced is complicated and uncertain, and more trades leads to more uncertain and more incompleted informations. Second, people's cognitive ability is limited. They can not kown everything.

possibility of cooperation does not have the necessity, and the studies of the game theory have shown that, if game participants want to come to an agreement on equilibrium solution in repeated games, the counter-party (the best is the stronger party) must take the initiative by a credible commitment to clearly express their cooperation intention and communicate it to the other part. If the dilemma involves a number of opponents at the same time, they should construct their reputation in the game, and try hard to maintain it, so it is difficult to cooperate. Therefore, there are a number of countries in OPEC have non-compliance with the agreements of the organization, for example, they privately increase the oil production (LIU, 2003), because of the vulnerability and instability of the cooperation.

Based on the analysis above, the aim of this paper is to reveal the advantages and disadvantages of the unilateral supply on accounting policy, and the strategic behaviors of the accounting entity caused by it.

2. THE UNILATERAL SUPPLY OF ACCOUNTING POLICY ——A PATH DEPENDENCE OF THE SYSTEM EVOLUTION

2.1 Accounting—the Micro-Foundation of the Finance

Accounting activities, as the micro-foundation of the finance, are the necessary procedures of China's financial budget, as well as path dependence of the evolution on China's accounting system, and its history can date back to the revolutionary war time. The characteristic of the institutional arrangement on accounting policy unilaterally supplied by the government is that: it is made only for the revolutionary struggles in war time; however, after P.R. of China founded, it is for economic recovery; then after the Reform and Opening, especially into the market economy, the most obvious improvement of it is the liberation of people, which means converting the inhuman tools to profitable essence with humanization; seeking the wealth is encouraged by the new policy, thereby, we have finished the historical transform from "moral God" to "economic man". In addition, another characteristic is that the government also participates in pursuing the profit. The behavior seeking for the economic interest by the government is always hiding under the name of the nation, which is different from the individuals. And it can be proved by the findings of audit discovered by the CNAO in the past years (LI, 2004).

There is a specious argument, namely public-choice theory believes that the accounting policy is also a public goods standardizing the market order (LIU, 1996); Another one goes further, they suggest that accounting policy is a group of public contracts for various social stakeholders led by the government on processing programs and methods on accounting, also are the consensus results after repeated games, and are a special kind of goods (LEI, 1999). The hole analysis of the public-choice theory founded by Buchanan are based on a precondition that individuals have the complete choice rights, however (TANG, 1996), the efficiency of the public choice depends on whether there is enough "competition", and the unanimous agreement is seem as the maximum efficiency of public choice. Nevertheless in China, it is clearly that the rights of the personal choice don't exist, and in this case, how can we imagine the possibility that the situation with "unanimous agreement" will appear? Secondly, the accounting policies as the particular public goods, themselves have two possible provision solutions: they can be provided either by the Government (such as China) or by the market (such as United States). Accounting policies provided by the Government only have efficiency advantages, but the degree of consensus might not be well; while the market with the defect efficiency may have a high degree of consensus (e.g., the "rounding" rule on solving the problems of change). Finally, we need to advance the cost of accounting knowledge, using and consuming the accounting policies, such as tuition, books, internship fees, training costs and time, which is inconsistent with the basic characteristic of the public goods.

We also need an indigenous detailed inquiry: the supply of the accounting policy is the process with "gaming repeatedly by the participants", or not? What is the foundation? Is it conflict with Chinese historical position that "Chinese socialism is still at an early stage"? In fact, we "have just taken the first step of the game, from the perspective of the institutional choice, it arranges for the benefit of the government, which inevitable lead to the emergence of the game phenomenon that 'there are always countermeasure to the policy'. For the other part of the game---'false accountings everywhere' is not surprising. From this perspective, the establishment of the China's accounting system still needs to go through a process of game, and there is a

certain distance to the 'Nash equilibrium' (WU, XIAO, 1997)." why did the people defining the concept of "public contract" and "public goods" not provide clues of these basic game and historical facts? Supposing they take these as a kind of common sense and without listing, why the author can't find them in the relative literatures? According to the opinions mentioned above, the host system also is special public goods provided by the government to regulate the market order, is it ridiculous that the theory is used without considering the theoretical soil?

2.2 Financial Department: the Unilateral Supply Side of the Accounting

The efficiency of the unilateral supply program with the traditional system is superior to the mechanism formed after the dispersive bargaining. The process of making accounting policies is in pursuing of the efficiency function, which inevitably will result in deletion of the reliability⁵ (AN, XI, 2004) (degree of the collective consensus). At the same time, in essence, as a measure of the benefit distribution, the supply of the accounting policy without the degree of the collective consensus do not have the property of the rigid constraint. The accrual basis, as well as the policy options due to the uncertainty of the economic activities, inevitably derives the negative consequences: game with rules (there is always countermeasure to the policy; looking for the policy loopholes). This provides the foreshadowing for the game on the execution process of the accounting policy.

2.3 Mechanism of the In-System Negotiation

In order to overcome the defects of the reliability and increase the degree of the collective consensus in the process of accounting policy supplied, the supply side always prefers to take in-system negotiations for correction. However, the quality of the correction has been strongly questioned in practice. First of all, the participants of mechanism of the in-system negotiation are mainly the large state-owned enterprises, which have closed relationship with the policies' supplier, and they have strong bargaining power. Nevertheless, the number of these enterprises is comparatively low, also they lack the representation of the public will; Next, non-state-owned enterprises, making great contributions to the development of China's economy, are excluded from the negotiation mechanism, and they lack the bargaining power for their own interest in public policy, although they have discourse power. Finally, the aim giving priority to the state when making the accounting policies, makes their implementation scheme has an obvious tendency. For example, the sound accounting policy has an obvious convergent characteristic, and its application has a certain constraints in different degrees. Exposure drafts issued in 2002, returned only four, which is disproportionate with the present situation that there are 12 000,000 people going in for the accountancy. So, it is important to co-ordination with international practice and standards construction, while the urgent affair is to transform people's ideology.

Although the mechanism of negotiation existed, the contract on the profit distribution is not actively agreed by the participants with different bargaining power in the process of the bargaining. Yet, the contract results from the arrangement of different participants. And this will inevitably lead to secretly contest by the disadvantaged negotiators in the future, who are not satisfied with the results.

2.4 Sovereignty Concept and International Standards

With the acceleration of the pace on Reform and Open in China, as well as the improvement of the dependence on international economy, sovereignty concept on accounting standards in China is gradually diluted by the opinion of integration; thereby it removes the unequal condition between the national interests and social interests in the accounting policy. Our government departments have also expressed a positive attitude, "China will continue to improve the international coordination on accounting, and establish high-quality system of the accounting standards in accordance with the development requirement

⁵ The concept of reliability proposed here is to explain that regardless of personal judgment ability, the reliability of the Unanimous decision rule is always higher than personal judgment and decision. The proposed result shows that since this year, the use frequency of "conflict of interest" has even exceeded "Greenspan", which had been a proper name. The fifth proposition once again proved that when the members remain unchanged, the reliability of a committee's decision can be enhanced by increasing the stringency of the majority rule. Northwest University.

of China's economy and international practice" (FENG, 2004).⁶ The fact we can observe now is that: since the mid-nineties of last century, the evolution of the accounting policy marked by the accounting standards is according to the international practice. Moreover, with the deepening of the economic reform in China, entry of the WTO, and a series of important events, internationalization of the accounting standards has become increasingly apparent. However, we also can observe that: there are some restrictive barriers (such as accelerated depreciation, reserve extraction ratio, the programs of assets measurement, and so on), set by the suppliers in the process of the implementation on the accounting policy, and the internal explanation is that finance tolerance is limited.

3. GAME STRATEGIES IN THE PROCESS OF IMPLEMENTING ACCOUNTING POLICY

From the perspective of the contract, the accounting policy can be seen as a kind of contract on the profit distribution. But there is difference between the accounting and enterprise contracts: the power arrangement of the participants involved in accounting policy is not inconsistent or equivalent. The problem is that: although the supply sides, who have advantage in the legal, conforms to the established rules in terms of making accounting policy, and has profit preference in the regulations of the technical application on accounting policy, they can't represent the tens of thousands of economic subjects applying, implementing accounting policy and producing the accounting information. Meanwhile, it is improved that its monitoring efficiency is low, which manifests hysteretic nature, high cost, and soft constraint.

The game behavior in the process of implementing accounting policy only can be explained by "conflict of interest".⁷ If we accept that any accounting policy has inherent defect, for the same reason, we also believe that the strategy behaviors in the process of implementing accounting policy, under the driven force of the profit, are taken to adapt the inherent defect of current accounting policy. And in the case of information asymmetry, the result of this adaptation is a change to the distribution program of the current accounting policy. From the traditional perspective, this change involves two main players in the game: both shareholders and corporate managers (execution on accounting policy). Present studies suggest that the game subjects involve in three parties: shareholders, corporate managers and the institutions which make up of the accounting policy (CHEN, CHEN, 2003),⁸ which ignores the advantage of the large and minority shareholders in information master, power arrangement and diverging interests, as well as ignores the interest inconsistency between enterprises and their managers.⁹ Based on the research, without considering writing conveniently, the game should consist of suppliers, enterprise managers (execution of accounting policy), shareholders, EGAOB and the enterprise employee, that is to say, it is a multilateral game. Because the game behavior of enterprise employee is hard to measure, and EGAOB's is a special form, which need analyze separately, we don't include them in the game.

The game composed by the five parties, is quite complex, therefore this paper mainly analyzes the participants' possible strategic behaviors and the consequences in the process of profit distribution. Its feature is that it treats the supply sides as the participants of the game, rather than the precondition.

⁶ Two Ministries, "the Internationalization of Accounting Should Taking Chinese Situation into Consideration", Securities Times, 5 November.

⁷ In an article titled "the moral hazard which existed everywhere" in September 4, 2000's Wall Street Journal, the author discovered that if one search the "conflicts of interest" and "Merrill Lynch" together, ... The common case is that whatever words "conflicts of interest" matched with, there are always full of hated stories. "conflicts of interest" is the starting point where we observe all parties involved in the accounting policy game, and is even more a key to explain the game behavior of supply side of the accounting policy

⁸ CHEN Donghua, CHEN Xinyuan. (2003). Interests Reconciliation in China Accounting Standard Setting: Evidence from A Case Study on Shenzhen Fountain Corp. Accounting Research, 6, 3-11.

⁹ There are two important facts which can explain this matter. (1) In the securities market, the non-tradable shares are big problem and are still in suspense. The phenomenon larger shareholders plunder minority ones always happens, and the phenomenon of "one share being overwhelming big" is severely heckled by all sides. (2) since the event, Yu Zhian as the chairman of Wu Han Long Active Group fled with money, happened in the mid-nineties of last century, many similar events constantly appeared. At that time, academic circles explain this phenomenon with transition theory of Masahiko Aoki, they think it is a "spontaneous privatization" in "interior agent agent".

3.1 Execution Behavior with Resistibility¹⁰

The resistant behavior of the accounting game refers that: if some particular accounting policies (such as the company's benefit allocation ratio) hurt their profit, they will take the initiative to hold back the interest with the motivation of one's own interest. In addition, its characteristic is antagonistic to the law. Generally, the resistant behavior of the accounting policy with resistance always embodies leadership behavior, also the behavior subjects have a strong bargaining power.

The typical resistant behavior of the accounting game can be summarized as follows: (1) controlling the profit distribution. The leadership or the controlling shareholders of the company often manipulate the profit distribution for various reasons by artificially changing the original distribution ratio, in order to maintain more profit; (2) changing the identification time of the accounting elements. The participants change the identification time of the accounting elements by putting off or advancing it, to make the accounting results benefit for themselves; (3) choosing the advantageous quantitative methods on accounting elements such as measurement of stock and potential loss; (4) circulation out of the system on the income from management or non-management. Hidden deposits and small treasures are the typical resistant behavior of the game.

3.2 The Implementation Behavior with Flexibility

The economic explanation of the flexible behavior is that: people take advantage of the institutional loophole to the full or amend the violation risk minimally in order to achieve the aim increasing the interest. The characteristic of the behavior on accounting game with flexibility is that it can make technical conversion within the law. "Flexibility" as a concept with "Chinese characteristics", is an appropriate vocabulary, which we can use to comprehend the accounting behavior.

Although the suppliers often attempt to clear the requirements of the standard by adding rules, they expect it can restrain the radical behavior of the accounting. However, accountants sometimes avoid the restrictions by making trading rules. In this case, the standards may be assaulted by the opportunistic motivation of the enterprise administration (LI, WU, 2004).

The technical default is a common form of the flexible behavior, in which the accountants should be supposed to adopt one appropriate program to deal with the bargaining, however they adapt another one instead. And the result obviously leads to variable effects to the report messages (such as the event of advertising amortization in Harbin Pharmaceutical Group); in addition, the assets reorganization, debt restructuring, and investment activities and so on are also the flexible behaviors.

3.3 The Behavior of Internal and External Accounts¹¹

The form of internal and external account on accounting business (namely known as the two account books) is another special type of game behavior. And its characteristics can be summarized as follows: it is a game strategy in order to fictitiously cater to the institutional supervision from the external specialized organ of state power. The organizations which make two account books are generally the enterprises with the poor bargaining power compared with the supply-sider of the accounting policies.

The form of internal and external accounts can be divided into the holistic one and local one. The former has higher risk; it is easy to be found, consequently, makers always bribe the tipstuffs or senior officials to decrease the risks. The latter has relatively lower risk, thus the makers avoid or reduce the detection risk by bribery afterwards.

¹⁰ "Resistibility" is from the research on ways against the powers of the lower group of James C. Scott, as a political anthropologist in Yale University. In his opinion, the resistance methods include non-cooperation, rascal, complying in public but opposing in private and so on. Chinese scholars Ben Xu summarized James C. Scott's resistance theory as "the weak resistance", which is in line with this article's context.

¹¹ The behavior making two accounting books is always seen in newspapers or magazines, but there is no detail and sufficient data about it. On one hand, it is hard to gain the data, on the other hand, it also reflects the non-rigorous attitude on accounting research including the author. Of course, there is some relate with examination and evaluation system on academic research in China.

3.4 The Strategy with Lobbying

The lobbying strategy is usually used by the foreign enterprises and powerful interest groups. For example, the draft on the unity of income taxes levied from domestic and foreign-funded enterprises has been completed, and the administrative department thinks that the opportunity has been ripe, however, 54 multinational corporations strongly demand that: "Cancel the 5 to 10 years' transition period of the tax preference policy to the foreign enterprises". At present, tax preference is one of China's few competitive means, and it is an obvious example that 54 multinational enterprises unite to lobby. The multinational enterprises, seeking for the profit maximization after tax, usually select more favorable ways to develop markets, and adopt various tax shelters to decrease the overall tax burden. Hagglng over every penny is the real nature of the multinational enterprises, when calculating their own interests (WANG, 2005).

The domestic strong interest groups also use their bargaining power to maintain their profits. The performance reports promulgated by China life (HK2628), ping an insurance (HK2318) and PICC (HK2328), show that: there are total 2.782 billion losses in investment in 2004, partly caused by the funds, particularly the closed-end funds. Therefore, the insurance companies strongly promote the Ministry of Finance, the supervision department of the securities and insurance to be an investigation group, investigating the accounting system on insurance companies which invest in securities investment funds, simultaneously, they hope to value the closed-end securities investment fund with net value. "In doing so, the profits of the insurance companies can increase by 9.9 billion overnight." said by a researcher in the Galaxy Securities Fund Research Center. From the insurance companies' perspective, accounting standards, which value funds with market price, rather than with net value, will bring great losses to the investors, because the regulation of the accounting on funds mainly refers to the standards of "Enterprise Accounting Standard" and "Financial Enterprise Accounting System" at present, and within the insurance companies, there are different valuation modes to different funds: open-end funds are valued in accordance with long-term investment, while closed-end funds are valued in accordance with short-term investment. Owing to the higher discount rate of the closed-end funds, most insurance investments bring about huge loss. In order to remove this part of loss, some experts suggest dividing the closed-end fund into two types: transaction and non-trading, in addition, it estimated with net value under long-term holding, rather than with market price under short-term holding. Because "the final modification of the accounting standards need the approval of Ministry of Finance, insurance companies actively promote Ministry of Finance to do it"(SUN, LI, 2005).

3.5 The Game Strategies of the Suppliers on Accounting Policies

The game strategies are respectively given based on different periods, from the perspective of supply-siders on accounting policies:

Presupposed strategy. It means making relevant sanctions in accounting policy (Counting Laws in China, which passed on 21st, January, 1985 at the 9th and 7th meeting in 6th National People's Congress; the 12th meeting in 9th National People's Congress on 31st, October, 1999) and a series rules and institutions based on it. All of these presupposed strategies are designed according to the old experiences and lessons got from mistakes, however, it has an ineffective foresees and a problem of unsound legal system.

Inspection strategy. From the reform of enterprises institution, finance inspection office was built by finance department, which had worked until 1997. ¹²Later, because of the separation of government and enterprise, the accounting firm takes on the duty; while, the accounting firm is managed by the China Certificated Public Accounting Association (CPAA), which is managed by finance department, in this way, the inspection strategy has to be done in a indirect way.

Borrowing strategy, or namely "borrowing the achievement of the government". Since the focus of the official audit is on the revenue and expenditure, and the achievements of official audit are much related to the revenue and expenditure, so it can be seen that this kind of borrowing strategy is a double-blades sword in essence.

¹² The accounting inspection led by Finance Ministry has different aims, some are for general inspections of taxation, finance and prices; some are for maintaining the accounting order, some are for inspecting the implantation of "Accounting Law". Even Supreme People's Court involves in this active. Financial Accounting, No.12 [2000].

Accounting accreditation strategy. In 2000, the notice of “Some Suggestions about How to Test out the Accounting Accreditation Strategy” is printed and distributed by the Finance Ministry and Ministry of Supervision (SUN, KONG, 2001), and there are more than 8 forms of accounting accreditation strategies¹³ in connection with the phenomenon “a tenable one can’t hold out against the pressure, but one who can hold out against the pressure can’t be tenable”.

Centralized accounting strategy. Since Shan’ xi Province government system had put the centralized accounting strategy into effect in 2001, more and more local governments put it into effect gradually. Without changing the ownership of the unit bankroll, the finance autonomy and the approve right of expenditure, they built up the accounting center, which specially managed the accountings, capital settlement, bank accounts, and the financial revenue and expenditure in a centralized way. This strategy has become popular at that time and was accredited as “a new creative form to manage the reform and to strengthen the financial inspection.” (LI, 2003)

Inspection strategy, accounting accreditation strategy, and centralized accounting strategy are the countermeasures of the suppliers for the game behavior in the process of implementing the accounting policy. Otherwise, many problems appeared during the process of executing the strategy, such as “going against the basic and fundamental principles of modern enterprise system; going against the legislative purpose of the *Accounting Laws*, caused by the misunderstanding of accounting inspection; lacking the sufficient support from the law; bringing about the excessive concentration of power in finance department, which affects the transparency of the budget” and so on (SUN, KONG, 2001). Up to now, the Inspection strategy has been suspended because of the conflict with reform, while accounting accreditation strategy and the centralized accounting strategy are in a dilemma.

In addition, inspection from the tax department, business administration, higher authorities and the management of the development zone, is made on the enterprises’ accountancy materials. No doubt, the multilateral inspection increases the enterprise burden, and induces them to adapt the game strategy with flexibility and make internal and external accounting books for the inspection.

4. THE CONDITION, ENVIRONMENT AND NON-COOPERATIVE CHARACTERISTIC OF THE PLURALISTIC GAME

4.1 The Condition of the Pluralistic Game

Game likes the chess, in which people should make their choice according to the opponent’s. In the game, people learn with each other, hamper with each other, and finally, the game reach to the equilibrium.

The sentence of accounting policy is the standard of the interest distribution, so there are consequentially some conditions in the games. At present, the game conditions are as follows: (1) the separation of the economic ownership: namely, the owners’ property right is controlled respectively by the owners, operators, actual users and the creditors in the normal state or non-normal state. And its theory origin can date back to Hayek’s economic thought; (2) information asymmetry; (3) insider control under the independent management; (4) the low efficiency of the supervision mechanism: the efficiency of the current supervision mechanism is low in the discovery, reflection, investigation and the control, in some cases, it even performs omission; (5) there are loopholes in the law: firstly, the provisions of the law are too inattentive, and it is difficult to effectively solve the complex economic phenomena; secondly, there also have the phenomena: “failure to handle affairs according to the law and laxity in law enforcement, and refrain from punishing law-breakers”. What’s more, there are some significant defects in the process of enforcement, especially for the illegal activities of the government organizations, they just circulate a notice, (accountability system is only for the events involving personal safety, and just removes the party from the office). The annual reports by Audit Commission do not bring the deterrent force in the law.

¹³ Theory Circle summarized the accountant appointment system as forms of financial supervision system, direct appointment system, chief accountant appointment, Centralized accounting, internal appointment and so on.

4.2 Institutional Environment

Institutional environment of the game refers to the special institution or living space rational person faced with, including a collection of a range of environmental factors such as political basis, property right arrangement, legal environment, and competitive market.

In the study of institutional environment on native game, Wu Si's "latent rules" has an accurately and clearly explanatory power. In order to prevent the conflict in context, we might as well rewrite the expression of the "latent rules" (WU, 2001). (The writer will undertake all the responsibilities for the distortion or misreading by rewriting). "The power legitimately determining the interest distribution" is granted by the suppliers of the accounting policy. So all kinds of resources and benefits should be allocated and re-adjusted according to it. In this process, their aim is only to minimize the losses for the participants who are lack of the bargaining power.

Some game activities exist in a certain institutional environment, which provides the game rules, opponents, and the space of strategy selection. If there is a relatively high degree of consensus in the institutional environment, the game rules tend to be a dynamic equilibrium, and the space of strategy selection is limited and can be expected. On the contrary, if there are some constraint conditions in the environment, the space of strategy selection will be infinity, which increases the difficulties of the exception for the gamers with bounded rationality.

The political environment of China takes "stability overrides everything" as the highest purpose, therefore, a series of the reforms in the economic field should be subject to this purpose. The reform makes concessions when it conflicts with the purpose, So, China's economic reform must submit to the political requirement, and its institutions must be controlled; thus the fiscal policy of the concentration of wealth has become to resolve the political choice of the risk of economic reform, that implied the financial policy which subject to the centralized social wealth and accounting policies too. Tax federalism implemented in 1994 and the policy re-delineated the proportion of revenue sharing in 2002 also reflect the effect of wealth collecting.¹⁴

The "hidden rules" is an acquiescent existence in the evolution of the accounting policy, then, the legal system and environment are consequentially influenced by these rules, and the typical case is the "yin guang sha". After the case of skullduggery in the accounting report occurred, lots of minority shareholders prosecuted the company and asked for the compensation, but the SPC did not accept this security civil compensation cases according to the No.406 notification implemented on 24th of September in 2001, not only this lead to many investors of the "yin guang sha" and active lawyers are great disappointed, but also it caused some securities industry and relevant experts filled with indignation (Zhou, 2002). Although on 15th of January in 2002, SPC unveils the regulation: notification on accepting the dispute of civil infringement caused by the false statement in the securities market, and shows that they can conditionally accept these cases.¹⁵ Since the regulation has unveiled, many courts accepted more than 900 cases which caused by the false statement in 12 listed companies, but there is no one case (Li, 2003). The face that "listed companies make fraud, but the investors pay for it", is not normal, but it is consistent with the principles of the "hidden rules": "it should be punished for buying the stock" (ZHANG, 2004). Meanwhile, the indulgence of the law is an important factor for the "hidden rules" to be rampant. Frederic Bastiat, as the famous French economic thinker, distinguished two types of exploitation in his book: "property, law and government" (Frederic Bastiat, QIU, 2003), One is not authorized by the plunder law, one is legal plunder. We can draw a conclusion from "yin guang sha" case that: the indulgence of the law obviously belongs to the latter.

4.3 Non-cooperative Feature of the Game

Not only from the perspective of individual rationality, but also based on the standpoint or the observing fact of the positivism, according to the essence of the profit distribution on accounting policy, the national

¹⁴ System of tax distribution implemented since 1994 and the policy of re-allocation on tax ratio in 2002 also reflect the concentration of wealth effect.

¹⁵ According to the "rules on civil compensation case caused by false statement in securities market" of Supreme People's Court provide ,investors prosecute the civil compensation case caused by false statement, should submit the evidences as follows: (1) Identity certificates of the nature person, legal person or other organization;(2) transaction certification of the investment, which caused losses, in addition to notice of administrative punishment, or document of the criminal judgment.

interests, company interests, internal interests, sustainable management, opportunistic choice, accumulating wealth and distribution all embody the non-cooperative feature of the game at the present even in future.

According to M.Olon,'s logic of collective action, the individual rationality is not a sufficient condition for achieving the collective rationality, and rational individuals will not take the cooperative collective action for the common interests (Mancur Olson, CHEN). Therefore, it is a common phenomenon that "there's always countermeasure to the policy" in the process of implementing of the accounting policy. The concrete express is as follows. "if you have policies, I have countermeasures" ---implementation of the substitutability, "misinterpret the policies, and adopt what is useful from others"----selective implementation, "try their best to refused to obey"---- symbolic implementation, "making local policy" ----accessory implementation. In additional to the conflicts between the central and the local interest, the defects of public policy itself, impelled by the benefits of the departmentalism and the local protectionism, the logic of collective action is also a major factor (CHEN, 2003).

Next, the iron law of the management is that: if a policy implements effectively, they must be identified by majority people. Otherwise, management is unable to proceed because of the cost factors. At present in China, the interest distribution of the accounting policy tends to the government group, which obviously has bifurcation with the company and the individual interest, and this will lead to the result of non-cooperative game. The facts of the failure on the varieties of accounting policies, caused by various forms of inspections on the implementation of the Group's accounting policies, approves the iron law of management.

Finally, the behavior of the supply-side on accounting policy belongs to the category of government power; however, the boundary of the government power is very vague and can be easily crossed. If the ratio of the interest distribution provided by the government goes beyond the bottom line which the wealth creators can accept, there will be a game between the government and the rational individuals. Similarly, if the proportion of the after-tax profit distribution provided by managers is not fair to the investors, they will game by voting with feet. Larger shareholders bully the minority ones in profit distribution, and class action has become the preferred game strategy. Because the ownership structure of our state-owned enterprises is too concentrate, and the state-owned shares is in the holdings position, which will lead to the larger shareholders and managers form a superposition, the pattern of the game involving in supply-side fiscal policies of the government, larger shareholders or corporate managers and small investors, is unequal in power.

5. NUMBERS OF CONCLUSIONS AND RECOMMENDATIONS

5.1 Some Conclusions

5.1.1 The game of accounting policy is still in the primary state

In game's primary state, the participants do not believe each other, and try their best to understand each other's bottom line. With the gradual increase of the game's intensity, the game frequency between the policies and the countermeasures is increasing. The transition period is the time mark of the primary state, advancing interests at the expense of others is the standard strategies, and its results can not be expected is the basic characteristic.

5.1.2 The present study ignores the deficiencies of the suppliers on accounting policy

Institutional arrangement on the unilateral supply of the accounting policy should reflect the principles of fairness, justice and unity. The important reason of the low efficiency on policy implementation is that our accounting policy tends to the government's interest too much. The policy which tends to the tax revenue maximization does not based on the principle of fairness, justice and unity; on the contrary, it maintains the government's interest at first. In the real world, the accounting policy has the benefit attribute, and the people who has the instituting power can provide the benefit boundary to a large extent. From the negative perspective, it will encourage the functional departments to be bureaucracy and disregard their duty and

responsibility. If the departments or the managers take advantage of the interest mentioned above actively, it is inevitable to cause power rent-seeking, and leads to money-power exchange.

December in 2004, OECD published a new guidance of corporate governance----“guidance of corporate governance on state-owned companies in OECD (draft)”. In this draft, it uses such words about government department: “state body, ministry or administration”. In this context, these three words are also defined as “the government (state) organ, government department (but it is generally used to be the department which directly have no relation with the market or have no power of administrative supervision)”, and administrative supervision department (which has connection with market, and possibly affects the benefit distribution). “Because of the size of the state, the conventions and traditions of the administrative supervision department, there appears a new strong bureaucratic body.” (Note 42 in the “guidance of corporate governance on state-owned companies in OECD (draft)”). Therefore, the government consciously or not adopts the behavior of “government intervention” and “rule-making” to advance the national credit to the market, finally overdraft the credit and result in the social unbalance. (Introduction 6 in the “guidance of corporate governance on state-owned companies in OECD (draft)”) (LU, 2005)

5.1.3 Misallocation of game rules

In the democratic society, people’s behaviors are based on the rules, these rules are the result of the struggle and the compromise. Rules generated in two ways: one is made by the prior, another is made by struggle, and the rules of the social competition appeared in the second way. We need the reform based on rules. The reform based on the rules is more efficient and justice than without rules. With the rules, people have a well expectation to the reform, and it is not only convenient for people to abide to the game rules, but convenient to supervise the game rules.

It is a common sense that when the suppliers provide the accounting policy, they also make the corresponding rules on implement, at the same time, the power of providing the accounting policy should be equivalent to the corresponding responsibility. However, in the specific transition period, this common sense may not be respected by the people who are in power. At present, misallocation of the game rules manifests as follows. ①less remuneration and more obligation; ②more rights and fewer obligation; ③too much benefit and power, but too little responsibility; ④ having right but no obligation; ⑤having obligation but no right. These manifestations will change the combination way of the human and material objects, and people’s behavior as well (LI, 1995). However in China, the misallocation of the game rules caused by the institutional arrangement of the unilateral supply on accounting policy belongs to the second, third and forth kind, the misallocation of the medium and small investors belongs to the first and fifth kinds, and the misallocation of the large shareholders or managers is in between”. In addition, the suppliers should clear recognize that the accounting policy is not effective once enacted, it must obtain people’s recognition, then they will obey them, otherwise, the supervision cost will be infinite.

5.1.4 The soft constraints on the suppliers of the accounting policy

In the principal-agent theory, there are two cores of the corporate governance: first, the power must be balanced and supervised; second, information disclosure must be full and transparent. In recent years, accounting department strictly acquires the enterprises to comply with the accounting policy, meanwhile, they criticize righteously the distortion, anomie and misconduct to the accounting information. The audit reports to the People’s Congresses at all levels disclose the problems of illegal, violating discipline in recent years. So, the phenomenon that suppliers strictly require the people to obey the accounting rules, but slackly require themselves, makes us can’t help asking: who manages the managers? (LI, 1995)

5.2 Some Recommendations

5.2.1 Increasing the degree of consensus in the process of making accounting policies

Accounting policy involves in many stakeholders, and also it relates to the public trust of the government. In order to increase the execution efficiency and decrease the supervision cost of the accounting policies, as the suppliers, government not only need to perfect the form of the accounting policy, but also carefully

draw the stakeholders' suggestions, especially the bitter truth, which can increase the degree of consensus in the process of making accounting policies.

Through a certain institutional arrangements, the process of project establishment, draft formulation, solicit opinion, modification, and issuance on the policies, should be supervised by the different departments within the government, also should even more be monitored by the whole society. To do this, the administrative supervision departments must strictly require themselves with the same standards, even the higher ones. Thus, the effective supply and the social consensus on the accounting policy have been half successful.

5.2.2 Improving the independence of the law

If the policy makers make themselves out of the reform, then the motive of reform is very suspicious, and it may be hypocritical eyewash. Therefore, when formulating the laws and regulations of the accounting, the policy makers should make them consistent with the legislative procedure of the reform, strengthen the hearings, and open the proposals in public. In a word, the process of enacting the bills should be transparent. Meanwhile, they should strengthen supervision and legislative review mechanism, and safeguard the fairness and justice of legislations. After full use of social resources in the legislation, the unilateral supply of the accounting policy by government (specific characteristics of China's legislative commission) is turned into multi-supply by government and society, which comes true the double justice of the forms and the contents on the accounting policy.

5.2.3 Improving the setting of the game rules

"Nat • Weikesaier, in his basic work studies on financial theory in 1896, remind people notice the rules, furthermore he realizes that: the attention of the reform should be paid to changing the rules with the constraint condition, rather than changing the expected result by exerting an influence on behaviors". (BU, 1996)

First, designing rules must reach to the legislative justice, which can be realized by fair competition in the legislators' position, and on this basis, we should develop certain procedures to design the rules in order to let the society satisfy. Second, designing rules should include two aspects: one is the punishment after violating the rules; the other is the constraint on the executors. Finally, the execution rules of the accounting policy must be justice, and any part against it, they must accept the punishment.

We should explore the benign alternative plan, thus let us get rid of the dilemma game which was factitiously amplified at the transition period, as well as make the game rules with the same powers and responsibilities, and the accounting policy compatible with interest go back to the normal society. The path of the institutional innovation on the supply of the accounting policy reflects the complexity, arduousness and systematic of the innovation on public policy, because it needs to fully take the boundary, constraint condition of the innovation into consideration; and it needs to take the requirements of the technology and quality on innovation into consideration; besides, we need to estimate the cost and income of the innovation. So, the institutional innovation on the supply of the accounting policy has become an important variable in increment function at the transition period, and it has been the necessary factors and the sufficient condition in the transition economy.

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