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CHAPTER IV
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INTRODUCTION

The efforts to reduce or eliminate accounting diversity have been continuing for the last several decades with mixed results and the results are evidenced to be encouraging at both the national and international levels. The underlying causes for such efforts seem to be the deleterious effects of diversified financial reporting. Hence Barthes [1989:*1-2*] observes: “Business community is tired of differences in accounting. These differences lead to increased costs for those companies that operate and raise capital abroad and to an un-level playing field for those international companies that are competing with one another for business opportunities.” The only solution lies in harmonization of accounting standards and practices. Accounting harmonization is a process [Van der Tas: 1988; Tay and Parker: 1990] and is seen to be essential for improving international comparability in financial statements thereby enhancing international capital flows and reducing the cost of preparing financial statements for international corporations [Carey: 1990; Choi and Mueller: 1992]. The evolutionary process of reducing accounting diversity first originated with formulating GAAP. Now this process has culminated in replacing the GAAP with standards since 1973. At present, international harmonization of accounting standards has become the goal of many accounting professional bodies and academicians for the last fifty years. In this background, researchers from accounting discipline have focused their research on different dimensions of financial reporting harmonization.

THE APPROACHES

For long time, researchers have attempted to group the countries with similarities of financial reporting and this has been referred to as cluster analyses. It is based on the presumption that a group of countries adopt almost the similar reporting systems. The studies indicate two celebrated clusters. To quote d’Arcy [2001:*327*], “In particular, a distinction is made between the Anglo-American accounting cluster and the Continental European cluster.” The bases of clustering are culture, environment, standard setting process, accounting practices, financial reporting requirements and multidimensional rating.

The cluster studies on culture having an influence on financial reporting start with the assumption of the validity of cultural determinism theory or cultural-cause theory. We may state the studies of Fechner & Kilgore, [1994]; Hofstede, [1980]; Perera, [1989]; Perera & Mathews, [1990]; Belkaoui, [1989]; Bloom & Naciri, [1989]; Boczo, [1996]; MacArthur, [1996].

The cluster studies are based on environmental groupings emanating from environmental determinism theory. This assumes that there is a close relationship between environmental factors and financial reporting systems. The most frequently mentioned environmental factors found in recent publications are the legal system, the providers of capital, the tax system, the influence of the accounting profession, and the importance of finance and capital markets [Alexander & Nobes, 1994:*67-75*; Radebaugh & Gray, 1993:*44*]. Also there are influences like standards [Peller & Schwitter, 1991:*4-5*] or the political system [Choi & Mueller, 1992:*40-43*].

The first authors to write about the likelihood of environmental groupings [AAA 1977; Mueller, 1967, 1968; Previts, 1975; Seidler, 1967], used these factors intuitively to create clusters. Typically, sets of factors are proposed which serve as an explanation of internationally observed differences in prevailing accounting principles or practices. To link between these factors and national accounting systems is merely described and not analyzed further or tested empirically. More recently, major international accounting textbooks provide a list of environmental factors and describe possible connections to the peculiarities of national accounting systems [Choi & Mueller, 1992; Nobes & Parker, 1995; Haskins, Ferris & Selling, 1996].

The national institutions and processes of standard setting can be defined as either a cause of differences or as an integrated part of national accounting system. On the one hand, the process and the bodies influence accounting standards and practices. Thus, one reason for the differences can be found in these various standard setting activities [Daley & Mueller, 1989:*22*]. On the other hand, the "approaches used to establish accounting standards are a function of cultural values and factors inherent in each country [Bloom & Nacire, 1989:*70*]." Therefore, several investigations analyze and compare the national standard setting institutions and processes in various countries as part of the accounting system and explain differences by environmental factors [Puxty et. al., 1987; Taylor & Turley, 1986]. Besides an explicit classification by "rule making" provided by Nobes [1992:*99-103*], some authors identify several types or baselines of standard setting [Bloom & Naciri, 1989; Day, 1996].

There are many investigations which analyse differences in accounting practices internationally. First some approaches examine the actual impact of differences in income or equity by comparing the national numbers from various enterprises with the amounts after reconciliation to US-GAAP [Amir, Harris & Venuti, 1993; Weetman & Gray, 1991]. Others try to measure the differences by indexes as an indicator for harmonization efforts [Archer, Delvaille & McLeary, 1995, Emenyonu & Gray, 1992; Herrmann & Thomas, 1995] or other approaches [Joos & Lang, 1994, Walton, 1992]. All these attempts show serious differences in accounting practices. The first approaches using statistical methods to cluster national accounting systems according to reporting practices are found in the late seventies [Barrett, 1977]. The publication of three databases on accounting practices by Price Waterhouse [1973, 1975, and 1979] was the driving motive for several researchers to use factor analysis to find national accounting clusters. In 1978 Da Costa et al. tested the posited existence of groupings of accounting models using this database. They were followed by Doupnik [1987], Frank [1979], Goodrich [1982], Nair [1982], Nair and Frank [1980] and Nobes and Matatko [1980]. In the nineties, other empirical studies with partly new databases test the relationship between accounting practices classification and certain environmental influences [Nobes 1992; Salter & Doupnik, 1992; Doupnik & Salter, 1993, 1995].

It is astonishing that no one has attempted to classify national accounting systems by financial reporting requirements. Of course, there are several investigations which collect or analyze the differences in accounting standards in several countries [Gray et. al., 1984; Zeff, 1972]. Yet none of them build clusters based on their findings. One reason could be that a database, such as the one provided for accounting practices by the three surveys of Price Waterhouse, does not exist. Rahman et al.,[1996] analyse the congruency of financial reporting requirements in order to learn something about "formal harmonization", but only for the accounting systems of Australia and New Zealand [Rehman et al., 1996:*338*].

The literature on financial reporting harmonization can be analyzed under various approaches. Popularly, two groups of studies can be identified in the extant literature on the evaluation of harmonization: those with a global perspective [e.g., Nair and Frank: 1981; Evans and Taylor: 1982; Alford et. al.,: 1993; Amir et. al.,: 1993 and Barth and Clinch: 1994] and those with a regional perspective [e.g., Doupnik and Taylor: 1985; Walton: 1992; Emenyonu and Gray: 1992; van der Tas:

1992b; Yang and Lee: 1994]. The first group uses sample countries (employing Price-Waterhouse International Indices) or companies from sample countries (using other data-bases or annual reports) to study the variation in accounting rules and practices between or across countries at a global level. The second group focuses on evaluating harmonization within particular clusters of countries.

The review of literature reveals inconsistencies in developing water-tight compartments of research on accounting harmonization. Firstly, several studies focus on different dimensions of harmonization in their respective researches at a time and environmental factors are analyzed in most of the researches together. Secondly, several environmental factors like market forces, legal systems, stage of development etc., having an influence on harmonization are ultimately tied together with culture. Thirdly, several studies focus on either regulation harmonization or on practice harmonization or both. Lastly, the cluster analysis has contradictory groupings. To cite, whether an Anglo-American or continental European accounting cluster can be identified, the existing cluster attempts do not provide us with a straightforward answer. In contrast to the expectation, the findings of most investigations suggest separate UK and US groups [AAA, 1977; Frank, 1979; Mueller, 1968; Nair & Frank, 1980; Seidler, 1967; Shoenthal, 1989]. A more differentiated view provides Nobes [1992] and Doupnik and Salter [1993, 1995] with a hierarchical solution. It is only in the two-cluster-solution that the UK and US are both grouped in one cluster.

SCOPE OF THE REVIEW

In the background of these issues, the present chapter summarizes the review of literature on accounting harmonization from the viewpoint of international studies and Indian studies.

INTERNATIONAL STUDIES

Extensive research has been undertaken in the field of harmonization at global level. The area of research is not limited to a particular aspect of harmonization issue, but it extends to a wide range of harmonization aspects. However, the review of literature focuses on the following strands: (A) Cultural Impact Studies; (B) Regulation Harmonization; (C) Practice Harmonization; (D) Practice Harmonization and Accounting Numbers; (E) Harmonization V/s Stock Exchange Disclosure Requirements; and (F) Harmonization Measurement Techniques.

(A) Cultural Impact Studies:

The dominance of culture in all actions of human life seems to be an undisputed fact. Accounting also seems to be no exception to this observation. To support this view, we may quote Perera [1989:*43*]: “Accounting cannot be culture free.” Similarly, Adhikari and Tondkar [1992:*76*] observe: “Accounting reporting and disclosure standards and practices do not develop in a vacuum but reflect the particular environment in which they are developed.”

The most celebrated conceptual analysis of culture being directly borrowed by the accounting researchers has been the concept of culture developed by Hofstede [1991]

Geet Hofstede, director of the Institute for Research on Intercultural Cooperation, at the University of Limburg, Maastricht, The Netherlands. Defines culture as a kind of “collective mental programming” that affects the way people perceive and act in the world, Hofstede discusses five important cultural “dimensions”: power distance, individualism, long-term orientation, uncertainty avoidance, and masculinity.

The concept of power distance (PD) refers to the degree to which people are willing to live with unequally distributed power within and across their institutions and organizations. A high score on the PD index indicates that a national culture has a high tolerance for inequality. In such a society, people accept a hierarchy that is justified by those in powers and by the historical tradition of those positions. In contrast, people from societies scoring low on the PD index are more egalitarian and require justification for power inequalities.

Societies that exemplify the individualism (IDV) construct tend to be those in which the ties between individuals are loosely coupled (i.e., people are expected to look after themselves and their immediate family). In contrast, a low score on the IDV index corresponds to a collectivist society. Collectivism pertains to societies in which people are integrated into strong, cohesive in-groups, which throughout people's lifetimes continue to protect them in exchange for their loyalty. The fundamental issue addressed by the IDV cultural dimension is the degree of interdependence that a society maintains among individuals. For example, according to Hofstede, employees of organizations in individualistic societies tend to place great value on the freedom to adopt their own approach to their work assignments. In contrast, employees of collective societies place less value on freedom to do their work their way; instead, they place a higher value on training and opportunities to improve their work skills so they become full fledged members of the team, making their expected contribution.

The concept of uncertainty avoidance (UAV) can be thought of as the extent to which the members of society feel threatened by uncertain or unknown situations. This feeling is usually expressed though a need for predictability expressed in written and unwritten rules. Uncertainty –avoiding cultures generate, nurture, and uphold explicit codes of belief and behavior and tend to be un-accepting of behaviors, attitudes, and ideas opposite to the group norms. The need for laws and rules in a strong UAV culture often leads to the establishment of rules or rule-oriented behavior that sometimes is puzzling to others from a low UAV environment. Another characteristic of a strong UAV culture is that its citizens tend to be pessimistic about their possibilities to influence authorities. Few citizens are ready to protest decisions made by authorities; they depend on the government's expertise and believe that this is how things should be. The authorities and the citizens share the same norms bout their mutual roles.

In practical terms, a society with a long term orientation (LTO) values persistence, ordering of relationships by status and observing this order, thrift, and having a sense of shame, whereas a society with a short term orientation (STO) value personal stability., protecting face, and respect for tradition. Hofstede notes that the attributes akin to an LTO are more oriented toward the future (especially perseverance and thrift); they are more dynamic and support entrepreneurial activity. For example, perseverance or tenacity in the pursuit of goals is an important attribute for both intrapreneurs and entrepreneurs. Similarly, thrift leads to savings and the accumulation of capital for reinvestment. Moreover, having a sense of shame contributes to sensitivity to social contacts and keeping one's commitments.

The culture dimension of masculinity (MAS) is a construct that describes the extent to which social gender roles tend to be distinct in a given society. However, Haskins et. al., [2000:*5*] observed that: "Although interesting and important for understanding some aspects of societal attitudes, we believe that it does not bear on financial reporting attitudes and it is therefore not a part of subsequent discussions."

These cultural dimensions serve to identify the core values that explain the general similarities and differences in cultures around the world. These dimensions reflect the different ways in which societies answer basic questions about the organization and the conduct of their institutions. The distinctive cultural dimensions that Hofstede discusses, although subject to criticisms of simplification, have been time tested [Hofstede and Bond: 1984; Hodgetts: 1993; and Scarborough: 1998] and found to be associated with nations' economic growth, management accounting systems in use, support for global financial accounting harmonization, business failures, and cross-border corporate acquisitions [Ueno and Sekaran: 1992; Harrison: 1992; Hofstede : 1991; Smith et. al.,:1993; Li and Guisinger: 1991; Brewer: 1998; and Morosini: 1998].

The cluster studies may be seen as the first major step towards examining international accounting harmonization empirically [Rahman et. al., 1996:*326*]. These studies examined accounting practices and regulations as well as the environmental factors that influence them in different countries. Meek and Saudagaran [1990] note that there is general agreement that the following factors influence accounting development: (1) legal system; (2) nature of the relationship between business enterprises and providers of capital; (3) tax laws; (4) inflation levels; (5) political and economic ties; (6) level of economic development and (7) education levels. The cluster studies have resulted in a classification based on culture, which is the sheet anchor for most of the diversities in accounting regulations as well as in practice. As a result, cultural factors have been superimposed on cluster analysis and hence the empirical evidences have been analyzed under: (i) Reasons for Differences; (ii)

Cultural Dimensions; (iii) Interplay of Culture and Market Forces; and (iv) Culture and Legal Systems.

(i) Reasons for Differences:

Joshi [1988] studied the international harmonization of accounting standards and practices with the objective to investigate the following aspects: (1) whether a distinction was to be made between harmonization and standardization as concepts, and which of the two were to be adopted as the most favored strategy towards establishing global accounting standards? (2) What were the most serious barriers/obstacles to accounting harmonization/standardization, and whether the perceptions of the respondents differed across the countries of the world? (3) Who were likely to be the prime beneficiaries from accounting harmonization/standardization? (4) Which countries had a significant influence in the direction of accounting development towards harmonization? (5) What was the degree of effectiveness of organizational efforts towards harmonization? The sample respondents in the study were 68 accounting educators representing the University Accounting Departments from 54 countries. The respondents were highly qualified (67.6% Ph.D., 16.2% CPA/CA/CMA, 13.2% Post-graduation and 2.9% Graduation). Data was collected from these respondents through questionnaire. The main findings of this study revealed that: (1) more than 79 percent of respondents believed that a distinction between harmonization and standardization was necessary and there was no significant difference between the groups' perceptions; (2) Over 69 percent of accounting educators favored complete harmonization as compared to complete standardization and partial harmonization; (3) Reference to IAS turned out to be the best alternative approach to international harmonization followed by 'cluster approach' based on regional grouping of countries, and disclosure of each country's accounting practices'; (4) Enforcement difficulties were serious obstacles/barriers followed by influence of company's laws and influence of taxation laws; (5) Lack of resources restricted the development of standards; and (6) The IASC emerged the most effective organization at making strenuous efforts to international harmonization, followed by EEC and IFAC.

Nobes [1998] developed a model of reasons for international accounting differences. He classified accounting systems into two types: (1) Class A (accounting for outside shareholders) and (2) Class B (accounting for tax and creditors). Two variables determined whether a country would have a Class A or a Class B accounting system: (1) the type of culture and (2) the strength of the equity-outsider financing system. According to the model, countries with Type 1 cultures developed strong outsider-equity financing systems that led to the development of a Class A financial reporting system (sometimes referred to as the Anglo-Saxon model of accounting). Conversely, countries with Type 2 cultures had weak outsider-equity financing systems that led to the development of a Class B financial reporting system (sometimes referred to as the Continental European model of accounting). Nobes focused on the link between the financing system and accounting. A significant contribution was his clarification that equity financing alone did not lead to class A accounting, but rather equity financing provided by outsiders was the key. Japan was presented as an example of a country with a large number of listed companies and a large equity market capitalization, but shares were extensively owned by insiders (banks and other companies). According to the model, financial reporting in Japan should exhibit the characteristics of a class B accounting system. He further proposed that culturally dominated countries would use the class of accounting system imported from its dominating, culturally self-sufficient country regardless of the strength of the local outsider-equity financing system. Culturally dominated countries were those that, because of their former colonial status, low level of development, or small size, had strongly influenced by the culture of another country. This explained, for example, why the African nation of Malawi, which had a weak outside-equity financing system, nevertheless had a Class A accounting system. He concluded that some cultures led to strong equity-outsider financing systems and others did not.

Roberts and Salter [1999] explored the issue of what factors helped to explain the attitudes of accountants internationally towards the desirability of uniform accounting rules. They collected views on the desirability of uniform accounting rules through a questionnaire administered to partners in Big-6 accounting firms in 23 countries. Each respondent provided a yes/no response as to whether they wanted a single mandatory accounting method for each of the 14 different accounting issues. Then they created a uniformity score from this information and used it as the dependent variable in a regression model in which Hofstede's cultural dimensions and the importance of capital markets served as the independent variables. To avoid over-fitting the model, they used principal components analysis on Hofstede's indices for the 23 countries included in the sample to reduce the four cultural dimensions to two factors (CULT 1 and CULT 2). CULT 1 combined Power Distance (positive loading) and Individualism (negative loading), and CULT 2 combined Uncertainty Avoidance and Masculinity (both with positive loadings). Based on Gray's framework, Roberts and Salter [1999] expect countries with positive scores on CULT 1 (high power distance and low individualism) to support uniformity and vice versa. Countries with positive scores on CULT 2 (high Uncertainty Avoidance and high Masculinity) were also expected to support uniformity. To control the effect of the existing level of uniformity within a country might have depended upon respondents' opinions; a measure of the current level of uniformity was included in the analysis. Herfindahl concentration measures were developed for each accounting issue from respondents' self-reporting of the extent to which organizations in their country followed a particular accounting method. They found that accountants' attitudes toward uniformity were influenced significantly by both culture (positive relationship with CULT 1, negative relationship with CULT 2), and the importance of the domestic stock market. These results were to hold even after controlling for the level of uniformity in current practice. The results supported Gray in that, through CULT 1, power distance wais positively related to uniformity and Individualism is negatively related to Uniformity. However, through CULT 2, uncertainty avoidance was negatively related to Uniformity, which was contrary to Gray's uniformity hypothesis. They also suggested that the relationship with CULT 2 was driven by the masculinity component, which Gray did not visualize as having a significant influence on uniformity.

Viewing accounting as a social system, Harrison and McKinnon [1999] developed a framework that attempted to explain how changes in a country's financial reporting system occurred. The changes in the accounting system were explained in terms of four major elements: intrusive events, intra-system activity, trans-system activity, and the cultural environment. According to their framework, changes to the accounting system were the product of both the intrusion of events and the interaction between the accounting system and neighboring social systems within the country. Changes occurred as the accounting system identified an intrusion, produced a set of suitable reactions to the intrusion, and then interacted with neighboring systems to develop a culturally appropriate way of dealing with the intrusion. However, the study provided only general theory and they did not specify which factors were major explanatory variables for accounting practices [Nobes: 1998, *162*].

Ding et. al., [2004] analyzed determinants and effects of differences between Domestic Accounting Standards (DASs) and International Accountig Standards (IASs). Based on an extensive list of differences between DASs and IASs, they created two indices: "absence" and "divergence" indices. Absence measured the difference between DASs and IASs as the extent to which the rules regarding certain accounting issues were missing in DASs but covered in IASs. Divergence represented the differences between DASs and IASs as the extent to which the rules regarding the same accounting issue differed in DASs and IASs. Using a sample of 30 countries for the year 2001, they investigated the role of five institutional factors as potential determinants of the differences between DASs and IASs (i.e., absence and divergence): legal origin, ownership concentration acting as a proxy for governance structure, economic development, importance of the accounting profession, and importance of the equity market. Their evidence suggested that the importance of equity market was negatively related to the absence of DASs. There was a positive association between the ownership concentration and absence. With regard to divergence, they found a significant positive relationship between the level of economic development and the importance of the accounting profession and divergence, and negative association between the importance of equity market and divergence. Their study also provided evidence that emerging countries often treat IAS as a reference point and as a way to upgrade their accounting system.

(ii) Cultural Dimensions:

Hofstede [1980:*1*] defines culture as: "the collective programming of the mind which distinguishes one category of people from another." It implies that culture is transferred in a social context, and that it is software: it is largely invisible and unconscious. Culture is clearly a plausible cause of accounting differences as proposed by Gray's [1988] application of Hofstede's [1980] theory. It has been argued that organizational design, including accounting systems, is influenced by cultural factors [Hofstede: 1980; Gray: 1988; Perera: 1989b; Frucot and Shearon: 1991]. Doupnik and Salter [1995] empirically examined this theory, focusing on several macro-level factors.

Gray [1988] identified four widely recognized accounting values that could be used to define a country's accounting subculture: professionalism, uniformity, conservatism and secrecy. Gray [1988:*8*] described these accounting subculture values in the following way: Professionalism versus Statutory Control – a preference for the exercise of individual professional judgment and the maintenance of professional self regulation as opposed to compliance with prescriptive legal requirements and statutory control. Uniformity versus Flexibility – a preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies. Conservatism versus Optimism: a preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic laissez-faire risk-taking approach. Secrecy versus Transparency – a preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open, and publicly accountable approach. Gray [1988] extended Hofstede's theoretical framework to develop a model that identified the mechanism by which societal values became related to the accounting subculture, which directly influenced the development of financial reporting systems on a national level. He extended Hofstede's model by adding the elements of accounting values and accounting systems and their links to societal values and institutional consequences. Gray posited that accountants' attitudes or value systems were related to and derived from societal values. Accounting values, in turn, affected accounting systems. Therefore, the model suggested that cultural factors influenced the accounting system in two ways through their influence on accounting values and through their influence on institutional consequences. Several authors attempted to extend or refine Gray's framework [e.g., Perera: 1989b; Fechner and Kilgore: 1994; and Baydoun and Willett: 1995]. Some of them empirically tested Gray's hypotheses using countries as the unit of analysis by examining the relationships between Hofstede's cultural dimensions (independent variables) and one or more aspects of national accounting systems (dependent variables).

Eddie [1990] provided the first empirical test of Gray's framework, testing all four of Gray's hypotheses. Eddi [1990] used an eclectic approach to construct indices of the accounting subculture values for thirteen countries in the Asia-Pacific region. Based on a review of the literature, he selected ten factors to measure each accounting value. He then scored each factor on a six-point scale and summed up the scores to develop an index for each value. The accounting value indices were then correlated with Hofstede's cultural dimension indices for the 13 countries. In all cases, the predicted signs of association were confirmed.

Doupnik and Salter's [1995] model of accounting development had a function of three interacting elements: the external environment, cultural values, and institutional structures. In the background of the conceptual development, they also conducted a test of the ability of their model to explain measurement and disclosure practices in 50 countries using proxies for the seven factors i. e., (1) legal system, (2) nature of the relationship between business enterprises and providers of capital, (3) tax laws, (4) inflation level, (5) political and economic ties, (6) level of economic development and (7) education level, and from Hofstede's cultural variables. In addition, they provided some insights into the relative importance of environmental and cultural factors in explaining accounting development. Their results indicated that the type of legal system (code versus common law) was the dominant explanatory variable, and the basic point of departure in classifying accounting practices internationally.

Salter and Niswander [1995] used regression analysis to test Gray's hypotheses with measures of accounting system attributes as the dependent variables and Hofstede's cultural dimension indices serving as the independent variables. They used three measures of professionalism: (1) the key conclusion wording used in audit opinions; (2) whether an examination was used to restrict entry to the profession, and (3) a composite variable. Two measures of uniformity were developed: (1) whether a country had a code law or common law legal system, and (2) a "uniformity" measure that was operationalized by a count of the number of financial reporting practices for which a country used a single method of reporting less than 25% or more than 75% of the time. Two measures were also used to operationalize conservatism: (1) an index of a country's utilization of a list of financial reporting practices designed to reduce assets or income, and (2) an index of optimistic financial reporting practices which might be used to increase income and assets. They tested Gray's 13 hypothesized relationships between cultural dimensions and accounting values and found a significant relationship in only six cases.

Sudarwan and Fogarty [1996] examined the relationships among the cultural characteristics of Indonesian society, reporting practices of Indonesian firms, and accounting standards promulgated by the Association of Indonesian Accountants. They hypothesized that if culture and accounting were related, then changes in cultural dimensions should be related to changes in accounting values over time. To test their hypotheses, they developed their own measures of five cultural values at two points in time-1981 and 1992. They used structural equation modeling to analyze the hypothesized relationships and concluded that: changes in three of Hofstede's cultural dimensions from 1981 to 1992 had significant relationships with changes in one or more accounting value and there was no significant relationship between the change in masculinity and any of the accounting values.

MacArthur [1996] investigated the influence of culture on the comments submitted by corporate managers on draft E32 comparability of financial statements issued by the International Standards Committee (IASC). His database consisted of commented letters written to the IASC by 47 company managers located in 9 different countries. Based on Gray's framework and the pattern of cultural dimension indices computed by Hofstede for the 9 countries, McArthur [1996] hypothesized that the comments from the managers of companies in Anglo and Nordic countries would exhibit a preference for professionalism, flexibility, optimism, and transparency. Conversely, the comments from company managers in the Germanic and more-developed Latin countries would indicate a preference for professionalism, uniformity, conservatism, and secrecy. He indicated that the results of his analysis provided support for the hypothesis related to the Anglo and Nordic company managers. The results were less supportive of the hypothesis related to the Germanic and more developed Latin managers. In particular, these groups did not express a preference for secrecy to the extent hypothesized.

MacArthur's [1999] study extended the study by MacArthur [1996] to examine the comment letters on E32 submitted by IASC accountancy body members representing 19 countries. The analysis was extended to the Africa, more-developed Asian and Asian colonial cultural areas. Using the same methodology as in the previous study, he concluded that the IASC members' comments were even more consistent with Gray's hypotheses than that of the company managers' comments in MacArthur [1996]. He suggested that this result might arise because the accountancy bodies must reflect the needs of members in many different organizational contexts and thus more precisely must reflect their national culture.

Wingate [1997] examined the influence of culture on the amount of disclosure required in a country. She used CIFAR's 1991 International Financial Reporting Index as the dependent variable, and Hofstede's cultural dimension indices as independent variables. Her analysis related to 39 countries common to both Hofstede and CIFAR. Uncertainty avoidance and individualism were significant in uni-variate and multivariate analysis and each had the expected sign. Contrary to Gray's hypothesis, power distance was not significantly related to the disclosure index. She also tested the relationship between the CIFAR disclosure index and country membership in different culture areas as identified by Hofstede. She found that culture areas explained a greater percentage of the variance in the disclosure index than the four cultural dimensions. She suggested that the cultural area to which a country belonged would be more helpful in evaluating that country's auditing environment than looking at the country in isolation.

Doupnik and Richter [2004] examined the impact of culture on the interpretation of probability expressions used in International Financial Reporting Standards (IFRSs) as thresholds for the recognition of accounting elements (assets, liabilities, and increases and decreases in income). An example of such a threshold was found in International Accounting Standard (IAS) 18, Revenue, which required revenue from the sale of goods to be recognized when it was probable that the economic benefit associated with the transaction would flow to the enterprise. Relying on Gray's conservatism hypothesis, Doupnik and Richter posited that accountants in a country that ranked higher in terms of uncertainty avoidance and long term orientation, and ranked lower in terms of individualism and masculinity would exhibit a higher level of conservatism in the numerical probability they associated with verbal probability expressions such as "probable." Based on Hofstede's index scores, they selected Germany and the United States to represent countries with relatively high and low levels of conservatism. They hypothesized that German accountants would assign a higher (lower) numerical probability than U.S. accountants to verbal probability expressions that determined the threshold for recognition of assets and increased income (liabilities and decreases in income). In the context of recognizing revenue under IAS 18, this hypothesis implied that German accountants would assign a higher numerical probability to the word "probable" than the U.S. accountants. To test their hypothesis, Doupnik and Richter [2004] conducted a mail survey of professionals in the U.S. and Germany. They provided subjects with 14 excerpts from IFRSs and asked them to assign a numerical probability to the 16 verbal probability expressions contained in the excerpts. They obtained significant differences in the mean responses supporting their hypothesis for five of 11 positively framed expressions (such as "probable") but only one of the five negatively framed expressions (such as "no longer probable").

Ding et. al., [2004] examined whether differences between national accounting standards and IAS were explained by cultural dimensions. Data on differences and similarities between national GAAP and IAS were collected from "GAAP 2001: A Survey of National Accounting Rules Benchmarked against International Accounting Standards" published by Andersen, BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG and PricewaterhouseCoopers. In this study, partners in the large accountancy firms in more than 60 countries were asked to benchmark their local written requirements against some 80 accounting measures, focusing on standards (both IAS and national) in force for the financial reporting period ending 31 December 2001. For each country, the accounting differences with IAS were listed in four categories: (1) accounting might differ from that required by IAS because of the absence of specific rules on recognition and measurement; (2) no specific rules required disclosures; (3) inconsistencies between national and IAS rules that could lead to differences for many enterprises in certain areas and (4) in certain enterprises, these other issues could lead to differences from IAS. The study was carried out to test the following hypotheses: (1) A country with higher level of individualism is likely to have accounting standards that diverge from IAS; (2) A country with a lower power distance is likely to have accounting standards that diverge from IAS; (3) A country with a lower level of masculinity is likely to have accounting standards that diverge from IAS; (4) A country with a higher level of uncertainty avoidance is likely to have accounting standards that diverge from IAS. The statistical results evidenced that there was negative correlation relationship between uncertainty avoidance and divergence from IAS. It was concluded that a diverging status with regard to IAS could be explained by variations in national culture.

(iii) Interplay of Culture and Market Forces:

The global market has a different "culture" than the one the firm faces at home. When a firm does business in the global market, it is operation in a different "culture" and therefore, may need to have different "practices". Zarzeski [1996:*19*] observe that firms operating in the international market place might be willing to adhere to a mandated set of minimal accounting disclosures in order to compete for international resources. He affirmed that before there was agreement on articulated rules, the implied rules of conduct over time were followed. Accounting practices (implied rules) often became accounting standards (articulated rules). Accounting practices evolved differently across countries because business relationships evolved differently. Business relationships differ because of environmental stimuli, e.g., politics, law, economics and culture. If standards come from practices (voluntary) and practices come from culture (through business relationships, government, capital markets, financial intermediaries and the accounting profession), then accounting standards appear to be culture-driven through market forces.

Choi and Levich [1991] and Bhushan and Lessard [1992] discussed the behavioral effects of accounting diversity on major categories of capital market participants. Both studies used surveys to gather their data. Choi and Levich [1991] asked 52 institutions consisting of investors, issuers, underwriters, regulators, standards boards, and credit rating agencies, located in Frankfurt, Zurich, London, New York, and Tokyo, 1) whether they perceive accounting diversity to be a problem, 2) whether and how these institutions attempt to cope with the diversity, and 3) whether problems associated with accounting diversity lead to capital market effects. They found that accounting differences were important and affected the capital market decisions (i.e., the geographic spread of investments, the types of securities selected, assessment of security returns or valuation, and information processing costs) of a significant number of the surveyed capital market participants regardless of nationality, size, experience, scope of international activity and organizational structure. Further, the study suggested that: (a) existing restatement algorithms were still at a very crude stage of development; (b) existing algorithms were not being applied effectively; or (c) no algorithm was capable of producing a proper and meaningful restatement.

Bhushan and Lessard [1992] surveyed international investment managers from the U.S. and U.K. to determine whether and how they were affected by accounting diversity and by the presence or absence of quantitative reconciliation. The SEC steadfastly held the opinion that reconciliation to U.S. GAAP was critical for investor protection. However, Bhushan and Lessard found that professional investors, while they regard reconciliation (along with all forms of additional information) to be useful, do not regard it as essential. The reason for this included the fact that primary financial statements and local valuation were still most important. This study had important policy implications because both attempted to distinguish between the financial information that investors needed as opposed to what they would like (particularly if they did not bear the costs of producing it), and it focused on the cost of reconciliation. Since reconciliation was not costless, it required a serious cost-benefit analysis. They concluded that the SEC's emphasis on reconciliation was not well-founded.

Zarzeski [1996] focused on the influence of both culture and market forces on investor-oriented disclosure practices. Her basic research question was: “Do enterprises in the international marketplace disclose contrary to the secretiveness of their home culture? If so, then what causes such ‘contrary’ behavior?” Based on the theory and the results of previous research, she hypothesized that, in addition to culture, a company’s multinationality (foreign sales/total sales), leverage (debt ratio), and size would affect its propensity to provide “investor-oriented” disclosure practices. Investor-oriented disclosures were those that investors deemed important. To develop the dependent variable, fifty two disclosure items used in previous studies were selected to develop an “investor-oriented disclosure” score in which each item was assigned a weight used in previous disclosure studies. She obtained the data for her dependent variable and the market force variables from corporate annual reports. The data were obtained from the annual reports of 256 companies located in seven countries. Hypotheses were tested using multiple regression analysis with the disclosure score as the dependent variable and the three market forces and Hofstede’s cultural dimension indices as the independent variables. Each of the explanatory variables had a significant regression coefficient, and except for power distance, each had the expected sign. She suggested that the unexpected sign for power distance might be a function of its moderately high correlation with individualism. She also tested an international dependence model using a company’s ratios of foreign sales to total sales to measure the extent of dependence on international resources. The sample of companies was split in half on the basis of the multi-nationality ratio, and ‘Wald tests’ were conducted to test the following hypothesis: “Firms exhibiting low dependence on international resources are likely to exhibit a significant relationship between disclosure and the secretive nature of their home culture, but the firms exhibiting high dependence on international resources are likely to show little or less culture-accounting relationship.” She specifically looked at the influence of multi-nationality on annual report disclosures in relation to so-called "market forces" (leverage and size) and national cultural characteristics. She found that while cultural attributes underlay disclosure behavior, culture was overridden to some extent by market forces. Specifically, the study found that a high cultural tendency toward secrecy exerted a general dampening influence on disclosure levels. But disclosure levels increased as companies grew larger and increasingly multinational, and they would increase their sourcing of finance from stockholders (that is, as leverage decreases). The findings were consistent with observations by Meek and Saudagaran [1990] from research in the early 1980s that reporting by MNCs was anchored in national requirements. She also demonstrated that financial statements of MNCs continued to reflect the primary orientation of accounting in their home countries and the reporting practices of domestic and MNCs were different. She examined ‘overall’ disclosure levels (i.e., without distinguishing between voluntary and mandatory disclosures) and a refinement would separate disclosures into voluntary and mandatory items. The effects of market forces were likely to be more obvious on voluntary disclosures. In addition, her arguments for why multi-nationality and leverage should increase disclosure related more to voluntary disclosures than to mandatory disclosures.

Ball et. al., [1998] extended the market-based research into accounting harmonization. Studying the market relevance of accounting earnings in common-law and code-law countries, they found that the different institutional factors in the two types of countries did influence the value relevance of earnings. This work introduced a means of testing the influence of environmental variables on at least one outcome of accounting that was related to market reactions to accounting information.

Gazzer et. al., [1999] examined the characteristics and motivations of multinational firms complying with International Accounting Standards (IAS). They hypothesized that firms were motivated to comply with IAS as a response to their operating and financing environment. This environment included: (1) international market dependency, and (2) regional or geographical organization membership. The source of sample and data for this study was from the IASC secretariat’s list of companies disclosing that their financial statements conformed to IAS and the world scope database. From these sources, 87 firms were selected as sample size and three years' data was collected for each variable. The statistical procedures used in this study were: (1) the non-parametric Wilcoxon test used to analyze the characteristics of IAS firms in comparison to those of non-IAS firms; and (2) the Logit regression model to test the relationship between firm's compliance with IAS and the hypothesized explanatory variable. The study revealed that firms operating in the international markets were more likely to voluntarily disclosed higher levels of investor-oriented information. The study also suggested that firms' accounting disclosure polices were influenced by the harmonizing and encompassing effects of world culture and market forces.

(iv) Culture and Legal Systems:

One of the greatest challenges in designing an experiment to test the impact of culture on financial reporting decisions is to control non-cultural, country-specific factors that might possibly affect individual accountants' financial reporting decisions. These factors include: (1) the existing accounting rules; (2) the influence of tax law; (3) capital market rule etc. Studies were carried out to examine the relationship between culture and the above factors on accounting disclosure issue.

Saudagaran et. al., [1997] examined accounting regulations in five countries (i.e., Indonesia, Malaysia, Philippines, Singapore, Thailand) belonging to the Association of South East Asian Nations (ASEAN) in the context of the global and regional paradigms of harmonization. They used a comparative framework to highlight the similarities and differences in the regulatory environment of the five countries. The study examined forces driving global harmonization in ASEAN and discussed the economic and political conditions for regional harmonization that, unlike the EU, did not yet exist in ASEAN. They concluded that this led to the dominance of the global paradigm of harmonization in ASEAN.

Jaggi and Low [2000] developed and tested an international financial disclosure model that focused on the relationship between culture, legal systems, and accounting disclosures. They hypothesized that the strength of the influence that cultural values had on disclosure was mediated by a country's legal system. Specifically, they expected cultural values to be more important than market forces in influencing financial disclosures in code law countries, but that market forces would dominate culture in affecting disclosure in common law countries. They used CIFAR's 1993 international financial reporting index as a measure of disclosure. Independent variables consisted of Hofstede's cultural dimensions, nature of the legal system, and four company specific "market force" variables (firm size, leverage, market capitalization, and multi-nationality). Data requirements limited the analysis to 401 companies in six countries-three common law countries and three code law countries. The results of the regression analyses for the two subsets of countries provided insight into the effect that the nature of the legal system had on disclosure. For the common law countries, none of the coefficients on the cultural variables were significant. For the code law countries, all of the cultural variables were significant, but only Individualism was in the hypothesized direction. Subsequent tests conducted with only the multinational firms in the two groups of countries yielded similar results. These results suggested that culture had no significant influence on disclosure in common law countries. The influence of cultural variables on disclosure in code law countries was significant but not always in the expected direction. The results obtained by these researchers suggested that culture had little or no influence on disclosure levels, once legal system was considered.

Using CIFAR's 1993 and 1995 disclosure indices as the dependent variable, Hope [2003] examined this issue for a much larger sample of firms representing 39 countries. Regression results on the full sample of firms provided support only for Individualism being positively related to disclosure. Masculinity was also significant but of the wrong sign. He stated that his analysis did not address the issue whether legal system and culture were substitutes or complements, but it did answer the question whether culture had any explanatory power for disclosure, given the legal system. He concluded: "It is too early to write off culture as an explanatory variable for annual report disclosure levels"

On the whole, it may be observed that culture plays a significant role and the cultural thesis propounded by Hopstede is still relevant in financial reporting. Haskins et. al., [2000] summarize the impact of culture through four dimensions of it, viz., power distance, individualism, long term orientation and uncertainty avoidance in these words, quoting Gray [1988]; Choi [1991]; CIFAR [1995]; and Gray and Radebough [1993].

"The relevance of PD notion to financial reporting is twofold. First, large PD countries are likely to tend toward greater statutory control over financial reporting practices to achieve and maintain a uniformity in reporting that is not likely to be achieved if financial reporting practices predominantly emanate from the deliberative processes of a professional organization that airs ideas for debate and seeks consensus from a diverse constituency. Indeed, the national statutes pertaining to financial reporting that exist in Korea and Japan exert a much greater influence over external financial reporting than those in the United States, Great Britain, or Germany (all of which have substantially lower PD scores than Korea or Japan), where professional organizations more actively shape practice Second, the PD concept suggests important implications for understanding a society's attitude toward access to and availability of information. It seems likely that high PD societies may be characterized by the restriction of information to preserve secrecy, power, and/or role inequalities. Thus, in terms of financial reporting providing more or less full and open view of a business entity, high PD societies are likely to provide fewer financial disclosures than small PD societies. Results from at least one broad based study that ranked countries according to the extensiveness of the financial disclosures made by their companies identify Mexico, Koria, and Italy (relatively high PD countries) as providing less extensive disclosures than Sweden, Great Britain, and Germany (relatively low PD countries). [p.6]

"It has been hypothesized that societies with less IDV exhibit tendencies toward greater statutory control over financial reporting, leading to less flexibility accorded companies in the application of specific financial reporting practices than in societies with greater IDV. Furthermore, such a tendency also suggests the likelihood of financial information being more closely held by the companies domiciled in societies with less IDV. Together, such tendencies lead one to expect more conservative financial reporting from companies in societies with less IDV.[p.8]

"The merits of such hypothesized relationships warrant continued testing and refinement. Results from two recent studies, however, provide evidence of profile of conservative financial reporting that rank Japan as more conservative than Germany, which is more conservative than Italy, which is more conservative than Great Britain. [p.8]

"From a financial reporting perspective, it has been posited that relatively higher UAV societies exhibit greater tendencies toward conservatism than do lower UAV societies, due to the caution with which the former approach the uncertainty of future events. Moreover, to avoid conflict and to preserve security-both attributes of higher UAV societies-secrecy (i.e., more limited disclosure) is likely to be an attitude underlying financial reporting practices in high UAV countries. As one might expect, therefore, uniformity rather than flexibility in reporting practices is the preference imposed on the companies residing in relatively higher UAV societies. In recent study of preference for the international harmonization of accounting principles, preliminary evidence suggests that higher UAV societies do exhibit stronger preferences in support of current international harmonization efforts than do low UAV societies. [p.10]

“Hofstede notes that the attributes akin to an LTO are more oriented toward the future (especially perseverance and thrift); they are more dynamic and support entrepreneurial activity. For example, perseverance or tenacity in the pursuit of goals is an important attribute for both intrapreneurs and entrepreneurs. Similarly, thrift leads to savings and the accumulation of capital for reinvestment. Moreover, having a sense of shame contributes to sensitivity to social contacts and keeping one’s commitments.” [pp.10-11]

The study of impact of environmental factors on financial reporting provides insights into its importance as a determinant of worldwide accounting harmonization and cross-national comparability of financial reports. However, plenty of research opportunities still existed to explore how environmental factors affect accounting practice and regulations of different countries in the present globalization scenario.

(B) REGULATION HARMONIZATION

Purvis et. al., [1991:*25*] have observed that standard setters and regulators in different countries grappled with the problems posed by different national standards in the last three decades. They also observe: The standard setters are institutions or groups responsible for setting national accounting and reporting standards. Regulators are groups or institutions with statutory authority to regulate stock exchanges, and which, in so doing, might prescribe accounting standards and disclosure requirements. These groups also have enforcement to insure compliance.

Many studies have concentrated mainly on different aspects of regulation harmonization (an influence). Studies measuring harmonization via IASs through official national accounting standards (*de jure*) have led to varied conclusions regarding the progress toward harmonization. Some examine the measurement of compliance level of IAS; others concentrate on the reasons that give rise to different levels of regulation harmony. The empirical evidences on regulation harmonization have been presented under: (i) Compliance of IAS; (ii) Disclosure Compliance and Corporate Characteristics; (iii) National Level Compliance; and (iv) Effects of IASC

(i) Compliance of IAS:

The term, 'compliance,' refers to the adoption of national accounting standards if such standards are present in a reporting country in the preparation of financial statements or to IAS if these standards are adopted by any country. Further, standards also include interpretations and guidance notes if any. Professional accounting bodies generally issue accounting standards for adoption by members. Most of these pronouncements are mandatory in nature in the sense that members are required to comply with the pronouncements in preparation and presentation of annual financial statements. Still some of the pronouncements issued by these bodies are persuasive but not mandatory in nature.

The International Accounting Standards Committee (IASC) has received widespread support for its efforts to harmonize international accounting. Indeed, the IASC is now regarded as the leading force in the international accounting harmonization effort with the support of the International Organization of Securities Commissions (IOSCO) and other accounting bodies. Majority of countries in the world support the efforts of IASC by adopting its standards. But IASC, being private standard setting organization, has no power to mandate these standards. Given the existence of mandatory and non-mandatory pronouncements, number of studies have been undertaken to examine the extent which non-mandatory pronouncements are complied with.

Based on surveys from partners in two of the then "Big 8" public accounting firms from 33 countries on accounting relating to lAS 1, 2, 3, 4, and 7, Taylor et. al., [1986] found that the IASC was successful in improving the comparability and consistency of international accounting and financial reporting practices.

The IASC [1988] surveyed its members and received responses from representatives of 54 countries regarding the compliance of IAS by them. The survey found that most member countries, especially former UK colonies, were either using IASs as their own national standards or as the basis for setting their own national standards. Purvis et. al., [1991] used the IASC's 1988 survey data and expanded on the IASC's general conclusions with the observations that IAS were complied. However, the 1988 IASC survey was criticized by several researchers, including Meek and Saudagaran (1990: *171*) who were concerned about "wishful thinking'" on the part of responding IASC members.

The United Nations [1991] conducted a survey of 37 African countries as part of a large study on accounting in Africa regarding the compliance of IAS. The UN found that 25 of the 37 African countries surveyed used lASs, either with or without modification, in the development of their own accounting standards. However, this study also contained the potential for "optimistic" self-reporting.

Larson et. al., [1999] studied the *de jure* harmonization of international accounting via IASs. They examined official national accounting standards and regulations and compared them with IASs. They employed cross-national research methods to analyze changes in accounting standards between 1991 and 1995. Data was extracted form Coopers and Lybrand (C&L) [1993] and PW [1995]. Data extracted was related to actual accounting standards rather than accounting practice from the 33 countries in C&L's 1993 edition and 21 countries of PW data. The analysis indicated that the countries with the highest levels of compliance with IASs tended to be those countries that had an overall accounting system resembling that of either the U.S. or U.K. and those with a Common Law legal framework. In addition, most other countries substantially complied with IASs on a majority of issues in 1993, but diverged from IASs in several major accounting areas such as research and development, leases, and income taxes. The study found a definite trend toward harmonization via IASs as measured by the 1991 to 1993 accounting standard changes in sample countries. They also found that two countries with the lowest IAS compliance level, Switzerland and China, made major changes that appeared to bring their accounting standards closer to IASs.

Street et. al., [1999] made an empirical study of the accounting policies and disclosures of a sample of major companies from around the world claiming to comply with IAS in 1996. Annual reports of 49 companies were collected as sample size for this study. Most of these companies were chosen from Switzerland (12), France (10), and Sweden (8), and other companies represented from Canada, Finland, Germany, Hong-Kong, Italy, Japan, Malaysia, Norway and South Africa. Their study revealed that there was a significant noncompliance with IASs. Only 20 (41%) of the 49 companies surveyed complied with all IASs. The study suggested that national standard-setters and regulators needed to work more closely with the IASC to eliminate significant differences between national accounting guidelines and IASs. Further, the study suggested that, in addition to working with IOSCO, the IASC needed to encourage national regulators to support IASs without exception, particularly as more and more countries allowed for the use of IASs.

Tower et. al., [1999] provided evidence of the level of material harmony with IFRS in (Among 26 major accounting methods, 14 showed increases in harmonization and 12 showed decreases) Asia-Pacific region. They investigated 60 listed companies in Australia, Malaysia, Singapore, Thailand, Hong Kong and Philippines in 1997, and found that, due to heavy reliance placed on IFRS, Australia, Malaysia, Singapore and Thailand seemingly had a little higher mean compliance with IFRS than Hong Kong and Philippines did, if only disclosed items were taken into consideration. A similar outcome was also found in an earlier paper of Tan [1998].

Taplin et. al., [2002] examined the issue of accounting regulation compliance of the disclosure/non-disclosure of accounting policies in Asia-Pacific companies. Sixty annual reports from companies in Australia, Hong Kong, Malaysia, Philippines, Singapore, and Thailand were analyzed in this study to create several compliance indices based on all universally applicable IAS rules at the time. Disclosure and measurement requirements of the selected IAS rules applicable to 1997 fiscal year ended were used as the compliance benchmark. Totally, 512 data points of information from the 26 standards were analyzed. In this study, analysis was conducted on the level of compliance firstly by examining measurement versus disclosure trends and also standard-by-standard setters and secondly by creating a Discernibility Index (DNI) to generate insights into this phenomenon. This new index examined the relationship of discernible disclosures to total possible disclosures. MANOVA was used to test for significant relationships between pairs of dependent variables and the independent variables. The results showed higher levels of compliance with disclosure issues (95.5%) than measurement issues (77.7%). The lowest overall compliance rates were found for IAS 7 cash flow statements, IAS 22 business combinations and IAS 28 accounting for investments in associates. In terms of the Discernibility Index, companies in the four Asian countries with British colonial links had lower levels of non-disclosure than Philippines or Thailand entities. The more profitable companies also tended to have a higher proportion of discernible (disclosures) items for measurement issues.

(ii) Disclosure Compliance and Corporate Characteristics:

Watts and Zimmermann [1986] observed that the firms with different characteristics such as industry membership and size would adopt different accounting practices. Cerf [1961] pioneered the study of the corporate-specific attributes, which determined the extent of disclosure. Measuring disclosure by an index of 31 information items considered to be important or desirable by financial analysts in their investment decision-making, he concluded that financial reporting practices of many US companies needed improvement. He also observed that significant differences in disclosure appeared to be a function of a variety of corporate-specific attributes including asset size, number of shareholders, and profitability.

Singhvi and Desai [1971] made an attempted to identify some of the characteristics of corporations in the United States, which were associated with, and the probable implications of the quality of corporate disclosure. To carryout their study, the top155 annual reports were selected from the list of annual reports of twenty-sixth annual survey by financial world in 1966. Using the index, the quality of disclosure in annual reports was quantified. For this purpose, the variables examined were assets size, number of stockholders, listing status, CPA firms, rate of return and earnings margin. The variables were statistically tested by using multivariate linear regression model to test the conceptual relationship between these variables and the index of quality of disclosure. The study highlight that the corporations which disclosed inadequate information were likely to be: a) small in size as measured by total assets; (b) small in size as measured by number of stockholders; (c) free from listing requirements' (d) audited by a small CPA firm; (e) less profitable as measured by rate of return; and (f) less profitable as measured by earnings margin. It was also demonstrated that inadequate corporate disclosure in annual reports was likely to widen fluctuations in the market price of a security since investment decisions, in the absence of adequate information, were based on less objective measures. These fluctuations, which affected the cost of capital and the corporate management's decision to invest funds, led to inefficient allocation of capital resources in the economy. The market system, under these circumstances, became a less efficient factor of the nation's resource allocation. Hence this study emphasized that the quality of disclosure was one of the variables, which had effect on the price of a security.

Cooke [1989] studied the extent of disclosure in the corporate annual reports of Swedish companies to assess whether there was a significant association between a number of corporate characteristics and the extent of disclosure. He focused his study to assess whether there was a significant relationship between quotation status and the extent of disclosure and to assess the extent to which disclosure was determined by quotation status, assets size, annual sales, number of shareholders, and parent company relationship. The stratified sample size selected was 90 companies consisting of 38 unlisted companies, 33 companies listed solely on the Swedish stock exchange and 19 companies listed on the Swedish stock exchange with at least one foreign quotation (multiple). Nearly, 224 disclosure items were selected and score one was given if it was disclosed and zero if it was not disclosed. An index was created to measure the relative level of disclosure by a company to test the null hypothesis of no significant relationship between the extent of disclosure and quotation status. The study showed that there was a significant difference in the extent of disclosure between the three categories of companies - listed, listed only on the Stockholm stock exchange, and multiple listed. It also showed that there was a significant association between the size of enterprises and the extent of disclosure.

Tai et. al., [1990] identified 10 mandatory disclosure items and assessed whether the companies listed on the Hong Kong stock exchange complied with those items. Based on a sample of 76 companies, they observed an average non-compliance rate of 22%, ranging between a high of 49% in depreciation accounting for fixed assets and a low of 4% for extraordinary items. They also found a significant negative association between the extent of non-compliance and company size, but no significant relationship was noted for the size of company audit firms and business type.

Cooke [1992] examined the extent of financial disclosure in Japanese corporate annual reports and made an attempt to assess whether a number of independent variables (viz. size, stock market listing and industry type) affected the levels of disclosure. He analyzed 35 annual reports of the year 1988 of Japanese corporations. To test the hypothesis that there was an association between size, listing status and industry type and the extent of disclosure by Japanese corporations, he selected 165 disclosure items from the annual report. Out of these items, 107 items belonged to voluntary disclosures and 58 items were mandatory disclosures items with the scoring of one if disclosed and of zero if it was not disclosed. A linear regression model was used to test the hypothesis along with disclosure index. It was found that multiple listed corporations disclosed more information in their Japanese annual reports than corporations listed only on the Tokyo stock exchange. Size was found to be an important influence. It also revealed that Japanese manufacturing corporations disclosed significantly more information than other types of corporations.

Gray et. al., [1995] examined the effect of international capital market pressures on voluntary disclosures by MNCs. They looked at whether internationally-listed U.S. and U.K. MNCs voluntarily disclosed more, as well as more harmonized information in their annual reports than U.S. and U.K. MNCs listed only on their respective domestic stock markets. One innovation in this study was that voluntary disclosure items were grouped by type of information, since there might be differences in disclosure behavior depending on the nature of the information concerned. They formed three categories of information: strategic, financial, and non-financial. Overall, they found that participation in international capital markets was significantly associated with additional voluntary disclosures. However, the effect varied across information type. International capital market pressures were important in explaining strategic information disclosures, but not non-financial. For the latter, country effects were observed. Financial information disclosures seemed to be weakly influenced by both capital market and country effects, with neither factor dominating. The authors concluded that international capital market pressures exerted only a mild harmonization effect on voluntary disclosures.

Meek et. al., [1995] extended their analysis by including Continental European companies and by examining additional factors beyond listing status and national influences. Additional explanatory factors considered in this study were company size, industry, leverage, extent of multinational operations, and profitability. The study found that company size, country (or region), international listing status, and, to a lesser extent, industry were the most important factors explaining voluntary annual report disclosures.

It is held that firms that consistently make timely and informative disclosures are perceived to have a lower likelihood of withholding value-relevant unfavorable information and hence these firms are charged a lower risk premium. Based on this argument, Sengupta [1998] investigated the link between a firm's overall disclosure quality and its cost of debt financing. A firm's disclosure policy was measured by financial analysts' evaluations of corporate disclosure practices, available from the annual volumes of the report of the financial analyst's federation corporate information committee. Two alternative measures of the cost of debt of the firm were considered in this study: (1) the yield to maturity on new debt issues and (2) the total interest cost of new debt issues, which was based on the amount received by the issuer, net of underwriter discount. Results showed that both measures of cost of debt were negatively associated with the disclosure measure, after controlling for other potential determinants of a firm's cost of debt. Those firms with high disclosure quality ratings from financial analysts enjoyed a lower effective interest cost of issuing debt. The results also indicated that the relative importance of disclosures was greater in situations, where there was greater market uncertainty about the firm as reflected by the variance of stock returns.

Tan and Tower [1999] examined whether the country of origin, industry, company size and leverage had an impact on the disclosure compliance within the186 half-yearly reports for the year 1995-96 for companies in Australia and Singapore. They found evidence that the compliance level within Singaporean companies was significantly higher than for their Australian counterparts. The other variables-industry, leverage and company size – were not found to be statistically significant determinants of disclosure compliance.

Ali et. al., [2004] examined the level of compliance with disclosure requirements mandated by 14 national accounting standards for a large sample of companies within the three major countries in South Asia, namely India, Pakistan and Bangladesh. They evaluated the corporate attributes, which influenced the degree of compliance with these standards. The sample comprised 118 companies from Bangladesh, 219 companies from India and 229 companies from Pakistan representing 63.8%, 4.5% and 36.9% of the total listed companies in Bangladesh, India and Pakistan respectively at the end of 1998. Multivariate ordinary least squares approach was used to determine which firm attributes were associated with national accounting standard compliance and their significance level. The variables identified in this study were size of the reporting entity, financial leverage, whether the firm was affiliated with a multinational corporation, size of the reporting entity's audit firm and the firm's profitability. The study revealed that there was a significant non-compliance with mandated requirements, with companies from Pakistan having the highest level of overall compliance, whereas slightly lower compliance levels were documented for India and Bangladesh. It was found that disclosure compliance was higher for standards regarding depreciation, inventories, and property, plant and equipment.

(iii) National Level Compliance of IAS:

The development of accounting standards in each country is associated with the level of conformity with existing IAS standards [Purvis et. al., 1991:*30*]. Many researchers have investigated the level of compliance of IAS at national level for measuring the impact of the IASC standards on the accounting and reporting practices of enterprises in individual countries.

Purvis et. al., [1991] came out with an overview of compliance in 54 countries with reference to the first 26 IASC standards. The total average compliance was 76.3 percent. There were higher levels of conformity with the standards issued in earlier years. For example, compliance level with IAS number 4, which dealt with depreciation, was 98.2 percent. However, more recent standards had lower levels of conformity. To quote, only 40.7 percent of the countries were in conformity with IASC 26, which dealt with accounting and reporting of retirement benefit plans.

Regarding this phenomenon, Purvis et. al., speculated that compliance with the earlier standards was higher because they dealt with more "fundamental" issues and hence they were easier to conform to (p.27).

Al-Basteki [1995] examined five firm specific variables which might have been associated with a Bahraini company's choice to voluntarily adopt IASC standards. The five variables Al-Basteki examined were (i) the influence of the external auditor; (ii) industry accounting and reporting norms; (iii) firm size; (iv) the extent of foreign operations; and (v) the influence of credit providers. He examined 15 companies, which adopted IASC standards and 11 which did not adopted. The results of his study indicated that the external auditor did influence the choice by Bahraini companies to use IASC standards.

Wallace [1988] examined 47 stock exchange listed companies in Nigeria and concluded that many companies in that country published annual reports that did not adequately comply with minimum disclosure regulation. The lowest level of compliance was found to be with the directors' report with 24 companies not meeting all legal requirements. Even in the case of the balance sheet, where the highest level of compliance was noted, about 33% of the companies sampled failed to disclose all mandatory information. He also found a significant positive impact of the extent of equity participation of multinational companies on the level of compliance.

Ahmed and Nicholls [1994] examined the extent of statutory information disclosure in the corporate annual reports of listed non-financial companies and the impact of selected key company attributes on the degree of disclosure compliance with accounting regulatory statutes in Bangladesh. They found that none of the sampled companies complied fully with the existing financial regulations. The linear regression results evidenced that classification as subsidiaries of multinational companies and the utilization of large audit firms had a significant positive impact on the extent of disclosure compliance. In contrast, the qualifications of the principal accounting officer of a reporting company had less influence on disclosure compliance.

Ng and Koh [1994] examined compliance level with non-mandatory accounting pronouncements annual financial statements of 106 companies in Singapore for the accounting year 1986. Their results evidenced that the companies that were large, profitable, and highly leveraged were more likely to comply with non-mandatory accounting pronouncements. They also found that companies in the industrial and commercial sectors had higher compliance level and companies audited by large public accounting firms were more likely to comply with non-mandatory disclosure provisions than those audited by small public accounting firms.

Wallace and Naser [1995] assessed the comprehensiveness of 30 mandatory disclosure items in the corporate annual reports of 85 listed firms in Hong Kong between 1988 and 1992. They found a statistically significant association between the comprehensiveness of mandatory disclosure and firm's book value of total assets, and no significant relationship between mandatory disclosure and managerial ownership and leverage. However, they found a negative relationship between disclosure level and whether the firm appointed a Big-6 audit firm.

Owusu-Ansah [1998] made an empirical investigation of the degree of eight corporate attributes on the extent of mandatory disclosure and reporting of 49 listed companies in Zimbabwe. The selected corporate attributes were: company size, quality of external audit, ownership structure of issued equity shares, types of industry, company age, MNC affiliation, profitability, and liquidity. For quantification of the adequacy of mandatory disclosure practices of the sample companies, a disclosure-measuring instrument (index) was developed and used. The measuring instrument consisted of 32 disclosure items from the three regulatory sources in Zimbabwe. These mandatory disclosures were investigated by employing alternative specifications of a multiple linear regression. The result of the robust regression analysis indicated that each corporate attribute had a differing impact on mandatory disclosure. Company age, profitability, and MNC affiliation were positively significant at the 0.05 levels, and company size and ownership structure were also positively significant at the level of 0.10.

Dumontier and Raffournier's [1998] study aimed to identify the motivations of Swiss listed companies, which voluntarily complied with IAS. They identified the characteristics of accounting in Switzerland and these were: (1) low disclosure requirements, (2) few and permissive accounting standards and (3) a high degree of tolerance for income smoothing. Data was collected from the consolidated financial statements of 133 Swiss listed companies for the year 1994. Univariate analyses showed a positive influence of size, internationality, listing status, auditor type and ownership diffusion on voluntary compliance with IAS. Inversely, no significant relationship was found for leverage, profitability and capital intensity. Multivariate analysis designed to control for co-linearity among independent variables confirmed these results. They also revealed that firms which complied with IAS were larger, more internationally diversified, less capital intensive and had a more diffuse ownership. They suggested that political costs and pressures from outside markets played a major role in the decision to apply IAS.

Murphy [1999] examined firm specific characteristics of Swiss companies that voluntarily elected to prepare financial reports using International Accounting Standards (IASs). The variables tested were foreign sales activity, foreign stock exchange listings, debt/equity ratio, market value, size and audit firm. The study used MANOVA and stepwise discriminant analysis to determine if differences existed between the group of 22 Swiss companies that adopted IASs and a group of 22 Swiss companies that used local standards, based on six independent variables. The foreign activity variables, percent of foreign exchange listings and percent of foreign sales were found to be statistically significant. Thus the perceived benefits might be that international standards facilitated reporting to multinational stakeholders, and were not necessary for companies that were only required to report to domestic users.

Chamisa [2000] made an attempt to study the relevance and observance of the IASC standards in developing countries taking Zimbabwe as a case study. The objective of this study included: (a) examining and evaluating further the relevance of the International Accounting Standards Committee (IASC) standards to developing countries, using Zimbabwe as a case study; (b) measuring the extent to which corporations in Zimbabwe conform to the IASC standards; and (c) measuring the impact of the IASC standards on the accounting and reporting practices of enterprises in Zimbabwe. To determine the level of compliance and the impact of the IASC standards on the accounting and reporting practices of listed Zimbabwe companies, four published annual financial reports (one each for 1975, 1980, 1985 and 1990) were collected for 40 listed companies (25 were manufacturing companies). Forty-six requirements of IASs 1 to 22 were examined in this study. The empirical analysis showed that listed companies from Zimbabwe voluntarily and significantly complied with certain provisions of the IASs provides indirect evidence that the IASC standards were relevant in Zimbabwe. The study also evidenced that the relevance of the IASC standards to developing countries was most likely to be boosted by (1) the growing commonality of worldwide economic conditions, in particular, the steps being taken by (former) communistic developing countries and (former) communist countries to move away from communistic to capitalistic economies; (2) the growing interdependence of countries; and (3) the increasing importance being attached to global and regional economic groups.

Owusu-Ansah [2000] examined disclosure compliance of 49 listed companies for the year 1994 with mandatory disclosure regulations in Zimbabwe. They found that disclosure compliance with mandatory disclosure regulations was around 52.6%, ranging from a high of 100% (revenue recognition) to a low of 0% in other areas. They also found that the variability in disclosure compliance was significantly positively ($p<0.05$) associated with corporate attributes such as profitability, company age and whether the firms had affiliations with multinational corporations.

Joshi and Mudhanki [2001] investigated the extent to which the disclosure requirements of International Accounting Standards (IAS-1) were complied with or exceeded for the 37 listed companies in Bahrain claiming to use IASs and the compliance practices of large and medium size companies for ten disclosure items. Data for the study was collected from the annual reports of 1999 financial year from 37 listed companies. Ten main items of compliance, namely components of financial statements, comparability, compliance, stock information, disclosure and reclassification, dividends, description of reserves, timeliness, going concern, and disclosure in income statement, were investigated to ascertain the degree of compliance to IAS-1 requirements. It concluded that: (1) there were no major differences between the requirements of IAS-1 and the actual presentation of the financial statements of the listed companies in Bahrain; (2) there were no major statistical differences between the requirements of IAS-1 and the actual presentation of the financial statements of the listed companies; (3) high level of compliance to the requirements of IAS-1 was found related to going concern; (4) there were no major statistical differences between the requirements of IAS-1 and the actual practices of the companies; (5) a fair compliance to IAS-1 requirement was found as 59.5 percent, 29.7 percent and 86.5 percent of companies disclosed it in a note indicating reclassification, timeliness and dividends respectively. Based on the findings, the study reached an overall conclusion that listed companies in Bahrain generally showed a high degree of compliance to IAS-1 major requirements, which also suggested improved disclosure practices.

Koga et. al., [2001] made a survey to find evidence for internationalization of accounting standard with particular reference to Japan. The study mainly focused to find out evidence on which direction Japanese accounting standards should be reformed: should Japan adopt international standards (the harmonization option), or should Japan be different, separate, and distinct (the diversity option)? To carryout the study, questionnaire on issues relating to accounting and business issues was forwarded to 753 multinational non-financial enterprises in a range of nations including Japan. Nearly, 228 respondents were responded to the questionnaire. The questionnaires were statistically tested by applying t-test and it revealed that: the Japanese felt strongly that their domestic accounting standards were obviously different to that of the IAS and that there was some recognition by the Japanese that IAS had benefits and those benefits outweighed the costs.

Torbjorn [2003] made an attempt to analyze whether the legislation affected the level of harmonization and whether there was any relationship between form of association and level of harmonization in Sweden. He tested two hypotheses in the study: (1) Regulation through legislation increased the level of harmonization; and (2) The level of harmonization was higher among operations run within the legal form of a company than operations that were run by a municipal administration. Data for the study was collected for two comparable periods, i.e. before municipal accounting act in Sweden was in force and after the act was enacted. Data for the study was collected through questionnaire and it was sent to all water and sewage operators in Sweden, but 84 percent response was received. To investigate whether the level of harmonization changed, the Herfindahl index was used as a measuring tool. To test the second hypothesis, the Mann-Whitney test and chi-square test were used to test whether there was any significant relationship between the groups of respondents. The results of the study revealed that it did not indicate any effect of legislation on harmonization, and the first hypothesis was rejected. The results did not show any significant relationship between form of association and level of harmonization. Hence the second hypothesis was accordingly rejected.

Floropoulos [2003] examined accounting harmonization in a sample of companies in the North-eastern Greece and Thrace with regard to the use of International Accounting Standards. In their study, level of harmony was measured at a specific moment by using an appropriate questionnaire. The sample comprised random selection of 39 companies' completed questionnaire completed by the company accountants. Out of these 39 companies, 9 were listed and the remaining 30 belonged to non-listed companies. The main objective of the research was to examine accounting harmonization through a sample of companies with regard to the use of IAS. To meet the above objective, the questionnaire was designed in such a way to investigate the following: (1) accountants' degree of familiarity with the IAS; (2) mode of information about IAS; (3) are companies ready to use IAS immediately or need more time?; (4) potential benefits to the company of adopting IAS; and (5) degree of accountants' knowledge of IAS. Analysis using the independent chi-square test ($p<0.05$) showed that: (a) compliance with IAS was not independent of company size or stock exchange listing status, (b) familiarity with IAS was not independent of company size or listing status, and (c) familiarity with IAS was independent of the type of business in which the company was engaged. The results of the study also highlighted that (1) listed firms tended to comply with IAS earlier and more easily than non-listed companies, (2) large and medium-sized firms tended to comply with IAS requirements to a greater extent, and (3) there was a lack of experience with and knowledge of IAS among accountants.

Globerman and Singleton [2004] examined the extent to which voluntary disclosure practices by Japanese firms converged. They selected two specific time periods to investigate the convergence or lack of convergence in disclosure practices. The first period was 1987-1993 and the second time period was 1996-1998. Data were collected for one year for each sample time period (1989 &1998). Sample firms were randomly selected from a stratified sample of firms in the Nikkei 225 Index. For the year1989, 48 companies and for 1998, 109 firms were selected. The sample excluded industries that were highly regulated, such as banking, insurance and securities and also service-related firms. The findings of the study suggested that there was neither more, nor less, convergence in selected disclosure practices over the sample period, although the average level of disclosure did increase. It also found that Japanese firms were in "equilibrium" in terms of the scope of information they voluntarily disclosed, although they perceived net benefits in increasing the quantity of disclosed information.

(iv) Effects of IASC:

Aisbitt [2001:*53*] observed that quantifying the extent of harmony of financial reporting within and between the countries could be useful to test classifications or to assess the effects of regulations or other factors on financial reporting. Several studies were carried out to perceive the effects of IASs issued by the IASC.

Evans and Taylor [1982], with aims similar to those of Nair and Frank [1981], studied the effects of IAS 2, 3, 4, 6 and 7 on financial reporting practices of 50 companies in France, Japan, UK, USA and West Germany. This study relied on the financial reports of selected companies in each of the countries from 1975-80 for its data. Based on their findings they concluded that the IASC had had very little effect on the accounting practices of the countries studied.

Nobes [1990] examined the direct effects of IASC standards on listed US corporations. A survey was conducted of the 1985 annual reports of 200 randomly chosen listed corporations with the following hypotheses: (1) most listed US companies do not comply with IASs where their requirements are not covered by GAAP; and (2) IASs have no direct impact on the financial reporting of listed US companies. The areas identified for testing the above hypothesis were: (1) minority interests, (2) asset lives or rates of depreciation, and (3) poolings. The study revealed that compliance by a sample of companies was found to be significantly less than 50% and there was an evidence for the first hypothesis to be accepted. This study also had sufficient evidence to accept second hypothesis. This showed that any apparent 'compliance' was the result of other factors, such as pressure from auditors or users of financial statements.

Murphy [2000] examined the impact of using IASs on the comparability of four accounting practices with the following hypotheses: (1) there was no association between the year and the level harmony, as measured by the H index, for the 8-year period 1988-1995 and (2) there was no association between the year and the level of international harmony, as measured by the I index, for the 8 -year period 1988-1995. To test these hypothesis data were collected from the world-scope database for 1988 to 1995. 18 Swiss companies who used local standards in this period and a random sample of 20 US companies, 25 UK companies, and 25 Japanese companies were analyzed to determine whether the IASs increased the level of international harmony. The variables selected to test the above hypothesis were: (1) depreciation, (2) inventory, (3) financial statement cost basis, and (4) consolidation. The hypothesis also tested using the Spearman correlation coefficient relationship of pairs of sample. The study showed that there was little evidence that the adoption of IASs was the primary factor in increasing the level of harmony. The comparisons with companies from different countries indicated that the Swiss companies increased the level of harmony over the time period examined.

Pascual et. al., [2002] introduced a new index that allowed for the measurement of formal harmonization over time and they used this methodology to evaluate the IASC achievements all through its standard setting activity. The sample used in this study comprised of those accounting treatments included in the IAS that were modified during the IASC's existence. The study revealed that the IASC made a great progress toward formal harmonization through the accounting standards it had issued or revised during its existence. The study also suggested the need for the IASC to continue working towards greater formal harmonization, extending its standard-setting concerns by issuing new standards that addressed the projects on its current agenda (e.g., agriculture, insurance, extractive industries, emerging markets, and discounting, among others).

(C) PRACTICE HARMONIZATION

Van der Tas [1988] and Tay and Parker [1990] draw a distinction between material (*de facto*) and formal (*de jure*) harmonization. The former refers to the harmony of actual accounting practices while the latter refers to the harmony of financial accounting regulations. Van der Tas [1988] draws a second distinction dealing with measurement and disclosure issues. He suggests that the harmonization of both accounting practices and accounting regulations could focus either on measurement issues such as methods of recognition, valuation, and estimation or on disclosure issues such as the level of transparency provided by entities via their financial reporting. Harmonization measurement studies purport to explore the similarity or lack thereof of accounting practices and requirements. The studies reviewed under practice harmonization are presented under: (i) Measurement Harmonization, (ii) Disclosure Harmonization and (iii) Measurement of Practice Harmony between Countries.

(i) Measurement Harmonization:

Van der Tas [1988:*158*] describes that material measurement harmonization is an increase in the degree of comparability and it means that more companies in the same circumstances apply the same accounting method to an event or give additional information in such a way that the financial reports of more companies can be made comparable. The studies may be broadly classified as: (a) accounting practice harmony at a point in time **[**e.g., Van der Tas: 1988; Walton: 1992; Emenyonu and Gray: 1992; Herrmann and Thomas: 1995) and (b) accounting practice harmonization (the process], through measurement of movements in harmony over a period of time [e.g., Nair and Frank: 1981; Evans and Taylor: 1982; Van der Tas: 1992b; Yang and Lee: 1994; Archer et al., 1995.] Table 4.1 depicts the measurement studies summarized by Tay and Parker [1990].

TABLE 4.1
MEASUREMENT STUDIES SURVEYED

	Nair and Frank (1981)	Evans and Taylor (1982)	McKinnon and Janell (1984)	Doupnik and Taylor (1985)	Nobes (1987b)	Van der Tas (1988)
Objectives	To assess the success of 'formal' harmonization efforts by the IASC	'To determine the impact of IASC standards on the financial reporting in member nations' (p. 119)	To analyze the direct and indirect influence of the IASC on accounting standards and requirements	To assess conformity of Western European countries to a 'basic core of accounting practice' (p.27), and changes in conformity over time	To test the hypothesis that U.S. and U.K. companies do not obey IASC standards	To quantify harmony, determine when and to what extent harmonization has taken place, and the impact of standard setting bodies
Countries Surveyed	37 countries common to the 3 PW surveys	France, Japan, U.K., U.S. and West Germany	64 countries covered by the 1979 PW survey	16 Western European countries	The U.K. and the U.S.	The Netherlands, the U.K. and the U.S.
Scope	IASs 1-10	IASs 2-4, 6 and 7	IASs 3 and 4, ED 11 (IAS 21)	IASs 1-8	IASs 3, 4 and 22 (U.S.) and IASs 9, 14 and 19 (U.K.)	Accounting for deferred tax and investment tax credit; valuation of land and buildings

Data sources	PW surveys 1973, 1975 and 1979	9-10 financial reports from each country surveyed, for the period 1975-88	PW 1979 survey	PW 1979 survey and own questionnaire	Published 1985 accounts for separate random samples of listed companies	National surveys
Methodology	Changes in the distribution of countries among requirement categories tested for significance with Friedman's ANOVA	Reports examined for evidence of compliance with IASs. Results given as percentage compliance rates per country for each year	Descriptive analysis of accounting regulations of IASC members. Discussion of IASC influence on ASC and FASB statements on foreign exchange transaction	Response categories weighted. Average scores calculated for regions and countries. Nonparametric tests used to differentiate regions and groups	Differences of content or timing identified between ntional standards and IASs. Compliance rates inspected for signs of obedience to IASs that 'IASs are not obeyed may be accepted' (p. 13)	3 indices developed to measure harmony and comparability, used for different countries. Changes in values related to legal and professional regulation
Main conclusions	'the period of the IASC's existence has coincided with a growing harmonization of acconting standards' (p. 77)	'the IASC has had very little impact on the accounting practices of the countries surveyed' (p. 126)	'the IASC has not succeeded in changing existing standards or setting new standards' (p. 33)	'much diversity continues…to exist among the countries of Western Europe' (p. 33)		'it is possible to measure the influence of mandatory and non-mandatory provisions' (p. 167)

Source: Tay and Parker [1990:*72*]

In the practice harmony, researchers studied several accounting measurement practices adopted within and across countries. Available alternative methods, which are used in case of these measurement practices, were analyzed. Table 4.2 shows some of the measurement practices and the alternative methods used in their studies.

TABLE 4.2
MEASUREMENT PRACTICES AND ALTERNATIVE METHODS USED IN PRACTICE HARMONY

Researchers	**Measurement Practices**	**Alternative Methods Used**
Van der Tas [1988]	1.Deferred Tax in the UK	1. As a separate heading or grouped with deferred liabilities. 2. Grouped with current liabilities. 3. Grouped with reserves. 4. As a deduction from assets less current liabilities. 5. Not identifiable in balance sheet, but transfer shown in profit and loss account.

	2. Accounting for the Investment Tax Credit (WIR) in the Netherlands.	1. The credit is recognized directly in the Profit and Loss Account or in Equity in the year it is awarded (flow-through method). 2. The credit is deducted from the investment, thus leading to lower depreciation in subsequent years (deduction method). 3. The credit is charged to an equalization account on the credit side of the balance sheet and expensed during subsequent years (equalization method).
	3. Accounting for the Investment Tax Credit (ITC) in the US.	1. Flow-through method. 2. Deferral method.
	4.The WIR equalization account in the Netherlands	1.As a current liability; 2.As a non-current liability or as a provision; 3.As a part of the reserves; 4.As a separate item between debt and equity (deferred income); 5. As a separate deduction from fixed assets.
	5. Valuation of Land and Buildings in the Netherlands.	1.Historical cost; 2.Current value; 3.Land at current value, building at historical cost; 4.Land at historical cost; building at current value; 5.Both 1& 2; 6.Both 1 & 3; (5 to 8 by way of additional 7.Both 2 & 4; information in the notes) 8. Both 1, 2 & 4.
Emmanuel et.al., al., [1992]	1. Stock Valuation Methods.	1.Cost 2.Market value 3.Lower of cost or market value
	2. Depreciation Methods.	1.Straight line 2.Declining balance 3.Straight line and Declining balance
	3.Treatment of Goodwill	1.Immediate write off 2.Amortised over a period
	4. Treatment of R & D Costs.	1.Immediate write off 2.Deferred 3.Not disclosed
	5. Valuation Bases for Fixed Assets.	1.Historical cost 2.Modified historical
	6. Treatment of Extraordinary and Exceptional items	1.Treated in current year's income statement 2. Taken to reserves or retained earnings.
Herrmann and Thomas [1995]	1.Fixed Asset Valuation	1.Historical cost 2.Modified historical cost
	2. Depreciation	1.Straight line 2.Straight line and Declining balance
	3. Goodwill	1.Write-off; 2.Capitalise; 3.Not disclosed
	4. R & D	1.Expense; 2.Capitalise; 3.Not disclosed
	5. Inventory Valuation	1.Lower cost/market; 2.Cost; 3.Market
	5b. Inventory Costing	1. FIFO 2.LIFO 3.Average; 4.Combination; 5.Not disclosed.
	6a. Foreign Currency Translation of Assets and Liabilities	1. Current; 2. Current or historical; 3. Not disclosed.
	6b. Foreign Currency Translation of Revenues and Expenses/	1.Average/actual 2.Current 3.Not disclosed
	6c. Treatment of Translation Differences	1.Reserves 2.Income 3.Not disclosed

Canibano and Mora [2000]	1. Income Tax	1.Nil provision or 'taxes payable' approach 2.Full provision 3.Partial provision 4.Deferred tax recognized but method used not specified 5.No recognition of deferred tax and it is not known whether or not deferred tax accounting is applicable.
	2. Financial Leases	1.Capitalization as intangible assets 2.Capitalization as tangible fixed assets 3.Non-capitalization 4.The method use and whether it is applicable or not are not specified 5. Capitalization as other assets.
	3. Goodwill	1.Credited to income in the year of acquisition 2.Written off against reserves in the year of acquisition 3.Shown as an asset and amortized in more than five years 4. Shown as an asset and amortized in less than five years. 5. The method used and whether it is applicable or not are not specified.
	4. Foreign currency Translation	1.Exchange gains and losses as income/loss for the year 2. Exchange losses as period expenses and no recognition of unrealized gains. 3.Exchange losses as period expenses and unrealized gains deferred; 4.No recognition of unrealized exchange differences; 5. The method used and whether it is applicable or not are not specified.
Parker & Morris [2001]	1. Valuation of tangible fixed assets.	1.Historical cost 2.Current cost 3.Revaluation
	2.Depreciation of tangible fixed assets	1. All tangible assets (except freehold land and investment properties) depreciated. 2. Some land and buildings not depreciated.
	3. Inventory Valuation	1.Lower of cost and net realizable value
	4.Research and Development costs	1.Written off to profit and loss account 2.Both capitalized and written off 3. Not disclosed.
	5. Goodwill on consolidation	1.Written off to reserves 2.Amortized 3.Written off and amortized 4. Not disclosed.
	6. Foreign exchange translation of subsidiaries.	1.Closing (current) rate method (average rate in P&L) 2. Closing (current) rate method (closing rate in P&L) 3.Temporal method 4. Closing (current) rate method plus temporal method. 5. Not disclosed.
	7.Interest on construction	1.Capitalised 2.Not capitalized 3.Not disclosed

	8. Other identifiable intangibles	1.Written off to reserves 2.Capitalized and amortized 3.Capitalized and not amortized 4. Not disclosed.
	9. Finance leases	1.Capitalized 2.Not Capitalized 3.Not disclosed
	10. Deferred taxation liabilities	1.Full provision liability method 2.Partial provision, liability method
	11. Depreciation method	1.Mainly straight line 2.Mainly reducing balance 3.Both straight line and reducing balance 4.Other 5. Not disclosed.

Source: Literature Review

Van der Tas [1988] examined the nature of the harmonization problem and the possibility of developing a method to quantify the degree of harmony of financial reporting practice. He developed a framework to define harmonization; identification of various harmonization objects that could be measured and subsequently a method was developed that quantified the degree of harmony of financial reporting practices for each item in the annual accounts. In order to measure the level of harmonization, three indices of concentration measurement were developed and adopted. The basic tool was the Herfindahl index, or H-index, one of many measures used to assess industrial concentration or monopoly. Variants of the H-index were developed. The Comparability index (C-index) was devised to handle national and the I-index to handle international harmonization measurement. The use of a concentration index approach was justified on the grounds that harmonization, i.e. moves towards standardization or uniformity, may be likened to moves towards monopoly albeit in a different context.

Using these indices, van der Tas measured levels of harmonization on the subject of deferred tax in the UK; accounting for the investment tax credit in the Netherlands and the US; the investment tax credit equalization account in the Netherlands; and the valuation of land and buildings in the Netherlands. Finally, he attempted to compute a harmonization index for the investment tax credit in the US and the Netherlands. In case of deferred tax in UK, Van der Tas considered the data from survey of published accounts of Institute of Chartered Accountants in England and Wales (ICAEW) for the period ranging from 1968 to 1980. In the survey of published accounts of ICAEW [1968-981] five different ways of presenting deferred taxes were found: (1) As a separate heading or grouped with deferred liabilities; (2) Grouped with current liabilities; (3) Grouped with reserves; (4) As a deduction from assets less current liabilities; and (5) Not identifiable in balance sheet, but transfer shown in profit and loss account. In the meantime, he analyzed the existing regulations related to deferred tax and how it should be presented in the balance sheet. As per regulations from 1967 to 1981, the deferred tax treatments had been changed as a reserve; not as a reserve, nor as a current liability; not as a reserve, nor as a current asset or current liability; not as a reserve, but presentation as a current asset or current liability was allowed again; and as a provision. He tabulated the application frequencies of these five methods in the period from 1968 to 1980, the relative frequencies and the H-index in the table. It showed that the H-index of the presentation of deferred tax showed a gradual increase in the 1968-1978 periods from 0.673 to 1, which could not be attributed to the introduction or amendment of mandatory or non-mandatory provisions. He also concluded that the impact of the introduction or amendment of provisions could be measured by the H-index. Similarly, in case of accounting for the investment tax credit in the Netherlands and the US, the degree of harmony clearly rose during this period and the investment tax credit equalization account in the Netherlands showed a slight increase from 1978 to 1983 and a high increase in 1984 due to new legislation.

Van der Tas [1988] identified the inability to take account of multiple reporting in H-index; hence he developed a method, which would take into consideration of multiple reporting by relating the number of 'compatible' pairs of companies to the number of pairings possible. For international harmonization, his views were in two ways. From the first point of view, international harmony was the degree of comparability of financial reports of companies irrespective of the country in which they were established. From the second point of view, the degree of international material harmony indicated the degree to which the companies in one country applied the same or only a limited number of alternative accounting methods, compared to the companies in another country. Based on this view, he measured the degree of international material harmony by multiplying the relative application frequency of a method in country 'A' by the relative application frequency of the same method in country 'B' and subsequently by adding the results of all alternative methods. The sum was called the 'I-index.' He applied this method on investment tax credit in the US and the Netherlands. It showed that the degree of international harmony decreased, while the two countries concentrated on a different method. He also extended this method of application to more than two countries by building a correction factor.

The Federation des Experts Comptables Europeans (FEE) produced some noteworthy surveys. The 1989 survey [FEE: 1989] covering 1987 accounts set out to ascertain whether, after the implementation of the EC Fourth Directive on annual accounts, there was harmonization of accounting practices within the member countries. Consequently, data was gathered from survey questionnaires and the annual reports of about 191 companies from 9 EC nations, namely, Belgium, Denmark, France, Germany, Greece, Ireland, Luxembourg, Netherlands and the United

Kingdom. The survey concluded that a high level of harmonization was observed for those areas covered comprehensively by the Fourth Directive. On the other hand, an apparent lack of harmonization was observed in those areas covered only partially by the Directive. An update and extension of this survey based on 1989 accounts was also published [FEE: 1991], which covered 441 companies from 15 European countries. A major finding of the survey was that other factors, besides the EC Fourth Directive, were having a significant influence on the evolution of accounting practice at the national level. These surveys attempted to quantify, in statistical terms, the existence of significant differences in practice and the current status of harmonization.

Van der Tas [1992a] made an empirical study of 154 European listed companies over the period 1978 to 1988 to measure the degree of harmony in each year, to determine the extent to which harmonization took place during that period and the impact of EC harmonization efforts. He examined the degree of material measurement harmony of accounting for deferred taxes in the years 1978 to 1988 and the impact of the Fourth and Seventh EEC Directives thereon. In this study, existing nine alternative treatments of deferred taxes in the Europe were identified. From the survey of this study, he found the degree of harmony of the primary accounts, excluding reconciliation data in the notes on the accounts, was low and showed no significant movements during the examined period; the degree of harmony, taking reconciliation data on the accounts into account, increased sharply over the examined period; the impact of reconciliation data on the degree of harmony was very positive; the impact of the Fourth EEC Company Law Directive on harmony was very significantly positive. As regards the consolidated accounts he concluded the degree of harmony of the primary accounts, without taking reconciliation data in the notes on the accounts into account, was low but increased gradually over the examined period. The degree of harmony, taking account or reconciliation data in the notes on the accounts, increased importantly and was high at the end of the period. The impact of reconciliation data on the degree of harmony was very positive; and the impact of the Fourth EEC Company Law Directive on harmony was not significant. To conclude, Van der Tas's tests for harmonization of accounting for deferred taxes in the EC found mixed evidence for the years 1978-88.

Archer et. al., [1995] examined 89 companies of 8 European countries for measuring the degree to which harmony existed from 1986-87 to 1990-91. The selected sample companies' shares were traded internationally and were likely to be influenced by international factors and country-specific factors in the selection of accounting methods. Two areas of accounting policy i.e., deferred taxation and goodwill, were selected in this study, each having five alternative accounting treatments. By applying within country and between countries C-index the study indicated that, in the areas of deferred taxation and consolidated goodwill, little progress took place between 1986-87 and 1990-91 in accounting practices harmonization. The study also evidenced that the increase in harmonization in case of multinational companies were due to influence of IASs and US GAAP and the benefits of adopting international recognized methods were seen to exceed the costs.

In 1996, Archer et. al., developed nested hierarchy of log-linear models to show how the measurement of harmonization over time could be analyzed. They used the same sample size and data, which were collected for their study in 1995. The models were fitted sequentially to the sample data, starting with a null model in which accounting policy choices were assumed to be random and hence equi-probable within each sub sample for each country in each year. By adding the effect of changes in policy choices from year to year and interaction effect between countries and policy choices, they concluded that in the two areas of deferred taxation and consolidated goodwill, little progress in harmonization took place between 1986-87 and 1990-91, but that such progress as there was, could be attributed to increased in between-country comparability, since the change in within-country comparability was either very small or negative.

Canibano and Mora [2000] studied a sample of 'global players' from thirteen European countries and analyzed financial statements of 85 companies, whose shares were traded internationally for the accounting periods 1991-92 and 1996-97. Taking into account four accounting issues (deferred taxation, goodwill, leasing and foreign currency translation) with five alternative treatments in each case, they calculated the C-index for the periods 1991-92 and 1996-97. Then, besides comparing the value of the index in the two periods for the four accounting issues, they analyzed whether there was a statistically significant increase in the level of harmony between the two periods, firstly by analyzing the difference in the value of the index using a bootstrapping procedure, and secondly by using the chi-square test. In their analysis, they obtained a higher value for the index in the second period and using the bootstrapping procedure, they concluded that this increase was significant in all the cases they considered. This study mainly focused on *de facto* measurement harmonization based on the assumption that: two financial reports were comparable in respect on one specific event if under the same circumstances this event was accounted for in the same way in both reports or if multiple reporting took place. Multiple reporting means that a company gives additional information based on an accounting method other than its primary accounting method. This study aimed to ascertain whether the level of comparability in practice among 'global players' increased in recent years, despite the problem and obstacles involved in the harmonization of rules. They summarized the methods used in empirical studies of *de facto* harmonization and the results obtained from eight previous studies. They proposed a bootstrapping test of the C-index as a way of measuring the significance of the change in its value. They also highlighted that the existence of a *de facto* harmonization process creates pressure to achieve formal harmony, at least for these specific companies whose characteristics made them less easily influenced by specific national factors.

Aisbitt [2001] examined the usefulness of Archer et. al.'s [1995] study and decomposed C-index in measuring harmony by applying them to data obtained from annual reports in the Nordic countries. The data for this study was obtained from the annual reports (published financial statements) of four countries (i. e., Denmark, Finland, Sweden and Norway) at four dates in the period between 1981 and 1998. Twelve companies were selected from each country for inclusion in the study. To obtain an overall picture of financial reporting, twenty items were identified as representing the essence of financial reporting. These were: (1)Valuation of tangible fixed assets; (2).Valuation of listed investments (held short term); (3)Unsettled gains on foreign exchange; (4) Publication of group accounts; (5) Goodwill on acquisition in consolidation accounts; (6) Method of preparing funds flow or cash flow statements; (7) Use of legal reserves; (8) Method of depreciation; (9) Method of stock valuation; (10) Review of past and future performance; (11) Disclosure of segmental turnover; (12) Disclosure of segmental profit; (13) Disclosure of number of employees; (14) Disclosure of directors' remuneration; (15) Disclosure of directors' interests in shares; (16) Disclosure of accounting policies; (17) Disclosure of earnings per share; (18) Disclosures about share ownership; (19) US GAAP reconciliations; and (20) IAS reconciliations. Appropriate accounting treatments were analyzed for these items, which were disclosed in the annual reports. The Wilcoxon signed ranks test was used to evaluate whether the changes in harmony were significant. Sets of indices were compared for successive dates to test the null hypothesis that 'the level of harmony would be the same at successive dates'. The study found that harmony level increased in eleven items and decreased in eight items, but no change happened in one item (11:8:1) during 1982 and 1992 for these 20 items. Between 1992 and 1994 the harmony level increased in twelve items and decreased in three items but no change was found in five items (12:3:5). Similar results were found for the period between 1994 and 1998 and the ratio was 12:4:4. This study provided some evidence of harmonization in the period from 1982 to 1992. However, there were also instances of dis-harmonization in the period. He also highlighted the areas of increase in harmonization from the viewpoint of legislation contributing to harmonization and the areas where harmonization occurred independently of legislation. He also highlighted the problems relating to the properties of the indices by categorizing as reliability and validity problems.

Parker and Morris [2001] studied with the hypothesis that U.S. GAAP could act as an impediment to international harmony of accounting measurement policies in other countries by creating a situation of partial harmony in which some but not all countries harmonized with U.S. GAAP. The hypothesis was tested by examining eleven accounting measurement policies (valuation of tangible fixed assets; depreciation of tangible fixed assets; method of inventory valuation; research and development; goodwill on consolidation; foreign exchange translation; capitalization of interest on construction; capitalization of other identifiable intangibles; capitalization of finance leases; deferred taxation liabilities; and method of depreciation) of forty matched pairs of large companies from Australia and the U.K. (total eighty) using data from 1993 annual reports. The 'H' and between - country 'C' indices and the chi-square of the sampled companies evidenced little international harmony on most accounting polices studied, although they did display considerable or complete national harmony on some polices (seven for the U.K. and five for Australia). It also revealed that Australian companies appeared to conform more to U.S. GAAP than do U.K. companies. U.K./Australian international harmony was higher when both countries conformed to U.S. GAAP, and lower when only one or neither did; while U.S.-listing status seemed to have no influence.

(ii) Disclosure Harmonization:

Disclosure is defined as consisting of both voluntary and mandatory items of information provided in the financial statements; notes to the accounts; management's analysis of operations for the current; and forthcoming year and any supplementary information. AICPA's Accounting Research Study No. 1 states: "Accounting reports should disclose that which is necessary to make them not misleading." Adequate, fair and full disclosure should be made in the accounting reports. Some of them might be mandatory and yet many of them provided in the reports may be voluntary. A few researchers concentrated on disclosure issue to measure harmonization level.

Nair and Frank [1980] examined whether the classification of countries into groups based on their accounting practices was the same whether measurement or disclosure practices were used to do the grouping. Observations on both the disclosure and measurement practices in 1973 for a sample of 38 countries were factor-analyzed, and the resulting factor structures for disclosure and measurement were compared. The environmental variables most closely associated with each set of groupings were determined by discriminant analysis. The analyses were then replicated for the same two subsets of practices using 1975 data on the measurement and disclosure practices for 46 countries. It was evidenced that the number of groupings, the character and composition of each group, and even the underlying environmental variables most closely associated with the practices were quite different between the two subsets of accounting practices. The findings also suggested that policy making bodies concerned with the harmonization of international accounting standards should concern themselves with reducing diversity in disclosure practices, since it was with respect to them that the greatest dispersion existed. The study highlighted that: reaching the goal of harmonization might be difficult, because, countries might be reluctant; to make a change in accounting practices so long as the underlying environmental variables were significantly different.

Rahman et. al., [1996] introduced a methodology for the measurement of formal accounting harmony between countries. Their study provided measurement of differences between the requirements of two countries by accounting categories, generally specified by the countries being examined. They made an attempt to conduct a detailed analysis of the state of formal harmony between the two neighboring countries, Australia and the New Zealand. Comparisons of all accounting requirements applicable to listed companies were made and to make the comparisons exhaustive they matched the disclosure and measurement requirements separately. Obviously, it gave a clear exposure of measurement requirement differences. They set the research design as: (a) categories of requirement with variances between two countries, and (b) the degree of uniformity within each category to see if the variance was due to any mismatch of requirements. The study included all the three main sources of accounting regulation that affected listed firms, i.e., statutory requirements, stock exchange listing requirements and accounting standards. By interviewing the six financial accounts controllers of some of the New Zealand companies that were listed in both Australia and New Zealand, 518 disclosure items spread over 31 categories and 469 measurement items spread over 28 categories were used in this study. Multiple discriminant analysis was conducted to measure the level of harmony between the two countries' disclosure and measurement requirements. Every observation within the categories was re-expressed as a set of binary variables (0 or 1) and then the Mahalanobis-like distances were calculated. In case of percentage of matches within each category, the higher the percentage, the greater the level of uniformity for a category was identified. Of the 31 categories of disclosure, six categories indicated a 0.00 distance between the two countries, for 15 categories the distance was between 0.01 and 0.99, for eight categories it was between 1.00 and 19.99, and for the remaining two it was greater than 20. Similarly, the analysis of the measurement requirements showed that out of the 28 categories of requirement, four indicated no or very little difference between Australia and New Zealand; 13

indicated a distance of 0.01 to 0.99; seven indicate da distance of one to 19.99; and only four exceeded a distance of 20.

Rahman et. al., [2002] made an empirical study to test the validity of the assumption that practice harmony was associated with regulation harmony and whether there were factors other than regulation harmony that were associated with practice harmony. Unlike 1996 study, here also they selected Australia and New Zealand countries. The accounting practices and firm characteristics data were collected by perusing the 1993 annual reports of the top eighty-one New Zealand and seventy five Australian listed companies, according to market capitalization, of New Zealand and Australia. These companies excluded banking and insurance companies. Mandatory disclosure and measurement data were collected using the instrument of Rahman et. al., [1996] that included requirements of the relevant acts, listing rules and accounting standards that existed in 1993. The instruments were adopted to include only those requirements for which information would normally be available from annual reports. Data for a total of 889 items consisting of sixty-one mandatory categories (thirty-three disclosure categories and twenty-eight measurement categories) and fourteen non–mandatory categories were collected. The information for each item of disclosure or measurement within the categories was collected on a dichotomy of '1' and '0'. A '1' was recorded when a company disclosed a particular item or used a particular measurement method, and a '0' was recorded when a company did not disclose an item or did not use a particular measurement method. The proxies used for measuring firm characteristics or classifying the firms were: Industry (1. primary; 2 .manufacturing; 3. service; 4. extractive; 5. property and investment and 6. other), Size (large and small), Ownership concentration (high and low), Leverage (high and low), Decentralization (high and low) and Auditor type (big and others). A matching coefficient known as Jacquard coefficient was used to measure accounting practice harmony. The findings of this study showed mixed results but strong indications that accounting practice harmony was also associated with both accounting regulation harmony and firm characteristics, especially when regulation harmony was weak or where there were no regulations. The 'p' values of chi-square statistics indicated that practice harmony was not independent of industry. The results also showed that multinational auditors (Big-6 firms) played a role in accounting practice harmonization.

(iii) Measurement of Practice Harmony between Countries:

Some researchers have conducted their research to find out the level of harmonization between countries. Nair and Frank [1981] attempted to ascertain the impact of the harmonization endeavors of the IASC. Consequently, they surveyed the effect of IAS 1 to 10 on the accounting practices of some 37 countries, using the Price Waterhouse surveys of 1973, 1975 and 1979. They found that the period of the IASC's existence had coincided with an increase in the harmonization of accounting standards between the countries surveyed.

Nobes [1981] opined that these findings might be questioned, however, in that the Price Waterhouse surveys used by Nair and Frank were limited in terms of reliability, not least by their focus on regulations rather than actual practice.

Doupnik and Taylor [1985] attempted to assess the extent to which 16 western European countries conformed to a 'basic core of accounting practices, using IAS 1-8. Data collected through a survey questionnaire and the Price Waterhouse 1979 survey were analyzed. The findings supported the hypothesis that many differences still existed in western European accounting practices though some increased compliance with IASC standards was found.

Walton [1992] conducted a case study to test whether harmonized financial statements, which were the objectives of the European Community's program, resulted in comparable accounting measurements as between two jurisdictions within the community (Britain and France). The study also sought to determine whether the application of GAAP was uniform within each jurisdiction. Construction companies, which during the year under review started up an overseas subsidiary to carry out a long-term contract, were used in the case study. Totally, 30 respondents consisting of 15 each from France and Britain were asked to prepare an income statement and balance sheet for (a) the overseas subsidiary; (b) the parent company; and (c) the group. The exchange data and other transaction data were provided to these respondents. The study concluded that there was relatively little uniformity or close consensus amongst either the British or French respondents in their measurement of the transactions contained in the case study and also that there was some support for the notion that the French net profit measurement was usually be more conservative than the British.

Emenyonu and Gray [1992] examined the harmonization of measurement practices in France, Germany and the UK based on 1989 annual reports from 26 major companies (with a turnover in excess of 1 billion) located in each of the three countries. In this study, an attempt was made to judge whether the asset and profit measurement practices of large companies in three major EC countries (France, Germany and the UK) were significantly different as at the end of 1989. It was taken up in the context of the EC harmonization effort, most notably in the form of the EC Fourth Directive [1978]. It established the measurement methods to be followed in company accounts and an effort was made to quantify the overall extent of international accounting uniformity or harmony across the three countries concerned. The study included six key asset and profit measurement practices: stock valuation, depreciation, goodwill, research and development, valuation bases for fixed assets and the treatment of extraordinary/exceptional items. They subjected these practices to statistical tests to determine whether the pattern of their treatment in the three countries, could be said to be significantly different or not. They employed two statistical tools for analysis. Firstly, the Chi-square test was used to assess whether the pattern of usage of measurement practices by companies in France, Germany and the UK was significantly different. Secondly, the I-index (a variant of Herfindahl's concentration measure) was used to compute the degree of international harmony that existed across the three countries. They found significant differences in the measurement practices and the overall level of 'policies harmonization' across the three countries to be low. They further investigated 293 large listed companies in France, Germany, Japan, the U.K. and the U.S. from 1971 to 1992 and reached the same conclusion.

Hermann and Thomas [1995] examined the level of harmonization in accounting measurement practices among eight member countries in the European Union. The data used in this study were from the annual reports of large companies of EC member nations for the year 1992-93. The study examined the largest companies located in each country since accounting harmonization was an especially important issue for large multinationals. The sample included 30 corporate annual reports from Denmark, France, Germany, Netherlands and the UK, 23 from Belgium, 24 from Ireland and 20 from Portugal, for a total sample size of 217 annual reports from eight of the 12 EC countries. The potential measurement practices examined included fixed asset valuation, inventory costing, investments, depreciation, deferred tax, extraordinary items, pensions, consolidations, goodwill and foreign currency translation. The study applied statistical tests to determine the degree of harmonization. The non-parametric chi-square statistic was used in determining whether the level of harmonization for a given accounting practice was the same or different across countries. An I-index developed by van der Tas [1988] was used to measure the extent of harmonization with respect to a given accounting practice and then to compare across practices. They found that accounting for foreign currency translation of assets and liabilities, treatment of translation differences, and inventory valuation were harmonized while accounting for fixed asset valuation, depreciation, goodwill, research and development costs, inventory costing, and foreign currency translation of revenues and expenses were not harmonized. They also found that there was greater harmonization among fairness-oriented countries than among legalistic countries. They suggested that harmonization might be analyzed by country across a large number of measurement practices and this would provide an indication of the level of national harmonization.

After summarizing the information on accounting practices in 15 countries (various European countries, the U.S., Canada, Australia and Japan) plus IAS, Ordelheide and Semler [1995] proposed the TRANSACC reference matrix. Each country's complete accounting rules were presented in tabular form and the rules on any particular accounting issue were shown for all the countries covered by TRANSACC. Accordingly, the matrix covered those rules that determined the content of the balance sheet and the income statement, including recognition and valuation as well as consolidation methods applied in the respective countries. It provided information on each accounting method under review in the form: 'R' (required), 'A' (allowed), 'F' (forbidden). Ordelheide and Semler's study provided a comprehensive examination of different accounting methods, but it was restricted to the most developed countries in the world. In subsequent literature, several studies used this matrix to classify countries according to their accounting differences [e.g., d'Arcy: 2001].

INDIAN STUDIES

Accounting profession in India has established its roots very firmly since the beginning of the twentieth century itself. After independence, Indian economy has grown leaps and bounds. This growth has been the result of different factors. One of the important factors is the information infrastructure, the main pillar of which has the accounting information available mainly from annual reports of different institutions including the corporate sector. It is important to note that the provisioning of accounting information on the basis of reliability, relevance, comparability and verifiability seems to be going at an insignificantly lower level and the thrust for this momentum from academic research seems to be not encouraging when compared to in surmountable progress made in the west. It is also surprising to note that much of accounting research in India still hovers around disclosure practices alone. In this background, a few important empirical studies related to financial reporting including the studies on harmonization have been delineated below:

The pioneering research on financial reporting in India was done by Shankar [1972: *25*], who compared the annual reports of 50 Indian companies and 25 foreign companies. He observed that the disclosure of foreign companies was better than Indian companies in respect to company objectives and policies, corporate concept, corporate-government relations, composition and board of directors etc.,

However, the study by Gupta [1977] was the first comprehensive empirical study on financial reporting in India. Amidst a number of limitations of absence of objectives of the study, hypotheses for the study, research methodology and basis for selecting sample companies, absence of the information on the number of sample companies included in the study, the empirical analysis was carried out by explaining financial reporting of some companies from the view point of format of presentation, size of annual reports, contents, and presentation of different accounting items. With several limitations of the study, it is still an honest effort in highlighting the status of financial reporting in India prevalent at that time. The following were the suggestions: (i) The present financial statements should be adequately expanded so as to include the details; (ii) The columnar method of presentation of both balance sheet, and profit loss account should be adopted; (iii) Material items should not be lumped together under 'etc'; (iv) Percentages of various components to their respective group, and each group percentage to total should be given for the previous and the current years; (v) All reserves should be divided into (a) capital reserves and (b) revenue reserves; (vi) All liabilities should be classified under (a) current liabilities (b) medium term liabilities; and (c) long-term liabilities and these items being subdivided into secured and unsecured liabilities; (vii) Provisions and reserves should be shown separately and not to be clubbed under reserves; (viii) The value of land and buildings should be split up between freeholds and leaseholds and the surplus resulting on revaluation of fixed assets should be directly credited to revaluation reserve; (ix) Asset-wise details of depreciation provided and withdrawn during the year should be given; (x) Regarding investments, distinction should be made between those which are held as currants assets and those which are held as fixed assets;

Singh and Gupta [1977] carried out a study on the quality of disclosure of information of the annual reports of Indian companies, by changing the items of Singhvi and Desai's index of disclosure in the Indian context. They studied 32 disclosure items of 28 Indian companies for the year 1970, which consisted of 22 companies in private sector including 8 companies of foreign origin, and 6 companies in public sector. They observed that the quality of disclosure varied from company to company. In both public and private sector companies, age of company and ownership pattern did influence the quality of disclosure in sense wide spread ownership pattern and older companies were found to have higher disclosure level with higher quality of financial reporting. Level of disclosure was positively related with the size of the company. The rate of return, earnings margin and auditing firm did not show relationship with the quality of disclosure.

Singh and Goswami [1981] revealed the extent of disclosure of external environment information in the annual reports of the public and private sector companies by correlating organizational variables, viz., size, profitability, ownership pattern and nature of industry. They observed that there was no uniformity regarding the extent of the disclosure of environmental information among the Indian companies.

Narain [1984] conducted a survey of annual reports of 57 public sector companies in India and concluded that no specific attempt was made by the government to see that the annual reports of public enterprises contained the necessary and basic information for the preparation and presentation of financial statements. He revealed that the disclosure of information by public sector companies was better than that of private sector companies.

The basic objective of the study by Lal [1985a] was to examine whether the diversified manufacturing companies should provide segment information in their published annual reports, and if so, what and how segment information should be given in them. The study also covered objectives of financial statements, investors' use of accounting data and objectives of investment decision-making. The following were the major conclusions of the study: (i) Majority of the investors numbering 215 and representing 78.18% made their investments decisions on their own and without any difficulty (ii) The major source of information for investment decisions was published financial information in annual reports and 226 respondents representing

82.18% perceived to be the most important source, (iii) Profit and loss account was rated the most part of annual reports by all the 275 respondents and it was flowed by the importance attached balance sheet, chairman's report, report of directors, funds flow statements, auditors report, notes to accounts and statically data, (iv) The most important objectives of financial statements was providing data in the annual reports for investment decisions, and this was followed by the importance in the descending order, given to provisioning of information on the value of the company of accountability of directors, market value of shares, taxes paid, and justification of the dividend payments proposed by the company and (v) The most important objective was the maximum return in the short run from a combination of dividend and capital of appreciation and objective was followed by satisfactory and stable dividends yield, maximum return in the long run from a combination of dividends and capital appreciation maximum capital appreciation in the short run and maximum capital appreciation in the long run.

The study by Lal [1985b] focused on disclosure practices by measuring the extent of disclosure in terms of index of disclosure in published corporate annual reports in relation to asset size, earnings margin, nature of industry and association with large industrial houses. The index of disclosure consisted of 50 items, which included sub-items numbering 104. Each item in the index of disclosure was assigned a score ranging between 0 and 1. If an item was disclosed in the annual report, then the item was assigned score 1. in case of non-disclosure, score 0 was given. The score for each annual report was then summed up. Dividing the actual score by maximum applicable score arrived at the index of disclosure and their quotient was multiplied by 100 resulting in a disclosure percentage.

To measure the index of disclosure, the companies were selected from Broad Sheet Information, which contained a list of 775 companies having paid up capital of Rs. 50.00 lakh and above. The study focused on extent of disclosure of manufacturing companies and 103 companies that were engaged services were excluded from the purview of study. Out of 673 companies, 180 companies were selected on the basis of stratified random sampling to accommodate different industry groups and asset sizes. The sample of 180 companies represented 26.75 per cent of all manufacturing companies listed in the Broad Sheet Information. The extent of disclosure for these 180 companies was constructed by examining the related annual reports of 1965 and 1975. The information on disclosure was presented six major groups: (i) Liquidity; (ii) Earning Power; (iii) Net worth; (iv) Managerial efficiency; (v) Management and labor relations; and (vi) Other items of information and statements relevant for users.

The major conclusions of the study were: (i) A large number of items of information contained in the index of disclosure have not been disclosed in the annual reports covered by this study; (ii) The extent of disclosure in annual reports of sample companies had increased over a period of time i.e., from 1965 to 1975; (iii) The association between size of the company (measured by total assets) and disclosure score was positive and statistically significant for the years 1965 and 1975; (iv) The association between earnings margin and disclosure score had been found positive and significant statistically in 1965. In 1975, the extent of disclosure was positive, but not significantly associated with earnings margin; (v) There were significant differences in the mean disclosure scores of different industries in the years 1965 and 1975 i.e., the nature of industry influences the extent of disclosure in annual reports; (iv) The extent of disclosure was significantly influenced by the fact that a company belongs or did not belong to a 'Large Industrial House.' The hypothesis that there was difference in mean disclosure scores of companies belonging and not belonging to such 'Industrial House' had been proved; (vii) Size of the company (measured by total assets) possesses a better association with the extent of disclosure than earnings margin, nature of industry and association with a 'Large Industrial House'. That is, the size (measured by total assets) has greater influence on the disclosure in annual reports than the remaining three independent variables in question; (viii) The variable 'nature of industry' relatively possesses lesser influence on the disclosure as compared to other variables but it does influence the extent of disclosure in corporate annual reports; (ix) All independent variables by and large possess a similar degree of significance when they were regressed individually and jointly with dependent variable; (x) The influence of all independent variables on the disclosure had been greater in 1965 than in 1975. In 1965, the aggregate effect of these variables on disclosure had been 40.96 per cent as compared to 36.15 per cent for the year 1975. This might probably be due to the fact that in 1975, all companies (belonging to different industries, asset groups) had tried to follow similar disclosure policy. However, these independent variables still seem to possess significant influence on the disclosure, as decrease in R^2 not a very significant; and (ixi) Disclosure in annual reports did not increased with increase in assets of companies over a period of time.

Our data showed that improvement in disclosure, on the average was lesser than increase in assets.

Ghosh [1990] carried out a survey of disclosure in 10 manufacturing companies (asset value exceeding Rs. 50 crore) in the private sector for the year 1987. The study revealed that the disclosure requirements were complied with only to the extent they were also at par with the statutory provisions, but not otherwise. If some companies had adhered to the requirements fully, they were also in a minority. It also stated that accounting standards, which were not supported by legal enactments, had very little chance of being complied with.

Rao [1990] conducted an empirical study to analyze the extent of disclosures made by corporate enterprises in respect of eight accounting standards issued by the Institute of Chartered Accountants of India. The study was conducted by taking a sample of 100 corporate enterprises, 50 each from public and private sectors, selected on a random basis. For this purpose, a three-point scale, using "full", "Partial" and "no" variables, was used to indicate the extent of disclosure made in the published annual reports. The study revealed that about 49.00 per cent of the companies did not comply with the disclosure requirements of the accounting standards under study. About 22.00 per cent and 29.00 percent of the companies made full and partial disclosure as per the standards respectively. The study concluded that the disclosure practices of Indian corporate sector deviated significantly from the requirements as per the statements issued on accounting standards by the ICAI and Section 211 of the Indian Companies Act. In case of 40.00 per cent of the companies, there was 'no' disclosure at all on accounting standards. Also, the disclosure practices differed widely among public sector and private sector units. There was 'no' disclosure about accounting standards in 53.00 per cent of the private sector units as against 46.00 per cent in the public sector.

Gupta [1995] studied the level of compliance of accounting standards based on the annual reports of 20 manufacturing companies, ten each from the public and the private sector for the period between 1985-86 and 1989-90. The study revealed that the public sector companies exhibited a better environment than those in the private sector in respect of compliance of accounting standards. It also stated that in case of private sector companies generally, standards were complied with to the extent they were at par with statutory requirements under the Companies Act, 1956.

Joshi and Abdulla [1995] examined the standard setting process and issues and practices of corporate financial reporting in an Indian context by referring 95 large sized company's annual reports. They found that among other things ICAI was successful in forcing the corporate sector companies to disclose accounting policies. It was evidenced that out of 95 companies, 93 companies actually disclosed their accounting policies for the year 1991-92. They also found that a majority of the corporate sector companies followed strict legal requirements in the disclosure and preparation of financial statements.

Varma et. al., [1997] examined the association between company characteristics and the extent of disclosure measures with reference to AS-1 to AS-10. The study covered a sample of 100 top companies equally drawn from the public and private sectors over a period of six years, from 1988-89 to 1993-94. Sources of the data were collected from the annual reports of the sample companies. The company characteristics which were considered in this study were: (1) size of the company as measured by its net tangible assets and also net sales; (2) profit of a company, and (3) age of a company. Linear regression model was used to test the following hypotheses: (i) The size of a company (in terms of net tangible assets) had no effect on the extent of disclosure; (ii) The size of a company as measured by net sales was not significantly associated with its disclosure score; and (iii) The profits of a company had no significant association with its disclosure score. Based on the statistical tests, the study concluded: (i) the size of a company; as measured in terms of either net tangible assets or net sales, had no effect on the disclosure scales calculated in terms of accounting standard in the corporate sector in India. (ii) Profits and disclosure scores were not statistically significant related to the variables in both the sectors during the period under study and the null hypothesis was accepted. (iii) The age and disclosure scores were not statistically significant related to the variables and the null hypothesis was accepted in both the sectors. The study also evidenced that public sector companies was more concerned to disclosure of accounting policies and compliance of accounting standards than private sector companies.

The study by Bhatter [1998] related to usefulness of corporate published accounting information to individual investors. The investors were selected on the basis of stratified random sampling from metropolitan cities, and cities and towns of India including metropolitan cities. The structured questionnaire was sent to 450 individual investors and the researcher could collect only 205 questionnaires mailed and distributed. After having rejected 10 incomplete questionnaires, the researcher settled down to 182 sample respondents, who constituted 40.44 percent (182/450). The investors were basically classified into undergraduate investors, graduate investors and professionally qualified investors and these groups were further classified into pre-matured and matured novice investors. The following were major conclusions of the study: (i) The purpose of investment was dominated by the appreciation in funds invested and this was followed by income and safety of funds and the flow of funds for all the groups; (ii) Majority of the investors numbering 122 preferred capital appreciation as the motivating factor of investment with weighted score of 64.51 and this was followed by high dividend rate with a weighted score of 24.7 and then bright prospects with a weighted score of 19.7. (iii) The major source for equity investment constituted the study of newspapers followed by the study of periodicals and local brokers; (iv) High equity investor group found the components of annual reports more useful than the lower and moderate equity groups; (v) The most useful components of annual reports were profit and loss account, balance sheet, directors' report, auditor's report, schedules and notes, funds flow statement, company highlights, cash flow statement in descending order with least usefulness evidenced in human resources accounting and social reporting; (vi) The most essential items in the summery highlights were found to be gross profit, profit after tax, profit before tax, dividend per share amount of dividend earnings per share, book value per share, production in quantity, sales in quantity, sales value, and retained earning with weighted scores of 79.3, 77.8, 75,8, 75.3, 74.6 73.2, 70.2, 69.5, 68.8 and 68.0 respectively; (vii) The importance of other items were future plans for expansions, percentage of capacity utilization market for products, progress of projects undertaken, projection of profitability, investments at market value, segment rates of return, shares and foreign exchange earnings with the weighted sores and foreign exchange earnings with the weighted scores of 71.5, 68.7,65.6, 65.5, 58.3, 58.2, 57.8, 57.5 and 55.8 respectively; and (viii) The respondents used annual reports as a source of information (a) to obtain data for investment decisions; (b) to know the book value of shares; (c) to understand accounting policies; (d) to know the proposed dividend rate and to judge accountability of directors and the weighted scores of these stood at 54.83, 31.33, 26.66, 26.5 and 13.16 respectively.

The study also attempted to measure the disclosure trends based on survey of annual reports of 100 selected companies for the period between 1982-83 and 1988-

89. The major findings of the study included the following: (i) More information disclosure of financial results and state of affairs of company's operations and less information disclosure on company policies, market structure industrial relations, segment operations, human resources management, revaluations, environmental safety and societal development; and (ii) More information disclosure of economic environment, industry environment, financial performance of the unit and less on operational performance in chairman's speech.

Guru Datt [1999] examined the disclosure practices of selected companies from both private and public sectors for a period of five years i.e. from 1988-89 to 1992-93. The main objectives of the study were: (i) to measure the disclosure practices on the basis of the item wise disclosure and company-wise disclosure of the companies, (ii) an overall comparison of the degree of disclosure between both the sectors accounting to mean disclosure score, and (iii) to find out the trend of the disclosure practices during the period under study. The samples of the companies selected were five top public sector companies and fifteen top private sector companies. The index of disclosure constructed in this study consisted of 80 items of information (80 items with all possible sub-items were 82 applicable to the public sector companies and 85 to the private sector companies). The study revealed that (i) the quality of disclosure was significantly better in case of the public sector than that of the private sector companies; (ii) t-test revealed that there was a significant difference of disclosure practices between the two sectors and the disclosure by the public sector companies was significantly higher than that by the private sector; (iii) there was an improvement in the disclosure practices of private sector giants in 1992-93 over 1988-89. The study suggested that the disclosure of the public sector companies was generally better and hence the private sector companies could look at the annual report of these companies for enhancing disclosure in their annual reports.

Focusing on financial reporting in Indian textile industry, Gupta [2001] highlighted the following findings: (i) There was so much centralization of accounting function (more in the private-sector) mixed with finance function, where production units had little role in the policy decisions; (ii) Unstable and poor policy for accounting personnel, its development, innovative atmosphere and mutual interaction, and directors possessing conventional attitude and not encouraging to incorporate recent trends in financial reporting; (iii) Executives were filled with an indifference for theory as well as theorists which was a hindrance in the development of accounting in India; (iv) Accounting policies were more likely dictated by the top-most general management, directors or the holding company; (v) Accounting objectives and principal policies governing other practices were not defined in any unit and there was no specific document for the guidance of the staff as regards criteria, value judgment, trade-off among qualities etc. (vi) About 70.00 per cent of executives confirmed the predominance of tax laws and expedience (inherent convenience of an alternative method or narrow subjective considerations like subservience of the management's interest) in the policy decisions; (vii) Varied interests were ignored, since executives held the view that it was a difficult task to accommodate them and the interests of the management were favored first; (viii) principles of feasibility or convenience were preferred to relevance and objectivity; (ix) Policies were generally liberal for better financial reporting; (x) Social form of accounting was absent, as no opinions of users were sought; (xi) Historical monetary values were recognized and internal level of accounting was more cared for; (xii) Profitability and survival were dearer to the management and no efforts were made to integrate the national goals, but few executives could point out some ideas as to how accounting could contribute in this regard; (xiii) Accounting profession respondents to the legal environment only and that too under pressure or for selfish ends as if giving an impression that companies might not keep detailed accounts were they not insisted by law; (xiv) Accounting was confined to narrow, conventional stewardship role rather than reporting economic realities when companies were hardly making efforts to develop it as an effective tool for internal and external users; (xv) There was no accounting measurement of objectives of the enterprise, social audit or any efforts other than statutory audit to bring extra credibility; (xvi) Management's attitude for accounting activity, manner of decisions, ignorance of standards coupled with confused or vague replies to queries in the survey and considerations taken into account by the executives as revealed in the survey caused a doubt if the corporate executives would be honestly applying the intelligible knowledge of the art, also therefore, the accounting information generated by the corporations in general could not be hoped to be of desired quality; (xvii) Both the professional bodies and the legal system were not successful in bringing due influence on accounting activities in India; and (xviii) There was no significant difference as regards the above mentioned tendencies between the public and private sector.

Gupta et. al., [2002] conducted a study to examine the compliance of the Indian Accounting Standards (AS), issued by the Institute of Chartered Accountants of India (ICAI), among the public sector enterprises of India. The main objective of the study was to measure and evaluate the extent to which the public sector companies were following the provisions of ICAI while preparing their financial statements. To achieve this objective, financial statements and self-made questionnaire, which were administered to 36 manufacturing public units, were analyzed. Null hypothesis was framed to statistically test the significance of change. The study testified the compliance of standards in some selected areas of accounting by applying chi-square test. The study revealed that public sector enterprises were not making significant progress and awareness in adopting accounting standards in-spite of its urgent need in changing global scenario. It also suggested that the use of proper accounting standards would help the investors to increase their confidence in public sector units and it would increase the transparency and this necessitated that the regulatory agencies of public sector enterprises should make mandatory provisions.

While examining the compliance level of accounting standards in India based on the perceptions of 62 respondents, Porwal [2003] studied the user's views on financial statements. The main conclusions were that (i) eighty per cent of the users identified main purpose of financial statements with the information provisioning on performance and financial position; (ii) sixty-eight per cent felt that the financial statements should provide information that was useful in decision making; and (iii) users preferred specific purpose financial statements along with the general purpose financial statements.

The study by Meena and Rao [2004] investigated the timeliness of corporate reporting in India based on a sample of 30 public limited companies by examining their annual reports for period between 2000 and 2002. The time lags covering auditor's time lag, reporting time lag and total time lag were worked out on the basis of data of signatures in annual reports, the date of last day accounting year and the date of annual general meeting. The major findings of the study were: (i) The average audit time lag was 81 days and average reporting time was 76 days; (ii) As compared to the audit time lag, the reporting time lag was very high; (iii) Audit time lag varied between 29 days and 61 days; (v) The time lag of 80.00 per cent of the companies varied between 29 days and 90 days; (vi) The reporting time taken by the majority companies was less than 90 days with reporting time lag of 76 days. (vii) The majority of the companies took up to 180 days to hold the AGM after the completion of audit review. They also concluded that the value of information diminished with the increase of time lag in publication of annual reports.

Tamboli [2004] examined the impacts of disclosure and the effects of regulatory authorities on investor protection. The hypotheses for the study were: (i) The individual investors were not aware of the disclosures related to their corporate investment decision, and (ii) The individual investors did not give their preference to the available investment opportunities, and (iii) The individual investors had no grievances in respect of their corporate investment. To carryout the study and to test the hypothesis, 100 respondents were selected as sample investors. Data were collected from these respondents through questionnaire. Supporting data was also collected from the reference books and annual reports. The study covered a period of 5 years from 1998-99 to 2002-03 and used simple accounting and statistical techniques such as ratio, average, percentage, charts and tables. The variables for sources of information were categorized as: (i) annual reports, (ii) journals and reports, (iii) material on financial products, (iv) electronic media, and (v) verbal advice. The first hypothesis was rejected as the result revealed that the individual small investors highly relied upon materials on financial products as 62%, followed by annual reports 46% and verbal advice having third preference (38%). This indicated that the regulatory bodies like SEBI, Company Law Board, Stock Exchanges etc. could play a most favorable role towards the investors' protection. To test the preference on investment opportunities the identified test variables were: (i) companies, institutions and government; (ii) consumer durables; (iii) personal lending; (iv) real estate; and (v) small saving schemes. Based on the results of respondents' preference on the available investment opportunities, the study rejected the second hypothesis as well as third hypothesis. The study suggested that a joint committee of SEBI, ICAI and other regulatory authorities in capital market should be formed for common efforts towards disclosure investor-protection.

The study by Anand [2004] focused on the responsiveness of Indian professional accountants towards accounting standards. He found that (i) accounting standards suffered from deficiencies in conceptual framework; (ii) adequate disclosures and measurement processes of accounting items were distorted due to the availability of alternative accounting policy choices; and (iii) the setting of accounting standards was more influenced by professional bodies than by other groups.

The objective of the study by Ubha and Kaur [2005] was to have a detailed item- wise analysis of the directors' report of the companies under study and to find out deviations and variations in the presentation of these items in the directors' report, if any, among different companies. The sample companies consisted of top10 public sector, top 10 companies of the private sector and top 10 Indian multinationals in terms of sales and after tax profits as per the survey released by Business India. Seventy items of information were drawn from the 2003-04 annual reports of these companies. The mean disclosure, standard deviations and the degree of variations revealed that all the sectors did not disclose much of the information identified by them. The private sector lagged behind others in disclosing the information in the directors' report. There was a variation of 6.35 items on average in case of public sector, 6.80 in case of MNC and 5.92 items on average in case of private sector, which signified variability in the presentation of items among the different companies of different sectors. The coefficient of variation comes to be as high as 17.64 percent in public sector companies, 22.67 percent in MNC and 21.54 in case of private sector, which indicated a significant variation of items of information disclosed in the directors' report of different companies. The F-test showed that there was no significant difference between the companies of the three sectors in disclosing the items. The study concluded that the disclosure level in the directors' report was not satisfactory and there was a significant variation in the disclosure level among different companies.

Samal [2005] made an empirical study of inventory valuation and disclosure practices of listed Indian companies. The study aimed to find out the prevailing practices, diversity in such practices, and degree of adherence to mandatory accounting standards. The study was conducted based on both primary and secondary data. Primary data was collected through a structured questionnaire from 52 professional accountants and academicians. And secondary data was collected from the top 22 company's annual reports. By using simple statistical tools such as average, percentage and cumulative frequency, the study concluded that the percentage of the companies disclosing the inventory valuation principle properly was significantly less. It also showed that perception survey findings were only suggestive of the adequacy of the prevailing practices as far as perception of the accounting professionals and academicians were concerned.

The study by Gowda [2007] was related to the evaluation of effectiveness of accounting standards on Indian corporate financial reporting. The major conclusions of the study were that (i) accounting standards lacked theoretical foundations of financial reporting; and (ii) the post mandatory period of accounting standards increased the level of objective measurement in financial reporting by reducing the number of alternative accounting policy choices.

The study by Gowda [2007] focused on usefulness of corporate financial reporting in India. The conclusions partially related to harmonization were that (i) financial reporting was influenced more by legal formalities than by decision usefulness; (ii) the disclosure level was a function of management motives; (iii) the usefulness of annual report was positively related to accounting knowledge, eagerness level, time of entry into equity investment, depth of reading and reading incident; and (iv) there was a lower quality of financial reporting emanating from the presence of varied accounting policy choices.

While studying audit expectation gap in India, Swamy [2008] highlighted that (i) financial reporting was more a result of 'true and fair view' than that of 'true and correct view'; (ii) the commitment level of the management and auditors to measure the various items going into the financial statements was substantially lower resulting in the subjective measurement of these items; and (iii) the financial reporting quality suffered from a high level of absence of auditor independence.

CONCLUSION

The above review evidenced that research on harmonization of accounting standards being undertaken in different dimensions. A lion's share of these researches focused on compliance of IASC standards. Other subjects such as, comparisons of international accounting practices; influence of external factors; reasons for different accounting choices; measuring the extent of international accounting harmonization etc. were also magnetized the researchers. The major share of research on this subject was undertaken in the European countries followed by Australia. Now the process of international accounting harmonization appeared to have entered a new and decisive phase because the year 2005, representing the beginning of compulsory application of IFRS for all European Union companies quoted on stock exchanges. This also created new avenues for research on this subject. However, amidst plethora of global studies, India is lagging behind in the research to prove empirical evidence in this subject. We could find a sparse research on this subject which evidenced the level of harmony in the arena of international accounting harmonization. This led the present study to measure the level of harmonization.