

## **PART V: CONCLUSIONS**

### **CHAPTER 9: CONCLUSIONS**

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#### **9.1 INTRODUCTION**

In this Chapter the conclusions, contributions and implications of this study are discussed. The conclusions are grouped into three areas based upon the objectives of the study which were stated in Section 1.1. The first objective was to provide evidence of diversity in consolidation practices by corporations headquartered in ten countries of the Asian-Pacific region. The second objective was to examine the association between national cultural values and consolidation disclosure practices in corporate annual reports. The third objective was to examine the association between national cultural values and the ‘global fit’ of consolidation disclosures by corporations in annual reports. Conclusions concerning these objectives are presented in Section 9.2.

The objectives of the study were consistent with the call for empirical research concerning the association between national cultural values and accounting practices [see for example, Gray (1988, p.14) and Perera (1995, p.275)].

The study raises a number of implications for international comparative financial accounting research and practice. First are those concerning the framework of analysis and the research methodology used to investigate relationships within this study. These implications are discussed in Section 9.3. Second are those concerning the disclosure of information in corporate annual reports concerning consolidation practices. These implications are discussed in Section 9.4. Third are those concerning the harmonisation of accounting practices internationally. These are discussed in Section 9.5.

In Section 9.6 the limitations of the current study are considered. These are divided into four areas: conceptual, data collection, data processing, and interpretation. Finally in Section 9.7 opportunities for further research concerning issues addressed in this study are discussed. These are divided into four areas for the purpose of discussion: conceptual, methodological, analytical and integrative.

## **9.2 CONCLUSIONS CONCERNING THE OBJECTIVES**

In this Section conclusions are presented concerning the three objectives of this study.

The first objective was to provide evidence of diversity in consolidation disclosure practices by corporations headquartered in ten countries of the Asian-Pacific region. One hundred and eighty four corporate annual reports for the 1992/3 financial years were examined. A consolidation disclosure index (CDI) comprising one hundred and one items of disclosure relating to consolidation accounting practice was developed in Section 6.3. The CDI scores for each corporation headquartered in a country were

aggregated and mean CDI scores were reported for each country in Table 7.7. The CDI scores for corporations varied from .7683 (CRA Ltd - Australia) to .0244 (Cathay Life Insurance Company - Taiwan). The magnitude of effect (eta squared) indicated 65.87% of the variability among observations on the CDI could be attributed to the country effect. The measures on the CDI indicate significant diversity in consolidation disclosure practices among corporations in the survey.

The CDI comprised ten categories of items which were used to construct partial consolidation disclosure indices. Country partial consolidation disclosure indices were calculated for each category of the CDI and results were reported in Tables 7.8 to 7.17 inclusive. In every category of the CDI there was a significant country effect using the measure of eta squared and these were summarised in Table 7.18. The above evidence indicates diversity in consolidation disclosure practices among the corporations surveyed. Therefore, the following conclusion can be stated:

**Conclusion 1: Consolidation disclosure practices of corporations headquartered in ten Asian-Pacific countries differ and are significantly associated with the country of origin of the corporate report.**

The second objective was to examine the association between national cultural values and consolidation disclosure practices in corporate annual reports. Consolidation disclosure practices were measured using the CDI to quantify the extent of disclosure. This was defined as the extent of consolidation disclosure (ECD). Next, variations in the ECD among corporations from the same country were measured. This was defined as the degree of variation in the extent of consolidation disclosure (DVECD). The association of the ECD and the DVECD with national cultural values measured by Hofstede (1991) was investigated using multiple regression analysis.

A multiple regression equation in the form of Equation 8.2 was used to estimate the association between national cultural values and ECD. This equation included, in addition to national cultural values, variables for industry type and corporation total assets. The observed association between national cultural values and ECD was estimated after controlling for these variables. There was no significant relationship between industry group, total assets of a corporation and ECD. These results were consistent with the prior expectations because the corporations included in the sample were all identified from surveys of the largest corporations in their country of headquarters.

The national cultural values of uncertainty avoidance and individualism were both found to be significantly associated with ECD and in the hypothesised direction. These associations provided support for hypotheses H<sub>3</sub> and H<sub>5</sub>. The national cultural values of power distance and long term orientation were not significantly associated with ECD. The above results were discussed in Section 8.3.1.

The tests of association between national cultural values and EPCD using multiple regression analysis on each of the ten categories of the CDI were reported in Section 8.4.1. The results were summarised in Table 8.2. The inclusion of the industry variable, using the measure of  $F_{inc}$  [see Tabachnick and Fidell (1989, p.157)], was significant in four of the partial indices. These were partial consolidation disclosure indices relating to respectively: outside equity interests; treatment of goodwill; associated companies; and, interests in joint ventures and other arrangements. This indicates the industry classification of a corporation may influence the EPCD, depending upon the category of information being disclosed.

The total assets of a corporation was significantly associated with the EPCD on three partial indices. These were the partial consolidation disclosure indices relating to respectively: accounting policies, standards and legislation; the outside equity interest;

and, treatment of goodwill. Total assets of a corporation may therefore influence the disclosure of information in a category of the CDI.

National cultural values were significantly associated with each of the ten partial consolidation disclosure indices. However, the associations varied depending upon the category of the CDI. The significant associations are summarised below.

**Power distance** was negatively and significantly associated with disclosure relating joint ventures and other arrangements. This association supported hypothesis H<sub>1J</sub>. Power distance was positively and significantly associated with disclosures relating to exclusions from consolidation and associated companies. These associations were contrary to those hypothesised [H<sub>1F</sub> and H<sub>1I</sub>].

**Uncertainty avoidance** was negatively and significantly associated with disclosures relating to the following categories on the CDI: accounting policies, standards and legislation; definition of the economic entity; financial statements disclosed; subsidiaries and inter-entity transactions; outside equity interests; goodwill; associated companies; and, joint ventures and other group arrangements. The above associations are consistent with those which were hypothesised [H<sub>3A</sub>, H<sub>3B</sub>, H<sub>3C</sub>, H<sub>3D</sub>, H<sub>3E</sub>, H<sub>3G</sub>, H<sub>3I</sub> and H<sub>3J</sub>]. Uncertainty avoidance was positively and significantly associated with disclosures relating to exclusions from consolidation. This association was contrary to that which was hypothesised [H<sub>3F</sub>]

**Individualism** was positively and significantly associated with disclosures on the following categories of the CDI: accounting policies, standards and legislation; definition of the economic entity; financial statements disclosed; subsidiaries and inter-entity transactions; outside equity interests; exclusions from consolidation; goodwill; treatment of goodwill; and, associated companies. The above associations

are consistent with those which were hypothesised [ $H_{5A}$ ,  $H_{5B}$ ,  $H_{5C}$ ,  $H_{5D}$ ,  $H_{5E}$ ,  $H_{5F}$ ,  $H_{5G}$ ,  $H_{5H}$  and  $H_{5I}$ ].

**Long term orientation** was negatively and significantly associated with the partial consolidation disclosure index concerning the financial statements disclosed. This association is consistent with hypothesis  $H_{7C}$ . Long term orientation was positively and significantly associated with the partial consolidation disclosure indices concerning exclusions from consolidation and associated companies. These associations are contrary to those which were hypothesised [ $H_{7F}$  and  $H_{7I}$ ].

The above significant associations between national cultural values and EPCD were reported in Table 8.2 and summarised in Table 8.4.

The results of the tests of significance of the coefficients for national cultural values in the multiple regression equations where ECD and EPCD are dependent variables indicates that national cultural values are significantly associated with the extent of consolidation disclosure in corporate annual reports. Therefore, in respect of the second objective the following may be concluded.

**Conclusion 2: National cultural values are significantly associated with the extent of consolidation disclosure in corporate annual reports.**

A multiple regression equation in the form of Equation 8.4 was used to estimate the association between national cultural values and DVECD. The results of this analysis were reported in Section 8.3.2. Long term orientation was the only national cultural value significantly associated with DVECD. This association was negative and was consistent with the hypothesis [ $H_8$ ].

In Section 8.4.2 tests of the association of national cultural values with DVEPCD were reported. National cultural values were found to be significantly associated with DVEPCD in eight of the ten partial consolidation disclosure indices. The significant associations are summarised below.

**Power distance** had a negative and significant association with DVEPCD relating to the partial consolidation disclosure indices concerning the definition of the economic entity and the financial statements disclosed. These associations are consistent with those hypothesised [ $H_{2B}$  and  $H_{2C}$ ].

**Uncertainty avoidance** had a negative and significant association with DVEPCD on the partial consolidation disclosure indices concerning the definition of the economic entity, associated companies and, joint ventures and other arrangements. These associations are consistent with that hypothesised [ $H_{4B}$ ,  $H_{4I}$  and  $H_{4J}$ ]. Uncertainty avoidance had a positive and significant association with DVEPCD on the following partial consolidation disclosure indices: accounting policies, standards and legislation; financial statements disclosed; subsidiaries and inter-entity transactions; exclusions from consolidation; and, treatment of goodwill. These associations are contrary to those hypothesised [ $H_{4A}$ ,  $H_{4C}$ ,  $H_{4D}$ ,  $H_{4F}$  and  $H_{4H}$ ].

**Individualism** had a significant and positive association with DVEPCD on the partial consolidation disclosure indices concerning associated companies and joint ventures and other arrangements. These associations are consistent with those hypothesised [ $H_{6I}$  and  $H_{6J}$ ]. Individualism was negatively and significantly associated with DVEPCD on the following partial consolidation disclosure indices: disclosure of accounting policies, standards and legislation; financial statements disclosed; and, subsidiaries and inter-entity transactions. These associations are contrary to those hypothesised [ $H_{6A}$ ,  $H_{6C}$  and  $H_{6D}$ ].

**Long term orientation** was negatively and significantly associated with DVEPCD on the following partial consolidation disclosure indices: accounting policies, standards and legislation; financial statements disclosed; definition of the economic entity; and, subsidiaries and inter-entity transactions. These associations are consistent with those hypothesised [ $H_{8A}$ ,  $H_{8B}$ ,  $H_{8C}$  and  $H_{8D}$ ].

The above significant associations between national cultural values and DVEPCD were reported in Table 8.3 and summarised in Table 8.5.

The results of the tests of significance of the coefficients for national cultural values in the multiple regression equations where DVECD and DVEPCD are respectively dependent variables, indicates that national cultural values are significantly associated with the degree of variation in the extent of consolidation disclosure in corporate annual reports. Therefore, in respect of the second objective the following may be concluded.

**Conclusion 3: National cultural values are significantly associated with the degree of variation in the extent of consolidation disclosure in corporate annual reports.**

The third objective was to examine the association between national cultural values and the 'global fit' of consolidation disclosures by corporations in annual reports. The 'global fit' of consolidation disclosure practices was measured using the global fit index (GFI). The extent of 'global fit' (EGF) was defined in Section 5.5. Next, the variation in the EGF among corporations from the same country was estimated. This was defined as the degree of variation in the extent of 'global fit' (DVEGF). The association of the EGF and the DVEGF with national cultural values measured by Hofstede (1991) was investigated using multiple regression analysis.



A multiple regression equation in the form of Equation 8.2 was used to estimate the association between national cultural values and EGF. This equation included, in addition to national cultural values, variables for industry type and corporation total assets. The observed association between national cultural values and EGF was estimated after controlling for these variables.

There was a significant relationship between industry groups and EGF in that Industry Group 4 was significantly different from Industry Group 1. However, the  $F_{inc}$  [see Tabachnick and Fidell (1989, p.157)] gained by including the industry group variable was not significant. Therefore, it was concluded that overall the industry group of a corporation was not associated with the EGF. There was also no significant association between total assets of a corporation and EGF. The above results were consistent with the prior expectation that neither the industry group nor the total assets of a corporation would be significantly associated with EGF of consolidation disclosures.

The national cultural values of power distance, uncertainty avoidance, individualism, masculinity and long term orientation were all found to be significantly associated with EGF. The national cultural values of power distance, uncertainty avoidance, individualism and long term orientation were negatively and significantly associated with EGF. Masculinity was positively and significantly associated with EGF. These results were discussed in Section 8.5.1. These results support the following hypotheses:  $H_{1GF}$ ,  $H_{3GF}$ ,  $H_{5GF}$ ,  $H_{7GF}$  and  $H_{8GF}$ .

The above discussion of the results of the tests of significance of the coefficients for national cultural values in the multiple regression equation where EGF was the dependent variable indicate national cultural values are significantly associated with the EGF of consolidation disclosures in corporate annual reports. Therefore, in respect of the third objective the following may be concluded.

**Conclusion 4: National cultural values are significantly associated with the extent of 'global fit' of consolidation disclosures in corporate annual reports.**

A multiple regression equation in the form of Equation 8.4 was used to estimate the association between national cultural values and DVEGF. The result of this analysis was reported in Section 8.5.2. Individualism and long term orientation were negatively and significantly associated with DVEGF. However, only long term orientation was hypothesised to have this association [ $H_{9GF}$ ]. The above results are reported in Section 8.5.2 and summarised in Table 8.5.

The above discussion of the results of the tests of significance of the coefficients for national cultural values in the multiple regression equation where DVEGF was the dependent variable indicates that national cultural values are significantly associated with the degree of variation in the extent of 'global fit' of consolidation disclosure in corporate annual reports. Therefore in respect of the third objective the following may be concluded.

**Conclusion 5: National cultural values are significantly associated with the degree of variation in the extent of 'global fit' of consolidation disclosures in corporate annual reports.**

The above discussion of the conclusions concerning the three objectives of this study support the general proposition that national cultural values are associated with variations in accounting disclosure practices among corporations headquartered in different countries. First, this study has demonstrated that consolidation disclosure practices in corporate annual reports differed among the countries surveyed. Second, the extent of consolidation disclosure and degree of variation in the extent of

consolidation disclosure in corporate annual reports was found to be significantly associated with national cultural values after controlling for industry group and total assets of a corporation. In particular, the national cultural values of uncertainty avoidance and individualism were found to have the most significant associations. These results support the untested proposition of Gray (1988, p.11) that:

Having formulated hypotheses relating societal values to accounting values internationally it is evident that the most important societal values at the level of the accounting subculture would seem to be uncertainty avoidance and individualism.

Third, this study has demonstrated that national cultural values are significantly associated with the extent of 'global fit' and the degree of variation in the extent of the 'global fit' of consolidation disclosure in corporate annual reports. Therefore, the objectives of this study, as stated in Section 1.1, have been achieved.

### 9.3 THEORETICAL IMPLICATIONS

In this Section the theoretical implications of this study are discussed. In Section 2.2 this study was classified as one concerned with descriptive / comparative international accounting. The distinction between measurement and disclosure practices in international accounting proposed by Nair and Frank (1980, pp.426-7) was applied. The current study, which focused upon disclosure practices, was distinguished from earlier studies such as Nobes (1983) which was concerned with measurement practices. The current study contributes towards an enhanced understanding of disclosure practices in studies of international accounting diversity.

This study relied upon the contribution of Tay and Parker (1990) who distinguished between *de jure* and *de facto* evidence of accounting diversity. In particular, the division of *de facto* evidence of accounting practice between that sourced from corporate annual reports and other secondary sources, such as surveys, was

recognised. Accordingly, in this study evidence was sourced from corporate annual reports. The use of corporate annual reports as a data source in the current study is consistent with the call by Tay and Parker (1990, p.85) for the use of this data source in international comparative financial accounting research.

The classification of research methodologies in international comparative financial accounting research proposed by Wallace and Gernon (1990) was used to identify this study as one where the 'nation is the unit of analysis' and a 'contingency approach' was adopted in Section 2.3. Prior studies which were classified as employing a similar methodology were reviewed. These studies were all conducted from an environmental causal direction. The current study was distinguished from earlier studies which had used this methodology by employing the contextual contingency model described in AAA (1993, p.19) and discussed in Section 2.4.

National cultural values were located within the contextual contingency model as environmental variables. Five national cultural values described by Hofstede (1991) were included. These were: power distance, uncertainty avoidance, individualism, masculinity, and long term orientation. The theory of the association of national cultural values with accounting subcultural values was discussed in Section 3.2. **The inclusion of long term orientation within the contingency approach and the consideration of its association with accounting subcultural values is a contribution of the current study to the literature.**

The hypothesised associations of national cultural values to accounting subcultural values proposed by Gray (1988) and Perera (1989) have only been partially subject to empirical testing. **This study contributes to the literature by designing and conducting an empirical test of the association between national cultural values and accounting disclosure practices.**

In Section 3.4 a framework linking national cultural values with the ED and DVED in corporate annual reports was developed. ED was argued to be associated with the accounting subcultural values of secrecy versus transparency and also, but to a lesser degree, with professionalism versus statutory control. The accounting subcultural values of secrecy versus transparency and professionalism versus statutory control were hypothesised to have the same association with national cultural values by Gray (1988). That is, high levels of transparency and professionalism were hypothesised to be associated with low levels of uncertainty avoidance and power distance, and high levels of individualism. Therefore, it was argued that a high measure of the extent of disclosure in corporate annual reports should be associated with the above national cultural values. **The establishment of the link empirically between national cultural values and the extent of disclosure in corporate annual reports is a contribution of the current study.**

Also in Section 3.4 a link was proposed between national cultural values and the DVED among annual reports of corporations from the same country. The degree of variation in the extent of disclosure in corporate annual reports was argued to be associated with the accounting subcultural value of uniformity versus flexibility. That is, where there was a low DVED this was argued to be consistent with an accounting subcultural value preference for uniformity. On the other hand, where there was a high DVED this was consistent with an accounting subcultural value preference for flexibility. The same national cultural values that were hypothesised to be associated with the accounting subcultural value of uniformity were hypothesised to be associated with a low DVED. **The establishment of the link empirically between national cultural values and the degree of variation in the extent of disclosure in corporate annual reports is a contribution of the current study.**

The relationships discussed above between national cultural values and the ED and the DVED in corporate annual reports were summarised in Table 3.7. These

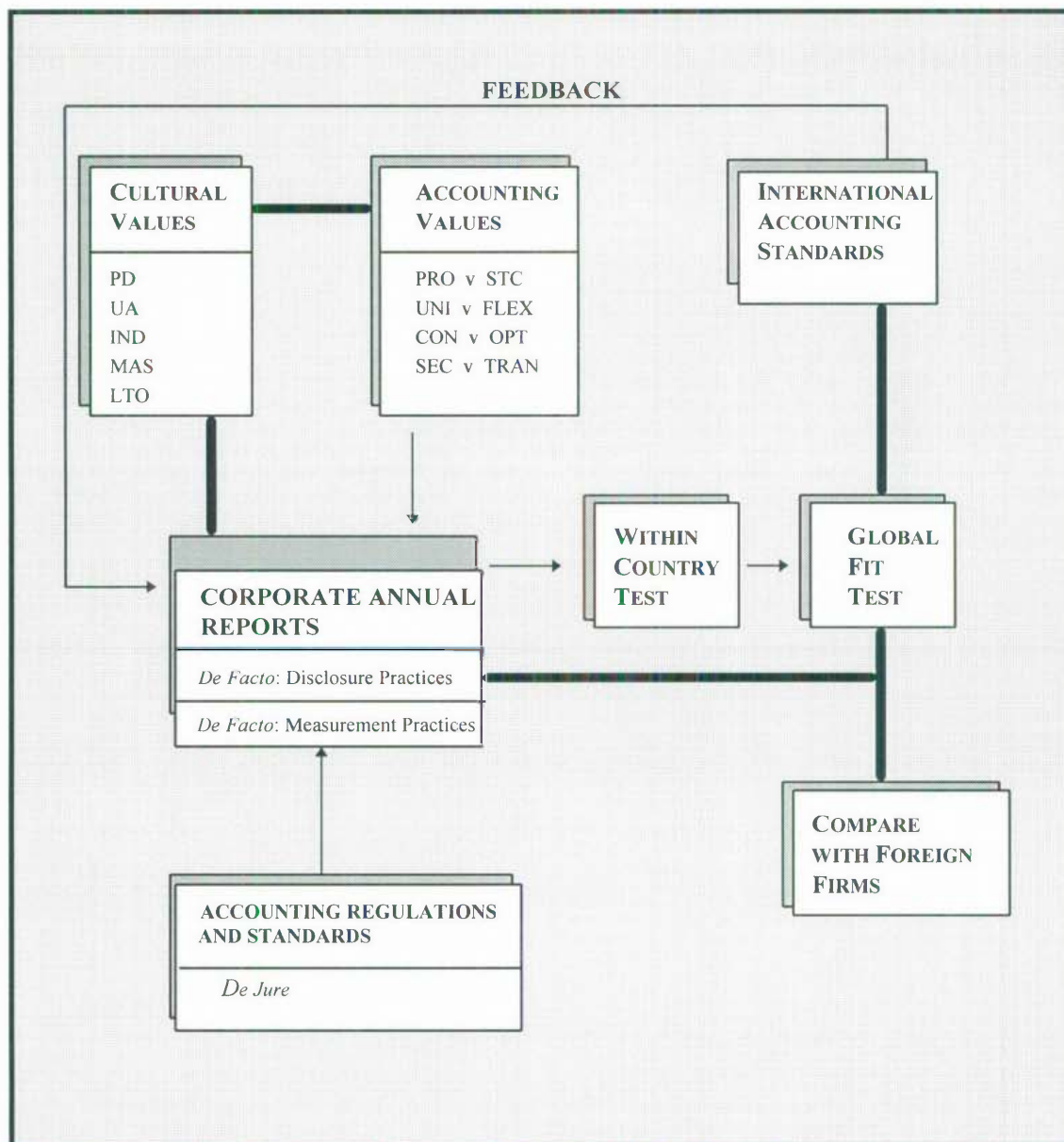
relationships were included in the contingency models developed in Section 3.5. The development of four contingency models in this Section, which were based on the general contingency models proposed in AAA (1993), included national cultural values and accounting subcultural values. **The inclusion of these variables within a contingency framework is a contribution of this study.**

The contextual contingency model was used in this study to interpret the association of national cultural values with accounting disclosure practices. The contextual contingency model included a ‘global fit’ test of the adequacy of corporate disclosures. **The inclusion of a ‘global fit’ test and the linking in Section 5.5 of the ‘global fit’ of corporate disclosure practices to national cultural values is a contribution of the present study.**

A diagrammatic representation of the contextual contingency model was included as Figure 3.8. This figure is reproduced as Figure 9.1 with additional information highlighting the associations investigated in this study. First, the associations between national cultural values and accounting subcultural values were explored in Section 3.2. The two cells at the top left hand side of Figure 9.1 include these variables. The link between national cultural values and consolidation disclosures in corporate annual reports was investigated and the results reported in Sections 8.3 and 8.4. The *de facto* disclosure practices of corporations were investigated, and this is represented in Figure 9.1 by the cell headed ‘corporate annual reports’. A ‘global fit’ test was performed on each corporation’s consolidation disclosure practices by comparing actual disclosures with the preferred disclosures specified in International Accounting Standards. This test is represented in Figure 9.1 by the two cells on the right hand side labelled respectively ‘Global Fit Test’ and ‘International Accounting Standards’.

In Figure 9.1 the 'bold' lines linking the cells discussed above indicate the elements of the contextual contingency model examined in this study.

**Figure 9.1: Contextual Contingency Model: Associations Between National Cultural Values and Disclosure Practices**



Abbreviations are the same as for Figure 3.5.

In summary this Section has identified the theoretical contributions of this study concerning the development of a framework for investigating the association between national cultural values and accounting disclosure practices. First, the national cultural value of long term orientation has been included and its association with accounting subcultural values and disclosures in corporate annual reports discussed. Second, the link between national cultural values and the ED in corporate annual reports was outlined. Third, the link between national cultural values and the DVED in corporate annual reports was described.

#### **9.4 CONSOLIDATION DISCLOSURE IMPLICATIONS**

In this Section implications arising from the consolidation disclosure practices described in this study are discussed. These implications are drawn from the categories of the CDI and take the form of normative statements concerning the disclosure of consolidation practices. These normative statements indicate disclosures that would enhance the comparability of corporate financial statements.

**Category A [Accounting policies, standards and legislation].** Corporate annual reports should disclose the specific accounting standards and legislation from which the consolidated accounts are prepared. In addition, the statement of accounting policies should include a formal statement concerning the extent to which the same policies have been adopted within the group, the degree to which inter-entity transactions have been eliminated and the conceptual basis of the consolidation policies adopted.

**Category B [Definition of the economic entity].** Corporate annual reports should include a statement outlining the definition of the economic entity. This statement should include details of the criteria used for including subsidiary entities within the scope of the economic entity. All subsidiary entities where the parent entity does not



have at least a 50 percent ownership entity should be specifically identified. Where the parent entity has the capacity to exercise control over such entities, the means by which this capacity may be exercised should be identified.

**Category C [Financial statements published].** The publication of parent entity financial statements in addition to consolidated financial statements in the corporate annual report is dependent upon differences that can be traced to the historical development of consolidation accounting in the United States and the United Kingdom. These differences were discussed in Section 4.2. The continuation of either the publication of consolidated financial statements or consolidated financial statements plus parent entity financial statements in corporate annual reports reflects the continuing conflict between the legal purpose and the economic purpose of accounting. Resolution of these differences is beyond the scope of this study.

**Category D [Subsidiaries and inter-entity transactions].** Details should be disclosed in corporate annual reports concerning all subsidiaries of the economic entity and specifically state the following: name of the subsidiary; location of the subsidiary; principal activity of the subsidiary; percentage ownership interest; and, means of controlling the subsidiary. Details should also be disclosed of the extent to which inter-entity transactions are carried out including the following: inter-entity sales; inter-entity liabilities; inter-entity guarantees and inter-entity equity.

**Category E [Outside equity interest].** The outside equity interest in an economic entity should be disclosed in the consolidated financial statements. The inclusion of the outside equity interest as part of the equity of the consolidated entity is consistent with the entity view of consolidation. In addition details of the profit attributable to the outside equity interest and the share of reserves should be disclosed.

**Category F [Exclusions from consolidation].** If subsidiary entities are excluded from the scope of the consolidated financial statements then details should be included in the consolidated statements outlining the reason for the exclusion. Also, where practical the financial consequences of the exclusion should be disclosed. An economic entity that does not exclude any subsidiaries from the scope of its consolidated financial statement should contain a statement indicating that all subsidiary entities have been included in the scope of its consolidated financial statements.

**Category G [Goodwill].** The inclusion of goodwill in consolidated financial statements should be associated with the following disclosures: a reference to the accounting standard upon which the corporate practice is based; disclosure of the amount of goodwill; disclosure of the policy for amortising goodwill; and, disclosure of the amount of amortised goodwill.

**Category H [Treatment of goodwill].** The treatment of goodwill in the consolidated financial statements should include the following disclosures: the method used for amortising goodwill; and, the time period over which goodwill is amortised;

**Category I [Associated companies].** The inclusion of associated companies in consolidated financial statements should be supported by the following disclosures: details of the accounting standard relied upon in setting the corporate policy for inclusion and treatment of associated companies; method of accounting adopted; percentage ownership of associated companies; activities of associated companies; share of net income of associated companies; share of net assets of associated companies; and details of transactions between the economic entity and associated companies.

**Category J [Joint ventures and other arrangements].** The inclusion of joint ventures and other arrangements within the scope of consolidated financial statements should be associated with the following disclosures: reference to the accounting standard relied upon to form the corporate accounting policy for the treatment of joint ventures; amount of equity in joint ventures; income from joint ventures; method of accounting for joint ventures; and, information concerning other arrangements or strategic alliances that the economic entity may have.

The categories of the CDI provide a framework for the consideration of the disclosure of items concerning consolidation in corporate annual reports. The analysis of Country Consolidation Disclosure Indices, reported in Table 7.7, revealed that the mean disclosure of items on the CDI over the entire population was 32.02%. This varied from a country mean of 52.58% for Australia to 9.09% for Indonesia. The evidence from the survey of corporate reports was that consolidation disclosure practices varied widely among corporations and also among countries. The rationale for the inclusion of disclosures along the lines of the items contained in the CDI is that such disclosures would improve the comparability of the information in corporate annual reports concerning consolidation accounting issues.

## **9.5 HARMONISATION IMPLICATIONS**

In this Section implications concerning the international harmonisation of consolidation accounting practices are considered. In the contextual contingency model described by the AAA (1993 p.19) (see, Figure 2.10) a 'global fit' test was proposed to examine the extent to which domestic corporate accounting practices were comparable with foreign corporate accounting practices. The development of the contextual contingency model within this study (see, Figure 3.8) included a 'global fit' test. There appears to be no prior study where a 'global fit' test has been used.

**The design, development and implementation of a ‘global fit’ test is a contribution of this study.** A GFI was designed and described in Section 6.5. This index was based on the mutually exclusive response to items in the CDI. Twelve consolidation disclosure issues were included in the CDI where mutually exclusive responses were observed. In each case one of the alternative responses included a preferred IASC disclosure. The items comprising the GFI were summarised in Table 6.12. These items were used to conduct a ‘global fit’ test.

The GFI measure for each corporate annual report was recorded and the results summarised by country in Table 7.19. The country ‘global fit’ indices varied from a high of 62.08% for Singapore to a low of 15.15% for Taiwan. The mean for the entire population was a global fit index score of 39.36%. In all countries, except for Singapore and Japan, the mean global fit score was less than 50%. The above results concerning conformity with the selected IASC preferred disclosures comprising the GFI do not provide evidence of international harmonisation of consolidation disclosure practices.

The history of attempts to harmonise international consolidation accounting practices was outlined in Section 4.5. In 1976 the IASC published IAS 3. Criticisms of this Standard indicated it had ‘serious technical deficiencies’ [Walker (1978b, p.109)]. Evidence of diversity in consolidation accounting practices recorded in various surveys of accounting practice was documented in Section 4.4. All of these surveys were conducted during the period IAS 3 was operative. In 1989 the IASC issued IAS 27 with an effective date of January 1, 1990, to replace IAS 3. There appears to be no published study of the impact of IAS 27 on the comparability of consolidation accounting disclosure practices. The GFI developed in this study provides evidence concerning the comparability of consolidation accounting disclosure practices since the implementation of IAS 27.

Among the ten countries of the Asian-Pacific region where corporate annual reports were surveyed the degree of compliance with IASC preferred disclosure practices could be described as low, averaging 39.36% (all figures are sourced from Table 7.19). The variations between country means is high with a range of 46.93%. At the level of the individual corporation the maximum GFI score was 83.33% and the minimum was 0%. The range of CFI scores among corporations within the same country varied from 75% in the Philippines to 25% in Korea. The above evidence of diversity in consolidation disclosure practices among the corporations surveyed indicates that the introduction of IAS 27 has not eliminated alternative disclosure practices. Nor has IAS 27 resulted in a high degree of compliance with its disclosure requirements among corporations headquartered in the ten countries of the Asian-Pacific region surveyed. The efforts of the IASC to harmonise accounting practices internationally have not resulted in comparable consolidation disclosures among corporations headquartered in the ten countries of the Asian-Pacific region.

In conclusion it can be argued harmonisation of consolidation accounting disclosures in corporate annual reports in the Asian-Pacific region has not yet been achieved. There remains a great deal of work to achieve comparable consolidation disclosures among corporations headquartered in the region and given the evidence in this study of the association of national cultural values with consolidation disclosure practices harmonisation may not be possible.

## **9.6 LIMITATIONS OF THE STUDY**

In this Section the limitations of this study are considered. The limitations are divided into four areas: conceptual; data collection; data processing; and, data interpretation.

First are **conceptual limitations**. The general limitation that applies at this level concerns the lack of a well defined theoretical framework for the study of international accounting problems. This study relied upon the definition of international accounting proposed by Radebaugh and Gray (1993) and the framework for international comparative financial accounting research developed by Wallace and Gernon (1991). Prior international accounting research was reviewed in Sections 2.2 and 2.3 and the current study was placed within this literature.

The study used a contingency approach and a contextual contingency model was outlined in Figure 3.8. The contextual contingency model involves elements that are recursive, as indicated by the feedback loop in the Figure 3.8. The approach adopted employed only cross-sectional data from 1992/93 corporate annual reports. There was no attempt to incorporate a time series study and investigate recursive elements of the model.

The study relied upon the conceptual model of culture developed by Hofstede (1980) and in various subsequent works. Hofstede (1991) identified, defined and reported measures for five national cultural values (power distance, uncertainty avoidance, individualism, masculinity and long term orientation). This model of culture has been the dominant model debated within the literature. The use of Hofstede's model of culture by international accounting scholars was reviewed in Section 3.2. This study relied upon Hofstede's model, definition and measurement of national cultural values and it is recognised that some of these measures may have changed. Also, it is recognised alternative models, definitions and measures of national culture exist and may have application in international accounting research. For example, Hampden-Turner and Trompenaars (1993, pp.10-11) identified the following seven valuing processes that were culturally dependent: universalism versus particularism; analysing versus integrating; individualism versus communitarianism; inner-directed versus outer-directed orientation; time as a sequence versus time as synchronisation;

achieved status versus ascribed status; and equality versus hierarchy. The above list of culturally associated value preferences provides an alternative to the model proposed by Hofstede and may be applied in future international accounting research studies.

The concepts ED and DVED were used in this study as surrogates for the accounting subcultural values of secrecy versus transparency and uniformity versus flexibility respectively. These concepts are recognised as only partially capturing the full range of issues associated with these accounting subcultural values.

The study relied upon the identification and inclusion of items in the CDI. The identification of items was sourced from the literature, prior studies and discussions with colleagues and supervisors. In total one hundred and one items of disclosure were identified. It is acknowledged that these items are not necessarily a complete list of all possible items of disclosure. However, the items are representative of disclosures in corporate annual reports concerning consolidation accounting issues.

The division of the CDI into ten categories was based on researcher judgement and interpretation of the literature discussed in Section 4.3. The partitioning of the CDI could have been undertaken in other ways to search for associations with consolidation disclosure practices.

Second are **limitations associated with data collection**. Every survey is limited by the response rate. Details concerning the response rate of corporations by country were reported in Table 7.1. The overall response rate of 60.13% was considered satisfactory when compared with that reported for comparable studies.

The selection of corporations was based upon a number of surveys to identify large corporations in the target countries. There was no single source where all

corporations were ranked on a comparable measure. Thus, the identification and selection of corporations in this study involved researcher judgement. The process by which corporations were selected was described in Section 7.2.

The selection of corporations based upon their relative size within the country of their headquarters would be expected to bias against finding an association between national cultural values and consolidation disclosure practices. This is because such corporations would be more likely influenced by international events, and therefore their consolidation accounting practices may not reflect the influence of national cultural values. In this study national cultural values were found to be associated with consolidation disclosure practices. This would indicate that if a sample of smaller corporations was used even stronger associations between national cultural values and accounting disclosure practices may be found.

The data was limited to only the English language section of the corporate annual reports. In every case a responding corporation provided an English language version of the annual report. No attempt was made to translate the non-English section of the annual reports. This was because of the costs associated with obtaining translations and the large number of languages involved in the annual reports surveyed, and was discussed in Section 7.2. The results may therefore bias against finding an association between national cultural values and consolidation disclosure practices because the English language reports may have been prepared to 'look like' model financial statements but may not be an accurate translation of the original non-English annual report. Also, the use of English language version annual reports may have affected the results of the 'global fit' test. For example, Cooke (1993a, p.526) stated the following concerning prior studies of Japanese annual reports:

These studies analyse English language versions of Japanese accounts rather than the Japanese accounts themselves, which are in fact somewhat different.



The above may indicate why Japanese corporations had the second highest mean 'global fit' score of 60.67% (Table 7.19). The language problem in international accounting research can be overcome by creating multi-lingual research teams. The creation of such teams was beyond the scope of this study.

The accounting profession in each country selected was a member of the IASC. Membership of the IASC, and the role of international accounting firms may have influenced the association between national cultural values and consolidation disclosure practices. Given that significant associations were observed it would be expected that if consolidation disclosure practices of corporations headquartered in countries where the accounting profession was not a member of the IASC had been included then it may be expected that even stronger associations would be observed.

The data for national cultural values was sourced from Hofstede (1991) and reported in Table 3.2. In this study no attempt was made to measure national cultural values. The study therefore depended upon the accuracy and reliability of the measures of national cultural value provided by Hofstede. In the case of the long term orientation national cultural value an estimate was made of the score for Indonesia and Malaysia. This was discussed in Section 3.3.1.

Third are **limitations associated with data processing**. The source of all data for measuring the ECD, DVECD, EPCD, DVEPCD, EGF and DVEGF was the corporate annual report. The entry of all data onto the CDI worksheet was dependent upon researcher judgement. The use of a dichotomous scoring procedure has the benefit of minimising the role of researcher judgement.

Once the observations had been recorded on the CDI worksheet they were transferred to an SPSS spreadsheet. Controls and checks were introduced to ensure that data

entry errors were eliminated by examining entries for mutually exclusive items and comparing entries to the original worksheets.

The use of dichotomous scoring assumes all items in the CDI have an equal weighting. The score for each item was aggregated and it was assumed the resulting CDI scores had the properties of at least an interval scale. This assumption was consistent with that made in prior studies where disclosure indices were used, and was discussed in Section 6.2. An alternative methodology would involve weighting disclosure items. However, the issue of aggregation remains.

The classification of each corporation into industry groups in Section 7.2 using the ISIC code provided a basis for observing the influence of this variable on consolidation disclosure practices. However, the sample of corporations did not include a sufficient number in each industry code. The ISIC code was collapsed into four industry groups for the purpose of the multiple regression analysis. The results of the analysis indicated disclosure of some items may be associated with the industry group of the corporation. The use of only four industry groups limited the conclusions concerning the influence of this variable on consolidation disclosure practices.

The multiple regression analysis also included a variable for corporation size which was measured as total assets in US dollars. Alternative measures of corporation size have been proposed in the literature and used in accounting research studies. These alternatives were discussed in Section 7.2. Cooke (1991a, p.176) argued ‘...size can be measured in a number of ways and there is no overriding theoretical reason to select one (measure) rather than another.’ The measure used in this study was the only one readily obtainable for all corporations. Alternative measures of corporation size may indicate different associations with consolidation disclosure practices.

Fourth are **limitations associated with interpretation of the data**. Multiple regression analysis was the methodology used to test the hypotheses. Tests were conducted for normality of the data concerning skewness and kurtosis. The data for the CDI and the GFI were approximately normally distributed. The degree of variation associated with the indices involved a variation of the Breusch-Pagan test for heteroskedasticity. That is, it was assumed the residuals on the multiple regression equation were a function of the national cultural values of the country. Thus, by definition the residuals were assumed to be not independent and random. These are two assumptions behind the analysis of variance [see for example, Kvanli, Guynes and Pavur (1992, p.394)]. The Breusch-Pagan test involves a violation of these assumptions.

This Section has considered limitations of the study. These were divided into four areas comprising conceptual issues, data collection issues, data processing issues and data interpretation issues.

## 9.7 FURTHER RESEARCH

In this Section further research opportunities following from this study are identified. These opportunities are divided into the following four areas for the purpose of discussion: conceptual; methodological; analytical and integrative.

First are **conceptual research opportunities**. The issue investigated in this study was the association between national cultural values and consolidation accounting disclosure practices in corporate annual reports. This is part of a general issue which international accounting researchers have been investigating and concerns the influence of environmental variables (such as cultural, economic, political, legal and other social factors) on accounting practice. There is a need for the inclusion of

additional variables and development of conceptual analyses incorporating these variables in both explanatory and predictive models.

Alternative conceptual models of national culture could be included in international accounting research. For example, in Section 9.6 the framework proposed by Hampden-Turner and Trompenaars (1993) was cited as an alternative to Hofstede's conceptual model of national culture.

The four accounting subcultural values proposed by Gray (1988) require further conceptual development. Additional accounting subcultural values may be proposed and a framework for defining and operationalising concepts of accounting subcultural values enhanced.

In this study the concepts of ED and DVED were introduced. These concepts have been discussed and the relationship between these concepts and accounting subcultural values outlined. The application of these concepts and their association with accounting subcultural values needs further research. For example, the accounting subcultural values of secrecy versus transparency and professionalism versus statutory control were hypothesised to be associated with the same national cultural values. Distinguishing between secrecy versus transparency and professionalism versus statutory control and their association with ED was not undertaken in this study which focused on national cultural values. Further research is required to operationally define and measure accounting subcultural values.

The concept of the 'global fit' of corporate financial disclosures was developed and operationalised in this study. This concept was sourced from AAA (1993). In this study the association of 'global fit' with national cultural values was investigated. Conclusions 4 and 5 indicated a significant association between national cultural values and EGF and DVEGF respectively. The relationship between the 'global fit' of

corporate financial statements and national environmental characteristics needs additional research. For example other environmental characteristics may be associated with the 'global fit' of corporate financial statements.

Second are **methodological issues**. In this study a CDI was developed to measure ECD and DVECD. The use of disclosure indices creates opportunities for further research. Disclosure indices are not definitive in accounting as they are in other disciplines such as economics, where for example price indices have general acceptability. The CDI used in the current study could be expanded to include additional items.

Alternatives to the use of disclosure indices could be explored. For example, word counts or content analysis could be employed to measure disclosure. The relationship between these alternative measures of disclosure and national cultural values could be investigated.

The use of multiple regression analysis may have limitations if the assumptions concerning the normality of the data are questionable. An alternative approach would be to use the censored regression model, which is referred to as Tobit analysis [see for example, Greene (1993, p.694)].

Third are **analytical issues**. The sample used in this study was drawn from the largest corporations in the selected countries. The inclusion of the largest corporations may have caused bias against finding an association between national cultural values and accounting disclosure practices because the largest corporations are more likely to be influenced by international factors and therefore not be associated with their domestic cultural values. An alternative would be to include smaller corporations in a similar study. This would involve a two group study comprising large and small corporation from a number of countries. The strength of association of national cultural values

with disclosure practices would be hypothesised to be stronger with the small corporation group than with the large corporation group.

The current study relied upon the English language version of corporate annual reports. Research examining disclosure in non-English language corporate reports could be conducted. This would require the researcher to have multi-language skills. If a large number of countries were to be included in a study involving corporate reports in several languages then it is unlikely that an individual researcher could undertake such research. In order to perform such research, teams would need to be established comprising researchers with the necessary language skills. An hypothesis to be investigated in such a study would be that non-English language reports had a lower EGF than English language reports.

This study focused on consolidation disclosure practices. Disclosures associated with other aspects of corporate reporting may also be expected to be influenced by national cultural values. For example, disclosures concerning such issues as environmental and social reporting, related party transactions, financial instruments and foreign currency translation may be expected to be associated with national culture. Studies of these associations using a methodology similar to that used in this study could be undertaken.

A final analytical opportunity for further research would involve extending the study over a number of years to investigate recursive elements of the contextual contingency model. The current study used cross-sectional data (annual reports for the 1992/3 financial years). A time series approach would indicate whether the 'global fit' of corporate disclosures was increasing over time. Also, the issue of whether the association of national cultural values with accounting disclosure practices was decreasing as a result of internationalisation of corporate reporting could be investigated by such a longitudinal study.

Fourth are **integrative issues**. Research in this study has focused upon the association of national cultural values and accounting disclosure practices. Accounting practices in corporate annual reports are subject to many influences. These influences can be modelled as a hierarchy. At the level of the individual corporation are characteristics such as the level of debt, the nature of management compensation contracts, the proportion of assets in place, the quality of the auditor and the listing status. The next level is the industry in which the corporation operates. The third level is the country of headquarters of the corporation, the number of international shareholders, the geographic spread of the corporation's operations and listing status on foreign stock exchanges. All of the above sources of influence on the set of accounting practices adopted by a corporation need to be included in a model. Much of contemporary accounting research focuses on only one of these levels. For example, contracting explanations of accounting choice usually do not consider the influence of international variables. Further research needs to be undertaken of an integrative nature, linking for example contracting explanations and international dimensions in explaining corporate accounting practices. Essentially, such research would be concerned with developing a comprehensive theory of international comparative financial accounting.

In this Section opportunities for further research have been outlined. These opportunities were classified into four areas: conceptual, methodological, analytical and integrative.

## 9.8 SUMMARY

This Chapter has outlined the conclusions and implications of this study. Five conclusions were stated in Section 9.2. The evidence indicates variations in consolidation disclosure practices in corporate annual reports are associated with national cultural values.

Implications arising from these conclusions were considered. First, theoretical implications concerning the association of national cultural values and accounting disclosure practices were considered. Second, disclosure implications concerning consolidation items were outlined. Third, implications concerning the harmonisation of accounting practices internationally were examined. The limitations of this study were discussed in Section 9.6 and opportunities for further research were outlined in Section 9.5. The contributions of this study to the literature were identified. In conclusion it is argued accounting practices appear to be associated with national cultural values. However, further research is required to identify the complex ways in which accounting practices are associated with variations in national cultural values.