

**The Evolution of Research on International Accounting
Harmonization:
An Historical and Institutional Perspective**

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Abstract

International harmonization of accounting standards has been the goal of many professional and academic accountants for the last half century. Commencing with January 1, 2005, the process of international accounting harmonization (IAH) has entered into a new and perhaps decisive phase. From that date, all companies domiciled in the European Union with shares listed on stock exchanges must prepare their consolidated accounts in accordance with International Financial Reporting Standards (IFRS). This landmark event presents an opportunity for accounting researchers to assess the status of research on IAH. In this paper, we review and analyze IAH research published in major English language accounting journals from the early 1960s through 2004 in order to trace the evolution of this stream of research. We conclude that the evolution of IAH research reflects a trend towards institutional isomorphism that is also present in the IAH process itself. Implications for future research on IAH are discussed.

Keywords: Accounting History, Accounting Research, International Accounting Harmonization, Institutional Theory.

Introduction

As processes of globalization increasingly impact our world, there have been increasing calls for international harmonization of accounting standards, particularly in countries with market based economies and advanced capital markets. International harmonization of accounting standards has been the goal of many professional and academic accounts for the last fifty years. Progress has often been slow in reaching this goal. There have been impediments to the creation of a single set of accounting standards for all countries, not the least of which are cultural and economic differences. Nevertheless, the process of international accounting harmonization appears to have entered a new and decisive phase. From January 1, 2005, all companies domiciled in the European Union with shares listed on stock exchanges must now prepare their consolidated accounts in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). This landmark event presents an opportunity for accounting researchers to analyze the evolution of research on international accounting harmonization and to assess where this research may proceed from here.

There are a number of different subjects that could be examined within the overall topic of international accounting harmonization (hereafter IAH). These subjects include: comparisons of international accounting practices; the influence of external factors (cultural, economical, financial, political, etc.) on accounting practices; obstacles to international accounting uniformity; the possibility and the necessity of establishing international accounting standards; the reasons for different accounting choices; the impact of the European accounting directives; the implementation of IAS/IFRS in different countries; the effects of the conceptual framework; IASC/IASB history; and measuring the extent of international accounting harmonization.

The primary objective of this paper is to structure and classify the prior IAH research using a dynamic typology. We first divide the prior literature into three time periods and then classify the subject matter within the time periods. We then analyze how the subject matter has changed between the time periods. Using this dynamic typology we have been able to discern the primary characteristics of IAH research in each time period, and to describe and discuss the evolution of this field of research over the total timeframe studied (early 1960s to the present).

In the first part of the paper, we present our research framework, including; a discussion of the labyrinth of terminology used in the IAH research literature; an outline of the principal aspects of our methodology; and a discussion of the key events in the IAH process. In the second part of the paper, we discuss representative IAH research during the period of harmonization (1960-1973). The third part of the paper deals with research during the period of normalization (1973-present). In the fourth part, we provide a summary of the evolution of IAH research and explain the apparent trend towards institutional isomorphism in this area of research.

Part I: The Research Framework

In this part of the paper we discuss our research methodology. Prior to discussing the methodology *per se*, we try to clear up the maze of terminology that is used in IAH research.

1.1. Throwing light on the labyrinth of terminology

The two terms most frequently used in the IAH literature are: *harmonization* and *standardization*. Ménard (1994) suggests that standardization is a process of reducing accounting choices with the ultimate goal of uniformity. In contrast, Haller and Walton (1997: 10) apply the same definition to the concept of *normalization*. Consequently, the definition of harmonization and standardization depends on the author. Essentially, there are three distinct concepts that need to be defined: *harmonization*, *normalization* and *standardization*.

➤ **Harmonization** seeks to reduce the variety of accounting choices and to make them more comparable. Expectations of authors with respect to the eventual degree of harmonization vary. ‘Strong’ definitions coexist with ‘weak’ definitions. For example, in the strong category, we find Nobes and Parker (1981: 329), who believe that harmonization is a process of reducing alternative accounting choices and increasing the uniformity of accounting practices. Choi and Mueller (1984: 470; 1992: 257) are representative of a second attitude. They content themselves with an absence of contradictions between accounting practices. Meek and Saudagaran (1990) belong to this second category. They argue that harmonization involves a conciliation of various points of view, thereby avoiding logical conflict. This degree of harmonization does not prevent the existence of choices between different accounting practices. A similar view of harmonization was expressed by Tay and Parker (1992: 218) who stressed that there should be flexibility within harmonization. Van der Tas (1992: 212) occupies a middle position between the views of Nobes and Parker and Choi and Mueller. He recognizes the importance of a uniform set of accounting rules, but acknowledges their ‘less strict’ character. Based on a review of the literature, our conclusion is that harmonization should be viewed as the first stage in the overall process of IAH.

➤ **Normalization.** This term has been used in certain non-English speaking, European countries as being equivalent to standardization. This may be because the English word ‘standard’ has been translated as ‘norme.’ Consequently, the meaning of the word standardization has sometimes been misconstrued as normalization. Because of this confusion in terminology, we define normalization to be situated between harmonization and standardization. In a period of harmonization, there are accounting rules, but they are not strict, and they allow for options. As the process of IAH continues, rules become ‘normalized,’ thereby becoming more strict, thus leading to a reduction in the number of choices. Tay and Parker (1990) define normalization as ‘a movement towards uniformity’. We believe, however, that uniformity can only be reached during a period of standardization, not normalization; therefore, normalization constitutes an intermediate stage between harmonization and standardization.

➤ **Standardization** is defined as a period of uniformity or near uniformity. Standardization is more ambitious than harmonization or normalization. This is because, standardization implies the adoption of a unique set of accounting rules, with universal application. As argued by Choi and Mueller (1984: 470; 1992: 257), Samuel and Piper (1985: 56) and Cañibano and Mora (2000: 351-352), standardization is the ultimate goal of the IAH

process. As Tay and Parker (1992: 218) point out, in a period of standardization, accounting choices would not exist. For a better understanding of the differences between these three ideas, please see Figure 1.

*****Insert Figure 1 here*****

To summarize, we propose that the overall process of IAH begins with a period of harmonization, which is followed by a normalization period, which is in turn followed by a standardization period. The history of IAH to date, has involved only a harmonization period and a normalization period. The period of standardization has just begun.

1.2. The methodology

In order to explain our methodology we first discuss: the selection of material pertaining to IAH; second, the selection of academic journals; third, the identification of articles; fourth, the classification of articles.

1.2.1 Selection of material pertaining to IAH

We initially attempted to identify all of the available literature pertaining to IAH, including: articles in academic journals; articles in non-academic journals; articles in newspapers; directives and other material issued by the European Commission; material from large accounting firms; chapters in accounting books, and so forth. The extent of this material was formidable. By analysing a sample of these documents, we concluded that the most important contributions to the literature have appeared in academic journals. Therefore we focused our research on academic accounting journals.

1.2.2 Selection of academic journals

In order to place a limit on the scope of the research, a decision was made to concentrate on English language journals. There were several reasons for this decision. First, we observed that non-English language journals, which are primarily intended for a national audience, do not publish a great deal of research on IAH. A second factor was that IAH specialists from various European countries often publish their work in English language journals. Consequently, our decision was to restrict our search for articles pertaining to IAH to the English language journals shown in Appendix A. This list of journals includes all English language accounting journals that have the word international in their title, along with a number of other journals that are generally recognized as being of high quality (see Lowe and Locke, 2005; Swanson, 2004; and Prather-Kinsey and Rueschhoff, 1999 for examples of previous studies which have looked a journal quality in the international area). We also included the *Journal of Accountancy*, published by the American Institute of CPAs, because of its early influence on the IAH process.

*****Insert Appendix A*****

1.2.3 Identification of articles

We reviewed all of the English language accounting journals listed in Appendix A from the date of their inception. The identification of IAH articles was based on a systematic analysis of tables

of contents, abstracts and keywords. If the title or the keywords did not include a connection with our subject, but the abstract contained an idea that caused us to read the article, we read the article completely. Therefore, even if the title, keywords, or abstract did not mention IAH directly, we were able to identify articles pertaining to IAH. This process resulted in the identification of more than 200 articles. We observed that IAH research, or more precisely, research focusing on international comparisons of accounting practices, first began to appear in the early 1960s. Therefore, our analysis began in 1962 and covered a period of more than forty years to the end of 2004.

1.2.4 Classification of articles

In order to trace the evolution of research on IAH, it was necessary to classify the articles. We considered two possible ways of classifying the articles: (1) by identifying the subject matter of the article and then analyze any changes in the subject matter during the entire period studied, or (2) to divide the total period studied into several subsidiary time periods and then analyze changes in the subject matter between subsidiary time periods. The second alternative was chosen for two reasons. First, the relationship between the IAH process and IAH research could be studied in two directions (i.e. the way the process influenced the research and the way the research influenced the process). Second, it was easier to observe the changes in the subject matter by comparing the changes that took place between subsidiary time periods. Thus, in the first phase of our analysis, we classified articles according to the subsidiary time period, and then classified the articles according to their subject matter (see Figure 2).

*****Insert Figure 2*****

The three subsidiary time periods used in the study are explained in the next part.

1.3. Identification of important events in the IAH process

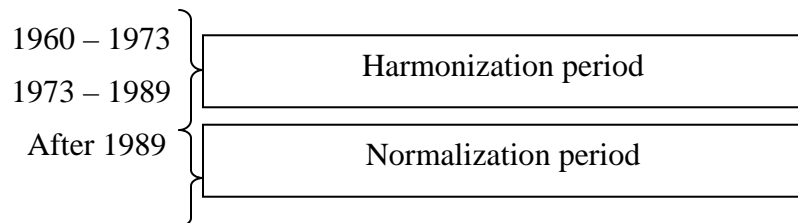
In this section we identify several important dates and key events which serve as landmarks for the IAH process (see Figure 3). Our analysis begins in 1962, which represents the appearance of the first articles that had a clear focus on IAH (Englemann, 1962; Jennings, 1962). These articles dealt with accounting problems in developing countries and the possibility of establishing international accounting and auditing standards. Both of these articles appeared in the *Journal of Accountancy*, which is the official journal of the American Institute of CPAs. At that time, *The Journal of Accountancy* published both professional articles and academic research. Articles appearing in the *Journal of Accountancy* were often intended to influence the establishment of accounting standards and practices. Thus, these initial articles provide evidence of an incipient interest among American accounting academics and practicing accountants in the field of IAH. Beyond the *Journal of Accountancy*, there was little accounting research on IAH published between 1962 and 1965, a date which marked the establishment of the *International Journal of Accounting* at the University of Illinois. Since 1965, the *International Journal of Accounting* has been an influential publisher of research on IAH, with 38 citations included in our list of references at the end of this paper.

Another important event was the creation, in 1966, of an International Study Group by the American Institute of Certified Public Accountants (AICPA), the Institute of Chartered

Accountants of England & Wales (ICAEW) and the Canadian Institute of Chartered Accountants (CICA). The purpose of this group was to compare the accounting standards of the United States, United Kingdom and Canada. The International Study Group quickly evolved into the Accountants International Study Group, and eventually this body issued a number of research studies on international accounting standards. The Accountants International Study Group also became the basis of what would eventually become the International Accounting Standards Committee (IASC). After the creation of the Accountants International Study Group, a quiet period followed until 1972, when during the 10th International Congress of Accounting in Sydney, Australia, a decision was taken to create the IASC. The IASC came into existence in 1973. This was also the year that the US Financial Accounting Standards Board (FASB) was created. Therefore, 1973, which included the creation of IASC and FASB, represents the first major dividing point in our timeline. This date also represents the mid-point of the harmonization period (1965-1989). We divided the overall harmonization period into two sub-periods because we observed that there was a change in subject matter between these two sub-periods, and there was an intensification of research on IAH after 1973 (see Figures 4 and 5 and Table 1).

*****Insert Figures 3, 4, and 5, and Table 1*****

The year 1989 was also selected as a significant date because it represents the dividing line between the harmonization period of IAH and the normalization period. This date corresponds with the creation of the Comparability Project of the IASC, a project which eventually led to a reduction in the number of options in international accounting standards, and later, to the acceptance of IAS by IOSCO and by European companies. Consequently, we divided our research into three sub-periods as follows:



1.4 Classification of articles by subject

In order to identify the possible ways of classifying IAH research by subject, we reviewed prior research that had proposed classification schemes for articles in international accounting. Previts (1975), Meek and Saudagaran (1990) and Zambon (1996) have all created classification schemes for research in international accounting. On the basis of this prior work, we decided to classify IAH research within the general framework of international accounting research. The typologies of van der Tas (1992), Barniv and Fetyko (1997) and Rahman, Perera and Ganesh (2002) were also quite useful. In addition, several subjects were identified by studying articles directly. Our initial list of subjects for the first subsidiary time period running from 1962 to 1973 is shown in Table 2 and is discussed in the next part of the paper.

*****Insert Table 2*****

Part II. Research on accounting harmonization (1960-1989)

We divided the overall harmonization period (1960-1989) into two subsidiary time periods. The first period extends from 1960 to 1973, and the second period extends from 1973 to 1989. The principal differences between the two periods relate to the emerging nature of the IAH process during the first period and the greater sophistication and intensification of research during the second period.

2.1 Research on accounting harmonization before 1973 (1960-1973)

As Figures 4 and 5, and Table 2 indicate, the amount of IAH research during the first subsidiary time period was limited. With respect to the general topic of international accounting, Beazley (1968) counted 26 articles in *The Journal of Accountancy* and *The Accounting Review* between 1959 and 1967. We counted a total of 50 articles published from 1962 to 1973 dealing with accounting practices in various countries, of which 31 related specifically to IAH (see Table 2). The subject matter of the research at that time was diverse, including subjects such as: *accounting uniformity; factors of the environment; comparative research on accounting standards; the analysis of international accounting practices; interest in the European situation; reflections on the IAH process*. Some of these subjects continued to be of interest throughout the total period from 1962 to the present. Others changed or merged into other subject matters.

2.1.1 Accounting uniformity. The first subsidiary period, beginning in the early 1960s, was generally a period of growing interest in accounting uniformity, particularly among the advanced industrial countries (Wilkinson, 1965; Morgan, 1967). Wilkinson (1965: 11) defined accounting uniformity as follows: “*each company presents only one set of accounts for all investors, of whatever nationality*”. This interest in accounting uniformity was evidenced by the inclusion of topics dealing with accounting uniformity at international congresses on accounting, publication of international accounting guides by large public accounting firms, and publication of international accounting literature by other organizations, such as those serving the legal profession. A number of efforts were made to compare and understand the differences between accounting practices in different countries (AICPA, 1965). These efforts signal the emergence of the IAH process. For example, Morgan (1967: 28) argued that it is important to understand the economic and political systems, the national and ethnic history and language of other countries in order to understand the accounting standards and practices in those countries. In this context, the Committee on International Relations of the AICPA gathered information about accounting standards and practices in various countries (AICPA, 1965). According to Wilkinson (1965: 11), “*this book is in part a reply to the pleas for uniformity of accounting throughout the world that have been heard at almost every one of the more recently held International Congresses on Accounting*”. Apparently, it was believed that uniformity could be achieved through a better understanding of differences in practice (Beazley, 1968; Alhashim, 1973).

2.1.2 Comparative research. In this initial period of harmonization, research on IAH focused primarily on the possibility of achieving accounting uniformity, or at least, obtaining a better understanding of differences in accounting practices among advanced industrial countries (Kollaritsch, 1965; Davison and Kohlmeier, 1966; Beazley, 1968; Hatfield, 1966). Thus,

comparative studies on accounting standards and practices attempted to explain the diversity of international accounting, especially in the European setting. Several authors attributed the existence of accounting differences to external environmental factors. Among these external factors, the most commonly referenced were differences in economic and legal systems (Englelmann, 1962; Enthoven, 1965; Lowe, 1967; Linowes, 1969; Mueller, 1968). During this first period of IAH research, there was also a significant degree of reflection on the possibility of achieving international harmonization in the face of various impediments (Jennings, 1962; Moonitz, 1969; Morgan, 1967; Clapp, 1967). Often these reflections focused on the possibility of establishing a uniform set of international accounting principles (Savoie, 1969; Mueller, 1970). These reflections eventually influenced the process of IAH when the IASC was created in 1973.

2.2 Research on accounting harmonization after 1973 (1973 – 1989)

After the creation of the IASC and the FASB in 1973, several new subjects appeared in the literature on IAH, including studies which focused on the *history of the IASC*, explanations of the reasons for *accounting choices*, studies of the *conceptual framework*, and studies of the impact of the *Accounting Directives* of the European Union. There were also recurring subjects, such as *accounting uniformity*, *factors in the accounting environment*, *comparative research*, *analysis of international accounting practices*, *interest in the European situation*, and *reflections on the IAH process* (see Table 3). Many of these subjects, such as accounting choices, reflected the growing interest in empirical research in the United States, while other subjects, such as the *conceptual framework* reflected developments in accounting standards-setting in the United States under the newly created FASB. In Europe, there was a growing interest in the effects of the *Accounting Directives* issued by the European Commission.

Insert Table 3

2.2.1 New subjects: The IASC. There were two primary sub-areas within the subject of the IASC. The first one dealt with histories of the IASC and the other dealt with international accounting standards (IAS)¹.

➤ **History of the IASC.** Shortly after the creation of the IASC, in 1973, histories of that body began to appear. Lord Benson (1976, 1989), who was instrumental in establishing the IASC, produced two histories regarding its founding. Cummings (1975) also discussed the background and origins of the IASC.

➤ **Standards of the IASC.** IASs issued by the IASC were studied by two authors in particular: Baxter (1981) offered an analysis of the history, advantages and disadvantages of IAS. He also explained the methodology of the standard-setting process and expressed concerns about the growing intensification of the process. A similar notion of intensification was shared by Bromwich (1980) who underlined the possibility of optimizing the standard-setting process by reducing the number of accounting options.

2.2.2 New subjects: accounting choices. For the most part, the new subject of accounting choices focused on the domestic American setting rather than on the international setting.

¹ Now International Financial Reporting Standards (IFRS).

However, this line of research also began to influence researchers who extended the subject into the international arena. Harmonization involves the convergence of accounting methods. Therefore, research pertaining to the reasons why managers and accountants choose particular accounting methods came to be of interest in both the domestic American setting and the international setting. *'Numerous accounting problems derive from the difficulty of choosing between several types of accounting information'* (American Accounting Association, 1972: 317). The background of the accounting choice literature began in 1970 with Feltham and Demski's normative theory to evaluate alternative systems of accounting information. Their normative theory facilitated the understanding of the problems of accounting choices, but they under emphasized the accountant's ability to apply this theory. In contrast, Uecker (1978) studied the accountant's capacity to apply normative theory to make a relevant choice. Joyce, Libby and Sunder (1982) observed that accounting choices vary according to the qualitative characteristics of various alternative accounting methods. Previously, Gordon (1964) and Dyckman (1964) had analyzed managers' economic motivations with respect to choice of accounting methods and concluded that managers are guided primarily by profit maximization. Working with the accounting choice model, Ball (1972) and Sunder (1975) demonstrated empirically that at the market level, choices between accounting methods accord with the efficient market hypothesis, meaning that the market generally sees thorough accounting choices. Watts and Zimmerman (1978) proposed another theory about the economic motivations of managers which incorporated factors such as political motivations and agency factors. Hagerman and Zmijewski (1979) and Holthausen and Leftwich (1983) also reviewed research concerning the economic consequences of accounting choices. Summarizing this literature, Griffin (1983: 131), concluded that managers prefer accounting rules that: (1) present a fair statement of financial situation and performance to all users, (2) maximize the wealth of the present shareholders, (3) maximize the market value of the firm's assets, (4) satisfy regulations, (5) maximize the utility of managers' pecuniary and non-pecuniary wealth, and (6) present numbers in conformity with generally accepted accounting principles, applied consistently over time. The subject area of accounting choice thereafter formed the basis of research in the international arena.

2.2.3 New subjects: conceptual framework. The idea of establishing a conceptual framework for financial reporting was present in both the practicing and academic literatures in the United States for many years, dating to at least the 1940s and Patton and Littleton's (1940) famous book. One of the first items on the agenda of the newly created FASB in 1973 was the creation of a conceptual framework. The American conceptual framework was developed on a piecemeal basis over seven years between 1978 and 1985. There are five documents that comprise the conceptual framework. These include: Statement of Financial Accounting Concepts 1, 2, 5, and 6.² There has been a considerable amount of debate in the American accounting literature whether the conceptual framework has accomplished what it was intended to do, that is serve as a unifying framework for accounting standards-setting. The extension of accounting researchers' interest in establishing a conceptual framework for financial reporting in other countries, and in the international arena, was prompted by the same desires for accounting uniformity that had existed in the earlier period from 1962-1973. For example, Peasnell (1982) argued in favour of the creation of a conceptual framework for financial accounting in the United Kingdom and he

² See FASB at <http://www.fasb.org/st/#cons>.

felt that this ought to be extended to international accounting standards-setting. Later, DePree (1989) analyzed the structure of the FASB conceptual framework and its potential applicability to international accounting standards-setting.

2.2.4 New subjects: accounting directives. One of the principal reasons for the creation of the European Economic Community³ (EEC) was to establish a free market for goods and services throughout Europe. The EEC also wanted to create a uniform set of commercial laws in order to facilitate the creation of a common market. This goal led to the issuance of Accounting Directives which would provide the basis for a uniform set of accounting standards among the countries of the European Union. There has been little research on the Accounting Directives in the English language literature. This may be because British and American accounting researchers in the 1970s and 1980s did not believe that harmonization of accounting standards in the European Union was achievable and therefore they did not focus on this subject. Nevertheless, this subject eventually came to be of great interest to accounting researchers. The 4th Accounting Directive (1978) dealt with valuation rules, financial reporting standards and annual reporting obligations. The origins of this Directive, dating from 1971, came from German corporate law. Valuation rules were conservative and financial reporting standards were detailed. The entrance of Denmark, Ireland and the United Kingdom into the European Community led to a modification of the Directive in 1974, in the direction of increased financial reporting flexibility. The 4th Directive also introduced the concept of the ‘true and fair view’ into European accounting standards (Nobes, 1993).

➤ **Harmony in the European Union.** The idea of accounting harmony within the European Union was felt to be essential to the creation of a common market. Burnett (1975) presented a survey of the accounting harmonization efforts in the EEC that were accomplished through the Accounting Directives, especially the 4th Directive.

➤ **Contributions of the 4th accounting Directive.** Turley (1983) discussed the impact of the 4th Directive on corporate law. The general lack of research on the Accounting Directives may also be explained by the weakness of the Directives in comparison with international accounting standards issued by the IASC.

2.2.5 Continuing subjects: accounting uniformity. While there was a continuing interest in accounting uniformity during the period from 1973-1989, this interest was largely expressed through the goal of creating a conceptual framework for international financial reporting.

2.2.6 Continuing subjects: factors of the accounting environment. Before 1973, two factors of the accounting environment were analyzed to explain diversity in accounting practices, that is, cultural and economic factors. The impact of these factors continued to be studied during the period after 1973.

➤ **The Cultural Factor.** The impact of cultural factors was the subject of studies by Schreuder (1987) and Perera (1989b) who applied the cultural frameworks of Hofstede (1980) and Gray (1988) to an analysis of differences between countries. Cultural variables also interested Violet (1983) who attributed the relative lack of success of the IASC to cultural factors. Belkaoui (1978, 1980) and Flamholtz and Cook (1978) viewed language as a cultural

³ Today the European Union.

factor and studied the impact of language on accounting practices. Soeters and Schreuder (1988), Jaggi (1975), Nair and Frank (1980), McComb (1979), Bromwich and Hopwood (1983), Choi and Mueller (1984) and Belkaoui (1983) analyzed the impact of national culture on accounting practices in various ways, including both empirical and conceptual methods.

➤ **The Economic Factor.** The impact of economic factors on accounting practices was discussed by several authors. Gray (1988) and Perera (1989b) concluded that international harmonization of accounting practices did not depend solely on the level of regulation within an economy, but also on macro-economic factors. Chow and Wong-Boren (1987) analyzed micro-economic factors which may influence accounting choices and the financial reporting practices of companies. Some researchers went further by proposing a classification of countries according to factors in the accounting environment. Mueller (1978), Choi and Mueller (1978), DaCosta *et al.* (1978), Frank (1979), and Nair and Frank (1980) analyzed a number of economic factors which appear to influence the accounting practices of various countries in order to develop classification schemes.

➤ **English Speaking Countries' Influence on IAH.** The involvement of the US Securities and Exchange Commission in the international accounting standard-setting process was analysed by Newman (1981b). This American influence on IAH can be viewed as a political influence. However, in a general sense political factors have rarely been considered as having an impact on differences in accounting practices.

2.2.6 Continuing subjects: comparative research. A number of studies appeared during the 1973-1989 time period which addressed differences in accounting standards in different countries. Similar to the initial period of harmonization, it was believed that by understanding differences, uniform practices would emerge. Some of these studies are summarized below.

➤ **History of Accounting Developments in Different Countries.** While not dealing directly with the IAH process, Zeff (1984) influenced research on IAH through his survey of the most important events in the accounting standard-setting process in the United States during the period 1917 - 1972. For the same historical period, Previts (1984) analyzed the main efforts to set up a conceptual framework for accounting in the United States. These studies were emblematic of a persistent belief among American accounting academics and practitioners that the accounting standards-setting process in the United States was more advanced than that of other countries, and that by highlighting developments in the American accounting standards-setting process, this would lead to a greater harmonization of international accounting standards. Resistance to American dominance in the accounting standards-setting process eventually led, in part, to the creation of the International Accounting Standards Board (IASB) as a replacement for the IASC. This was because most countries viewed the hegemony of the FASB to be unacceptable in an international setting.

➤ **International Studies.** Another subject investigated during the 1973-1989 period looked at comparisons between countries. For example, Barrett (1976) measured the degree of financial accounting disclosure by 103 companies in seven countries: Germany, the United States, France, Japan, the Netherlands, the United Kingdom and Sweden. He analyzed annual reports from 1963 to 1972 and concluded that the financial disclosure of English and American companies was more complete than that found in five other countries. France was found (p. 24) to have the lowest level of detail of financial statement disclosure among the seven countries analyzed.

➤ **Comparisons between IAS and US GAAP.** Comparisons between IAS and US GAAP became increasingly common during this period. For example, Rivera (1989: 332 - 338) compared IASs (29 at that time) and their American equivalents.

➤ **Differences in Practices.** Differences in accounting practices were address by several authors. For Fitzgerald (1981), Choi and Bavishi (1982) and McComb (1979), the reduction of the differences in practices was considered to be essential to the IAH process. Gray (1980) also tried to estimate (through the C index of conservatism) the impact of differences in accounting standards on various measures of company performance during the timeframe from 1972 to 1975. The impact of differences in accounting practices on performance measures alerted researchers to the possibility of investigating the relationship between capital market variables and accounting practices in the international setting.

2.2.8 Continuing subjects: analysis of international accounting practices. In the second subsidiary period, this particular subject became less important and less distinct from the subject of comparative research.

2.2.9 Continuing subjects: reflections on the IAH process. This subject continued to be important during the second subsidiary time period, with a number of different foci of research, including overcoming obstacles to the implementation of accounting harmonization.

➤ **Obstacles to the Implementation of Accounting Harmonization.** This subject was studied by Fantl (1971), Hauworth (1973) and Rivera (1989). Among other things, these authors investigated: the variety of viewpoints concerning the purposes and goals of financial reporting; the various preoccupations of the accounting profession in different countries; the various recommendations emanating from professional bodies; the tax system's influence on financial reporting; the demands of commercial legislation; the various economic aspects which affect financial reporting; the lack of a credible international accounting harmonization body.

➤ **The Necessity of IAH.** This subject was investigated by Hauworth (1973) and Wyatt (1989) who underlined the idea that beyond shareholders and other external users of financial reports, multinational corporations also use such reports, therefore demonstrating a demand for international comparability and harmonization of financial reporting. These articles indicate the importance of IAH and provide a motivation for standard-setting bodies to move forward on their harmonization projects.

2.2.10 Discussion. Compared with the first subsidiary period of the IAH process (1962-1973), the second period (1973-1989) is characterized by an intensification of research (31 articles in the first period versus 70 during the second), as well as an increase in the number of accounting journals (11 during the first period and 24 for the second). In addition, the research subjects were more diversified than in the first period. Several recurring themes, such as international accounting practices and the influence of environmental factors are complemented by new themes, including: the history of the IASC; the conceptual framework; studies on European Accounting Directives and choice of accounting methods. These changes in subjects studied reflect the growing interest in empirical research among American accounting researchers and the efforts of the emergent FASB to create a conceptual framework for financial reporting. The changes also reflect the growing power of the Commission of the European Union to establish uniform accounting standards and practices using Accounting Directives. In the following section the next time period in the IAH process (1989-present) will be discussed. This period represents an evolution from a period of harmonization to a period of normalization.

Part 3. Studies on accounting normalization (after 1989)

At the end of the accounting harmonization period (1962-1989) and the beginning of the normalization period (1989 to 2004), there continued to be a variety of accounting practices used by companies in different countries. Many IAH research studies investigated the factors that caused this variety. Some authors developed a classification scheme for countries. Others pointed to factors impinging on the IAH process such as: the lack of a conceptual framework; conflicts between international and American standards; economic and cultural reasons for choices between accounting alternatives; and measuring the extent of IAH. One new subject introduced during this period was the impact of harmonized accounting practices on share prices and returns. Another new subject sought to measure the extent of IAH. (See Table 4 for a summary of the new and continuing subjects during the normalization period).

*****Insert Table 4*****

3.1. New Subjects: Impact of harmonized accounting practices on share prices and returns

Research concerning the efficient market hypothesis was widespread in the American context by the 1980s. As IAH became more prominent as an area of research, there was an extension of efficient markets research into the international arena. The primary question studied by this line of research was whether it was possible that markets could be fooled by the presentation of different accounting numbers due to the application of different accounting practices in different countries. The use of different accounting practices will affect a variety of accounting numbers (e.g. earnings, return on assets, return on equity, book value, price earnings multiple, etc). Thus, using the conservatism index of Gray (1980), Adam, Weetman and Gray (1993) analyzed the affect of using IAS on earnings and shareholders' returns over the period 1989-1991. Weetman and Gray (1990) and Hellman (1993) demonstrated that variations in the degree of accounting harmonization in different countries can explain differences in the accounting numbers reported by companies (for example: earnings). Weetman *et al.* (1998) discussed differences in the measurement of profit, by comparing English, American and international standards. The same type of diversity was observed by Aisbitt (2002), for whom the harmonization of accounting standards and profit calculations argued for harmonization of tax systems. Alford *et al.* (1993), Amir *et al.* (1993), Bandyopadhyay *et al.* (1994), Barth and Clinch (1996) and Harris *et al.* (1994) all conducted studies of the relationship between the accounting practices of different countries, in particular earnings measurement, and share prices. This subject is important for standards-setters because the results of the research reveal the impact of accounting standards on company profitability, and the relationship of profitability to share prices.

3.2 New Subjects: Measures of the extent of international harmonization

The general objective of this subject⁴ has been to measure the extent of harmonization of accounting practices both at a global and regional levels. We classify research in this area

⁴ A review of the literature regarding these studies was carried out by Morris and Parker (1999) and Cañibano and Mora (2000).

according to the statistical method used to measure the degree of harmonization. We have identified two types of measures: indices and statistical methods.

3.2.1 Indices. The H index (Herfindahl index) is used to estimate the degree of harmonization at national level, and the I index (a variation of the H index) is used to measure the degree of harmonization at the international level. These indices were initially proposed by van der Tas (1988). Because the I index has certain limits, Hermann and Thomas (1995: 275) proposed an alternative to this index – the adjusted I index. However, because these indices do not allow for complete comparability of financial reporting practices, van der Tas (1988) also created the C index which measures the extent of international harmonization. In 1992, van der Tas expanded the C index to take into account the situation where information published in the footnotes allows reprocessing of information that later appears in the accounts. Archer *et al.* (1995) divided the C index into two indexes: intra-national and international. The C index was for a long time considered to be the most reliable way of measuring the extent of IAH. But criticisms have arisen. Krisement (1997) concluded that the number of observations affects the C index. In addition, he criticized the decomposed index of Archer *et al.* (1995), because the sum of the intra-national and the international indices did not equal the global C index. Another adjustment to the I index was proposed by Garcia-Benau (1996) which went under the name of global concentration index. These indices were also criticized by Cañibano and Mora (2000: 349) who criticized the inability of indices to include a significance measure. In their study, they used the C index and proposed a bootstrapping test (pp. 365-366) to calculate the significance of the change in the C index value. Another test to measure the extent of IAH was the Wilcoxon test employed by Lainez, Callao and Jarne (1996) and Aisbitt (2001).

3.2.2 Statistical methods. The chi-square test was utilized by Tay and Parker (1990). Although the chi-square is easily calculated, it has several limitations because it does not consider the sample size and its value is not significant when the number of observations is low or zero. To measure the extent of harmonization in Sweden, Cook (1989) used Cramer's V test and the coefficient of contingency (C) as a supplement to the chi-square test. Krisement (1997) also applied Cramer's V test to measure the extent of harmonization of accounting methods for foreign currency in nine European countries. Another statistical test used to measure the extent of harmonization of accounting practices involves the generation of linear regression models such as those developed by Archer, Delvaille and McLeay (1996) and McLeay *et al.* (1999). This method allows a distinction to be made between the influence of normalization and the effects of harmonization. Taplin (2003) argued that H and C indexes are not adequate to measure the level of accounting harmonization. This is because there is a significant difference between an index (H or C) calculated for the sample and an index created for a population. He proposed (pp. 85, 86) a method to measure this difference – the standard error. The relative use of these measures is summarized in Table 5.

*****Insert Table 5*****

Using the indices and statistical methods presented above, researchers have measured the extent of harmonization of accounting practices of companies located in one or several countries, and for one or several accounting methods (for example: deferred taxation, depreciation, fixed asset

valuation, foreign currency, goodwill, inventory valuation, R&D). Somewhat disappointingly, the majority of authors found a lack of harmonization and little progress in the IAH process.

3.3 Continuing Subjects: Accounting uniformity.

The subject of accounting uniformity emerged during the first subsidiary time period (1962-1972) and continuing to be of interest in other periods. During the normalization period this subject changed into a focus on the conceptual framework as a means to achieve IAH. Studies on the conceptual framework will be discussed more extensively in a later section.

3.4 Continuing Subjects: Factors of the accounting environment

During the harmonization period, the external factors of culture and economics were often analyzed as having an impact on the IAH process. In contrast, during the normalization period, the diversity of accounting practices was explained by a number of different factors, such as: the development of the economy and capital markets; the complexity of international business; political lobbying; differences in legal systems; the nature of property; the size and complexity of companies; the social climate; currency stability; the existence of accounting legislation; and the educational system. We have divided these research studies into two categories: studies recognizing a multitude of factors; and studies emphasizing a single factor.

3.4.1 Studies recognizing a multitude of factors. Nobes (1992) and Radebaugh and Gray (1993) conducted research regarding factors that have an influence on accounting practices in different countries. These factors were classified in order to demonstrate the reasons for various accounting differences. Brown (1994) and Wallace and Gernon (1991) criticized these conclusions, arguing that there is no precise way to explain the reasons for differences between countries. The studies of Cooke and Wallace (1990), Douppnik and Salter (1995), Saudagaran and Diga (1997), Salter (1998), Craig and Diga (1996), Williams (1999), Hussain *et al.* (2002), Rahman *et al.* (2002), HassabElnaby, Epps and Said (2003) are others which have contributed to the analysis of factors having an influence on differences in accounting practices.

3.4.2 Studies privileging a single factor. Before 1989, two factors were identified: cultural and economic. After 1989, other factors were considered.

➤ **The cultural factor** was one of the most studied variables during the normalization period. Many studies used Hofstede's (1980) or Gray's (1988) cultural theories. Tay and Parker (1990), Frucot and Shearon (1991), Baydoun and Willett (1995) and Hussein (1996) analyzed the accounting practices of industrialized countries based on cultural factors. Fechner and Kilgore (1994) proposed a conceptual framework based on culture. Riahi-Belkaoui and Picur (1991) believed that cultural relativism explained the lack of consensus in accounting practices. This lack of consensus was also observed by Zarzeski (1996) who emphasized the role of culture in financial reporting. In addition, he pointed out that multinational companies tend to present more information than national companies.

➤ **The economic factor.** Douppnik and Salter (1995) and Nobes (1998) analyzed the impact of macroeconomic factors on accounting practices. Craswell and Taylor (1992) observed the

influences of micro-economic factors on the accounting choices of companies and on financial reporting.

➤ **The financial factor.** Studies emphasizing the financial factor are generally centred on the notion of value-relevance. Holthausen and Watts (2001: 66), minimized the role of value-relevance in the IAH process, whereas Barth, Beaver and Landsman (2001: 98) argue the opposite viewpoint. The internationalization of capital markets has prompted stock exchanges to require more accounting transparency. As a result, exchanges required companies that frequently raise capital in a foreign financial market to prepare their financial reports in accordance with a recognized set of accounting standards, or international accounting standards. In the early 1990s, a lack of international accounting harmonization raised problems for participants in international capital markets. To be listed in the United States, companies which applied IAS or another foreign GAAP had to reconcile their financial statements to US GAAP, using SEC Form 20-F. Amir *et al.* (1993), Pope and Rees (1993), Bandyopadhyay *et al.* (1994), Barth and Clinch (1996) and Rees and Elgers (1997) analyzed the effects of using foreign GAAP on raising capital in the US. Other studies dealt with the acceptance of IASs in international capital markets. For example: Harris (1995), Harris and Muller (1999), Schipper (2000) were in favour of IASs, but Venkatachalam (1999) considered that the Form 20-F was insufficient to determine the degree of compatibility of IAS with US GAAP.

➤ **The political factor.** Accounting rules are not a neutral instrument. They represent the result of political processes and are largely determined by the economic interests of interested parties (Zeff, 1978: 60). Luther (1996) considered the political factor to be the main impediment to accounting harmonization. There have been conflicts of interest between stakeholders regarding the various types of accounting information that should be provided. The exercise of political influence on the part of companies, the accounting profession, and the State therefore becomes inevitable. Consequently, accounting standards are the result of political processes, where the point of view of the most powerful often prevails. Research in this area often argues that there is domination of the IAH process by the major English speaking countries. We have divided studies concerning the political factor into several subgroups.

➤ **Relations between American accounting standards-setting bodies and their effect on the IAH process.** Zeff's (1998) examined tensions between the interests of the private sector and those of the SEC. Previts, Roybark and Coffman (2003) discussed significant events in the history of the SEC by analysing the actions of five chief accountants⁵ from 1976 to 2001. Sutton (1997) also described the history of the SEC, its role in the standard-setting process and its relations with the FASB. There are also the studies by: Chandler (1992) regarding the connections between IFAC, IASC and IOSCO; Melumad and Shibano (1994) regarding the interactions between the SEC and the FASB; Ahadiat and Stewart (1992) regarding the relationship between the SEC, the OECD, the EEC and the IASC. All these studies emphasize the American influence on the IAH process.

➤ **Historical studies of the English speaking influence.** Hoarau (1995: 217) argued that harmonization of accounting practices was a pretence to achieve a consensus around the accounting model of the English speaking countries. In a similar vein, Flower (1997: 298) asserted that 'for more than 20 years of the IASC existence, the attitude of the Americans was rather that of patronage'. Like Van Hulle (1993), Flower also analyzed the implications of the

⁵ A.C. Sampson (1976-87), E. Coulson (1988-91), W.P. Schuetze (1992-95), M.H. Sutton (1995-98) and L.E. Turner (1998-2001).

EU requirement for multinational groups to present their consolidated accounts in accordance with IAS.

➤ **The geographic location of the bodies that send *Exposure drafts (ED)* to the IASC.** Studies in this subject area sought to demonstrate the British and American influence on the IAH process. Kenny and Larson (1995) studied the bodies that sent response letters to the EDs, for the period 1989-1992. They observed (p. 291) that 52 % of the responses emanated from organized accounting bodies, 25 % from companies and 23 % from others. The distribution by country was the following: United States-44%; Australia-12%; United Kingdom-9%; and Canada-8%. Hence, the influence of four English-speaking countries was 73 %.

➤ **The influence of big accounting firms at the international level.** This was another area which also demonstrated the influence of the English speaking countries. Speidell and Bavishi (1992) calculated the percentage of listed companies which had auditing services provided by one of the large international accounting firms with the following result: United States-98%; Italy-97%; United Kingdom-94%; Japan-88%; Germany-87%; France-58%; Brazil-50%; India-27%. In addition, the study showed that financial statements were frequently published in English: more than 40 % in Belgium, the Netherlands, Spain, Denmark, Japan and Portugal; with this percentage being lower in France, Germany, Italy, Argentina and Mexico. The involvement of the big accounting firms in the provision of auditing services, as well as the presentation of financial statements in English, are indicative of the influence of British and American accounting in the international arena.

➤ **The backgrounds of the IASB members.** This subject also indicated the influence of the English-speaking countries on the IAH process. Standish (2003) analyzed the nationality, the primary language, the professional training, and the prior experience of IASC/IASB members in order to demonstrate English-speaking dominance of the IASB.

3.5 Continuing Subjects: Comparative research and analysis of international accounting practices.

These two subject areas continued to be of interest to researchers in the normalization period, but in a way that had changed after 1989. First, comparative research and analysis of international accounting practices merged into one subject matter area. Second, some major subjects that emerged in the second period of harmonization (1973-1989) became important themes within comparative research. Thus, the subject of accounting choices, conceptual framework and comparison between IAS and US GAAP began to be emphasized in the normalization period.

3.5.1 Accounting choices. Watts (1992: 235) considered '*accounting choice theory to be central to the study of accounting*'. A number of studies have dealt with accounting choices. Lev and Ohlson (1982), Holthausen and Leftwich (1983), Watts and Zimmerman (1990) and Fields, Lys and Vincent (2001) all carried out reviews of the literature on accounting choices. Rather than detailing the extent of research on accounting choices, the relationship between this line of research and IAH is discussed as follows. At the beginning of the IAH process, research on accounting choice concerned various methods of accounting for a specific event or

transaction (for example: the choice between methods of inventory valuation; the choice of accounting treatment for leases). These choices affected the measurement earnings and financial position. Later, the typology of choices was diversified. Thus, companies might choose between different accounting methods, or choose the appropriate time for the adoption of a new accounting standard, or choose among alternative options within an accounting standard. For example, El-Gazzar *et al.*(1999) analyzed the characteristics of multinational companies interested in the application of IASs and their motivations to choose these particular standards.

3.5.2 Conceptual framework. The AAA, the AICPA and the FASB have conducted many studies regarding the creation of a conceptual framework for financial reporting. Zeff (1999) analysed the origins and the evolution of the conceptual framework in the United States. More recently, Dean and Clarke (2003) also discussed the evolution of the conceptual framework. Booth (2003) considered the conceptual framework to be a coherent system for the development of accounting standards. Jones and Wolnizer (2003) presented the conceptual framework from an international perspective. The creation of the American and international conceptual frameworks led to a growing interest in this subject after 1989.

3.5.3 Comparisons between IASs and US GAAP. Both the IASB and the FASB have prepared comparative studies of IAS and US GAAP. Grove and Bazley (1993: 118-123) compared twenty international standards with their American equivalents. They also recommended various accounting alternatives based on improving the efficiency of capital markets. They also estimated the cost/benefit trade off of their recommendations. Street and Shaughnessy's (1998) research described the evolution of accounting standards during the period 1973-1997 and discussed similarities and differences in financial reporting practices of the IASC and the national accounting standards-setting bodies of the United States, England, Canada and Australia. Nobes (1990) examined the effects of IASs on financial reporting of American companies listed in the capital markets in the United States. Because US GAAP is more detailed than IASs, '*for a US company that is obeying GAAP, it is very difficult not to comply with IASC standards*' (p. 42). The author also compared American with international standards to point out that the differences between IASs and US GAAP have little impact on the financial reporting of American listed companies. Research in this area shows a gradual convergence between international standards and American standards.

3.6 Continuing Subjects: Interest in the European situation

The interest in the European situation, which initially emerged during the first subsidiary period (1962-1973) changed into a focus on studies of the European Accounting Directives. The European Accounting Directives were issued during the harmonization period (more precisely in 1978, 1983 and 1984) but research in this subject area began to appear about ten years later. The gap between the issuance of the Accounting Directives and researchers' interest in the Directives suggests that researchers were waiting to see the reaction to the Directives in the European countries. In the following we classify research on this subject according to the accounting Directive to which they refer.

3.6.1 Studies of the 4th European Accounting Directive.

There have been several sub-areas of study regarding the 4th Directive. These include the increase in extent of harmonization in Europe as a result of the 4th Directive and the true and fair view.

➤ **Harmonization in the European Union.** Walton (1992) tried to answer the following question: Does the accounting harmonization required by the 4th Directive allow the comparability of accounting information between European countries (e.g. France and England)? Emenyonu and Gray (1992) studied the extent of harmonization between Germany, France and the United Kingdom in the context of the 4th Directive. They use two indexes (chi-square and I) to analyze the annual reports of 26 companies in the three countries. Their conclusion was that there were significant differences between the accounting reports issued by companies in these countries, indicating a lack of harmonization (p. 57). The same lack of harmonization was observed by Theunisse (1994) who demonstrated differences in financial reporting and the consequences of these differences for financial analysis (liquidity, solvency and profitability) in three countries (France, Belgium and Germany), which had claimed to be 'harmonized' within the meaning of the 4th Directive. This lack of harmonization can be explained by the options available under the 4th Directive, by the adaptations of accounting practices to national legislation, and by the socio-economic environment of each country. Hermann and Thomas (1995) observed the impact of the 4th Directive by adding Belgium, Denmark, Ireland, the Netherlands and Portugal to Emenyonu and Gray's (1992) sample. They used the international index and suggested regrouping these countries in two categories: those with a legal influence (Germany, Belgium, France and Portugal) and those with an economic influence (Denmark, Ireland, the Netherlands and the United Kingdom). The second category was found to be more harmonized than the first category.

➤ **Studies of the true and fair view.** Nobes (1993) examined the introduction of the true and fair view in the 4th Directive and its effects on accounting law and accounting practices in the European Union. Zeff (1993: 409) analyzed the connotations of and the role of the true and fair view in the 4th Directive.

3.6.2 Studies of the 7th Accounting Directive. The 7th Accounting Directive of June 13, 1983, addressed conditions and modes of reporting on consolidated accounts. The only study of the 7th Directive was that of Diggle and Nobes (1994). They analyzed the options available under the 7th Directive in order to determine if consolidated accounts favour IAH.

3.6.3 Studies of the 8th Accounting Directive. The 8th Accounting Directive of April 10, 1984 dealt with the approval of persons in charge of the legal control of accounting documents. Evans and Nobes (1998) was the only article which focussed on this subject. Their article analyzed the development of rules contained in the 8th accounting Directive, from the project stage until the effective date of the directive. The article also examined the implementation of the 8th Directive in England and in Germany.

3.6.4 Studies of Several Accounting Directives. There were also research studies that dealt with several Directives simultaneously. Thorell and Whittington (1994) discussed the development of European accounting regulation under the 4th and the 7th Directives and international accounting standards (IASs). Haller (2002) explained accounting developments in the European Union from the issuance of the 4th Directive until 2002. Also worth mentioning is the work of Gbenedio *et al.* (1998) concerning efforts towards accounting harmonization in Europe. Also, Combarros (2000) analyzed the evolution of financial presentation in the European Union and Damant (2000) described the process of harmonization of financial reporting. Peill (1999) described the

impact of the Directives on the financial reporting comparability of public companies in twelve countries of the European Union over a period of eleven years (1987-1997). He concluded that there were important differences, in particular in the treatment of goodwill and inventories and in the valuation of fixed assets, which the Directives did not manage to reduce. This finding underlines the weakness of the Directives in comparison with the international accounting standards of IASC.

3.7 Continuing Subjects: Reflections on the IAH process

Reflecting on the IAH process has been a continuing subject area that initially emerged during the first subsidiary period of harmonization (1962-1973). This subject continued to be of interest to researchers in the normalization period. Reflections on the IAH process are more sophisticated in the latter period, and they tend to focus on impediments to achieving IAH. A number of studies related to the Comparability Project (1989) were carried out in the early 1990s. Problems and barriers slowing down the IAH process were also investigated. The role of IASs and their implementation in various countries were other research subjects characterizing the normalization period.

3.7.1 *Conformity with the Comparability Project.* A Comparability Project (ED32) was initiated by the IASC in 1989 in order to reduce the number of options allowed by IASs. In 1988, the IASC carried out a survey (IASC, 1988) on the application of IASs in 54 countries. Purvis, Gernon and Diamond (1991) used this study to analyze the impact of international accounting standards on financial reporting in these countries. They grouped the countries into three categories: countries that were not fully compliant with IAS; countries using IAS; and independent countries. They also analyzed comparisons between IAS and GAAP in several countries including: Canada, France, Japan, the United Kingdom and the United States, in order to identify the conflict zones. The study of Robert, Salter and Kantor (1996) also concerned the Comparability Project and analyzed the impact of IAS on financial reporting practices in the European Union and in 46 non-European countries. This type of research typically analyzes the impact of accounting standards after their inception. In contrast, Rees and Sutcliffe (1989) proposed a methodology for studying the potential effects of accounting standards before their introduction, in order to improve their quality.

3.7.2 *Problems and barriers slowing down the IAH process.* This area was the research subject for Blake (1990) and Grinyer and Russel (1992). This type of research helps standard-setters understand impediments to IAH.

3.7.3 *The need for IAH* was the focus of Fleming (1991), Wyatt and Yospe (1993) and Anderson (1993). Taylor (1987) also focused on the need for accounting harmonization and he analyzed factors justifying the existence of the IASC (p. 169) including: *'the public perceptions of accounting as a national, rather than international activity; the development of multinational accounting firms; the increasing role of auditing in resolving agency-based conflicts; and the threat to Anglo-American accounting groups of government regulation'*. These factors were also observed by McComb (1982: 35-36). Finally, from an interview with Sir Bryan Carsberg – The General Secretary of the IASC, Schweikart, Gray and Salter (1996: 110-111) presented the reasons that impel accounting harmonization, including: the increasing globalization of business

activity; the development of the European Union; the increasingly global nature of capital markets; the privatization of formerly public enterprises; and the reduction of financial reporting costs.

3.7.4 *The role of accounting standards* was explained by Brown and Tarca (2001) who described the Anglo-American, international and European bodies involved in accounting regulation.

3.7.5 *Strategies for preservation and development of the IAH at the beginning of the period of normalization.* Although Goeltz (1991) considered international accounting harmonization as impossible, and maybe even useless, other authors focused on the possibilities for preserving the IAH process. Thus, Wallace (1990) analyzed the external environment of the IASC in order to put forward a survival strategy for that body. Chandler (1992) and Grove and Bazley (1993) argued for a wide acceptance of IAH. Van Hulle (1993: 393-394) indicated four possibilities for the EU with respect to IAH: (1) to stop any further harmonization efforts in the EU; (2) to allow the IASC to determine accounting harmonization within the EU; (3) to allow the Americans to dominate the process of IAH; (4) to call on the EU to become a more active player in the process. In retrospect, we can see that the second option was effectively realized.

3.7.6 *Implementation of IAS in different countries.* Focusing on a single country, these studies are often quite detailed and in-depth. For example, Glaum (2000) discussed the evolution of German companies' attitudes towards financial reporting over a period of three years (1994-1997) using an empirical study. The companies were characterized by negative attitudes toward British and American rules (IASs / US GAAP) at the beginning of the period studied. Three years later, they changed their attitudes and accepted IASs. The study of Hansen (1999) covered a longer period (from the middle of 19th century) and connected the evolution of German accounting practices to political events. In that study, Hansen added a comparative dimension by introducing comparisons with the British and American models. The transition to IASs has also been investigated in Asian countries such as Japan and China. Thus, Kikuya (2001) discussed the participation of Japan in IASs after 1990. Another article concerning China was provided by Linen *et al.* (2001), covering a shorter period (3 years). They studied differences between US GAAP and the IASs in three companies quoted on the stock exchanges of Hong-Kong and of Mainland China.

Part IV: An Historical and Institutional Explanation of the Evolution of IAH Research

4.1 Historical summary of the evolution of IAH research

In this paper we have analyzed research focusing on IAH published in English language accounting journals from the 1960s to the present. Our analysis has been directed towards observing the evolution of research on IAH and interpreting the way that this research has

changed during the period examined. In summary, it can be seen on the one hand, that from a qualitative point of view, the research has become more sophisticated, while, on the other hand, from a quantitative point of view, the number of research studies has grown significantly (see Figure 4). The evolution of IAH research has been influenced both by an increasing level of globalization, leading to demands for greater harmonization of accounting practices on an international basis, and by a growing interest in IAH on the part of accounting researchers. During the total period studied, the number of accounting journals grew, but at a rate markedly less than the rate of increase in research on IAH (see Figure 5). The evolution of the IAH process itself has also had an impact on researchers' interests in IAH research, as can be seen by the diversity of subjects that they have chosen to investigate. During the first period in the IAH process – the harmonization period (from 1960 to 1989), there was a focus on reducing the variety of accounting practices and making them more comparable. There were important impediments to making practices more comparable because of differences in the cultural and economic aspects of different countries. The research in this first period was centred on compiling differences in accounting practices in order to be able to compare financial reports between countries. After the creation of the IASC, in 1973, the interests of researchers began to focus more on reducing the number of accounting choices and increasing the uniformity of financial accounting practices used by companies in different countries. The Comparability Project (1989) marked the beginning of the normalization period (1989-2004), where the less strict but nevertheless harmonized rules, with many options, began to be normalized, thus becoming stricter, and leading to a reduction in the number of accounting options. Research during the normalization period focused on the history and processes of the IASC and subjects like the necessity for IASs, the need for an international conceptual framework, comparisons between international and American standards, explanations about the reasons for accounting choices, and measurements of companies' degree of compliance with IAS. Overall, the evolution of research subjects during the total period examined can be seen in Table 6.

*****Insert Table 6*****

4.2. Offering an institutional explanation

In this section, we identify some of the more important institutions and organizations that have been involved in the IAH process, and discuss the impact of these institutions on IAH research.

4.2.1. Actors in the IAH process: a chronological point of view

We have grouped the most important institutions involved in the IAH process by geography - International, American, and European. The institutions are indicated in figure 6:

*****Insert Figure 6*****

The most influential organizations have been the SEC and the AICPA. These two bodies are the oldest accounting regulatory and standards setting bodies (see figure 7). The SEC has exerted coercive pressure on the standards setting process in both the United States and on an international basis. The AICPA, as the institution representing the organized accounting

profession in the United States has exerted pressure on the IAH process, but it has generally acted in a way that exerts normative pressure on the IAH process.

*****Insert Figure 7*****

4.2.2. Pressures towards institutional isomorphism: coercive, normative and mimetic

Institutional theory seeks to explain the development of institutions and organizations and the way that organizations compete for political and social power and institutional legitimacy. DiMaggio and Powell (1983) label the process through which institutions and organizations tend to adopt similar structures and practices, as institutional isomorphism. Institutional isomorphism is a process that causes a particular organizational unit within a population to resemble other units in the population facing similar sets of environmental conditions. Because of isomorphic pressures, organizations become increasingly homogeneous within given domains and conform to the expectations of the wider institutional environment. Within the general framework of institutional theory, DiMaggio and Powell (1983) discuss the concept of institutional isomorphism and consider three types of isomorphism: coercive, normative and mimetic.

‘Coercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function’ (DiMaggio and Powell, 1983, p. 150). Coercive isomorphism comes from external political influences, for example the pressure of the state or the capital markets. Normative isomorphism stems primarily from professionalization, that is the collective efforts of members of an organization or an occupational group to define the conditions and methods of their work and to establish a cognitive base and legitimation for their institutional, organizational or occupational autonomy. Mimetic isomorphism involves the copying of structures and practices of other organizations operating in the same environment, especially the structures and practices of those of institutions and organizations that are perceived to be successful.

The IAH process has led to a homogenization of accounting standards and practices through a process of institutional isomorphism. Research on IAH has also been influenced by this trend towards institutional isomorphism. The institutional environment of IAH research has been influenced by a number of exogenous pressures that have influenced the structure and practices of this type of research. These pressures find their origins in the different actors in the IAH process. The institutional framework is revealed by viewing the research community as an institution or organization and the bodies implicated in the IAH process as forming the institutional environment.

Normative pressure come from the AICPA. For example, the Committee on International Relations of the AICPA performed research on accounting standards differences in various countries in the 1960s. This research resulted in the publication of a book – AICPA (1965), which described differences among accounting standards of 25 countries in comparison with US accounting principles. According to Wilkinson (1965: 11), ‘this book is in part a reply to the pleas for uniformity of accounting throughout the world that have been heard at almost every one

of the more recently held International Congresses on Accounting'. Thus, the external normative pressures in the institutional process affected not only the IAH process itself, but also IAH research. The AICPA book opened the field of IAH research to the idea of comparisons between practices and classification of countries according to various external environmental factors. Thereafter, normative pressures began to dominate as researchers sought to expand the comparative form of research during the harmonization period (1960-1989).

Mimetic isomorphism appears under conditions of uncertainty. Researchers typically want to assure themselves that they have a subject that is current and relevant, and they often model their work on the work of other researchers. Thus, 'modelling is a response to uncertainty' (DiMaggio and Powell, 1983: p 152). By observing the evolution of research on IAH, we can see a very strong element of mimetic isomorphism. While in the initial period, there was a diversity of research subjects, this diversification of research subjects does not persist, but changes instead into an intensification of research on the same subjects over time. This indicates a strong degree of mimetic behaviour, or in other words, a modeling of research on the work of other researchers in the same institutional field.

4.3 Summary and conclusions

By examining the evolution of the IAH process we can observe that there is a relationship between the process of IAH and researchers' interest in the process. The events taking place in the IAH process impacted the researchers' orientations and the subjects of research that they chose to pursue. As with many areas of research, research on IAH has a sociological dimension. It has been undertaken by an elite group consisting of professional accountants and academic researchers. As the researchers' interests changed, their change in interests also influenced the IAH process itself, perhaps most notably through the creation of certain international bodies like the IASC/IASB.

The year 2005, representing the beginning of compulsory application of IFRS for all European Union companies quoted on stock exchanges, marks the beginning of a period of standardization. Researchers' interests will now most likely focus on an analysis of the extent of uniformity of accounting practices among the countries that adopt IFRS. Future research focusing on standardization would be a natural extension of this study. Harmonization, normalization and standardization represent steps in the process of IAH. Our analysis of the research subjects with IAH over the last 40 years causes us to favour the hypothesis that these periods represented real changes and not just minor modifications in a relatively constant landscape. Again, from a quantitative point of view, compared with the period before 1989, the period after 1989 has been characterized by an intensification of research (113 articles versus 70 articles, or an increase of 60%). There were 24 English language accounting journals before 1989, compared to 31 after (a 30% increase). The difference between the rate of increase of research on IAH in comparison with accounting research in general demonstrates the growing importance of IAH research after 1989. From a qualitative point of view, there have been a number of recurring themes with several themes that did not evolve in a significant manner, such as: accounting choices, conceptual framework, and comparisons between IASs and US GAAP. Other themes with a more significant degree of evolution include: reflections on the IAH process (we observed both a diversification and increase in the amount of research); external factors of the accounting

environment (two factors were studied during the harmonization period, compared with many more factors during the normalization period). In addition, there was much more research focusing on the British and American influence and various studies of the European Accounting Directives. Two new research themes centring on the implementation of international accounting standards also appeared. These were: the impact of harmonized accounting practices on share prices and returns, and the measure of IAH evolution. We can conclude that the normalization period has been characterized by an increase in the importance of IAH research within accounting research generally, and that this appears likely to continue into the future. Whether there will be complete uniformity of accounting practices on an international basis is difficult to assess at this point. However, given the increasing processes of globalisation, it is likely that the process of international harmonization of accounting will continue and that it will ultimately result in standardization or near uniformity of accounting practices on a worldwide basis.

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Appendix A: English language accounting journals selected for review

NAME	DATE OF INCEPTION
<i>Abacus</i>	1965
<i>Accounting and Business Research</i>	1970
<i>Accounting Historians Journal</i>	1977
<i>Accounting Horizons</i>	1987
<i>Accounting, Auditing and Accountability Journal</i>	1987
<i>Accounting, Business and Financial History</i>	1990
<i>Accounting, Organization and Society</i>	1976
<i>Advances in International Accounting</i>	1987
<i>Behavioural Research in Accounting</i>	1989
<i>Contemporary Accounting Research</i>	1984
<i>Critical Perspectives on Accounting</i>	1990
<i>Journal of Accountancy (Journal of the AICPA)</i>	1905
<i>Journal of Accounting and Economics</i>	1979
<i>Journal of Accounting and Public Policy</i>	1981
<i>Journal of Accounting Research</i>	1963
<i>Journal of Accounting, Auditing and Finance</i>	1977
<i>Journal of Business, Finance and Accounting</i>	1969
<i>Journal of International Accounting Research</i>	2000
<i>Journal of International Financial Management and Accounting</i>	1989
<i>The Accounting Review</i>	1926
<i>The British Accounting Review</i>	1969
<i>The European Accounting Review</i>	1992
<i>The International Journal of Accounting</i>	1965

Adapted from: Lowe and Locke (2005, p. 92).

Figure 1: Characteristics of harmonization, normalization and standardization

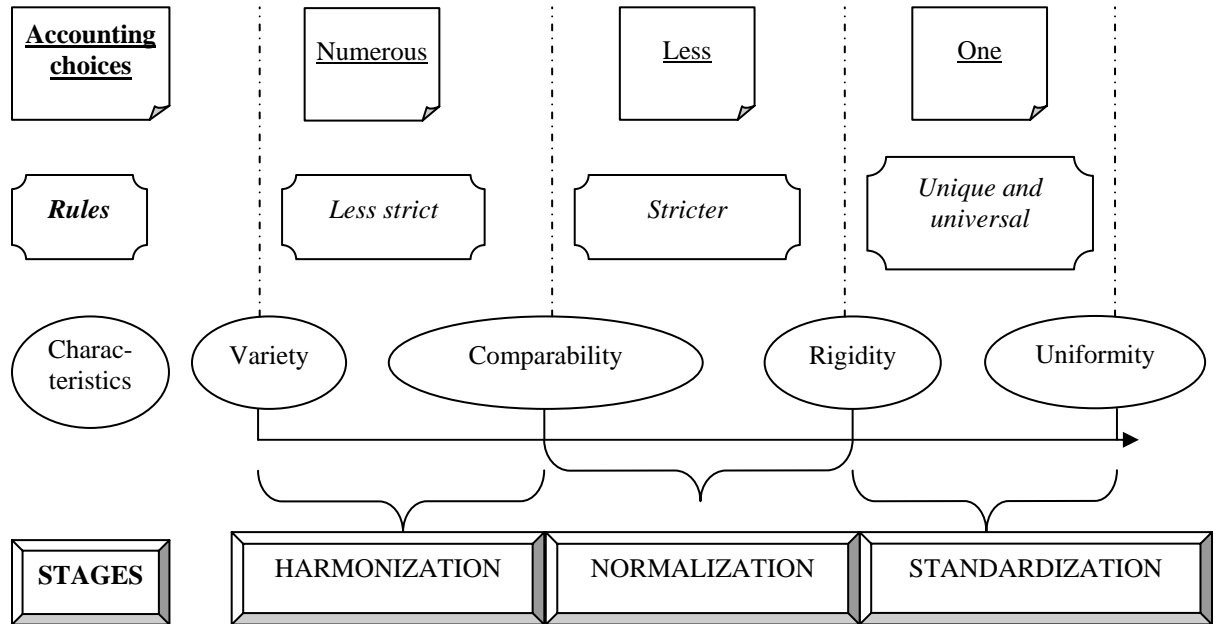
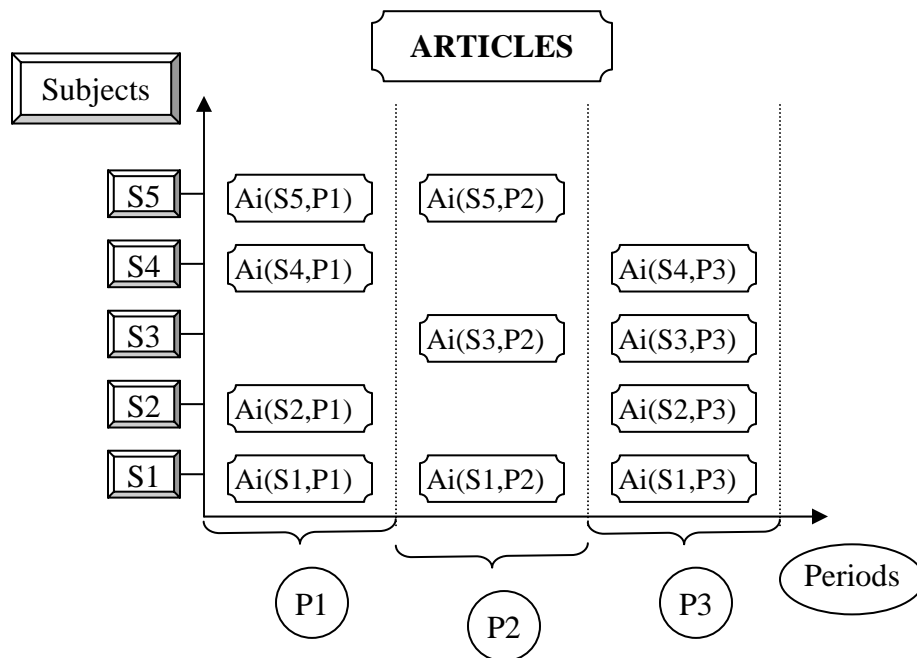


Figure 2: Classification of articles



Note: A_i indicates all the articles about a particular subject matter, S , during a period, P . For example, $A_i(S4,P1)$ contains all the articles about the subject S4 during the period P1.

Figure 3: Important events in the IAH process

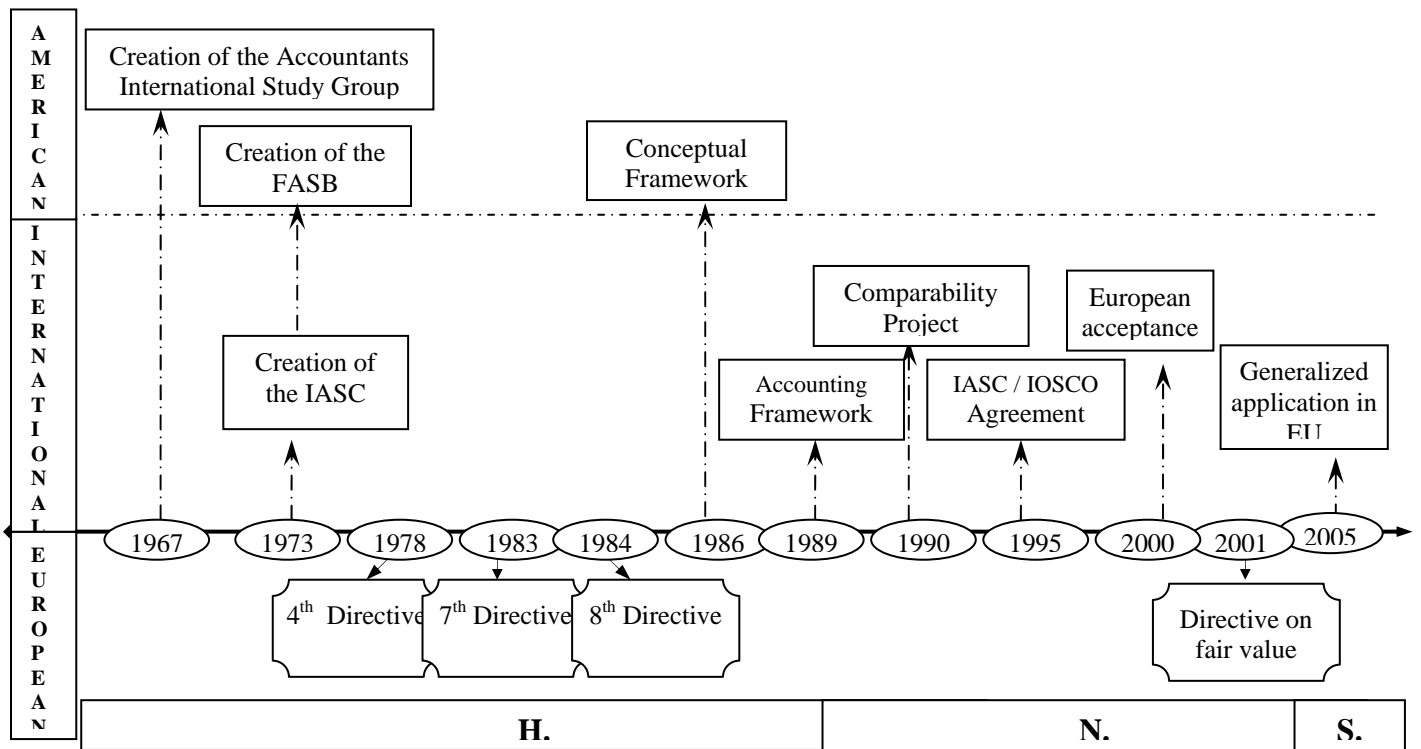


Figure 4: Number of papers published on IAH

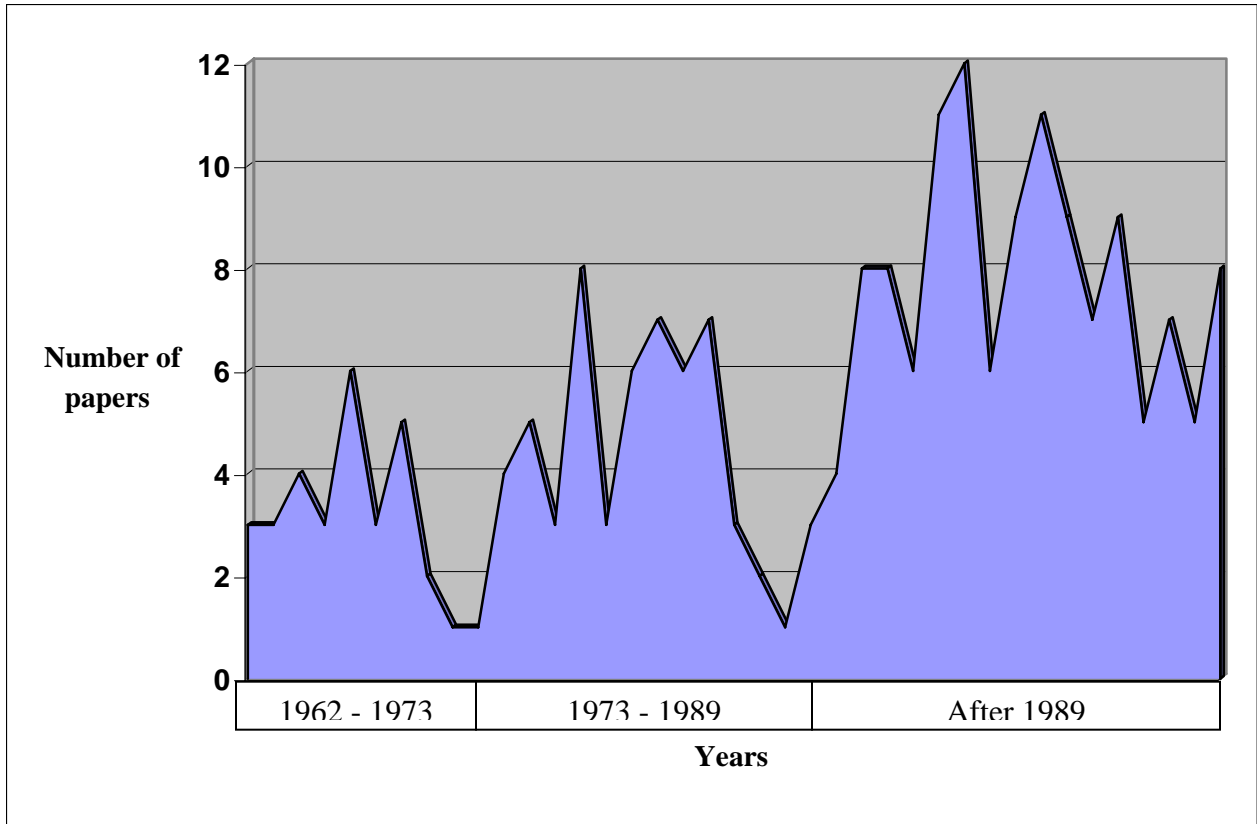


Figure 5: Trend of research on IAH in comparison to the growth of accounting research

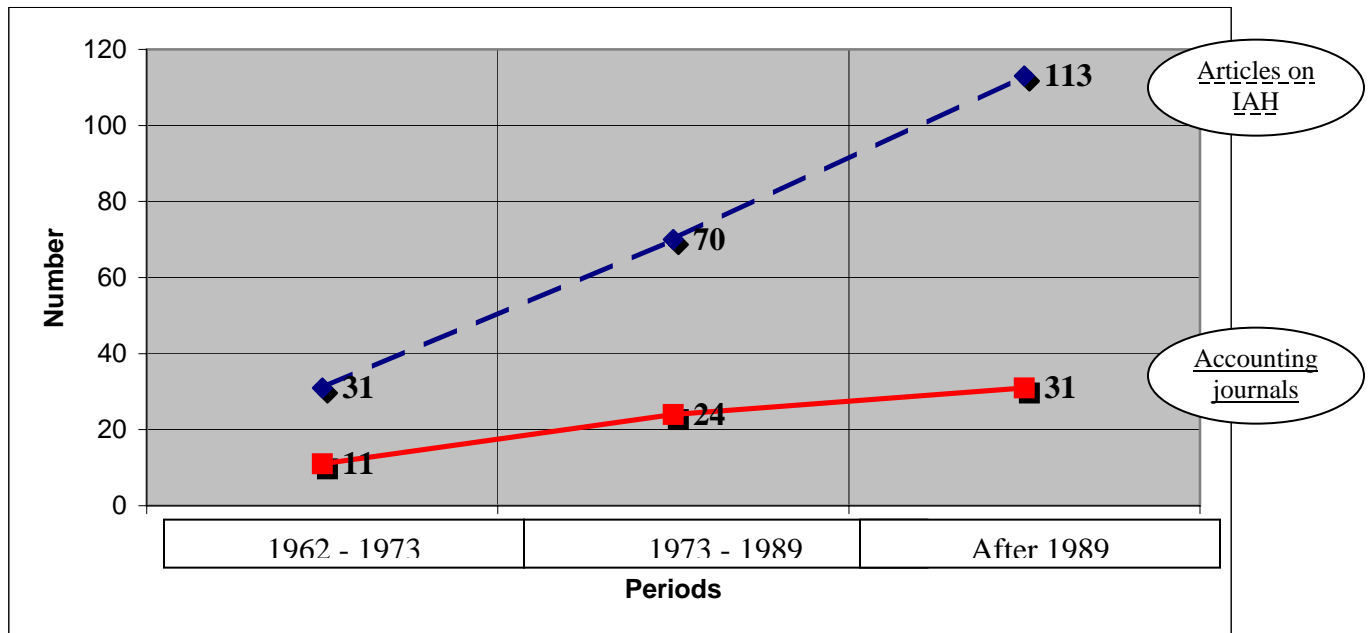


Figure 6: Bodies involved in IAH process

Bodies involved in IAH process

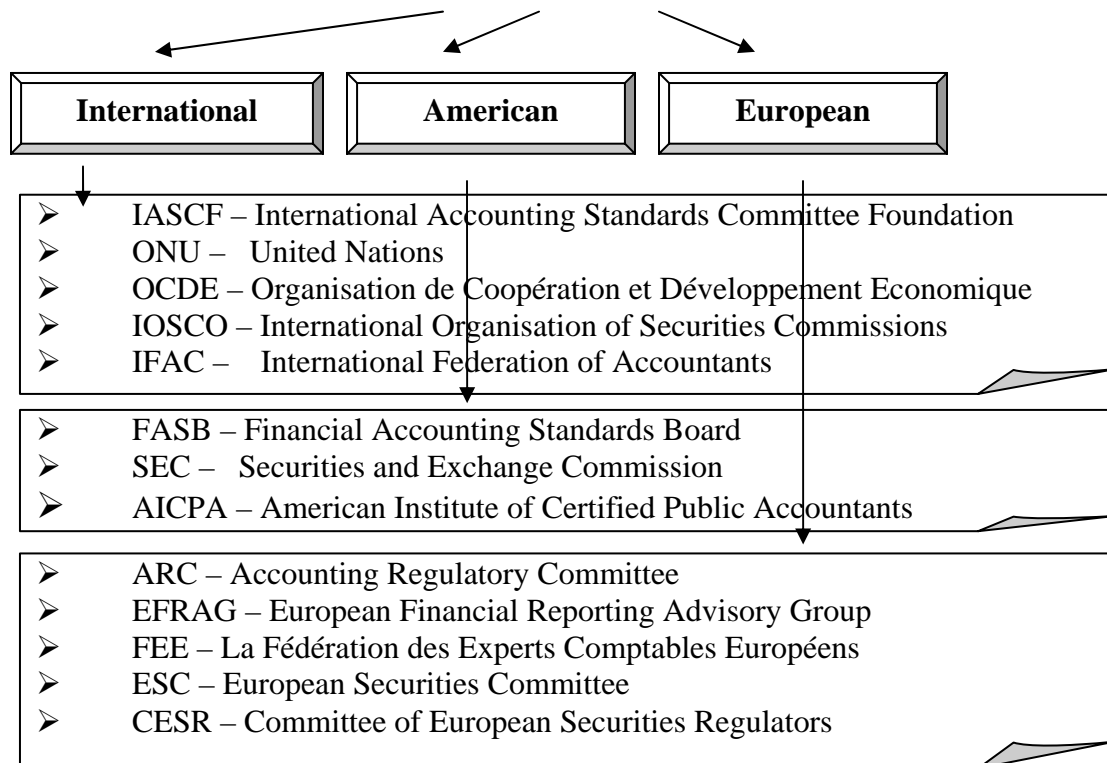


Figure 7: Historical presentation of the institutions involved in the IAH process

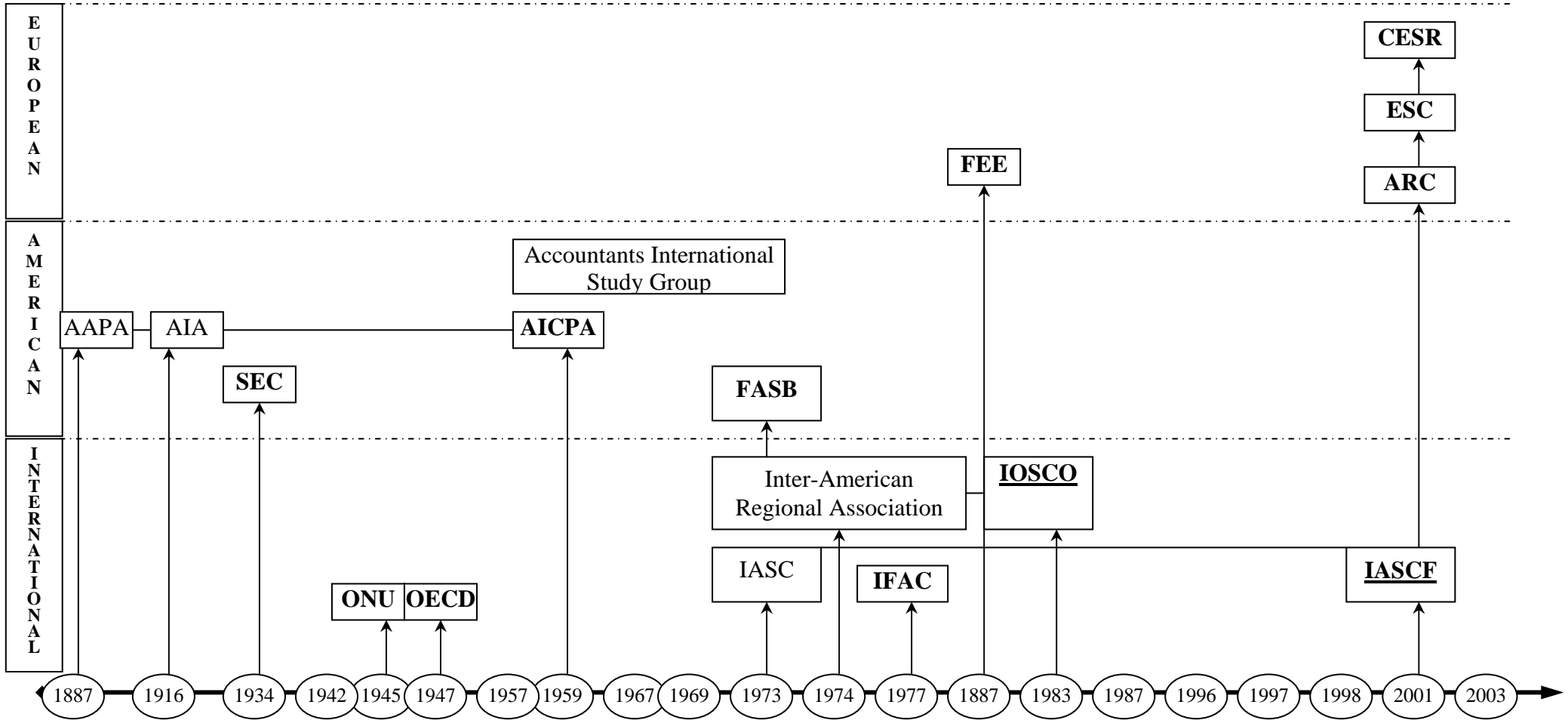


Table 1: Growth of research on IAH

	1962-1973	1973 – 1989	After 1989
Number of accounting journals	11	24	31
Articles on IAH	31	70	113

Table 2: Research Subjects in IAH: 1962-1973

Research subjects	/Contexts and Authors
Accounting uniformity	Wilkinson (1965), Morgan (1967)
Factors of accounting environment	Relation between accounting practices and economic development level of countries: Engelmann (1962), Enthoven (1965), Lowe (1967), Linowes (1969)
	Classification of countries on economic and business factors: Mueller (1968) and Seidler (1967)
	Influence of cultural factors: Alhashim (1973), Beazley (1968)
Comparative research	AICPA (1965)
Analysis of international accounting practices	AICPA (1966), Mueller (1968), Kollaritsch (1965), Davidson and Kohlmeier (1966), Beazley Jr. (1968), Hatfield (1966)
Interest in the European situation	American interest in the European situation: Tyra (1969)
Reflections on the IAH Process	Possibility of establishing international accounting principles: Jennings (1962), Moonitz (1969)
	Obstacles to international understanding: Morgan (1967), Clapp (1967)
	Contribution of various accounting bodies to the standard-setting process: Wilkinson (1965), Trueblood (1966), Felt (1968) and Savoie (1969)
	Creation and harmonization of accounting principles: Savoie (1969), Mueller (1970)

Table 3: Research subjects: 1973-1989

Continuing Research Subjects	Secondary theme
Accounting uniformity	Conceptual Framework
Factors of the accounting environment	The cultural factor: Schreuder (1987), Pererea (1989b)
	The economic factor: Gray (1988), Chow and Wong-Boren (1987)
	English speaking countries influence on IAH: Newman (1981b)
Comparative research	History of accounting developments in different countries: Zeff (1984)
	International studies: Barrett (1976)
	Comparison between IAS and US GAAP: Rivera (1989)
	Differences in practices: Fitzgerald (1981)
Analysis of international accounting practices	Differences in practices: Choi and Bavishi (1982)
Interest in the European situation	Accounting Directives: Turley (1983)
Reflections on the IAH process	Obstacles to implementation of accounting harmonization: Fantl (1971), Hauworth (1973), Rivera (1989)
	Necessity of IAH: Hauworth (1973), Wyatt (1989)
New Research Subjects	Secondary theme
About the IASC	History of the IASC: Lord Benson (1976, 1989)
	Standards of the IASC: Baxter (1981)
Accounting choices	The economic factor: Felham and Demski (1970), Uecker (1978), Watts and Zimmerman (1978), Griffin (1983)
Conceptual framework	Accounting uniformity: Peasnell (1982)
Studies of European Accounting Directives	Harmony in the EU: Burnett (1975)
	Contributions of the 4 th European Accounting Directive: Turley (1983)

Table 4: Research subjects after 1989

Continuing Research Subjects	Changed Subject	Secondary Subject
Accounting uniformity	Conceptual Framework	
Factors of the accounting environment		Studies recognizing a multitude of factors influencing the process of IAH
		Studies privileging a single process-influencing factor: cultural, economic, financial or political
		English speaking countries domination: factor influencing IAH process
Comparative Research and Analysis of international accounting practices	Accounting choices	
	Conceptual Framework	
	Comparison between IAS and US GAAP	
Interest in the European Situation	Studies of European Accounting Directives	The 4 th EAD
		The 7 th EAD
		The 8 th EAD
Reflections on the IAH process		Conformity with the Comparability Project
		Problems and barriers slowing down the IAH process
		The necessity of IAH
		The role of accounting standards
		Strategies for preservation and development of IAH at the beginning of the period of normalization
		Implementation of IAS in different countries
New Research Subjects	Changed Subject	Secondary Subject
Impact of the harmonized accounting practices on share prices and returns	-	
Measure of the extent of harmonization	-	Using indexes
		Using statistical methods

Table 5: Empirical studies measuring extent of IAH and tests used

Authors	T E S T S U S E D						
	H	C	C _{modified}	I	I _{modified}	X ²	Others
Van der Tas (1988)	X	X		X			
Tay and Parker (1990, 1992)						X	Concentration index
Van der Tas (1992a, 1992b)		X				X	
Emenyonu and Gray (1992)				X		X	
Archer, Delvaille and McLeay (1995)			X				
Hermann and Thomas (1995)				X	X	X	
Garcia-Benau (1996)				X	X	X	Global concentration index
Archer, Delvaille and McLeay (1996)			X				Linear regression
Lainez, Callao and Jarne (1996)		X					Friedman's test Wilcoxon's test
Krisement (1997)							V index
Adhikari and Emenyonu (1997, 1998)				X		X	
McLeay <i>et al.</i> (1999)							Linear regression
Morris and Parker (1999)		X		X			
Lainez, Jarne and Callao (1999)			X				
Cañibano and Mora (2000)		X				X	<i>Bootstrapping</i> test
Parker and Morris (2001)	X	X				X	
Aisbitt (2001)			X				Wilcoxon's test
Chen, Sun and Wang (2002)						X	
Taplin (2003)	X	X					Standard error
Ding, Stolowy and Tenenhaus (2003)							Logistic regression

Table 6: The evolution of IAH subjects from the 1960s until now

1960-1973	1973-1989	After 1989
Accounting uniformity		
Factors of the accounting environment		
Comparative research on accounting standards	Accounting choices	
	IASC Comparison between the IAS and US GAAP Conceptual framework	
The analysis of international accounting practices		
Interest in the European situation	Accounting Directives Implementation of IAS in Europe	
Reflections on the IAH process	Barriers to the implementation of IAH Strategies for preservation and development of the IAH process	
	Measure of IAH evolution	