Pergamon

The International Journal of Accounting
38 (2003) 195–213

The International Journal of Accounting

# Regulatory flexibility and management opportunism in the choice of alternative accounting standards: an illustration based on large French groups☆

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**Abstract**

Due to the flexibility of domestic accounting regulations, French groups are entitled to refer to international or American standards for their consolidation. The objective of this research paper is to focus on the choices made by the 100 largest French companies during the last 16 years (1985–2000). In practice, apart from the French rules, three "alternative" sets of standards are used: the International Accounting Standards (IAS), "international principles," and the U.S. GAAP. The percentage of companies referring to alternative (i.e., non-French) standards rose in the first part of the period, then fell. Additionally, while the number of companies choosing U.S. GAAP increased over the period as a whole, the number preferring IAS or "international principles" has been in sharp decline since 1994–1995. Our results show that in this voluntary move towards international accounting harmonization, the choices made by French companies have clearly varied according to developments in French accounting regulations and the changing power balance between the International Accounting Standards Committee (IASC) and the SEC-FASB. This indicates a certain degree of opportunism by the management, who clearly keeps one eye constantly on the cost-benefit trade-off.


*Keywords:* Alternative standards; International accounting standards; Accounting harmonization; France

☆ An earlier version of this paper was presented at the Symposium on Accounting Issues for Cross-Country Listing on Equity Exchanges held at the University of Illinois in Champaign on March 14–16, 2002.

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0020-7063/03/$ – see front matter 
doi:10.1016/S0020-7063(03)00022-0

## 1. Introduction

Nowadays, the products of accounting in one country are used in various other countries (Nobes & Parker, 2002, p. 73). This has come about with the rapid development of international financial markets, as reflected by the increasing number of cross-border listed companies, the importance of transnational mergers and acquisitions, and the power wielded by institutional investors.

Given the constant pressure for more transparency in information disclosure by listed companies, we might naturally expect to see further international accounting harmonization. However, each country does not play an equal role in this harmonization process. Although the International Accounting Standards Committee (IASC), now the International Accounting Standards Board (IASB), has seen its importance grow over the past 20 years, it has had little visible direct effect on companies in Anglo-American countries, mainly because these companies have been required to use domestic rules (Nobes & Parker, 2002, p. 85).

In this context, it would be logical to expect that large French companies might increasingly adopt international (IASB) or American accounting standards in order to compete with their American or British counterparts on international capital markets. The trend toward these alternative accounting standards encompasses two different types of harmonization. The first is forced harmonization: a non-American company adopting U.S. GAAP so as to be quoted on a U.S. stock market, or the European Union imposing IAS on all listed European firms from 2005. The second is voluntary harmonization: a company freely choosing to refer to international or American accounting standards, independent of any regulatory obligation. Our study focuses on the second type of harmonization.

In France, this voluntary submission to standards from beyond national boundaries is made possible by the nonexistence before 1985, then the subsequent flexibility, of the regulations concerning consolidation. The first examples of French companies adopting alternative practices can be traced back to the early 1970s: Saint-Gobain-Pont-à-Mousson first published consolidated financial statements according to the international (at the time, essentially American) accounting principles in 1971, following the merger between Saint-Gobain and Pont-à-Mousson (Cairns, 1997).

Annual reports usually state that the financial statements are prepared in compliance (or in accordance) with a given set of standards, and our study takes a closer look at this choice. In practice, apart from the French GAAP, three sets of standards are referred to: IAS, “international principles” (see explanations below), and U.S. GAAP. In the rest of this paper, we will group these sets of standards together under the concept of “alternative” standards, a term already used by Zambon and Dick (1998/99). Taking large French industrial and commercial groups as examples, we shall attempt to understand the changes in the accounting standards adopted during the last 16 years (1985–2000).

The results of our study confirm that French companies wish to internationalize their consolidated accounting practices. At the same time, we also observed the existence of a certain degree of opportunism by these groups, and a constant cost-benefit trade-off, determined not only by developments in French accounting regulations, but also by the changing power balance between the IASC and the SEC-FASB.

The remainder of our paper proceeds as follows. The next section presents the changes over the last 16 years in the institutional context in France. Section 3 contains our hypotheses, our sample, and the statistical results. Section 4 presents our analysis and interpretation. Section 5 describes some of the limitations of our study and provides some directions for future research. Section 6 concludes the paper.

## 2. Changes in the French institutional context

Before starting to analyze the sets of accounting standards chosen by large French companies, it is important to understand the changes in the institutional context over the last 16 years.

### *2.1. Business funding and capital markets in France*

The prevalent types of business organization and ownership differ internationally. Zysman (1983) identified three main types of financial systems in developed countries: capital market systems (e.g., United Kingdom or United States), credit-based governmental systems (e.g., France or Japan), and credit-based financial institution systems (e.g., Germany).

Traditionally, in France, business financing was the preserve of a closed community and highly nationally oriented. Many industries were financed by government or through cozy relationships with local banks. First, the small and medium enterprises, which form the backbone of the French economy, had often developed from cottage industries. Independence and security were their two management creeds, and the capital of their enterprise came essentially from family funding and profit reinvestment (Redis, 1994). Second, the concern for a stable shareholder base and the security of enterprises were always part of the French government's economic policies. This is why in comparison with the United Kingdom or the United States, France has a less well-developed financial market (see Table 1). However, the financial landscape in France has changed tremendously, at least for large companies, since the privatization waves of 1987.

#### *2.1.1. International listing and cross-border investing*

An increasing number of French companies are—or aim to be—listed abroad, mainly in New York and London. At the beginning of May 2002, 21 French firms were listed on the

Table 1
Stock markets in France, United Kingdom and United States

| Countries | Market capitalization (US$ millions in 1999) | Market capitalization (percentage of GDP in 1998) | Value traded (percentage of GDP in 1998) |
|---|---|---|---|
| France | 991,484 | 69.5 | 40.1 |
| United Kingdom | 2,374,273 | 174.9 | 86.0 |
| United States | 13,451,352 | 163.4 | 159.8 |

Source: *World Development Indicators* (World Bank, 2000): 5.2 Stock markets.

New York Stock Exchange compared to only four in 1994, and eight French firms are now listed on the London Stock Exchange.[1]

The principal motivation for international listing is of course economic because of the tremendous size of these foreign markets. This kind of listing can lower the cost of capital, achieving greater marketability for the company's stock, and therefore reducing dependence on a firm's domestic capital market. However, in addition to economic reasons, major non-American companies have come to believe that one of the hallmarks of a world-class multinational is to be traded in New York (Biddle & Saudagaran, 1991). "(Foreign) companies want not just exposure to U.S. money that a (New York) listing would bring, but the imprimatur of the NYSE for all it means to investors the world over" (Wall Street Journal, 1998).

Furthermore, there has been a boom over the last few years in cross-border mergers and acquisitions by French firms. From media giant Vivendi Universal to carmaker Renault SA, some of France's leading companies are emerging from years of restructuring at home to pursue global ambitions. With globalization driving consolidation in a host of industries, executives have realized they either have to become world powerhouses or risk being eaten. It is thus no coincidence "that since early 2000, French companies have instigated six major takeovers with a combined value of more than $125 billion—plus dozens of smaller deals" (Woodruff & Delaney, 2001).

### *2.1.2. Presence of international institutional investors on the Paris Stock Exchange*

Back in France, the Paris Stock Exchange has also become more and more international. In the first 8 months of 1999, foreign investment in French stocks and bonds totaled US$71.7 billion, more than in all of 1998 (Tagliabue, 2000). The Bank of France estimates that foreign investors hold 37.5% of the Paris Stock Exchange at the end of 2000.[2] In the 2002 survey of Georgeson Shareholder, foreign investors control a 42.6% share of the 32 top French companies included in the sample.[3] According to Nobes (2002, p. 23), the increased importance of institutional investors is a reinforcement factor in pressure for disclosure since institutional investors hold larger blocks of shares and may be better organized than private shareholders.

## *2.2. Accounting regulations in France*

### *2.2.1. The Seventh European Directive*

The adoption of the Seventh European Directive in France in 1986 brought significant change to the country's accounting environment. First, until that date, publication of consolidated accounts was not compulsory. Second, due to the nonexistence of fiscal interests in consolidated financial statements, the French accounting authorities left French companies many options concerning presentation and valuation methods, paving the way for the use of alternative accounting standards.

[1] Source: http://www.iasb.org.uk, http://www.nyse.com/listed/listed.html, and http://www.londonstockexchange.com.

[2] Le Monde, June 15, 2001.

[3] Le Monde, June 22, 2002.

*2.2.2. Reform of the French standard-setting process*

Traditionally, establishing and enforcing national accounting standards have been the task of the French government. The National Accounting Plan has been the cornerstone of French accounting regulations since 1942. However, since 1996, the French standard-setting process has undergone profound changes and now involves two bodies:

– The National Accounting Council [*Conseil national de la comptabilité (CNC)*], reformed by the decree of 26 August 1996 and related implementation texts, is a consultative organization. Its main objective is to issue opinions and recommendations on accounting issues.
– The Accounting Regulation Committee [*Comité de la Réglementation Comptable (CRC)*] created by the "Law for the reform of accounting regulations" (6 April 1998) (X, 1998). Its objective is to prepare accounting prescriptions (rules), which may be general or for a particular sector of activity. The rules are adopted in conjunction with the National Accounting Council. The CRC (unlike the CNC) has real regulatory power.

The objectives of this reform were to modernize the French accounting standardization system and make it more effective, and also to enable quicker adaptation to foreign GAAP, particularly U.S. GAAP and IAS. Colasse and Standish (1998) asserted that the reform was an important reorientation of the standardization process, raising the question of the balance between the various socioeconomic actors directly concerned by the process. This balance is to some extent illustrated by the two-tier composition of the French standard-setting body. As a result of the reform, the role of certain actors, primarily the state, was limited, while the roles of other actors, especially accounting professionals and enterprises, were strengthened.

In conclusion, although France traditionally has a very politicized accounting regulation system, recent changes indicate a move towards a model with lower political involvement.

*2.2.3. Current regulations regarding the reference to "alternative" standards*

*2.2.3.1. Regulations currently applicable.* The *Commission des Opérations de Bourse* (COB, equivalent to the U.S. SEC) declared in 1995 that, since there was no set of international standards adopted at a national level, French companies must prepare their accounts and financial statements published in France in accordance with French regulations. Consequently, it decreed that when a French company wants to use a set of international or foreign (American, in practice) standards for its consolidated financial statements, if the chosen standards are not compatible with French standards, the company is obliged to present two sets of accounts (COB, 1995, p. 105).

However, since in many cases French accounting rules are not very different from international or American standards, the COB later stated that it does not object to companies including in the notes a statement to the effect that their accounts or financial statements, prepared in accordance to French standards, are also in compliance with international or American standards (COB, 1998, p. 3).

*2.2.3.2. The Law of 6 April 1998.* The Law of 6 April 1998, already referred to above, addressed another major accounting issue: French companies' rights to use international standards.

Article 6 of this law waives French-listed companies' obligations to publish two sets of accounts. This article was a response to the request by groups raising funds on international financial markets to be allowed to issue a single set of consolidated financial statements, prepared in accordance with the standards used on the major stock markets. The underlying reasoning was that publishing two sets of accounts is an expensive process that interferes with the communication policy and does not benefit investors.

Under the terms of the law, such groups were theoretically exempt from following French standards, provided their financial statements followed international standards that had been translated into French and formally approved by the *CRC* (Accounting Regulation Committee) and complied with E.U. rules.

In fact, the law has never been implemented. Although the translation process has taken place, the *CRC* has never formally approved the IAS for many reasons. An "inventory" of the divergences between European directives and international standards was a long time in preparation and highlights several differences between the European directives and these standards. The *CRC* is currently following the E.U. move, referred to in the introduction, towards adoption of IAS from 2005, and the implementation of Article 6 is no longer a necessity.

*2.2.3.3. Conclusion.* Because in France there is no distinction between financial reporting and tax reporting, individual corporate financial statements are largely influenced by taxation. Conversely, since there is no tax factor in consolidated financial statements, the French standard-setting bodies allow more presentation and valuation options for group accounts, and French groups are entitled to choose alternative practices for their consolidation. As a result, during the period surveyed as explained just above, French companies were (and still are) in the situation accepted by the COB. They can refer to "alternative" standards if, in doing so, they state that these practices are in compliance with French regulations.

## 3. Hypothesis, sample, and statistical results

### *3.1. Hypothesis*

The hypothesis presented below emerges naturally from the developments in the French institutional context described above.

**Hypothesis:** An increasing number of large French companies have opted for alternative accounting standards during the last 16 years.

All of the characteristics identified in our analysis of the French institutional context hint at this trend. Firstly, both IAS and U.S. GAAP have significantly gained in importance over the last 16 years due to cooperation with the International Organization of Securities Commissions (IOSCO) and the E.U. as regards IAS, and in the case of U.S. GAAP, thanks to the attractiveness of the NYSE and Nasdaq. Secondly, more and more French companies are already or plan to be listed abroad. Even those only listed in Paris still find themselves encouraged to choose alternative accounting standards by the internationalization of the Paris Stock Exchange. Thirdly, this trend is also suggested by recent developments at the European Commission and in the accounting regulation authorities in France.

Our hypothesis is also consistent with the argument of Alexander and Nobes (2001, p. 103) who write, "From the early 1990s onward, many large European companies (notably in France, Germany and Switzerland) have volunteered to use IAS because they believe that international investors prefer financial statements prepared that way."

Glaum's (2000) paper compared results from two empirical studies in 1994 and 1997 of the attitudes of financial executives at large German corporations towards a global harmonization of accounting principles and the adaptation of German accounting to Anglo-American standards. He found that their attitude changed fundamentally over a relatively brief period of time. Managers have now accepted that with the globalization of financial markets, traditional German accounting rules are no longer adequate. They have become much more critical of the German rules, and they are much more welcoming to an opening up of German accounting to the investor-oriented and internationally predominant Anglo-Saxon accounting standards. Furthermore, the author showed that more than 80% of managers believed that 5 years from then, the great majority of German firms would publish their consolidated financial accounts according to either IAS or U.S. GAAP. It is logical to expect the same developments in France since both countries belong to the same continental accounting model.

The regression model we will use in the statistical analysis is therefore a simple linear one:

$$\text{Total alternative} = \alpha_0 + \alpha_1 \text{Year} + \varepsilon$$

where Total alternative = total number of French companies choosing alternative accounting standards in the sample.

### 3.2. Sample

We are interested in the changes in the choice of accounting standards used by French groups during the last 16 years. It is important to note that our study concentrates on their consolidated financial statements only (see above). The sample of large French groups used in this study and the related data are obtained from a survey carried out annually since 1986 by a group of leading French accounting firms (X, since 1986). This survey concerns financial information published in annual reports by the 100 largest French industrial and commercial groups (total reduced to 75 groups for 1999 annual reports and 34 groups for 2000 annual reports). To ensure comparability with the previous years, we adjusted this sample to obtain the same 100 group sample as the 1999 survey (based on 1998 annual reports) for 1999 and 2000 annual reports. The period surveyed is thus 1985–2000. However, no data are provided for the years 1986 and 1987 as the split among IASC, international, and U.S. standards was not detailed in the annual surveys concerned.

Our sample concentrates on domestic financial reporting by French firms in order to examine their voluntary harmonization measures only. This restriction also neutralizes the impact that international listing can have on reporting for certain French firms: a New York-listed company must publish a set of accounts (or the 20-F form) in U.S. GAAP but can still remain on French GAAP for its domestic reporting (as France Telecom does); while a Paris-only-listed company can also publish in France its accounts in U.S. GAAP (as is the case for Clarins).

The sample is determined mainly based on the criterion of consolidated sales and from the listings published by the French business press. Some corrections have been made to include groups with high value added and to exclude state-owned enterprises and nonlisted companies. It is also important to note that only industrial, commercial, and service sectors are included in the survey; banks and insurance companies are excluded.

The composition of the sample remains relatively stable from 1 year to another. However, every year, several modifications are necessary because of performance fluctuations, merger and acquisition operations, and privatization plans (see Appendix 1 for the composition of the 1999 survey sample based on 1998 annual reports).

For each year, in a manner that remains consistent over the period, the survey (and our complement for years 1999 and 2000) identifies the companies in the sample that makes reference to non-French sets of standards. It distinguishes between (1) IASC, (2) International principles, and (3) U.S. GAAP.

Companies never define the concept of "international principles," as seen from the following extracts from annual reports. In its 1999 annual report, Accor mentioned in Note 1—Accounting Principles that "the Consolidated Financial Statements of the Accor Group are established in accordance with French regulations presently in force. Due to the international nature of the Accor Group's activities, it adopts methods that are generally accepted internationally, whenever possible." Other companies (e.g., L'Air Liquide, Lagardère) talk of "generally accepted accounting principles at an international level."

Table 2 provides a detail of the alternative accounting standards adopted over the period by the companies surveyed, and Table 3 presents the basic statistics in value.

For the purpose of our statistics, we have treated IAS and "international principles" as a single category, assuming that companies consider "international principles" to be closer to IAS than to U.S. GAAP.

It should be remembered that Table 2 does not list the whole of our sample as listed in Appendix 1. It includes only those companies that referred to alternative standards for at least 1 year during the observation period. Bold characters indicate a change in the standards adopted. Bold, italic characters mean that the change is due to the company entering or leaving the sample.

Table 2
Detailed data by company

| Companies | 1985 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Accor | IP | IP | IP | IP | IP | IP | IP | IP | IP | IP | IP | IP | IP | IP |
| Aérospatiale-Matra (Aérospatiale) | F | F | **IAS** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | **F** | F | **IAS** |
| Air France | F | **IAS** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | **F** |
| Aventis (Rhône Poulenc) | US | US | US | US | US | US | US | US | US | US | US | US | US | US |
| Bongrain | F | F | **IAS** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | **F** | F |
| Bull | US | US | US | US | US | US | US | US | US | US | US | US | US | **F** |
| Canal+ | Out | Out | ***IAS*** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | **F** | F |
| Cap Gémini (Cap Gemini Sogeti) | Out | ***IAS*** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | **F** | F |
| Carnaux Metalbox (CMB Packaging) | F | F | **IAS** | IAS | IAS | IAS | IAS | IAS | ***Out*** | Out | Out | Out | Out | Out |
| Carrefour | US | US | US | US | US | US | US | US | US | US | US | US | US | US |
| Chargeurs (Chargeurs International) | US | US | US | US | US | US | US | US | US | US | US | US | US | US |
| Clarins | Out | Out | Out | Out | Out | Out | Out | Out | Out | ***US*** | US | US | US | US |
| Coflexip | Out | Out | Out | Out | Out | Out | Out | Out | Out | ***US*** | US | US | US | US |
| Cie Générale de Géophysique | Out | Out | Out | Out | Out | Out | Out | Out | Out | F | **US** | US | US | US |
| Danone (BSN) | US | US | US | US | US | US | US | US | US | US | US | US | US | US |
| Dassault Systèmes | Out | Out | Out | Out | Out | Out | Out | Out | Out | Out | F | **US** | US | US |
| DMC | F | **IAS** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS |
| Eridania Beghin-Say (Beghin-Say) | F | **IP** | IP | IP | IP | **IAS** | IAS | IAS | IAS | IAS | IAS | IAS | **F** | F |
| Essilor | F | **IAS** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | **F** |
| Faurecia (Bertrand Faure) | Out | F | F | F | F | F | F | F | F | F | F | **US** | US | **F** |
| Fives Lille | Out | F | F | F | F | **IP** | F | F | F | F | F | F | F | F |
| Hermès | Out | Out | Out | Out | Out | Out | Out | **IP** | **IAS** | IAS | IAS | **F** | F | F |
| L'Air Liquide | IP | IP | IP | IP | IP | IP | IP | IP | IP | IP | IP | IP | **US** | US |
| Lafarge (Lafarge Coppée) | F | **IAS** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | **F** | F |
| Lagardère-Matra Hachette | F | **IP** | IP | IP | IP | IP | IP | IP | IP | IP | **IAS** | IAS | **F** | F |
| Legrand | US | US | US | US | US | US | US | US | US | US | US | US | US | US |
| Lesieur | IAS | ***Out*** | Out | Out | Out | Out | Out | Out | Out | Out | Out | Out | Out | Out |
| LVMH | Out | ***IAS*** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | **US** | US | US |
| Merlin Gerin | F | F | F | **IAS** | IAS | ***Out*** | Out | Out | Out | Out | Out | Out | Out | Out |
| Moulinex | F | F | F | F | **IAS** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | **F** |
| Norbert Dentressangle | Out | Out | Out | Out | Out | Out | Out | Out | Out | ***IAS*** | IAS | IAS | IAS | IAS |
| OCP | Out | Out | Out | Out | F | **IAS** | IAS | ***Out*** | Out | Out | Out | Out | Out | Out |
| Ortiz Miko | Out | Out | Out | Out | Out | F | **IAS** | ***Out*** | Out | Out | Out | Out | Out | Out |
| Pathé | Out | Out | Out | Out | Out | Out | Out | Out | Out | ***US*** | US | US | **F** | F |
| Pechiney | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | **US** | US | US | US | US | US |
| Pinault Printemps-Redoute (Pinault) | Out | Out | Out | ***IAS*** | IAS | **F** | F | F | F | F | F | F | F | F |
| PSA-Peugeot Citroën | US | US | US | US | US | US | US | US | US | US | US | US | US | US |

*(continued on next page)*

Table 2 (*continued*)

| Companies | 1985 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Publicis | F | **IP** | IP | IP | IP | IP | IP | IP | IP | IP | IP | IP | IP | **F** |
| Rémy Cointreau | Out | Out | Out | Out | Out | Out | Out | Out | Out | ***IAS*** | IAS | IAS | IAS | **F** |
| Renault | IP | **IAS** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS |
| Saint-Gobain | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | **F** | F |
| Saint-Louis | F | **IAS** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | ***Out*** | Out | Out | Out |
| Sanofi-Synthélabo (Sanofi) | Out | Out | Out | F | F | F | **IP** | IP | IP | **F** | F | F | F | F |
| Schneider Electric (Schneider) | F | F | **IAS** | IAS | IAS | IAS | IAS | **IP** | **F** | **US** | US | US | US | US |
| Seb | IP | **US** | US | US | US | US | US | US | US | US | US | US | US | **F** |
| Technip | Out | Out | Out | Out | Out | F | F | **IAS** | IAS | IAS | IAS | IAS | IAS | **F** |
| Telemecanique | Out | IP | IP | **IAS** | IAS | ***Out*** | Out | Out | Out | Out | Out | Out | Out | Out |
| Thomson-CSF (Thomson) | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | **F** | F | F |
| Total | F | **IAS** | IAS | IAS | IAS | IAS | IAS | IAS | **F** | F | F | F | Out | Out |
| Total Fina Elf (Elf) | US | **IP** | IP | IP | IP | **US** | US | US | US | US | US | US | US | US |
| Usinor (Usinor Sacilor) | F | F | F | F | **IAS** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | **F** | F |
| Valéo | F | F | **IAS** | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS | IAS |

F=French standards, IP=international principles, IAS=international accounting standards, US=U.S. GAAP, Out=excluded from the sample.

Bold characters=change of standard (year of change).

Bold, italic characters=first inclusion or departure from the sample with alternative standards.

This table includes *only* companies in the sample that have at least 1 year with a non-"F."

Table 3
Basic statistics in value

| Years | IASC | International principles | "International" total | U.S. GAAP | Total companies | Total sample |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3)=(1)+(2) | (4) | (5)=(3)+(4) | (6) |
| 1985 | 4 | 4 | 8 | 8 | 16 | 100 |
| 1988 | 12 | 7 | 19 | 8 | 27 | 100 |
| 1989 | 18 | 7 | 25 | 8 | 33 | 100 |
| 1990 | 21 | 6 | 27 | 8 | 35 | 100 |
| 1991 | 23 | 6 | 29 | 8 | 37 | 100 |
| 1992 | 22 | 5 | 27 | 9 | 36 | 100 |
| 1993 | 23 | 5 | 28 | 9 | 37 | 100 |
| 1994 | 21 | 7 | 28 | 9 | 37 | 100 |
| 1995 | 19 | 5 | 24 | 10 | 34 | 100 |
| 1996 | 21 | 4 | 25 | 14 | 39 | 100 |
| 1997 | 21 | 3 | 24 | 15 | 39 | 100 |
| 1998 | 17 | 3 | 20 | 18 | 38 | 100 |
| 1999 | 9 | 2 | 11 | 18 | 29 | 100 |
| 2000 | 5 | 1 | 6 | 15 | 21 | 100 |

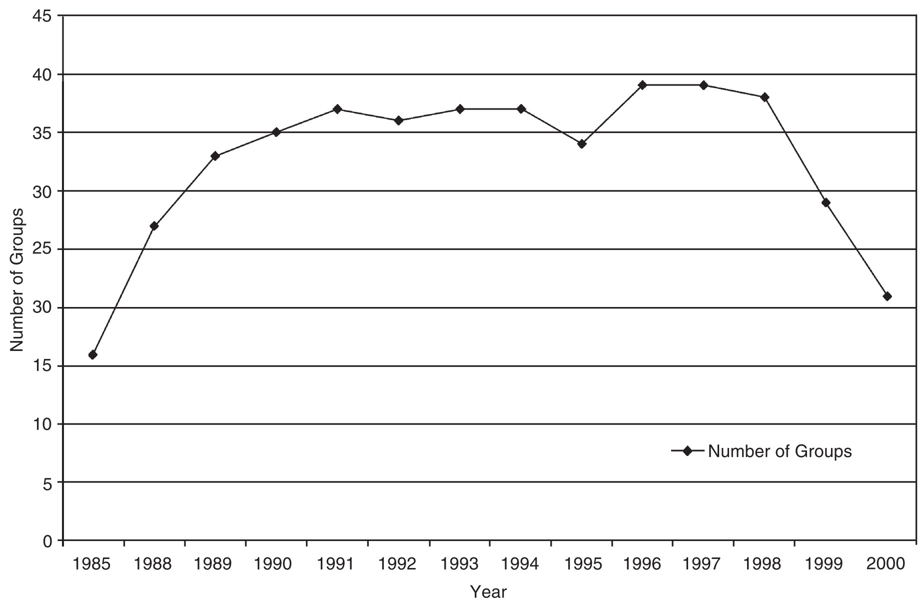


Fig. 1. Evolution of the number of "alternative" references.

### 3.3. Statistical results

Fig. 1 below shows changes in the number of groups using alternative standards during the period.

The graph above does not show a clear increase in the behavior in question. From 1985 to 1991, a rising number of French companies in our sample opted for alternative accounting standards. However, this number then stagnated and has even declined since.

The statistical test (linear regression) confirms this observation: the $R^2$ of our linear regression model is only .046 with a significance level of .462.

We therefore reject H: Among the 100 largest industrial and commercial companies in France, although the number of French companies referring to alternative accounting standards increased in the late eighties, the number subsequently stagnated at between 30% and 40% before falling to only 21% in 2000.

In this case, a quadratic regression model, with $R^2$ of .802 and significance level of .000 (see Fig. 2), would be more suitable to describe this development.

## 4. Analysis and interpretation

The results we obtained here are rather surprising since they (appear to) contradict existing literature. In this section, we will try to reach an in-depth understanding of this situation by using an analytic approach. First of all, we note that among companies using

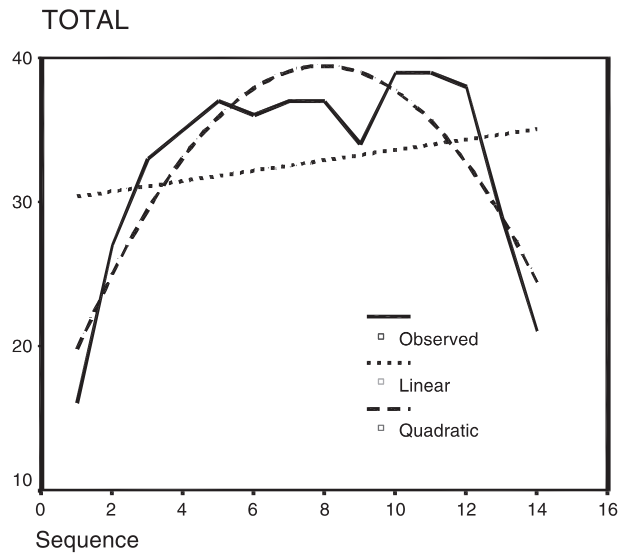


Fig. 2. Comparison of the linear and quadratic regression.

alternative standards, the trends are different for those preferring IAS/international principles and those choosing U.S. GAAP. Columns No. (3) and (4) in Table 3 and Fig. 3 show this difference.

We analyzed these two trends with a simple regression over time. The change in the number of companies choosing U.S. GAAP from 1985 to 2000 is statistically significant

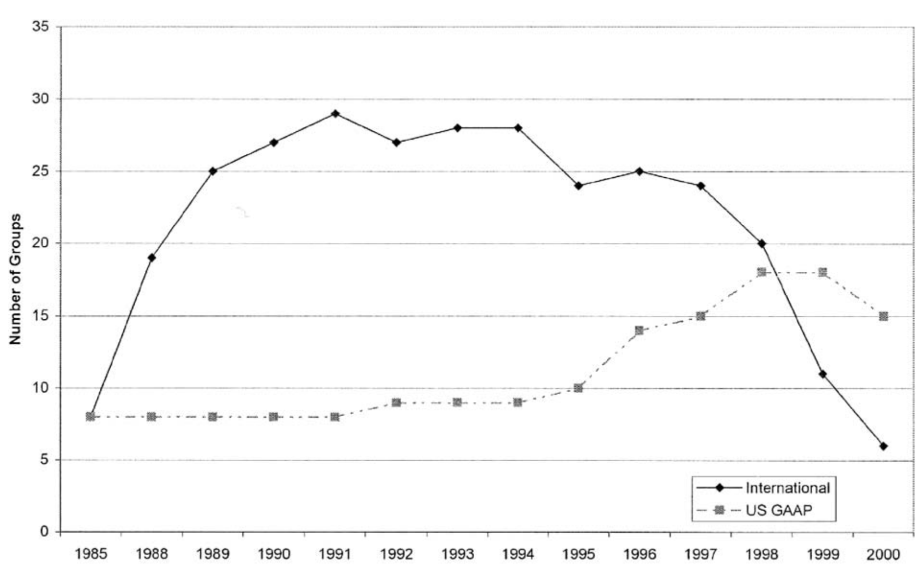


Fig. 3. "International" versus U.S. standards.

($R^2$=.779, significance=.000) but the change in the number of "international" adopters is not ($R^2$=.062, significance=.392).

The reality is that after a period of stagnation before 1995, the number of French groups choosing U.S. GAAP has increased steadily; while the number of those preferring IAS/international principles increased from the beginning of our observation period to reach a peak in 1994 and then decreased.

### *4.1. Turning point of 1994–1995*

The years 1994–1995 were a real turning point for developments in both subgroups, in terms of both the international situation, i.e., the advances made and setback suffered in the IASC's work, and the domestic situation for French national regulations.

During its first few years, the IASC had little impact on countries with significant securities markets. There were two main reasons for this: first, at that time, the existing IAS required only minimal disclosures and allowed multiple options, including those accepted in the United States and the United Kingdom. Second, international accounting harmonization was not an important issue in most major financial markets.

In January 1989, the IASC took an important initiative in publishing E32, "Comparability of Financial Statements," with the aim of eliminating 23 optional treatments allowed by 13 IAS. This soon attracted the attention of IOSCO, and the result was a joint project launched by the two bodies in 1993. Through this project, the IASC sought endorsement by the IOSCO of a set of core accounting standards. Once endorsed, these standards would be submitted for the approval of national regulators with a view to facilitating cross-border offerings and listings by multinational issuers. However, the IASC suffered an embarrassing setback in 1994. Contrary to earlier indications that its intention was to judge the standards in stages, the IOSCO announced that it was putting off endorsement of any further standards until the entire core set of 24 standards was completed to its satisfaction.

As far as French groups are concerned, from 1985 to 1992, the choice of IASC or international principles did not generate any major change in accounting principles, given the options included in the French Law of 1985 and the IAS. There was an aspiration among French groups to refer to an international set of standards in order to compare results more easily with foreign groups. Till 1991, there was a clear trend in favor of IASC or international principles. In 1993, the IASC published a first group of revised standards: IAS 2, 8, 9, 11, 16, 18, 19, 21, 22, and 23. These standards were applicable after 1 January 1995. Each standard includes only one benchmark treatment, with the exception of some standards allowing one alternative treatment.

Until the publication of the revised standards, only rarely did a divergence exist that could prevent a French group from adopting IAS. The revision of IAS reduced this flexibility.

This situation may explain the stability observed between 1992 and 1994. In 1995, as we mentioned previously, the COB forbade French companies from adopting international or foreign standards if the rules were not compatible with the French rules. This led to a sharp increase in the exceptions to the sets of standards adopted (U.S. or IASC). This increase also appears to be linked to the implementation in 1995 of the revised IAS.

The behavior of French groups in these circumstances followed economic reasoning: because of the increasing costs involved in referring to IAS in 1995, some, like Total or Sanofi, stopped using IAS, while others preferred to shift to U.S. GAAP, considered more attractive to their U.S. investors (e.g., Schneider and Pechiney). This tallies with the situation for Swiss companies as described by Zeff (2001), who believes that one or more major Swiss companies might adopt U.S. GAAP if the IASB were to become more restrictive than the FASB.

### *4.2. Significant drop in the number of companies choosing IAS from 1998 to 2000*

The most outstanding development during the observation period is the significant drop in the number of companies choosing IAS from 1998 to 2000. This drop can once again be explained by the international and national context.

In March 1999, the IASC published its interim standard on financial instruments, thereby substantially completing the key components of the core standards work program. In May 2000, the IOSCO decided to endorse IAS, while still allowing individual regulators to require certain supplementary treatments (Enevoldsen, 2000).

On 16 February 2000, the U.S. SEC unanimously approved and issued for public comment a concept release regarding the use of International Accounting Standards (IAS). This release affirmed the quality superiority of U.S. GAAP over IAS and urged IAS to converge towards American standards. For foreign companies listed in the United States but not adopting U.S. GAAP, a note reconciling income statement and balance sheet items to U.S. GAAP is still required by regulation of the U.S. SEC. American companies must follow U.S. GAAP. This refusal by the American authorities to accept IAS substantially reduced their usefulness for French companies wanting to attract American investors, and accordingly certain French groups abandoned IAS that had no impact on their market value (e.g., Aeropatiale) (Bernheim, 2000).

Another reason for this decline is presumably the stricter policy now imposed by the IASC, under which a company can claim to be in accordance with IAS only when it respects the whole set of standards. The revised IAS 1, Presentation of Financial Statements, paragraph 11, states that: "Financial statements should not be described as complying with IAS unless they comply with all the requirements of each applicable Standard and each applicable interpretation of the [International Financial Reporting Interpretations Committee]" (IASC, 1997).

In 1999, eight groups ceased to refer to IAS or international principles, mentioning only French standards (Bongrain, Canal+, Cap Gemini, Eridania Béghin-Say, Lafarge, Lagardère, Saint-Gobain, Usinor). The same decision was made by six other firms in 2000: Air France, Essilor, Moulinex, Publicis, Rémy Cointreau, and Technip. The only exception to this trend is the decision by EADS (Aerospatiale) to adopt IAS for the first time in 2000.

Finally, one other possible explanation lies in the fact that French companies hope that the initial application of international financial accounting standards (IFRS) will be made easier for "first-time adopters" than for companies, which already declared compliance with IAS.

### *4.3. Future developments*

Although it arose after our observation period, it is impossible to finish our paper without mentioning the recent accounting development in the European Union.

"In the mind of not a few Europeans, the IASC represented a fortress against U.S. accounting imperialism—a fear that U.S. GAAP would come to dominate world accounting" (Zeff, 1998). That is why the European countries have been participating actively in IASC task forces since the very beginning. Furthermore, in 1995, the European Commission announced that it was abandoning the idea of creating a European accounting standard-setting body and would support the IASC.[4] According to Flower (1997), the European Commission reasoned that if it was to permit the major European multinational companies to draw up their consolidated accounts using the IAS, then this would probably largely solve these companies' problems occurring from their cross-border listings and would certainly check the movement towards U.S. GAAP.

The European Commission proposed in a communication dated 13 June 2000 to require all listed E.U. companies to prepare their consolidated financial statements in accordance with IAS from 2005 onwards at the latest. This communication was followed by a proposal for a regulation in February 2001 including the same requirement. The regulation has been officially adopted on June 7, 2002. To attain its objective, the E.U. has founded an *Accounting Regulatory Committee,* which will decide whether to endorse IAS on the basis of commission proposals, and a *European Financial Reporting Advisory Group* (EFRAG), which will provide technical expertise on the subject. Furthermore, the existing accounting directives are to be modernized in the course of 2002–2003 (European Commission, 2000, 2001).

This decision will certainly have a positive impact on accounting practices in France, at least concerning listed companies, since the IAS are widely viewed as reflecting a largely common-law approach of "transparent" timely disclosure (Ball, Kothari, & Robin, 2000). The survey by Salter and Roberts (1996) also confirmed this viewpoint. They found that the final outcome of the comparability project in 1989 was significantly associated with practices in countries with a culture that is high on Gray's (1988) professionalism dimension, with auditors having considerable influence in the

[4] European Commission. (1995). *Accounting harmonization: A new strategy vis-à-vis international harmonization*. Communication from the Commission Internal Document, COM95 (508).

ultimate objective of financial-reporting practices and controlling entry into their profession. Those countries significantly associated with practices selected in the project were also relatively optimistic in their measurement practices and regulated their financial reporting system using a common law/precedent-based system rather than a code law system.

## 5. Limitations and directions for future research

Several limitations to our survey should be pointed out. First, a certain number of groups declare that they comply with the IASC set of standards, or U.S. GAAP, then add that they do not apply certain specific standards. Companies rarely disclose what motivated them to adopt alternative standards. Their reasons, when mentioned, include the international nature of the group's activities (Accor, Danone), its international location (Chargeurs), the practices of the oil sector (Elf), the desire for accounting principles that are more suitable to the international context of the business and the type of shareholders (PSA-Peugeot Citroën), a group's important position in the North American market (Pechiney), cross-border listing (Compagnie Générale de Géophysique), and the need for principles, which facilitate comparability with other international engineering and building companies (Technip). Regarding a change in the alternative standards referred to or the return to French domestic standards, the only example of an explanation we found was by Bull. In its 2000 annual report, the company mentioned: "The adoption of generally accepted accounting policies in the United States of America as a standards base was abandoned at the December 31, 2000, year end, primarily for reasons of clarity of communication and due to the increasing complexity of retaining a dual standards base. This change did not have a material impact on the accounts. In effects, transactions potentially generating differences in accounting treatment under French and U.S. GAAP are on the whole limited and their impact on the 2000 financial statements is minor."

Second, comparison is sometimes difficult to assess and should be treated with caution because of changes in the sample. For example, in 1996, the number of groups referring to "alternative" standards has increased, but there has been a modification in the sample. With the same sample, the figure would have remained identical to the previous year (34, see Table 3).

But the major limitation of our study is that we only studied companies' own claims that they applied a certain set of accounting standards without investigating whether they actually follow the whole or only a part of the entire set. There is a possible gap in this field of research. The paper by Street and Bryant (2000) examines the extent to which the disclosure requirements of the IASC have been complied with or have been exceeded by companies claiming to use IAS. It showed that among companies claiming to use IAS, the real compliance with IASC-required disclosures is only 84% for those with U.S. listing or filing and 76% for those without U.S. listing or filing. For several standards, such as those concerning borrowing costs, financial reporting in hyperinflationary economies, or joint ventures, the degree of compliance is only slightly more than 50%. In his International

Accounting Standards Survey 2000, Cairns (2000) also studied various aspects of the financial reporting of 165 IAS companies: their approach to IAS and domestic GAAP, the level of compliance with IAS, IAS lite—exceptions from full compliance, audit reports on IAS financial statements, and audit opinions and IAS lite.

In future research, it would be interesting to look further into the question by identifying the fields that cause most of the divergencies between the requirements of IAS and/or U.S. GAAP and the accounting practices of French companies. It would also be useful to carry out the same study in other European countries for a better understanding of this harmonization issue at a European level.

## 6. Conclusion

Our research studied the changes over the last 16 years in the choice to refer to a given set of accounting standards by large French companies. Our belief is that the main factor driving French firms to choose international or American standards is the requirement of capital market actors for more transparent accounting disclosure. Even in their study contesting the existence of an Anglo-Saxon accounting model, Alexander and Archer (2000) recognized that "the one characteristic that is common to the United States and the United Kingdom (and to other English-speaking countries), as well as to the Netherlands, is an expressed concern for the quality of accounting information from the perspective of capital market actors." Ashbaugh (2001) also found in her study that non-U.S. firms were more likely to disclose IAS or U.S. GAAP financial information when their shares are traded on more equity markets.

We showed that although there is no clear trend covering the whole group of companies choosing alternative references during the observation period, the number of firms preferring U.S. GAAP has increased since 1995, which confirms the change in the power balance between the IASC and the SEC-FASB. Our analysis has also shown that thanks to the flexibility of French regulations on consolidated accounts, French firms have the option to choose their set of accounting standards in order to suit their specific financing needs after a cost-benefit trade-off.

## Acknowledgements

The authors would like to acknowledge the financial support of the Research Center at the HEC School of Management (Project A0118). They would also like to thank discussants and participants at the following conferences for their helpful comments: 2002 Illinois International Accounting Symposium (Champaign, USA), 2002 EAA Annual Meeting (Copenhagen, Denmark), and 2002 Annual Meeting of French Accounting Association (Toulouse, France). The authors particularly recognize the comments made by George Benston. They would also like to thank Anne Cazavan for her able research assistance and Ann Gallon for her much appreciated editorial help.

## Appendix A. List of French groups included in the sample in 1999 (annual reports 1998)

| | | | |
|---|---|---|---|
| Accor | Club Méditerranée | L'Oréal | Saint-Gobain |
| Aérospatiale | Coflexip | Labinal | Sanofi |
| Air France | Communication & | Lafarge | Schneider |
| Alcatel | Systèmes | Lagardère | Seb |
| Alstom | Damart | Legrand | Seita |
| Altran technologies | Danone | Legris Industries | Sge |
| André | Dassault aviation | Lvmh | Sidel |
| Atos | Dassault systèmes | M6 | Skis Rossignol |
| Bel | De Dietrich | Michelin | Snecma |
| Bic | Dmc | Moulinex | Sodexho |
| Bolloré | Dynaction | Norbert Dentressangle | Sommer Allibert |
| Bongrain | Eiffage | Pathé | Strafor Facom |
| Bouygues | Elf | Péchiney | Suez Lyonnaise des Eaux |
| Bull | Eramet | Pernod Ricard | Taittinger |
| Canal+ | Eridania Béghin-Say | Pinault Printemps- | Technip |
| Cap Gemini | Essilor | Redoute | TF1 |
| Carbone Lorraine | Faurecia | Plastic Omnium | Thomson-Csf |
| Carrefour | Fives-Lille | Primagaz | Thomson Multimédia |
| Casino | Framatome | Promodès | Total |
| Castorama | France Telecom | PSA-Peugeot Citroën | Usinor |
| Cea-Industrie | Galeries-Lafayette | Publicis | Valeo |
| Chargeurs | Geodis | Rémy Cointreau | Vallourec |
| Cie Générale de | Havas Advertising | Renault | Vivendi |
| Géophysique | Hermès | Rhône-Poulenc | Worms & Cie |
| Ciments Français | Imerys | Royal Canin | Zodiac |
| Clarins | L'Air Liquide | Sagem | |

Source: L'information financière 1999: 100 groupes industriels et commerciaux, p. 673.

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