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

Hervé Stolowy and Yuan Ding

HEC School of Management (Groupe HEC)
Department of Accounting and Management Control
Members of the Research Center in International Accounting and Management Control
(CRECCI – University of Montesquieu Bordeaux IV)

Third draft – 3 July 2002

The authors would like to acknowledge the financial support of the Research Center of 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.
Corresponding author: Hervé Stolowy, HEC School of Management, Department of accounting and management control, 1, rue de la Libération, 78351 – Jouy-en-Josas Cedex, France. E-mail: stolowy@hec.fr

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

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 sixteen years (1985-2000). In practice, apart from the French rules, three "alternative" sets of standards are used: IAS standards, "international principles" and 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 IASs 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 IASC and the SEC-FASB. This indicates a certain degree of opportunism by management, who clearly keep one eye constantly on the cost-benefit trade-off.

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

1. Introduction

Nowadays, the products of accounting in one country are used in various other countries (Nobes and 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 twenty 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 and 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. This trend towards 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 IASs on all listed European firms from 2005. The second is voluntary harmonization: a company freely choosing to refer to International or American accounting standards, independently 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 non-existence 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 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 standards, "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). Taking large French industrial and commercial groups as examples, we shall attempt to understand the changes in the accounting standards adopted during the last sixteen 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 sixteen 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 sixteen 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. U.K. or U.S.), 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. Firstly, 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). Secondly, the concern for a stable shareholder base and the security of enterprises was always part of the French government's economic policies. This is why in comparison with the U.K. or U.S., 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.

Insert Table 1 about here

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 are listed on the New York Stock Exchange, compared to only 4 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 and 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" (The 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 and 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 eight months of 1999, foreign investment in French stocks and bonds totaled $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. Firstly, until that date, publication of consolidated accounts was not compulsory. Secondly, due to the non-existence 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.

2.2.2. Reform of the French standard setting process

Traditionally, establishing and enforcing national accounting standards has 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 standards. 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 socio-economic 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' right to use international standards.

Article 6 of this law waives French listed companies' obligation 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 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, were formally approved by the *CRC* (Accounting Regulation Committee), and complied with EU rules.

In fact the law has never been implemented. Although the translation process has taken place, the *CRC* has never formally approved the IAS standards, 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 EU move, referred to in the introduction, towards adoption of IAS standards 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 the 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 (H): An increasing number of large French companies have opted for alternative accounting standards during the last sixteen years.

All of the characteristics identified in our analysis of the French institutional context hint at this trend. Firstly, both IASs and U.S. GAAP have significantly gained in importance over the last sixteen years, due to cooperation with the IOSCO and the EU as regards IAS standards, 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 IASs because they believe that international investors prefer financial statements prepared that way”.

Glaum’s paper (2000) compared results from two empirical studies in 1994 and 1997 into 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 five 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:

$$\textit{Total Alternative} = \alpha_0 + \alpha_1 Year + \varepsilon$$

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 sixteen 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 is provided for the years 1986 and 1987, as the split between 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, 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 non-listed 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 one 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 make 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.

Insert Tables 2 and 3 about here

For the purpose of our statistics, we have treated IAS standards and "international principles" as a single category, assuming that companies consider "international principles" to be closer to IASs, 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 one 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.

3.3. Statistical results

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

Insert Figure 1 about here

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-square of our linear regression model is only 0.046 with a significance level of 0.462.

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-square of 0.802 and significance level of 0.000 (see Figure 2 below), would be more suitable to describe this development.

Insert Figure 2 about here

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 analytical approach. First of all, we note that among companies using 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 Figure 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 ($R^2 = 0.779$, Sig = 0.000) but the change in the number of "international" adopters is not ($R^2 = 0.062$, Sig = 0.392).

The reality is that after a period of stagnation before 1995, the number of French groups choosing U.S. GAAP has increased steadily since then; 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 sub-groups, 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: firstly, at that time, issued IASs required only minimal disclosures and allowed multiple options, including those accepted in the U.S. and the U.K. Secondly, 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 IASs. This soon attracted the attention of the International Organization of Securities Commissions (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 IASs. 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, 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 adopting IASs. 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 to adopt international or foreign standards if the rules were not compatible with 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 IASs.

The behavior of French groups in these circumstances followed economic reasoning: because of the increasing costs involved in referring to IASs in 1995, some, like Total or Sanofi, stopped using IASs, 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 1998-2000

The most outstanding development during the observation period is the significant drop in the number of companies choosing IAS from 1998-2000. 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 IASs, 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. This release affirmed the quality superiority of U.S. GAAP over IASs and urged IASs to converge towards American standards. For foreign companies listed in the U.S. 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 IASs substantially reduced their usefulness for French companies wanting to attract American investors, and accordingly certain French groups abandoned IASs 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 IASs 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 International Accounting Standards unless they comply with all the requirements of each applicable Standard and each applicable interpretation of the [International Financial Reporting Interpretations Committee]”.

In 1999, eight groups ceased to refer to IASs 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 IASs 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 IASs.

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 were to permit the major European multinational companies to draw up their consolidated accounts using the International Accounting Standards, 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 EU companies to prepare their consolidated financial statements in accordance with

International Accounting Standards 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 EU has founded an *Accounting Regulatory Committee* which will decide whether to endorse IASs 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.

This decision will certainly have a positive impact on accounting practices in France, at least concerning listed companies, since the IASs are widely viewed as reflecting a largely common-law approach of "transparent", timely disclosure (Ball *et al.,* 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 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. Firstly, 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 on the North American market (Pechiney), cross-border listing (Compagnie Générale de Géophysique), 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".

Secondly, 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 is in fact stable, 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 International Accounting Standards. It showed that among companies claiming to use IASs, 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 IASs and domestic GAAP, the level of compliance with IASs, 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 the most divergences between the requirements of IASs and/or U.S. GAAP, and the accounting practices of French companies. It would be also 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 sixteen 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 U.S. and the U.K. (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 also found in her study (2001) that non-U.S. firms were more likely to disclose IAS or U.S.-GAAP financial information, as 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.

Appendix 1
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.

Notes

1 Source: www.iasb.org.uk, www.nyse.com/listed/listed.html and www.londonstockexchange.com.
2 Le Monde, June 15, 2001.
3 Le Monde, June 22, 2002.
4 European Commission (1995), *Accounting harmonization: a new strategy vis-à-vis international harmonization*, Communication from the Commission Internal Document, COM95 (508).

References

Alexander, D. & Archer, S. (2000). On the Myth of "Anglo-Saxon" Financial Accounting. *The International Journal of Accounting, 4* (4), 539-557.

Alexander, D. & Nobes C. (2001). *Financial Accounting: An International Introduction*. Pearson Education Limited, 2001.

Ashbaugh, H. (2001). Non-US Firms' Accounting Standard Choices. *Journal of Accounting and Public Policy*, *20*, 129-153.

Ball, R., Kothari S. P. & Robin A. (2000). The effect of international institutional factors on properties of accounting earnings. *Journal of Accounting and Economics*, *29*, 1-51.

Bernheim, Y. (2000). Pour des normes comptables européennes? (In favor of European accounting standards) *Les Echos*, 10 February.

Biddle, G. C. & Saudagaran S. M. (1991). Foreign stock listings: benefits, costs, and the accounting policy dilemma. *Accounting Horizons*, (September), 69-80.

Cairns, D. (2000). *International Accounting Standards Survey 2000*. International Financial Reporting.

Cairns, D. (1997). The future shape of harmonization: a reply. *The European Accounting Review*, *6* (2), 305-348.

COB (*Commission des opérations de bourse*) (1995). Annual report, 105.

COB (*Commission des opérations de bourse*) (1998). *Bulletin*, *321,* 3 (February).

Colasse, B. & Standish, P. (1998). State versus Market: contending Interests in the Struggle to Control French Accounting Standardization. *Journal of Management and Governance, 2,* 107-147.

Enevoldsen, S. (2000). Chairman's Review. *IASC Insight*, 1 (June).

European Commission. *Financial reporting: the IAS Regulation – Frequently Asked Questions*. http://europa.eu.int, 2001.

European Commission. *EU Financial Reporting: the way forward*. Communication from the Commission to the Council and the European Parliament, 2000.

Flower, J. (1997). The future shape of harmonization: the EU versus the IASC versus the SEC. *The European Accounting Review*, *6* (2), 281-303.

Glaum, M. (2000). Bridging the GAAP: the Changing Attitude of German Managers towards Anglo-American Accounting and Accounting Harmonization. *Journal of International Financial Management and Accounting*, *11* (1), 23-47.

Gray, S. J. (1988).Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally. A*bacus*, *24* (1).

IASC (1997). *Presentation of financial statements*, International accounting standard, No. 1, London, UK.

IOSCO, *Annual Report 1999*.

Nobes, C. (2002). Causes of international differences. In *Comparative International Accounting*, Nobes, C. and R. Parker (ed.), Seventh Edition, 17-33. Pearson Education Limited.

Nobes, C. & R. Parker (2002). *Comparative International Accounting*, Seventh Edition. London: Pearson Education Limited.

Redis, J.-P. (1994). Histoire du financement des entreprises françaises depuis le 19ème siècle: essai de périodisation. (History of French firms' financing since the 19th century) in *De Jacques Coeur à Renault*, 353-368. Toulouse: Presse de l'Université des Sciences Sociales de Toulouse.

Salter, S. B. & Roberts, C. B. (1996). The IASC comparability project: Examining the outcomes using two theoretical models. *Advances in International Accounting*, *9*, 21-46.

Standish, P. (1996). Accounting codification: experience and prospects in the European context. *Europe's challenges: Economic efficiency and social solidarity*, Urban, S. (ed.), 419-447. Germany: Gabler.

Street, D. L. & Bryant S. M. (2000). Disclosure level and compliance with IASs: A comparison of companies with and without U.S. listings and filings. *The International Journal of Accounting*, *35(3),* 305-329.

Tagliabue, J. (2000). U.S. pension funds stoke French fears. *International Herald Tribune*, January 10.

Wall Street Journal (1998). The "Selling" the Nasdaq. A22. (16 March).

Woodruff, D. & Delaney K. J. (2001). French firms go global. *The Wall Street Journal Europe*, May 29.

World Bank (2000). *World Development Indicators*.

X (1998). Law N° 98-621 of 6 April 1998 reforming accounting regulation, *Official Journal dated 7 April 1998*, 5384-5387.

X (since 1986) *L'information financière: 100 groupes industriels et commerciaux*, (Financial information: 100 industrial and commercial groups), annual edition. CPC, Meylan, France.

Zambon S. & Dick W. (1998/99). Alternative standards (IAS/US GAAP) and continental European accounts: evidences of a competitive process. University of Reading Discussion Papers in Accounting, Finance and Banking. DP No. 58, Vol. X.

Zeff, S. (2001) « The prospect of 'political' lobbying on proposed standards at the international and country levels: a challenge to the IASB », *EIASM International Workshop on Accounting and Regulation*, 27/09/2001, Siena, Italy.

Zeff, S. A. (1998). The coming confrontation on international accounting standards. *Irish Accounting Review*, *5* (2), 89-117.

Zysman, J. (1983). *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change*. Cornell University Press.

List of table and figures

Table 1
Stock markets in France, U.K. and U.S.

Countries	Market capitalization $ millions in 1999	Market capitalization % of GDP in 1998	Value traded % of GDP in 1998
France	991,484	69.5	40.1
U.K.	2,374,273	174.9	86.0
U.S.	13,451,352	163.4	159.8

Source: World Development Indicators 2000: 5.2 Stock markets

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
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
Table 2 includes <u>only</u> companies in the sample that have at least one 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

Figure 1
Evolution of the number of "alternative" references

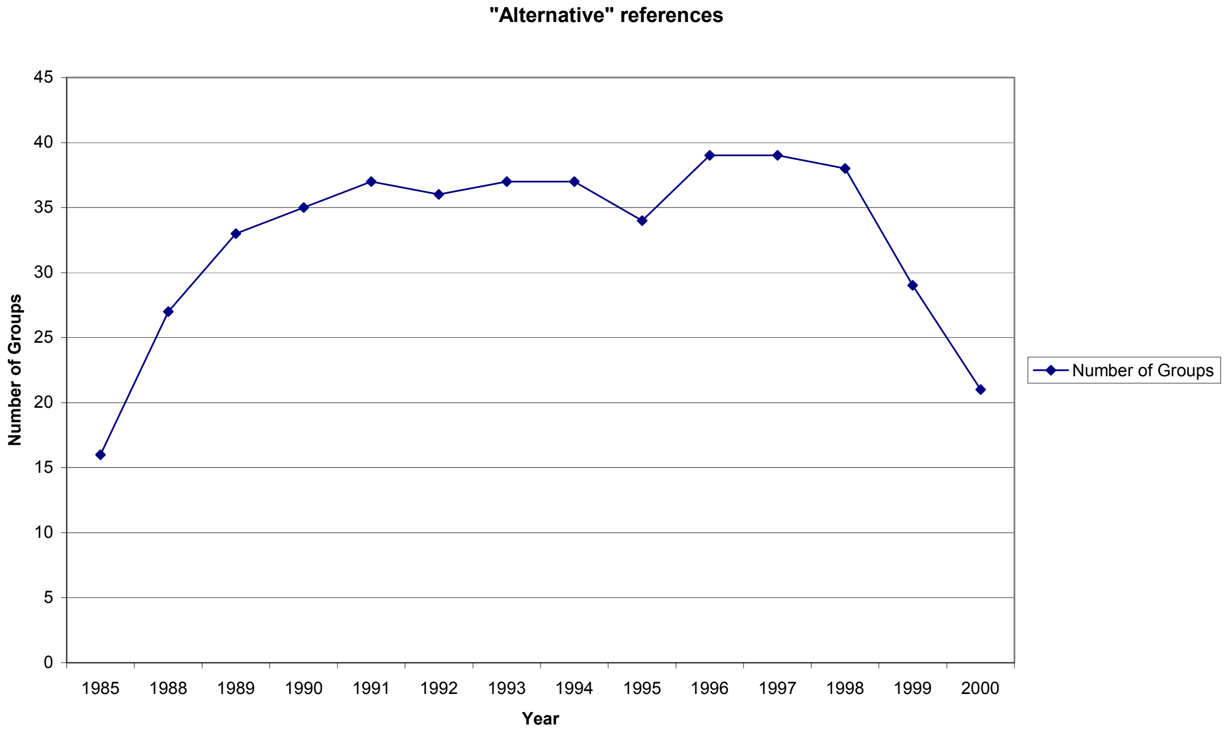

Figure 2
Comparison of the linear and quadratic regression

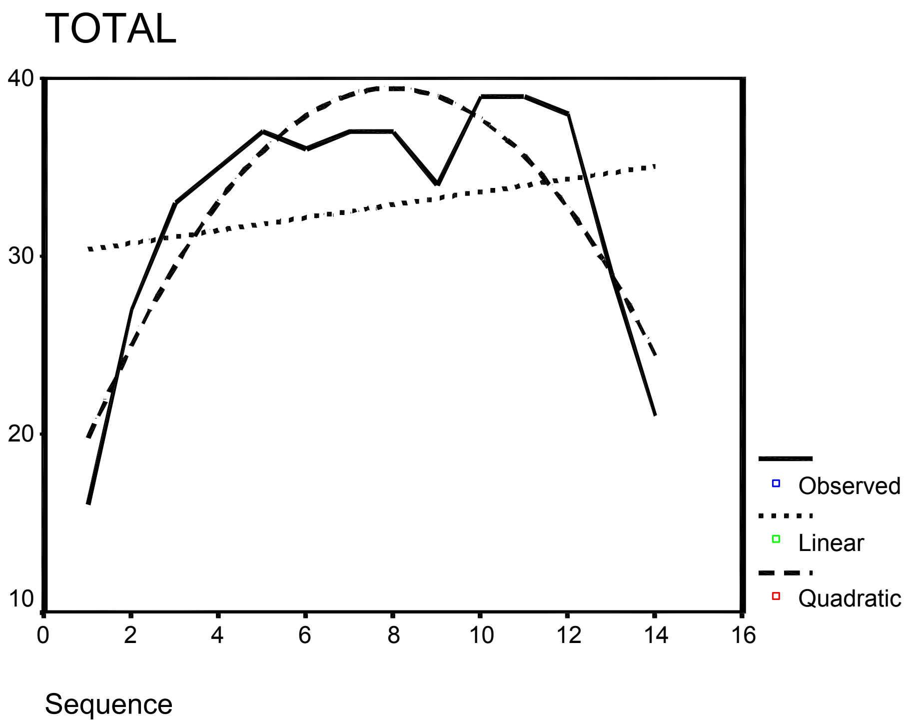

Figure 3
"International" versus U.S. standards