

IFRS standards and non-listed companies

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Problems with IFRS standards for non-listed companies

Abstract

There are several problems with the implementation of IFRS to non-listed companies, especially for family-run business. This article, written from a critical realism perspective, contributes to the discussion about what consequences an implementation of IFRS would have for such businesses. The discussion takes its starting point in an ethnographic study of a family owned shipping company in Sweden. The financial focus that IFRS supports, and seems to have developed based on deduction from neo-classical economics, is not compatible with the complex reality that small and medium sized family-run business operate in. IFRS neglects the social structures like the special culture of operational economics that exist in family-run business.

The IFRS project for non-listed companies

The International Accounting Standard Board (IASB) has developed International Financial Reporting Standards (IFRS) that most companies listed on the stock markets across the world have adopted. According to IASB (2008) are IFRS required for listed companies in 80 jurisdictions and permitted in another 25. The overall reason is to create a global language that makes it easy for investors to make comparisons and assessments of different companies all over the world. But IASB would also like to go further and make it possible to also compare companies listed on stock markets with

companies that are not. IASB wants to prohibit inconsistency in accounting not only among different listed companies but also between non-listed and listed companies. (For an overview of adoption of IFRS in Europe see Street and Larson 2004 and Larsson and Street 2004).

Moreover, IFRS has been developed with the goal to make the financial markets more efficient. Some critics have argued that implementation of IFRS is expensive but supporters argue that the benefit from more efficient financial markets is bigger than the cost of adopting IFRS.

The ideas behind IFRS are that investors should be able to make comparisons between companies and that accounting should be produced with the aim to show the investors/owners the market value of the company. This would make it possible for capital to be moved from less efficient business to more efficient business.

Consequently IFRS do emphasize a focus on the fair value and the balance sheet instead of traditional historic or conservative assessment. (Barlev and Haddad, 2003). According to the fair value accounting view the value depends on future income. The value of an asset is revalued continuously. But this also gives financial investor more influence: "Fair value accounting therefore gives external forces (i.e influential financial market actors) more leverage with which to set parameters for..." (Nölke 2008, page 13)

Today, private companies (non-listed) are required to use full IFRS in 30 jurisdictions, 20 require parts of it and 36 permit private companies to use full IFRS (IASB 2008). Critics of an expansion of IFRS to non-listed companies argue that this development is not relevant since IFRS mainly is made to serve the needs of information that anonymous investors have. However IASB argue that:

“The world’s business markets are integrated, even for small private entities. In most jurisdictions, half to three-quarters of all private entities, including the very small ones, have bank loans. Banks operate across borders and rely on financial statements in making lending decisions, establishing terms and interest rates and monitoring loans.” (IASB, 2008, p. 3)

But it is not only banks that IASB considers to be important international shareholders to non-listed companies. Accounting standards for non-listed companies should also be developed with international actors as vendors, credit rating agencies and outside investors in mind (IASB, 2008). IASB do also argue that national accounting standards are costly to develop. It is against this background that IASB decided to develop IFRS for private entities (non-listed companies).

The implementation of the IFRS project for non-listed companies in previous studies have been criticized for not consider social and cultural differences (Rodrigues and Craig (2007) or the existence of different variants of capitalisms (Perry & Nölke 2006; Nölke 2008). It can also be criticized for causing financialization (Fraoud et. al. 2000; 2004; Kripner 2005; Andersson et. al. 2008; Newberry & Robb 2008) and for being insufficient when it comes to separate between different types of capital (capital in the hands of different owners) (Glete 1994). Moreover, from a critical realism position (Fleetwod 2002, Lawson, 1999) the IFRS project that IASB has started can be criticized for depending on deduction based on fiction about perfect markets and that markets can be made more perfect.

To summarize my argument: there are several problems with the implementation of IFRS to non-listed companies, especially for family-run business. In this article,

written from a critical realism perspective, I will discuss what consequences an implementation of IFRS would have for such businesses. I base my argument on an ethnographic study of a shipping company and illustrate how the owners and the employees of this company actually think and work. The financial focus that IFRS supports, and seems to have developed based on deduction from neo-classical economics, is not compatible with the complex reality that small and medium sized family-run business operate in. It neglects the social structures like the special culture of operational economics that exist in family-run business.

Critics of IFRS

In previous research Perry and Nölke (2006) have argued that a change in accounting practices that are dominated by IFRS would threaten the many companies that belong to what has been called the “mittelstand”, the dominating class of companies in Germany that consists of small and middle enterprises (SME). Furthermore, they argue that IFRS “reinforces changed relations of production in which the financial sector increasingly dominates the productive sector, nationally institutionalized economic systems are undermined, and new forms of economic appropriation are validated” (p. 559). It is especially the IFRS focus on fair value and balance sheet that give rise to what in other literature has been called financialization.

Financialization (Fraoud et. al. 2000; 2004; Kripner 2005; Andersson et. al. 2008; Newberry & Robb 2008) has been used to describe the movement in where companies have become oriented against their financial outlook instead of the traditional orientation against production. It is the global financial market that are said to make

this process go on through their demand and targeting financial goals instead of operational goals.

For example, the management of today are focused on the shareholder value, and companies are assessed based on “economic value added” that causes dysfunctional effects:

“... the dysfunctional effects arising from the measures used in the financialized model seem likely to damage the economy of the country where production occurs while benefiting the economies of more sophisticated investors and damaging those of the less sophisticated investors “ (Newberry and Robb, 2008, p. 745)

An example of implementation of measurements and indicators that causes financialization is the story about Telecom in New Zealand (Newberry & Robb, 2008). This company came to become more “aligned to financial market issues (increasing dividends and reducing reported debt) than to Telecom’s operational activities. (page 756). The point with the story is that the process of financialization includes a separation of the “operational” and “capital accumulation”.

Another way of describing the financializational process can be found in Nölke (2008) and Perry and Nölke (2006). (Even if financialization is not present in these articles - it touches the subject.) Perry and Nölke make use of a theoretical model that describes varieties of capitalisms. They refer to two ideal models: the Liberal Market Economy (LME) and the Coordinated Market Economy (CME). Under the category LME they subsume U.S.A and GB. CME is claimed to be more similar to the “Rhenish model” where small and medium size companies dominate and the state and national associations, for example the labor unions are involved.

The concept organized capitalism, that reminds to CME, was originally suggested by Rudolf Hilferding to describe how capital owners in Germany in the early 20th century, created collaborations in order to avoid the uncertainty of the market. These collaborations were supported by the state. (Glete 1987)

This reminds a lot of how the shipping industry in Sweden is working. However, the collaborations do not only exist between bigger firms but between smaller ones and larger ones. Also, the dominating invested capital in non-listed shipping company seems to be in the hands of owners active in the shipping industry that facilitate these collaborations through long-term investments. On the other hand, listed shipping companies have owners that speculate and want the companies that they invest in to speculate in ships.

The LME and CME are built up of elements that are complementary with other elements in the same model but not to the elements in the other model. Examples of such elements are: the financial system; corporate governance; the pattern of industrial relations; the education and training system; the preferred mode for the transfer of innovations within the economy (Nölke 2008). In the LME “the market principle” is the basic organizing principle while CME depends more on inter-firm networks and national associations. While the different types are said to be able to co-exist do changes in the institutions that make CME possible undermine “the institutional complementarities inherent in CME” (Nölke, 2008, p. i)

The EU has implemented a lot of institutional changes, often under influences of consulting companies, that benefit the LME model at the cost of CME. For example has rating institutes have an role that favorite the LME and the big four that decide the

accounting regulations, as for example IFRS. (Nölke 2008; Chiapello and Medjad 2009?)

Accounting developed under the Rhenish model is compatible with an institutional network where banks play an important role. Nölke (2008) writes: "... the rather conservative, creditor-oriented accounting standards in Germany (the Handelsgesetzbuch/HGB) complement the strong role of the German banks during the development of the CME variety of capitalism in which the HGB was designed. For example, the German accounting standards which enabled the building substantial 'hidden' reserves by German companies should be seen as an expression of the priority German banks gave to ensuring the safety of their long-term lending to enterprises." (Nölke 2008, pp. 13-14)

Accounting in the line with IASB's idea to make financial markets more efficient gives shareholders the possibility to put pressure on managers to produce short-term profit and arrange their assets in order to increase shareholder value. IASB therefore make the traditional Rhenish conservative financial planning more difficult.

When it comes to the accounting in Sweden it reminds a lot of the tradition in Germany and the characteristics of the "Rhenish model". The focus on fair value assessment and the balance sheet can be contrasted with accounting based on the principle the principle of conservatism (the lowest of historical cost or market price) that has been dominated in Sweden. And, in Sweden accounting is not separated from the tax. Therefore many rules about assessment of assets must be understood from a tax and political perspective. One example is how rules have been developed in order to stimulate the owners of a company to make reinvestments instead of maximizing short term dividends.

In a Swedish context the owner capital is not homogeneous. It is fragmented based on the owners' preferences, knowledge, experience and networks. One categorization of capital that has been used by economic-historians in Sweden is: capital of commerce; capital of industry and capital of finance (Glete 1994). Capital accumulated from commerce wants to create a flow of products that consumers want. Industrial owners want to develop products and the capital of finance seek to reach profit through combining different companies or through different financial transactions. It is apparently the capital of finance that IFRS has been developed for.

From a historical perspective it is not companies in themselves that do not change as they should, the causes for changes can be found in the ownership capital. Capital owners are often stuck in for example certain solutions and products. Different capitals have been dominating at different times. Before 1910 the capital of commerce dominated. But then the financial capital increased during a period that ended with a financial turbulence. From 1930 until 1970 industrial capital dominated and during that time Sweden had almost no financial speculations. But, from 1970 the financial capital started to play an important role again - while influence from the commercial and industrial capital were decreasing. The development caused by the dominance of financial capital is compatible with the idea of financialization. However, when it comes to family-run business the dominating capital comes from within the industry together with local banks with persons familiar with the regional industry.

In Sweden it is dynamic constellations between owners, banks and management that characterize regions with good development and it is important to avoid a situation where one of these become dominating. It is the same with capital - a situation where only the financial capital dominates should be avoided. Glete (1994)

Previous studies (Miller & Le Breton Miller (2005) of family-run companies have shown that this type of business has certain competitive advantages that have to do with: (i) the management being independent and enjoying a high degree of ability to act on its own; (ii) the management striving towards survival of the business in a long-term perspective; (iii) a strong feeling among the employees of belonging to a community (inside the company), which makes them focused on fulfilling the mission of the company. This attitude is not created by incentives or bureaucracy; (iv) a desire for good relations with neighbors, clients, suppliers and the broader community.

What we know from research on family-owned companies and competition seems to agree with a very common attitude in the Swedish shipping industry. In the shipping trade there are those who consider stock-owning a hamper on the entrepreneurial spirit. Torsten Rinman (1999), former editor for Svensk Sjöfarts Tidning (Swedish Shipping Gazette), has written about the characteristics of the archipelago shipping companies. He writes that these companies do not fit the stock market and refers to the fact that ship-owners belong to an entrepreneurial type who often feels hampered by the respect they have to pay to stock-owners, stock-exchange quotations and rules. Rinman writes that ship-owners of companies noted on the stock exchange often need to invest a lot of time in “talking up” the stock price. Stock owners are often ignorant of the shipping trade and merely take the general market trends into consideration. During periods when the price of the stock is low, a shipping company on the stock market risks being purchased by its competitors. The consideration a shipping company listed on the stock market often give rise to conflicts with “[the operational economics](#)” that characterizes most archipelago shipping companies. (Rinman 1999)

Companies that are dominated by the operational economics mentality try to depreciate their ships as much as possible in order to get lower operational costs in the long run. High depreciations force the companies to keep down the costs overall. Bigger shipping companies that often are joint stock companies often have higher operational costs compared to the smaller shipping companies that you find in the archipelago. It is these companies with low operational costs that survive the shipping depressions.

From a Swedish perspective it seems as if shipping companies that perform better over time are all anchored in the local shipping trade cultures and have a management that is very well-defined in terms of a family that is engaged in its everyday operation. The Scandinavian Shipping Gazette has published a special issue on the theme of “Shipping communities”¹. Here are emphasized a number of local shipping trade cultures that have been significant for the emergence of shipping companies. One of the examples is that of Donsö, an island in the southern Göteborg archipelago. An additional example is that of Skärhamn, whence 50 % of the Swedish commercial fleet is run. There are also the Norwegian regions of Haugesund and Vestfold. In Denmark there is Marstal, and in Finland there is Åland. In these regions there is a strong shipping tradition and its practice is said to be more than a business. The particular lifestyle that the people of these cultures maintain, together with their experiences at sea, has to them a value of its own. People who have grown up in shipping trade cultures do often not contend themselves with being employed but would like to have their own boat to run. Usually these companies have chosen to finance their operation in other ways than being noted on the stock market. In the few cases, at least in Sweden, when companies from such regions are listed on the stock-

¹ Scandinavian Shipping Gazette (2001) nr 17

exchange, the family usually has a clear majority of the shares and is actively running the business. (Rinman 1999)

Since way back, several shipping companies have developed in these shipping trade cultures – and it is the focus on operational economics that form the basis for the good development in many of these regions.

Accounts from a visit in a family-owned “archipelago shipping company”

Instead of taking my starting point in a fiction about how accounting should be developed according to neo-classical economic ideas about how financial markets can be made more efficient I have taking the starting point in an ethnographical study of a family-run company and tried to figure out what is important to the people working in that company and what creates the competitiveness of this firm – and what kind of accounting that is compatible with their way of working – and especially when it comes to the focus on the operational.

The empirical section of the article is based on an ethnographic study of a family-owned shipping company, carried out in 1998 – 2001 (Forsberg 2001). This study mainly contained visits in a chartering company for one and a half week; one week stay on a tanker (between Gothenburg (Sweden) and Nantes (France) and many visits spread in time to the office of the shipping company itself. Data has been collected through interviews and observations. Accounts made by people in the study have been verified by my own experience from the visits. The way the study was been made is compatible with critical realism methodology (Bhaskar 1979; 2002). Accordingly, a

reality of social structures is assumed to exist independent of humans. But humans may change this reality through different interpretations and through their actions.

In a previous publication that contain an ethnographic perspective on markets (Forsberg, forthcoming) the focus lies on how the market price on tanker freights are decided and the accounts in that article comes mainly from the visits at the chartering company. In the present article the focus lies instead on what is going on in the shipping company.

The shipping company is located on Donsö, an island in the archipelago of Gothenburg. On the same island there are ten other shipping companies. The entrepreneurial spirit on the island is famous for being very successful. The shipping company in question was chosen because it had a rumor of being a well managed company with good future prospects.

In 1998, the company had two tankers, the biggest of them 130 meters long. Today (2009) the company has a fleet of six tankers. The company has also increased the number of employees, from two in 1998 to twelve in 2006 and has new cooperation partners. 2006 the company started a collaboration with a joint-stock company (Broströms), the study presented here is limited to the time before this collaboration.

The owners of the family-run company from Donsö are members of a family and of Donsö community. The island and boats are very important to them. Eleven shipping companies are run from Donsö. Although they compete, they exchange information on a daily basis and keep each other updated of what is going on in the business. All of the shipping companies are proud of their shipping trade culture. The entire Donsö fleet constitutes 35 % of Sweden's total product-tanker fleet. In view of the fact that

there are only about 1400 permanent residents on Donsö, it can be established that shipping is a dominant characteristic of the island.

This family-owned archipelago shipping company was founded in the 1950s when four fishermen from Donsö came together to buy a small tanker to freight oil with on the Gotha Canal (Göta kanal). After a few years, the same people bought one more boat, now a slightly bigger one. Towards the end of the 1970s, ownership was concentrated in the hands of the family that runs the company today, and, as said, the company now owns five tankers.

They find it meaningful to build boats of high quality, even when it is possible to choose cheaper alternatives. When I asked the people in the company why they choose to build high-quality boats, they answer: “we are from Donsö!” On Donsö boats are always the topic of conversation. The dominant attitude is pride, pride in the boats and the company.

In a book written by a local historian from Donsö, the following yarn is told, which is an example of how Donsö children inherit cultural values. It is a story about the importance of having nice big boats and recaptures the scene of children waiting for their fathers to return from Gothenburg where they have discharged their haul.

“Towards lunch time us children walked down to the piers to wait for them. Sometimes we climbed a high hill to get a better view of Gothenburg. Sometimes the boats arrived in flocks, and everyone took pride in being able to tell them apart, so that you did not call “Karin” “Lisa” or mistook “Bror” for “Äran”. If for some reason you wanted to tease one of your friends, you called his or her dad’s boat “pese”. It meant that the boat was either small or ugly, made bad speed or was marred by all of

these defects. Of course, you risked getting the same words of abuse in return. And, if things went really bad, there would be a scuffle.” (Fhager and Fhager, 1996; p. 120)

The elders on the island meet daily at the quay to talk. They talk about old boats and memories, and keep Donsö’s shipping trade traditions alive. A number of them are actively involved in the local history of the place. Several lists of boats have been established, for example, “List of sailing-ships originating in the southern Göteborg archipelago and Frölunda between the years 1650 – 1950 (Höglund et al. 2006).

On Donsö the majority of activities have been located at sea, and until the mid 1900s, the most common occupation was fishing. Then, oil freighting took over more and more. But the roots from the times when fishing was dominating the local picture remain. By aid of ethnological studies of other fishing villages in western Sweden, we can get an idea of what distinguished a fishing culture such as the one on Donsö. Orvar Löfgren (1977), who has written about the fishing village Bua south of Göteborg, claims that you can find certain common traits in the fishing villages where local fishing cultures were created. Local languages, names and nicknames developed that took a long time for outsiders to learn. The local language marked mutual understanding and familiarity. In every local fishing culture experiences and memories were shared that made you view the world through a common cultural filter. Those who did not share the maritime values and experiences were easily excluded from the community. These fishing cultures differed from the industrial society in general in the sense that at the same time as one cooperated one also competed with one another. Expert knowledge was more important than accumulating capital, which contributed to creating equality. There was no little group that controlled capital investments and exploited other people’s labor. The young ones

were informally socialized/ trained into the profession through, above all, small talk. Their professional training thus often went on day and night.

The fishing villages respect for equality and the duty to help others was a way for the individual to decrease the uncertainty involved in their maritime enterprises (Löfgren 1977). People owned boats together and made up social and economic units outside their households. A fishing village could in many respects be regarded as an extended household, in which everyone depended on and helped one another (Byron 1994).

How the local shipping-trade culture affects the work of the shipping firms must, of course, be seen in relation to the culture that it is part of. The values of the culture guide them. What makes people sympathize with the company on Donsö is the fact that they have acquired new boats with innovations. Their aim is to be able to show off a nice new boat, preferably bigger than their or their neighbor's previous boats.

What make people feel sympathy in local shipping cultures are things that contribute to the survival of the culture. The stories that other members of the culture make positive judgments about are those that pass on the reputation of Donsö shipping companies being shipping companies of quality. It is the stories of exemplary actions that reproduce the shipping tradition. The stories may also be of heroic deeds, for example, having built a boat that is faster than other boats or having conquered bureaucratic rules. A story of somebody fooling somebody else and making fast money off of it does not arouse sympathy.

As a consequence of the Donsö culture being strongly characterized by the shipping trade, boats play a significant part in maintaining the culture. They constitute cultural

objects that are stable and bridge the generations. They carry memories and stories and contribute thus to maintaining the shipping trade culture. To leave a trace in this world, to be remembered, one ought to have built and sailed a boat that those are left behind can feel sympathy for: “This was the first boat with that kind of solution”; “This was a fine one”; “This one was well built”, and so on and so forth.

An agent of a family, community and place is thus something completely different from an agent of economics. For the owners, keeping high-quality boats is a value in itself. They want to build a shipping company that they can hand over to the rising generations. They take other people’s judgment into consideration and act in ways so that others may feel sympathy towards their actions.

Czarniawska (1998) has written that human beings create meaning, and their actions can be understood, when they are found in a story. This archipelago shipping company must be understood from the perspective of three interwoven stories: that of the family, that of the Donsö community, and the one about the place and the boats.

To conclude I will account for an event that exemplifies the striving to act in ways that arouse sympathy.

As the company had its new tanker delivered from a Norwegian shipping yard, and it had made its first journey between Mongstad and Oslo and was making its way towards Ventspils, the shipping company was intent on showing off the boat in its homeport on Donsö. Before the port call at Donsö port, the company contacted the pilotage service, but at first none of the pilots wanted to assist the boat. The shipping company insisted however, and, at last, the director of pilotage gave the go-ahead, on the condition that the company would pilot the boat itself. Before putting the boat in

at homeport, one of the founders of the company who was now retired, had to go out with their “little boat” and sound the inlet. He marked the depths on a copied chart. After doing so, he knew it was possible to bring the boat in, but with very little margin. It was, above all, this performance for the Donsö audience that all the hard work with the new boat gained new meaning. In the archives of the shipping company I found an article from *Svensk Sjöfarts Tidning* that reported the following from the pier at Donsö:

Early Monday morning, the Donsö villagers turned out to welcome, from cliffs and quays, the latest addition to the Donsö fleet as she called at her homeport for the first and probably only time.

The schools were closed before lunch and during the five hours that Furenäs was lying at the quay the people took the opportunity to pay a visit onboard. They were shown a ship out of the ordinary.²

In these instances, innovations are highlighted and the opportunity to tell people that one has chosen to build a boat of high quality is grasped.

The decision process in the shipping company

When decisions are to be made it is easy to check how the land lies, confirm and gather different opinions. Another advantage of such a small organization is that those who make the decisions also have to execute them. This makes for a speedy decision-

² Svensk Sjöfarts Tidning (1998).

making process and the possibility to seize opportunities that come your way. It also alleviates the creation of informal and formal modes of collaboration.

The company is different from others in that it strives to analyze, manage and act in close proximity to a context that it has great knowledge of, rather than from a distance and without familiarity with the context. They emphasize that the people in charge in the company must have knowledge of and experience from working on a boat. They are always actively following changes on the market: Are new refineries built?; Are new boats commissioned?; Have other shipping companies innovated?; How do other ships function?; Are there any new rules in the making? The need for access to good information constitutes a strong motivation to be part of a network.

Thus, a characteristic trait of the company is that instead of building on hierarchies and decision-making from a distance the action is based on local, often informal, meetings where people reason and deliberate. In this section I will illustrate this by accounting for a few of my observations and tales from the field.

According to the ship-owner, the “proximity” to the boats is important - as is the proximity to the charterers. Since those who run the shipping company have worked as captains on the company’s boats they are well aware of how boats are operated. Collaborating with the freighters makes it possible to be informed of what is supposedly happening on the market.

Fast and correct decisions are crucial to the success of a shipping company. Informal decision-making may thus be advantageous. A good ship-owner must be able to determine whether a boat should be purchased or not. To be updated is essential. Through everyday conversations the decision-makers’ view of what is going on is

continuously modified. People within and without the company “talk themselves” a coherent image of the world, which makes access to a variety of involved actors’ versions of the world a significant part of the process. In such conversations, signals of what is going on can constantly be picked up. For example, it may be of value to find out that an oil company is planning to build a refinery and increase its production of oil products in Poland. It is then possible to take this into consideration and acquire a boat that is fitted for journeys to Poland in particular. In addition, to understand what is happening and how different actors are going to act in the future in different situations that may occur it is crucial to draw upon experience from previous situations. In this case, people with different work tasks within and outside the company can complement each other.

During my visits at the company there was almost always someone else there visiting as well: accountants, people from chartering companies, people from other shipping companies on the island, or some acquaintance in the same business out sailing who had stopped by to say hello. When in the neighborhood, the crew also used to stop by the office.

By always participating in social events where different versions of the world are expressed, the ship-owner maintains an up-to-date view of the world. This view works as a frame or back drop. When an opportunity arises to buy a particular boat it is placed within this frame, and a decision can quickly be made whether the boat fits or not.

Below, the ship-owner describes the procedure of deciding whether to buy a boat or not.

”... it is not only me, but signals between us reveal if we feel ready for it...”

And...

“... “if you are a family, like we are, there is a lot of people involved. Experiences from our elders – we do discuss everything. After all, it is not one man’s decision, but it also depends partly on the elders in the house, partly on Rasmus (a person at the freighter company that they use) and their opinions.”

“... you always discuss everything, many opportunities arise ... but most of the time nothing comes out of it. But, all of a sudden, everything is right.”

“... you keep things open, talk to one another and see, and then one day – well, there it is. And I feel that when I put in an effort and sit on different committees in the ship-owners’ association I meet a lot of people who I can talk to and get some information from and things like that. Then, it is not the work done there itself that means the most, but to meet people and getting the opportunity to contact them: ‘Ah, now I have something that I need to discuss, I can call him, he probably knows.’ It means a lot ... a whole lot.”

In case the company is about to order a new boat from a wharf, they start with the experiences they have from their previous boats and then modify and suggest innovations. But they also pay attention to what others do and benefit from other shipping companies’ experiences. Here, I will give a brief example of how they work when they are about to choose equipment for a new boat. By first contacting the

supplier of, for instance, radars, the company finds out who have chosen to use this type of equipment before. Secondly, they spend quite a lot of time on trips to visit these users. They go to different boats and talk to those who have practical knowledge of the equipment. This way they can access other experiences than that of the Donsö Shipping companies. The visits enable them to have insight into how the equipment works.

When I talked to the manager of the freighting company, he told me that he invested a lot of time in building an information network. He often travels to get to know the people at the different oil companies. A few times a year he goes to London and Hamburg to get to know influential people, to meet old friends, and to talk to them about what is happening in different business area. He recounts that several contacts are made through activities like football and meetings at the freighter club in Copenhagen.

Operational economics

During my visits I found some skepticism against the focus on increasing the value of the ships and the value of the company on the stock market –instead the focus on the operational economics was emphasized.

When I talked to the manager of the freighting company, he clarified what really matters by recounting what happened to a shipping company that had declared bankruptcy. The company was family-owned up until five or six years ago. Then, they entered the stock-market.

“They had nice brochures, and a lot of people put money into the company. But they did not have any ‘real’ boats. What they had was garbage. Everyone who knew the business was informed about this, and their reputation within the trade was bad. Still, a lot of people invested in the company and it ended up as a speculation bubble.”

Rasmus continues by saying that he believes more in smaller shipping companies in which the owners themselves are engaged, than in stock-companies that are not owned by the people running them. “There should be owners engaged round the clock. That is the reason our chartering company only uses boats that belong to family-owned shipping companies.”

When they are deciding about ordering a new ship their focus is on the operational economics instead of the value of the ship. Rasmus told me that a ship like this would reach break even with an investment capital of 10% equity and a market where the freight rates are 9000 USD. Today the freights are around 11.000. Based on experience they know that if it gets really bad the freight rates can come down to 9.000 USD. That can be compared with the freight rates in good times that are around 17.000 – 18.000 USD.

The people at the shipping company talked a lot about the quality of different solutions and its costs in the long run. Overall, they strive to avoid unnecessarily reparations. Below is one example on a typical story that they usually tell each other.

We putted walls under the bridge (in order to cover the pipelines that lies on the däck) in order to cover the pipelines. And now it is common knowledge that this is how you should do it. But shipping company Y has not done it. They have putted walls under the bridge but not the whole way down. Why? Because if you do you have to pay harbor fees

of 1000 USD per year. A Danish company did also chose to not do it and they had to replenish the pipelines it costs a lot. But the pipelines on Furevik is in the same condition today as when we first get them, we have benefited from this. The tunnel for the pipelines works well for both our ships.

Another example is when they told me about when their first freight with their new ship Furenäs.

When we arrived with Furenäs, when she was completely new and we were supposed to make our first travel from the shipping yard and load in Mongstad and then unload in Oslo it was another ship that loaded before us in Mongstad. It was an oil tanker from Germany (...). I was going from Mongstad to the same kay in Oslo as we. When we come to Oslo it was there and we had to wait while it unloaded. The German ship had been at sea for two months, I think, before it arrived to Oslo. It had been doing a couple of freights and had exactly the same amount of cargo as we. The same cargo and it was going to be unloaded in the same tank. And, despite of that we unloaded four hour faster, on our first trip. If we should have done it today we would probably had been two hours faster and totally sex our faster than the ship from Germany. And, we could see it directly: what we let built is more efficient. We have more capacity on our things and or systems work better. It is a measure. If these two ships had been in a time-charter agreements for an oil-company and only been doing freights between Mongstad and Oslo the Oil-company would have saved 6 hours per trip with a ship as ours.

When I asked about if calculations and accounting had any importance to what they do I was given the following answer:

Of course. You always count about if it cost to much. I think every shipping company do that, yes, I do not know about anyone out here in the archipelago that does not depreciate their ships in certain amount of time. We do it over 15 years and that is common out here. We do not calculate with any residual value in our book-keeping but depreciate until zero. But if you compare with shipping companies listed on the stock market which claim that the residual value is 50 % on their ships when they are 30 years... that is not how we do it. And that is a completely different valuation on the fleet...

...

If you look at it from their perspective we carry an extra back-pack all the time, since we depreciate our ships in fifteen years. When we make our balance-sheet it is of course a disadvantage all the time. But as we see it we have a 'free value' when we come to year 15, this free value is what we shall use when we order our next ship. If we had depreciated the ship only to 50 % half of the money would have be gone. Therefore if we want to continue we should probably continue do it this way. But, then I can putted it this way also, I do not think that a depreciation to zero over 15 years is not completely right. Maybe we should have a depreciation period of 20 or 25 years.

That the shipping company chose to take the costs as soon as possible gives them a "free value" or a buffert that they can use when they buy their next ship. But it also put pressure on them to be efficient in their operating.

Another thing that complicates things for smaller shipping companies today is the increasing amount of quality assessments from oil companies and insurance

companies etc. It has become a too heavy load for a small company. Therefore many seek collaborations with bigger companies that already have an organization for this. Also, the oil companies do not want to do business with a lot of small companies but want to see bigger companies.

This development also affects the accounting and adoptions of IFRS. Since the bigger listed companies that often is the center for collaborations and owns parts of the smaller firms' ships, have to apply IFRS - they need to value all ships according to fair value. Therefore many of the smaller companies need to take part in an IFRS valuation of their ships. However, one of the bigger companies (Broströms that the shipping company presented above has a collaboration with) tries to avoid a valuation of their ships according to IFRS. In a footnote to their accounting the company gives the following information:

“It should be noted that, in connection with the adoption of IFRS, the company has chosen not to restate the book values of vessels to fair value. The reports have been prepared using the cost method, with exception for financial instruments, which are measured at fair value. The Group has analyzed the standards, amendments and interpretations that took effect in 2007. The following standards, amendments and interpretations of published standards are not relevant for the Group: IFRS 4 – Insurance Contracts, IFRIC 7 – Application of the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies, and IFRIC 9 – Reassessment of Embedded Derivatives. In other respects, the Group applies the new IFRSs that have emerged and which are relevant for the company.”

(Broströms, annual report 2007)

Operational economics and IFRS

There a lot of things that is hard to quantify. Especially when it comes to the social dimension and the fact that the company is part of a personal network etc.. This gives rise to the importance of social accounts. The people in the shipping company belong to a community and strive to act in a way that is possible to give account for. Accounts that the community feels sympathy for are, in this case, actions that help to reproduce the Donsö shipping culture as a culture with high quality ships.

On Donsö the port functions as a meeting place where an audience who passes judgments watches over the Donsö tradition. The elders on the island who meet daily at the “liars’ bench”, the bench down by the docks where yarns are told (ljugarbänken”), act as storytellers. They provide examples and uphold good morals.

In this culture you do not feel sympathy for people that earn money, or that is not the first thing that you tell your nighbours. Instead people talk about different ships and different solutions. When it comes to the economic dimension the focus is more on the operational dimension than the financial dimension. The way they work is not that much about maximizing the value in the balance sheet. The overall goal could instead be expressed as building up a bigger fleet with high quality. However, they are very economic oriented when it comes to what solutions they should choose, for example when which propeller that last longest and what expenses they give rise to. They assess how fast they can do the freight and how they can keep their cost low.

As indicated above the freight rate is very hard to predict and it is therefore hard to base your economic decisions on this. But you can focus on the operational costs and quality. One way of protect yourself from the market risk is to create a buffer.

When the company tries to increase their buffer the risk for some shareholders are reduced. Creating a high buffer is also something that is compatible with managing for the long run. With a high buffer the company can survive bad times, compared to if they had been using FVA.

IF FVA had been used the company may have acted in a different way. With the buffer the company can wait and see. That reduces the risk, in the short run, for the employees and other shareholders and it benefit the existence of networks since it creates more stable relations.

Shipping industry is a risky business and it seems like collaborations are a way for the companies to protect themselves from market risks. The people in the study did often express negative feelings against what they call unserious owners. For example: people from other industries (or pure financial shareholders) with too much money and who need to put the money into something.

When the shipping company seeks capital for their ship they want to make sure that they put in that much money into the new ship that they are able to control it. They seek collaborations with other companies in the shipping industry that understand the importance of taking care and are interested in developing ships. It is the same thing when they choose bank – they want to have creditors that understand what a ship is.

Successfulness for a family-run shipping company depends on collaborations. Therefore it is important to be able to give account for historical performance

(historical records). In other words, a shipping company's success depends on what they have done before – if they have avoided accidents; if they have enough money to survive bad market conditions; if they have good reputation that add goodwill to the collaborations they want to join etc.

The market for tankers as well as for tanker freights fluctuates a lot. If you are lucky you can earn the same amount as what you have paid for the ship in a couple of months. But the market can also be very bad and it is possible that a shipping company has to accept freight prices under break even for several years.

What you can do is to have very good timing when it comes to buy and sell your ships. Another strategy is to have higher quality and solutions that make it possible to have lower cost for the ship, compared to competitors. In times of depressions the shipping companies with highest costs and lowest cushion (buffer) will be the first who gets financial problems.

This way of thinking is not compatible with the focus on the balance sheet and FVA. Furthermore, it is a very big problem to calculate the future cash flow since it is impossible to predict the future freight rates together with the second hand price for a ship.

The way that the shipping company in this article work must also be understood against the special tax modes for the shipping industry in Sweden (but shipping companies enjoy different beneficial taxes in most countries). One model that has existed in Sweden makes it possible to use the money that you get when you sell a ship to buy another without paying any capital gains tax (if you manage to get more money for the ship compared to what the value in the balance sheet is.) In other

words, with this tax system the shipping company has an incitement to make high depreciations (as long as they make profit) and then sell the ship and buy a new one. The intention with this tax system is prohibit speculations in ships and give shipping companies incitements to reinvest in new ships. (SOU: 2006:20)

Even if IFRS do not picture the reality it has unintentional effects (as Barlev and Haddad, 2003 has pointed out). An adoption of IFRS would change the characteristics of family-run business. A small and medium size company is a complex thing and it needs accounting regulations that consider their special situation. A company's situation can differ from industry and industry but also from nation to nation. Sometimes the state might need to use the opportunity to use taxes and accounting to stimulate long-term investments – this is probably especially true for industries, especially the ones that contain a lot of risks and are developing in smaller countries. In these industries the development of collaborative networks in order to avoid the markets uncertainty seems to be crucial.

But, when the capital in the hands of financial actors, both active and anonymous owners, becomes dominated it affects the industry. Of course, financial capital can give opportunities for shipping companies that want to invest in a new type of ship that traditional investors (industrial capital) do not believe in. But financial capital can also stimulate speculations in ships and give rise to a business that do not develop quality ships or develop the collaborations in the industry.

The strategy of the shipping company that has been told about in this article is to create long-term relations, not to enter and exit the market, which offers the cargo-owners (customers of the shipping service) stability. In this way, the same staff can be kept and their competence gained from long experience with boats and machines.

There are also other non-intentional consequences that IFRS for SME/family-run business could give rise to. For example an IFRS based accounting could make the owners/managers start to interpret themselves as not belonging to a society but exist in order to maximize the value of the company (Forsberg and Westerdahl 2007).

When international accounting standards are developed against the background of fiction about capital markets many important aspects are leaved out. Ethnographic studies can help us develop accounting regulations and standards since it does not reduce the complexity of reality but consider many different circumstances and actors, unique for different industries and regions.

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