会計制度と文化変容

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ダオ・フー・ジュン*

文化基盤を共有すると思われるヨーロッパ連合の諸国間でも，会計制度の格差が依然存在している。現在の時点では，15カ国で編成されたこの共同体は単一市場時代を迎えたと言っても，まだ英蘭グループと仏独グループという会計系統に分けられるし，各国のレベルでも自分たち独自の文化様式と慣行から作られた会計規準が見られる。本論文はまず地域化と国際化の意図を実現させる前提条件として，会計を含む各国の間の法律と基準を調和させる重要さを述べたいと思う。

1964年以来，ヨーロッパ連合の理事会と委員会がその方向に向かって，会社法と会計基準関連する指令と決定を数多く制定してきた。その中における一番重要な指令はすでに周知のとおり，個別財務諸表に関する第4号と連結財務諸表に関する第7号である。

ヨーロッパ連合の加盟国はヨーロッパ指令の精神に沿った計量方法で計る努力義務があるにもかかわらず，その実情を見ると統一性はいまだに低く，時には対立的な姿勢も見られる。拙論の第二部はこの対立の例を幾つか挙げた。例えば固定資産の評価基準の選択になると，取得原価主義と取替価額で評価主義との対立，研究開発費の場合も，償却の対象になる資産計上と単純な経費と見られる損失計上の対立，などがある。

キリスト教文化圏に属するヨーロッパ連合諸国の会計制度の不調和の根本的な原因とは，各国の頑固な会計国家主義だけではなく，論文の第三部に述べたさまざまな歴史，地理，風土，言語，法律，さらには社会組織原理と会社理念等，生活条件のさまざまな差異があるからであろう。そのバラバラな会計制度を結合するため，ヨーロッパ諸国は会計というサブ・カルチャー（sub-culture）だけではなく，会計以外の諸文化要素について吟味しなくてはいけない。既存システムはどんなに完璧といっても有利と不利な点があるであろう。英蘭システムは透明性，実践性で高く評価されると同じ様に，仏独システムは忠実性と真重性の良さがあるのであろう。以前よりもっと積極的に，人，物，サービス，思想の交流を進めると、文化変容の現象が起こるに違いない。文化変容はかならず制度の格差を減少することとなろう。但し，この文化変容は支配と被支配の関係（domination）から生まれたものではなく，協議精神からでき上がる公平的，平等的な融合（blending）であるという結論を出したい。

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ACCOUNTING AND ACCULTURATION
Harmonization of Financial Reporting and Disclosure Within the European Union

Dao Huu-Dung

I Accounting as a Sub Culture

At first sight, it may seem paradoxical to talk about a possible relationship between Accounting and Culture. Accounting is often defined as a rational and scientifically oriented system providing information to practitioners as well as groups of users such as managers, investors, lenders, employees, suppliers, customers and governments. It should accept the constraint of measurement and a myriad of other constraints governing science. As a rational system, it must obey the logic for presenting valid and relevant data resulting from empirical testings. However, it is unfair to forget that accounting is a social science and it can not be separated from the environment where it operates. To be fruitful, accounting must relate to a world that does exist and not to one that is a fiction. That means the so-called "*generally accepted accounting principles*" are not principles but conventions of a particular society. Violet (Nobes,17) is right to emphasize on the understanding of cultural determinants and variables in the creation of a framework of universal accounting postulates. Even the accounting principles produced by the highly technological environment of the United States are not generally accepted by the great majority of other countries. Cultural diversity inhibits the establishment and enforcement of International Accounting Standards (from now on IAS). Therefore, harmonization based on a knowledge of cultural differences is the cornerstone of the structure providing the necessary flexibility for developing and employing IAS in diverse cultural settings .

According to Roslender (10), the role of accounting in organizations and society discussed by authors as Bucherell, Clubb and Hopwood in 1980 was the starting point of a new science entitled Critical Accounting. Considered as an interdisciplinary field, Critical Accounting has its source in various human and social sciences and emphasizes not only the normative and descriptive role but also the social ethics and responsibility of accounting. All of these were long time under-estimated or simply ignored by practitioners (Gray et al, 1987, Parker, 1986).

Hiramatsu (8) informed us about the contributions of Hofstede (1980) on studies relating to international differences in accounting as consequences of differences among cultures. He also cited Gray (1987), Eddie (1989)and Perera (1989), Zeff (1990) among pioneer researchers interested in the creation of a framework to analyze the impact of culture on accounting and towards a theory on cultural influence on the development of accounting system internationally. Both Hofstede and Gray, the person who advanced his idea, considered accounting to be a sub culture because it is part of social culture in general. Gray himself found that accounting uses are modified by the influence of societal values. Following are several confrontations of accounting values in the models described by Hofstede and developed by Gray:

Individualism versus Collectivism (Hofstede)
Professionalism versus Statutory Control (Gray)

Individualism seems to be in harmony with professionalism which prefers independence and liberty of action. On the contrary, people put themselves under collective control because they expect the protection of laws and the system.

Large versus Small Power Distance (Hofstede)
Uniformity versus Flexibility (Gray)

Whenever a big difference of power between members of a group exists, the group tries to maintain the established system and makes no effort to abolish it. If that difference is small, the group may accept equality for everybody, in studying flexibly its problems case by case.

Strong versus Weak Uncertainty Avoidance (Hofstede)
Conservatism versus Optimism (Gray)

In avoiding uncertainty, societies have a tendency to be entrenched to their beliefs and therefore, move towards conservatism. On the opposite side, societies which are not afraid of uncertainty prefer pragmatism to principles and accept small mistakes or misconduct .

-Masculinity versus Femininity (Hofstede)
Secrecy versus Transparency (Gray)

Gender differences in societal values also figure in accountancy. Material success, social position, arbitrary decision-making, bravery in opposition are all considered by Hofstede as male values. As far as female values are concerned, there are harmony in human relationships, modesty, quality of life and concern about the weaker. In accounting, it can translate into an opposition between a secret, tight, conservative policy and a transparent, open and liberal behavior.

The studies by Gray placed European countries such as Scandinavian and Anglo-Saxon countries on the axes of Flexibility-Professionalism, Optimism-Transparency Models and German countries and other advanced Latin countries on the axes of Uniformity-Professionalism, Secrecy-Conservatism Models. As a reference, Eddie (Hiramatsu,8) in using numerical method to measure his hypothesis, found Japan on the axes of Statutory Control-Uniformity, Secrecy-Conservatism. Japan is in the same case as several South-East Asian countries (except Singapore and Hongkong, rather on Statutory Control-Flexibility , Secrecy-Optimism axes) and in opposition to New-Zealand and Australia, two Anglo-Saxon group countries. Also, from the theoretical basis given by Hofstede and Gray, Eddie (8) classified accounting methods in attaching it to values determined by the Grays models. As an example, he considered method such as the booking of assets by historical cost or the refusal of expense purchased goodwill as signs of conservatism. It is important to report the exploratory research of Hofstede on dimensions of national cultures in the accounting of fifty countries and three regions where he tried to establish correlations between societal values and accounting values.

Accounting is no doubt a sub culture, and its close relationship with the societal values can be demonstrated. However, the problem we are facing now is how to find a method to compare different ways of accountancy and to bring them closer in a world where internationalization is no more mere rhetoric.

2 Harmonization or Standardization

Many national and international organizations , such as the Accounting Standards Committee, the Financial Accounting Standards Board (FASB) , the International Accounting Standards Committee (IASC), the European Union (EU) , and also individual governments, are currently engaged in the process of national and international harmonization of accounting practice and accounting reporting. Van der Tas (Nobes,17) considered *harmonization* as a coordination, a tunning of two or more objects, usually financial reports or accounting standards. He distinguished *material harmonization* (harmonization of financial report) from *formal harmonization* (harmonization of standards), *disclosure harmonization* (harmonization of the extent of disclosure) from *measurement harmonization* (harmonization of the accounting method to be applied). Harmonization can be a *national harmonization* if it means to develop the degree of compatibility of reported items in a national context or *international harmonization* if it produces convergence of opinions in two or more countries on the way a specific item should be accounted for.

Harmonization is a movement away from total diversity of practice when *standardization* can be defined as a process toward uniformity. Tay and Parker (Nobes,17) found harmony and standardization not dichotomous . The only difference resides in the degree of strictness of accounting regulations. First, a regulation may apply to all company (strict) or to only some companies (less strict). Second, a regulation may be contained in the law (strict) or in a professional accounting standard (less strict). Compliance with a legal regulation may be higher than compliance with a standard. Third, a regulation may contain a definition (strict) or a discretion (less strict) All three senses of the term "strict" or "less strict" imply that the former is associated with uniformity, the latter with harmony. For Alexander and Nobes (1), *harmonization* is a word which tends to be associated with the transnational legislation being promulgated in the European Union, and standardization is a word often associated with the International Accounting Standards Committee. In practice, they argued, the harmonization of the European Union has been more powerful than the standardization of the IASC, and many accounting standards at the national or international level are far from rigid or narrow.

3 The measurements of harmonization

It is difficult to measure the role of cultural factors but to some extent, the degree of harmonization in accounting can be calculated by statistical methods. According to Nobes(17), Leo Van der Tas in 1988 reported some statistical tools to measure the degree of consensus both in national and international harmonization .

The author first proposed the *Hirschman-Herfindhal index* to calculate the degree of concentration of accounting practices used by companies operating in a specific industry by weighing the relatives frequencies of the alternative opinions against each other . The following H-Index is chosen to measure harmony and harmonization which differs from 0 (no harmony, with an infinite number of alternative methods all with same frequency) and 1 (all companies using the same method) :

where :

H = Hirschman-Herfindhal index

m = Number of alternative accounting methods

pi = The relative frequency of accounting method i

Van der Tas presented also the C index as a measure of the degree of *comparability* for each item in the financial reports, based upon the number of financial reports which are comparable in respect of this item. The index ranges from 0 (no harmony, none of the pairs of financial reports is comparable with respect to the particular sort of transaction or event surveyed because they all applied a different measurement method) to 1 (maximum harmony, all pairs of finandal reports are comparable with respect to this sort of transaction or event because all companies apply the same measurement method under the same circumstances). The C-Index is shown as below:

where:

ai = the number of companies applying measurement method i

m = the number of alternative measurement methods

n = the total number of companies

Another formula proposed by this author was the I index which can be applied in the comparison of reporting coming from two or more countries. The I-index is computed by multiplying the relative frequency of use of a particular accounting method across countries and subsequently adding up the result for all alternative methods. The index rises when the more companies across countries use the same methods from the available accounting options. The general formula of the I-index is as follows:

where:

fi = relative frequency of method is in country m

m = number of countries

n = number of alternative accounting methods

Further numerical presentation of these three measurement methods as well as the presentation of a regression analysis method to examine the degree of harmonization against time (such as the harmonization of EU Directives or International Accounting Standards) by this important author were fully detailed and edited by Nobes (17).

4 European Accounting Integration and Harmonization

Europe represents here the European Union, the focus of our research. Since its foundation and during its process of enlargement, the EU has never passed a day without a clash for one reason or another. However, the economic integration of the EU continues to progress in eliminating obstacles on the road . The first integration is that of the markets, of goods and services, on the one hand, and of production factors labor, capital, entrepreneurship) on the other. The second concerns policy. As Molle (14) mentioned, it means the creation of common policy framework that abolishes divergence between national preferences and creates equal conditions for the functioning of the integrated parts of the economy. The main instruments of policy integration are, the author said, consultation and coordination (harmonization) or unification of government regulations.

Industrial and commercial enterprises in the European Union are the main producers of wealth. They are of strategic important in relation to the economic and social life of the community. Company laws and, as a consequence, principles of accounting have been under influence of separated national laws and have therefore diverged in practices. This situation creates a barrier for cross-countries activities of both the company and those with whom it deals (Evans,4).

As reported by Alexander and Nobes (1), to achieve the difiicult task of harmonizing objectives, the European Union, through its Commission, has two main instruments: directives and regulations. Other minor instruments are decisions and recommendations (Shimamura, 20). Directives are the acts which must be incorporated into the law of members states, and regulations, those which become law throughout the European Community without having to pass through national legislatures. As at the mid 1993, and as far as the company law and accounting are concerned, there are two regulations and thirteen directives. The company law directives of most relevance to accounting are the Fourth (adopted in 1978) and the Seventh (adopted in 1983). The former covers public and private companies in all EU countries, its articles include those referring to valuation rules, formats of published financial statements and disclosure requirements. The latter concerns consolidation accounting which is very important for group companies in search of financial resources on the international market.

5 Comparison of Rules and Practices

Directives are rules but flexible rules which allow member states a considerable number of options, many of these options are in the form of possible concessions. Member states are free to take advantage of the concessions and exercice other choices within the limits provided in the directives. However, there are often conflicts between the directives and nationals standards. Through examinations of some of items on the Balance Sheet, we can compare the difference between European directives requirements and current practices .

5. I Valuation bases for Fixed Assets

The Fourth Directive states in the Artide 32 that, in general, the valuation of the tangible fixed assets shown in the annual accounts shall be based on the principle of purchase price and production cost. There are also provisions in Article 35 relating to value adjustment and depreciation and to the meaning of cost. Artide 33 allows member states to use current cost valuation (subject to disclosure of method and some other requirements). In practice, there is variation in valuation for land and buildings in European balance sheets. Historical cost can be seen to predominate in Germany, and revaluation in the United Kingdom. For the Netherlands, there's is some evidence of replacement cost. In France and Spain, it is an indexed method of valuation caused by government-induced tax-exempt revaluation(16). As for investment properties, the United Kingdom and Ireland defined it as those not-owner occupied, which should be revaluated annually to *net realizable value* (NRV). These island nations do not share the same approach with continental countries which never distinguish investment properties from other properties. More, the British and Irish accounting, SSAP 19, requires that there should be no depreciation, except in the sense that downward valuation adjustments would be recorded. This lack of depreciation appears inconsistent with the Directives and national laws.

The question of capitalization of *leases* (which are defined sometimes as a right but also as an tangible asset or just a liability) also divides Europe. The UK and the Netherlands support lease caplitalization whereas Germany and Italy oppose it.The Fourth Directive does not specially mention leases, except to require disclosures of information concerning them.

The Fourth Directive allows the formation expenses of a company (e.g. *frais d' etablissement* in French) and the practice is common in several continental countries , typically with five-year amortization period. However, in the United Kingdom, it is illegal to capitalize such expenses because it is not clear what the cost is and how long it lasts.

As for *long-term* contracts, the Directive do not have any opinion on the date these should be recognized as assets. In the majority of European Union countries, they can be recognized at the date of achievement or gradually at the percentage of advancement. In reality, the accounting practice is influenced by local tax regulations (14).

5.2 Research and Development Costs

Research and Development cost is the most controversial matter. It is allowed to be *capitalized* by the Fourth Directive, if this cost is matched against the corresponding future revenues. European practices are not so homogeneous. Bureau Francis Lefebvre (14) reported that some follows the Directive (France, Denmark, Spain, Italy.....) but other considers R&D costs should be currently expensed (the UK,Ireland). As for Germany, research and development costs are not scheduled to be booked as assets except intangible fixed assets which fees were reported really paid. Luxembourg regulates a 5 year depreciation as do other Latin and Scandinavian counterparts, but the period of depreciation may be longer than that.

5.3 Depreciation of Fixed Assets

An asset may be used up or become less useful for a variety of reasons which can be either physical or economic . The Fourth Directive requires systematic depreciation of fixed assets over their economic lives (Artide 35). Land and building, assets without limited lives or with very long lives are not depreciated. The continental countries, on the contrary, depreciate the historical cost of the asset in the limit authorized by the tax authorities regardless its economic life. The *straight-line method* of depreciation is the most frequently found in Europe. For plant and machinery, the reducing balance is common, but companies might start depreciation of an asset with reducing balance and then swap to straight-line when the calculation gives a larger charges. Meanwhile, in the UK, depreciation may be done with replacement value, an economic estimation independent from booked historical value but close to current value. This replacement value can be bigger than the historical value but for many, this valuation is done at the risk of mixing up values with costs, and ending up with an incoherent balance sheet (Alexander, 1).

5.4 Inventory Valuation

Choices, errors and manipulations related to inventory can have great effect on accounts. Article 43 of the Fourth Directive requires that valuation methods should be disclosed. The lawmakers allow the calculation the purchase price or production cost of stocks of goods either on the basis of weighed average prices or by the "*first in, first out*" (FIFO) method, the" *last in, first out*" (LIFO) method or some similar method. European practices in France and the Uuited Kingdom do not allow LIFO under most circumstances but this method is permitted, for example, in Germany, Italy and the Netherlands. This is because it is allowed for taxes purpose in these countries and tends to slower profit than FIFO or weighed average.

5.5 Capital and Liabilities

The text of the Fourth Directive lack a clear distinction between reserves and liabilities and a large liberty given to companies for interpreting the degree of *prudence* required with respect to the scope of provisions. As far as reserves and liabilities are concerned, some European countries proposed dividends will be removed from reserves and shown as current liabilities, whereas in other countries they will remain in reserves. Concerning the provisions, Artide 42 of the Fourth Directives comments: " Provisions for liabilities and charges may not exceed in amount the sums which are necessary' but nobody can tell with any precision what "the sums which are necessary" actually are.

5.6 Accounting and Taxation

In the European Union, the difference in tax bases and tax systems has a dominant effect on accounting measurement and valuation. The definition of taxable income varies substantially by country. The United Kingdom and the Netherlands belong to the group of countries where the requirement for financial accounting to present a *fair* view to shareholder predates and generally overrides taxation rules. In the other group which includes France and Germany, the necessity of taxation has been dominant in the evolution of accounting and auditing.

Difference between *Tax Depreciation* and *Financial Depreciation* can be seen often in Europe. For the United Kingdom, there is a complete separation of the scheme of "capital allowances" from the depreciation charged by companies against accounting profit. In France and Germany, maximum tax depreciation rates are specified by tax law.

As for the taxation on capital *gain*, France distinguishes short-term capital gain (under 2 years) from long term capital gain which is taxed at a reduced rate. This is not the case in Germany or the Netherlands. In these countries, capital gains are simply added to taxable income.

There is also different treatment of loss. The system of *carry back* and *carry forward* of loss is not identical in such countries as Germany and the United Kingdom (no limit for carry forward) and the group of France and Netherlands (carry forward limited in a 5 year period). Germany and France show more severe taxation of dividends received whereas the United Kingdom and the Netherlands are quite liberal. On the contrary, France and Germany are more generous than the United Klngdom in considering a number of expenses booked in accounting as deductible from taxable profits.

Deferred Tax is another area where there are major differences in EU accounting practice. It is not the amounts of tax bills which the tax authorities have allowed the tax payer to postpone but amounts of tax, which accountants think relate to the current or previous accounting period but which the tax system does not yet consider to be taxable. In the UK, the accounting rules concentrate on whether tax is expected to be paid in the foreseeable future; however, in Germany and in some of continental countries, deferred tax accounting is not carried out. As for the Fourth Directive, it requires nothing but the disclosure of deferred tax amount (Articles 43-10 & 43-1 1). In the practice, there are few disclosures relating to deferred tax in some countries (such as France and Belgium), frequent note disclosures in other countries (Germany, the UK, the lreland) and frequent effect on financial statements in others (Denmark, the Netherlands)

5.6 Accounting for Price Changes

Inflation is a general increase in prices that causes a fall in the purchasing power of money. It is generally agreed that one useful and easily available general measure of inflation is an index of retail prices. The financial statements should be *adjusted by indexation* to match with the current prices specially when inflation runs at a very high level as was the case in many European countries in the mid 70s. However, in Europe, there is obvious opposition between Germany and other countries on how to deal with inflation. The German view is that accounting should not be adjusted away from reliable numbers as *historical costs*. However, some other European Union state members made move to adjust accounting for inflation. The UK and lreland have came closest to a generalized system based on *replacement cost* accounting. Its merit in comparison with historical cost accounting is the possibility of providing a balance sheet that gives a much better indication of individual assets and a whole business , and that *curent cost* accounting profit figures can reasonably be used as measure of distribuable profit and business performance.

5. 7 Foreign Currency Translation

Controversy arises also on the treatment of currency translation. Many European countries such as the UK, Spain and the Netherlands believe fairness demands that unsettled gains should be recognized as well as unsettled losses. They can be called "realized" in the same way as are profits on credit sales where the customers have not yet paid. Other European Union countries (Germany, Sweden...) believe that such treatment is imprudent and that gains should be recognized on settlement only.

The EU Directives do not directly address the matter of translation, except to require the disdosure of a company's accounting policy on the matter. In practice, though there is a convergence in the use of closing rate method or the temporal method (a combination of closing rate and historical method) for balance sheet translation, as for the profit and loss account, it varies from average method applied in Germany and the United Kingdom to the closing rate method in Denmark and in France or the transaction rate.

Not only the company accounts suffer divergence on currency translation but also the consolidated accounts. Sometimes, as in Germany, different methods of translation were applied at the same time even within the balance sheet.

5.8 Accounting for Pension Plans

All accounting standard-setting around the world is going to have this topic under active consideration. There is considerable diversity in the measurement and reporting of these contributions, such as the question of how to contingent pension liability and how to deal with multi-employers plans. The Fourth (Article 43-7) and the Seventh (Artide 34-7) Directives decided that companies' total engagement in pension plans should be reported in the accounts. However, Bureau Francis Lefebvre reported (7) that German companies manage *internal pension schemes* themselves whereas French companies confer it to *professional organizations*. In Germany, the cumulated pension plan figures should be revalued 6% per year and found on the Balance Sheet. French campanies, on the contrary, are free to choose whether to report partly or entirely the amount of their engagement in the Balance Sheet or simply in the Appendix.

5.9 Accounting for Business Combination

There is a legal concept based on *legal control* for which a group contains a parent company and a number of dependent or subsidiary companies. This control is exercised from the majority shareholdings and voting rights. This is what happened in German company legislation. On the other hand, there is the "entity' concept of group, based on *economic control*. This emphasizes the economic unity of all enterprises in the group and gives importance to all shareholders, whether those of the parent company or minority interests (Alexander, 1).

However, when the companies belong to more than one group or only partially to a group, there is neither legal dominance nor economic control but these situations are covered by the priority concept which emphasizes ownership or proprietorship. In the UK, when two enterprises are to come together, there is a pooling of *economic* interest and the two are more or less on an equal basis. It is not the case of French *fusion* and Italian in *fusione*, where the takeover is achieved *legally*.

The Seventh Directive and some of IASS Show flexibility in the area. As a result, this leaves the accounts of individual companies to national tax related regulations but allows great flexibility to the published consolidated accounts .

Another important aspect of group accounting is how to deal with the *purchased goodwill*. The Seventh Directive proposes to report it as assets or to offset it against reserves. In practice, it is rare to see the second solution in French companies but it is often done in the UK, lreland and the Netherlands due to financial advantages offered to them. A numerical survey by Jean Flower in 1992 and reported by Alexander and Nobes(1) confinned this tendency. As for the depreciation of the goodwill, Bureau Francis Lefebvre reported it from 5 year (Belgium) to 20 year period (France). The Fourth Directives (Art 37-2) and the Seventh Directive (Art 45-5) ruled for a maximum period of 5 years (or more if there is any good reason and that the depreciation period can not exceed the useful period of the assets) .

5. 10 Profitability Analysis

Without knowledge of ratio or percentage, we can not compare the situation of a company with the general situation. The two above-mentioned tools are powerful and also simple ones for exploring needed information. However, due to different accounting practices in Europe, we are unable to compare it with efficiency. Within the European Union, there is a requirement to show extraordinary items separately under the formats, and abnormal but "ordinary' items (e.g. write-off of a very large receivable from a regular trade customer) will be usually be listed in the notes to the accounts.

Earning is generally defined as the net profit after tax and extraordinary (or unusual) items. In France and Spain, the concept is similar to non-trading or non-recurring. It differs from the UK, where extraordinary is very narrowly defined and intended to be rare. As a reference, the position of the Fourth Directive under which extraordinary is defined as "incomes and charges that arises otherwise than in the course of the company's ordinary activities" should be remembered.

6 Cultural Divergence and the process of Harmonization

As shown before, the harmonization of accounting in the Europe Union is a process in progress. The Directives aim to reconcile different viewpoints in accounting but still stay silent on many items. The reason for this silence may be merely technical because the practice concerned is quite new and time for studies for suitable method of accounting is needed. For example, as far as the accounting of new financial instrunrents is concerned, there are only technical rules proposed by some FAS (105, 107,119) and IAS 32. Otherwise, the silence is meaningful because there is not yet an appropriate or compromise solution in view. The lawmakers do not want rigid directives because they prefer keeping some possibilities to step backward in the case of difficulties which might occur at the moment of application . The existing difference comes from *cultural traditions* and *accounting nationalism* that can not be erased in the short term. For that reason, a successful accounting hannonization should result a priori from the mutual understanding and the recognition of local cultures.

6. 1 Divergence in Language

The first divergence in culture remains in the divergence of language. The EU 15 member states are certainly not in a Babel-like mosaic of languages. Europeans are more or less open to the language spoken by next-door neighbors. However, *accounting jargon* is still a problem for everybody, specially when there is problem how to enlarge the population to which the accounting is applied. Even in the English-speaking sphere, the accounting terms differ considerably between the United Kingdom and the United States (which is not European country but by its influence, the most important country in the international accounting scene). Since American English has its origins in the seventeen century English, it indudes many words that exist in its trans-Atlantic English cousin but often have quite different meanings. Alexander and Nobes (1) gave us few examples which illustrate the scope of misunderstanding. The UK term "Ordinary Shares" has its equivalence in the US as "Common Stocks" when "Stocks" in the UK is understood as "Inventories" in the US. The UK' s "Notes" are US' s "Bills" and vice-versa. Another example is French term "Change" means "Conversion" in English and in the same time, "Conversion" in French should be "Translation" for English native speakers.

The expression "*true and fair view*' (TFV) has found its way into the laws of the EU member states but for Parker and Nobes (1991), it is apparently a dual concept in four countries (*True and Fair*) and unitary concept in eight others (French *Fidele* or Dutch *Getrouw*). When matters get complicated, a translation often becomes opaque or misleading. Bilingual accountants are very expensive and it is not so easy to find equivalent terms in other expression to make understand certain particular or unique concepts.

6.2 Divergence in Financial Culture

Language barriers are not the toughest to cross over. The divergence in financial culture is much more difficult to overcome.

Nobody can deny the importance of "internationalization", this key word, on the eve of 21 st century where companies try to increase their market-share and to reduce unit cost of their production. The struggle to survive will take place from now on outside of national boundaries. Companies should make acquaintance with the international accounting principles of presentation and disclosure if they want to collect funds necessary to finance their activities. However, properly speaking, there are no international principles. The only accounting principles accepted by international financial market are Anglo-Saxon, that is, those that came from the United States or Great Britain.(Walton, 23).

US accounting principles dominate the international scene but they are not the only system extant. The US system has its source in 19th century British accounting and the native English-speaking countries (Canada, Australia included) still maintain strong and intense social and economic relationships. The American accounting regulation developed in a different way particularly after the collapse of Wall Street in 1929, when accounting practices of listed companies were criticized for lack of prudence. By the two laws known as the Securities and Exchange Acts in 1993 and 1934 and by the creation of the Securities and Exchange Commission (SEC), American accounting became the instrument to control the financial situation of listed companies. Though the SEC let companies and auditors themselves define the so-called "*generally accepted accounting principles*" (GAAP), the main goal of American accounting is to serve with efficiency the needs of securities markets and big companies .

Though British accounting is always considered as more liberal, a transatlantic connection was established first by the creation of Coopers & Lybrand (Coopers=British; Lybrand=American) in the seventies. The second wave came with a merger in the nineties resulting in the Big Six Network. However, the dynamism of Anglo-American accounting firms was tempered by the creation of the International Accounting Standard Committee (IASC) when professionals found the differences of accounting principles between countries would disturb international business exchanges. All countries including France and Germany are members of the organization but the latter is still under the shadow of British and American accounting principles.

To some, therefore, the IASC is nothing less than an attempt to limit the European Union' s influences and may not realize the noble mission of harmonizing international accounting. In fact, the European Union had prepared some guidelines leading towards a legal approach named the "Franco-German Model" and not the economic approach as presented by the "Anglo-Saxon Model" . Only the memberships of Great Britain, Denmark and Ireland in the European Community in 1973 can influence the Fourth Guideline (Fourth Directive) which in its final version mentioned the importance of a "true and fair view' (*image fidele*) of the financial situation., a concept dear to Anglo-Saxons. Even so, Great Britain had to accept the Guideline as a compromise between continental traditions and Atlantic principles.

6.3 Divergence in Legal Culture

The main difference between the above-mentioned Anglo-Saxon System and the *Franco-German System* is above all, a question of legal culture. In America or in Great Britain, there is a partnership between the State and the professionals. The State decides on what seems to be a frame and the professionals complete it through practice. They are appointed to control by themselves the access to their profession. In France and in other countries which follow *Roman Law*, everything should be mentioned, directly or indirectly in the texts of laws or in written regulations. *Customary laws* or *case laws* have no such priority.

6.4 Divergence in Social Organization and Corporate Philosophy

In addition to divergence mentioned above, there is also divergence in social organization and corporate philosophy. Let us first discuss social organization .

In Great Britain, the country of the Industrial Revolution, there has been *a long tradition of accounting professionals* since the middle of 19th century. With the development of Limited Liabilities Companies and the need for regular reports on companies' activities, the specialists of financial information knew how to raise their voice, became partners, and enjoyed the esteem of the government. They can examine the financial reports as independents and at the same time, are free to propose to their dients other services to get some additional fees. In continental Europe, the double function of accounting professionals always arouses suspicion.

We should mention also the *importance of the marketplace* in the process of financing of American and British comparries. The number of British companies listed on the London Stock Exchange is 2300 in comparison with 800 French companies in Paris and 250 German companies in Frankfurt. If British have a tendency to issue shares, French, on the contrary, prefer to issue bonds because they fear the loss of control in company m anagement . The Anglo-Saxon accounting system aims to give to owners and creditors quite a lot of information, blow up the benefits and reveal all the assets. On the other hand, a Swiss company should keep professional secrets and, as a result, under-evaluate benefits and assets. The financial markets wait for an increase of benefits in the annual report of the listed company. The CEOs can get an increase of remuneration or a new interesting contract if their companies benefits go upward. Financial analysts foresee the result of companies for following years . If the company can not realize what was expected, the price of the share will go down and everybody loose everything. The responsible then are tempted to increase the benefits of the companies even with inappropriate accounting procedures . In the Anglo-Saxon system, the Profit and Loss Account appears to be presented as more important than the Balance Sheet.

Corporate Culture is also a reason for divergence in accounting. Japanese author Yoshimori (22) analyzed it on many aspects such as Corporate Ownership, Corporate Objectives and Corporate Governance (1996). Before him, Berla and Means (1932), Lee (1966), Kester (1991), Kotter & Heskett (1992), Roe (1993) had contributed largely to the studies of different corporate cultures in the world. Yoshomori divided companies into three models according to the composition of ownership: the Japanese Model (Management's Domination), the American Model (Shareholder's Domination) and the European Model (Big Familys Domination). The big families are important investors from the same family such as the Krupp, Rochling, Flick or Farben families in Germany or

Peugeot, Dassault families in France. Within Europe, he found in English, German and French sub groups different degrees of intervention of big families in companies affairs. From these criteria, the author suggested a distinction between 3 corporate objectives :

-*Monistic* corporate concept (US, UK centered on shareholders. The company is the property of shareholders.

-*Dualistic* corporate concept (Germany, France) centered both on shareholders and employees. The company is the property of shareholders but they should not forget the role of employees.

-*Pluralistic* corporate concept (Japan) centered on employees. The company is owned by all people concerned.

That distinction leads to the conclusion that the goal of the UK and US enterprises is the profitability and the distribution of dividends to the shareholders. In France and Germany, companies try to satisfy owners, debtors and employees at the same time but give priority to the owners. Meanwhile, in Japan, at least until now, the stability of employment is still considered as the most important .

The UK and US companies aim at first to increase the stock price and that makes them different from continental European countries and Japan. Japan seems to plan its success for the long term and to favor above all the job security for employees. It is clear that such corporate philosophy influenced the accounting policies adopted by each country. If we limit the comparison to differences between EU member states, we can find the reason why the Anglo-Saxon accounting system is far different from the Franco - German one .

7 Some evidences of EU financial reporting practice harmonization

According to Nair and Frank (Nobes, 17), for each accounting concept, and for each country, there are always different degrees of *acceptability* by the practitioners and the public depending upon whether it is *(a) required, (b) majority practiced, (c) minority practiced, (d) not applied, (e) not permitted.* "Required" and "not permitted" refer to *formal harmony*, the other three refer to *material harmony*.

Van der Tas (Nobes,17) examined the progress of financial reporting practice harmonization in the EU in the case of deferred taxation of the period between 1978 and 1988 with the C-index as statistical tool. He found that both on the individual accounts (progression of the degree of consensus from 0.476 in 1978 to 0.869 in 1988) and the consolidated accounts (progression from 0.456 in 1978 to 0.749 in 1988), the harmony in Europe was very positive whenever the Fourth and Seventh Directives were jointly implemented. Another empirical study related to measurement practices in France, Germany and the UK by Emenyonu and Gray (16) (in using the I-index and the Chi-square) on many items of the Balance Sheet. They found in general the overall significant degree of harmonization in Stock Valuation Method (I-index = 0.5481), on Valuation Bases for Fixed Assets (I-index = 0.6079) and on the Treatment of Extraordinary and Exceptional Items (G-index = 0.5959) although in particular, there was still divergence in methods of accounting on Depreciation Method (I-index = 0.0076), on Treatments of Goodwill (I-index = 0.2636) and R&D Costs G-index unable to be computed). We have no available up-to-date statistics concerning the period from 1989 but, in a word, we find that despite accountable progress, the harmonization of accounting in EU is far from satisfactory.

8 Acculturation and Perspectives of Accounting Harmonization in EU

In taking into account the present situation, it is not enough to modify accounting rules to unify people. The right solution is to *accelerate* the *acculturation* of people for the purpose of unifying accounting methods. Acculturation, according to Webster's, is in its first definition, the process of adopting a social patterns of another group especially a dominant one. Since it is hard to accept a dominating position in current accounting practice (though the influence of American accounting is so far the most important these days), we prefer the second definition by which acculturation is a *restructuring or blending of cultures* resulting from this.

In fact, the process of acculturation in Europe began a long time ago with its century-long immigration from within but there was an event that happened to quicken this process. All of us know that in the mid 80s, Europe Union faced with the Eurosclerosis, an illness described by a number of "gaps" between the EU economies and those of Japan and the US such as trade gap, productivity gap, employment gap, investment gap and technology gap. The solution adopted to restore the Union to economic health was the Single European Market (SEM) program which amended The Treaty of Rome. The program aims to remove all kind of barriers and frontiers to ensure free movement of goods, persons, services and capital(Jones, 9). A white paper published by the European Commission identified tangible achievements of the program in a variety of fields from the economic to the social . However, the Union still suffers from poor competitiveness, poor productivity relative to Japan and the US, and these because less than 41% (119/289 items) of its legislative proposals were adopted by all members. That means the foot-dragging by governments have been major problems. For that reason, the European Commission have launched initiatives to develop closer links between national enforcement bodies of the SEM. Also, it is in no doubt the SEM can not fully realize its objectives without European Monetary Union in January 1999.

The above-mentioned "restructuring' of Europe and the "blending" of cultures should be done quicker if there is a real synchronization and convergence of "Anglo-Saxon" British culture and the continental culture. The Franco-German group have recognized and adopted some of Anglo-Saxon arguments during the preparation of the Fourth Directive. Nobody can deny the merit of the Anglo-Saxon accounting system, where companies' information are available to an enlarged public including not only equity investors and government but also trade-unionists and analyst advisors. This openness in publicity *may* reduce the risk of irregularities such as Yamaichi Securities' *tobashi* arrangement and shady liabilities -- kept off its balance sheet and now estimated at Yen 264.8 billion -- which are believed to have forced Japan's fourth biggest brokerage to close. Yet, Yamaichi' s failure can launch an economic domino effect and hit Japanese economy hard.

The appreciation of Anglo-Saxon accounting methods does not mean, however, that harmonization of EU accounting should be similar to Americanization of accounting. The practice of replacement cost in the Anglo-Saxon system is also dangerous because it may be subject to large errors. Since financial reports in these countries sometimes being presented as documents for advertising or "window-dressing" purposes, the manipulation of accounting figures may lead to misunderstanding or abuse of confidence .

Only frequent exchanges of information, mutual recognition of cultural fields *other than accounting*, and cautious negotiations can pull different accounting systems closer. These remarks are also applicable to managerial accounting too. Up to now, the managerial system of accounting has been dominated by headquarters' own will. It is time to place more emphasis on studies in view of global harmonization of accounting in consideration of overseas branchs' proper local situations.

To condude, the harmonization of accounting in the European Union is still to be accomplished and it is really a case study. Its success can serve as example for other regional co-operation in the world such as NAFTA, ASEAN, or APEC . The deep economic integration of a region will be never realized without harmonization of its regulations and institutions. The latter is conditioned by the acculturation of all of its members, not apparently as nations, but profoundly in most aspects of their daily lives as social organizations.

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