Globalisation and Convergence of Accounting:

A Contextual Analysis of Issues, Attitudes and their Implications in the German Context

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Submitted to

Macquarie University

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For

Doctorate of Philosophy in Accounting

November 2011

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Declaration

The work presented in this thesis is my original work and has not been submitted for a higher degree to any other university or institution. The source of information used and the extent to which the work of others has been utilised is acknowledged in the thesis. I am the main author of all co-authored papers included in this thesis.

Sydney, 11 November 2012

Eva Heidhues

The empirical studies presented in this thesis (Chapter 4 and 5) were approved by Macquarie University's Ethics Review Committee (Human Research) under Reference No. HE02MAY2008-D05803 and HE31JUL2009-D00053.

Acknowledgements

It is my great pleasure to thank the many people who supported me over the last years and without whom this thesis would not have been possible.

First and foremost, I would like to thank my Supervisor, Chris Patel, who has been the most supportive and inspiring research mentor I could have possibly imagined. Thank you, Chris, for your academic advice and guidance and even more for your warm encouragements and friendship over the last years. I hope you know how much I appreciate it.

I would also like to express my gratitude to my fellow PhD Candidates. I am glad I could share my experiences, successes and also the occasional tougher times with you. In particular, I would like to thank Aleksandra Pop-Vasileva, Andreas Hellmann, Barbora Nevicka and Braddon Lance. Thank you for your critical suggestions, your personal and academic advice and just for being there; you certainly made my PhD Candidature a great time to remember.

Furthermore, I would like to extend my thanks to the Faculty of Business and Economics at Macquarie University for the generous PhD Scholarship that allowed me to pursue my PhD at Macquarie University. I would also like to thank the Faculty and the Department of Accounting and Corporate Governance for their financial support during my candidature. I really appreciate that I was given opportunities to attend international accounting conferences of excellent standard and present my research findings to international academics.

I would further like to acknowledge my colleagues in the Department of Accounting and Corporate Governance for their valuable advice and suggestions for improvement on various parts of this thesis. I would also like to extend my acknowledgements to Simone Scagnelli from the University of Turin in Italy and Axel Haller from the University of Regensburg in Germany for their help and support in the survey development and data collection process for the study on accountants' materiality judgments. Thank you for your critical suggestions for improvement.

My thanks also extend to Lisa Lines and Nicholas Brandenburg from Elite Editing who edited the final version of this thesis in accordance with the Institute of Professional Editors' 'Guidelines for editing research theses'.

Special gratitude belongs to my friends who probably had to listen to too many research ideas, challenges and complaints over the last years. Thank you, Mascha Jeschonke, Stefan Gruber, Amy Bull, Hannah Lippert and Paul McSweeney for taking the time to listen, providing advice and taking my mind off accounting research when needed. It is great to have friends like you.

Finally, I would like to thank my family without whom this thesis would not have been possible. There are not enough words to express my gratitude to my parents, Rudolf and Mathilde Heidhues. Thank you for your loving support and care and for your ability to always find the right words to encourage me no matter how far away I am. Thank you!

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List of Abbreviations

ADHGB	General German Commercial Code
ALR	Preußisches Allgemeines Landrecht (Prussian Civil Code)
BGB	Bürgerliches Gesetzbuch (German Civil Code)
BilKoG	Bilanzkontrollgesetz (Financial Reporting Control Act)
BilMoG	Bilanzrechtsmodernisierungsgesetz (Modernisation Act)
BilReg	Bilanzrechtsformgesetz (Accounting Law Reform Act)
EU	European Union
EEC	European Economic Community
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GmbH	Gesellschaften mit beschränkter Haftung (limited liability companies)
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
IDW	Institut der Wirtschaftsprüfer (German Institute of Auditors)
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commission
ISA	International Standards on Auditing

KapAEG	Kapitalaufnahmeerleichterungsgesetz (Capital Raising Act)
KapCoRiLiG	Kapitalgesellschaften und Co.-Richtliniengesetz (Qualifying Partnerships Act)
KonTraG	Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (Governance Act)
SEC	Securities and Exchange Commission
SMEs	Small and Medium sized entities
TransPuG	Transparenz- und Publizitätsgesetz (Transparency Act)
UK	United Kingdom
US	United States

Abstract

This thesis provides a holistic examination of convergence with the adoption of International Financial Reporting Standards (IFRS) in Germany by taking into account the influence of political, legal, economic, social, cultural and historical factors on accounting principles and practices. Specifically, this study examines issues in the convergence process that may create constraints in achieving global comparability and importantly may challenge the International Accounting Standards Board's (IASB) main objective, namely, 'to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles' (IFRS Foundation 2011a, Preface to IFRS). In contrast to a significant number of prior research that has largely focused on quantifiable and narrowly focused theoretical approaches, this thesis provides a holistic examination with an emphasis on multi-disciplinary perspectives. The contextual analysis contributes to international accounting research by providing deeper and sharper insights into the convergence process as well as potential challenges and constraints to future development of IFRS and the IASB. Specifically, the findings show that international politics and power structures have an increasing influence on Germany's national accounting developments often without adequate consideration of normative evaluations by German stakeholders, which may result in challenges to future development and acceptance of IFRS in Germany. Moreover, the findings provide evidence of specific concerns regarding the political nature of the IASB, the technical superiority of IFRS and the extensive use of professional judgements in IFRS. These concerns are further substantiated by evidence that

professional accountants from Germany and Italy show systematic differences in their exercise of professional judgment, which raises concerns about the potential to achieve the IASB's main objective of international comparability of financial reporting. Accounting researchers, practitioners, educators and accounting standard setters are likely benefit from these insights that show the importance of contextual factors in the convergence process. Indeed, the findings contribute to international accounting research and practice by emphasising that convergence is a complex social and political process that requires researchers to critically examine contextual environments of countries rather than simply focus on measurement, quantification, simplification and categorisation.

Chapter 1

> In society, accounting performs a service function. Thus, it must reflect the cultural, economic, legal, social and political conditions within which it operates. Its technical and social usefulness depends on its ability to mirror these conditions (Choi and Mueller, 1978).

1.1 Introduction

This thesis critically examines convergence with the adoption of International Financial Reporting Standards (IFRS) in Germany by taking into account the influence of political, legal, economic, social, cultural and historical factors on accounting principles and practices. This study makes a contribution by examining issues in the convergence process that may create constraints in achieving global comparability and, importantly, may challenge the International Accounting Standards Board's (IASB) main objective: 'to develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles' (IFRS Foundation, 2011a, Preface to IFRS).[1] Specifically, this thesis examines convergence in Germany by analysing the development of German accounting and examining issues and attitudes concerning the application of professional judgement, which has increasingly been recognised as an important and controversial topic in international accounting (Barth, Landsman and Rendleman, 2000;

[1] The IASB replaced the International Accounting Standards Committee (IASC) in 2001. Since the establishment of the IASB, standards have been referred to as International Financial Reporting Standards (IFRS), whereas standards issued by the IASB's predecessor, IASC, have been referred to as International Accounting Standards (IAS). Given that the IASB endorsed IAS, this thesis uses the term 'IFRS' for both IAS and IFRS. Distinctions are only made where required from a historical perspective.

Chand and White, 2006; Dechow, Myers and Shakespeare, 2010; Patel, 2006; Theile, 2003).

This study applies a holistic approach, with an emphasis on multidisciplinary perspectives. As such, this study extends international accounting literature by incorporating literature from diverse areas and disciplines such as political studies, history, sociology and ethnology. In contrast to a significant proportion of prior research, which has largely focused on quantifiable and narrowly focused theoretical approaches, this study shows that accounting research and practice can be enhanced by critical examination of the contextual environments of countries, rather than simply focusing on measurement, quantification, simplification and categorisation.

The four papers included in this thesis examine convergence in Germany from multiple perspectives by providing in-depth insights into broader aspects and implications of globalisation and convergence as well as critically examining specific issues such as perceptions towards the IASB and the extensive use of professional judgement embedded in IFRS. By emphasising contextual factors such as political, legal, economic, social, cultural and historical environments, this thesis provides deeper and sharper insights into the convergence process by showing potential limitations, challenges and constraints to future development of IFRS and the IASB.

The remainder of this chapter is organised as follows. Section 1.2 sets the background to this thesis by locating convergence in the ongoing globalisation process and by providing relevant insights into the history of accounting harmonisation and convergence. Section 1.3 outlines the research questions and objectives of this study and

provides a brief summary of the four projects incorporated in this thesis. In Section 1.4, a summary of the methodology used in this thesis is provided. The contributions made by this thesis to international accounting research and practice are outlined in Section 1.5. Finally, Section 1.6 briefly outlines the structure of the thesis.

1.2 Globalisation and Accounting Convergence—Background and Relevant Definitions

Over the last three decades, the process of globalisation has substantially altered the discipline of accounting. International economic and political interdependence and the growth of multinational companies financed by increasing international financial markets have fostered an impetus for global accounting practices and policies aimed at achieving greater comparability and relevance (Gallhofer, Haslam and Kamla, 2011; Lehmann, 2005; Rezaee, Smith and Szendi, 2010; Roberts, 1991; Whittington, 2005). The motivations and pressures for greater integration of financial markets are evidenced by the increasing focus on international convergence and harmonisation in financial accounting (D'Arcy, 2001; Delvaille, Ebbers and Saccon, 2005; Gallhofer and Haslam, 2006; Ganz, Richardson and Tilakdari, 2004; Hail, Leuz and Wysocki, 2010a, 2010b; Qu and Zhang, 2010).

It is important to distinguish between international accounting harmonisation and convergence. Accounting harmonisation is commonly referred to as a ‘process of increasing the comparability of accounting practices by setting limits on how much they can vary. Harmonised standards are free of logical conflicts, and should improve the comparability of financial information from different countries’ (Choi, Frost and Meek,

2002, p. 291).[2] However, while based on increasing comparability of financial information by decreasing differences in accounting standards and practices, accounting harmonisation does not necessarily require global adoption of uniform accounting standards. By contrast, accounting convergence aims for the adoption of one set of international accounting standards. A comprehensive definition of accounting convergence is provided by Whittington (2005, p. 133):

> ‘Convergence’ means reducing international differences in accounting standards by selecting the best practice currently available, or, if none is available, by developing new standards in partnership with national standard setters. The convergence process applies to all national regimes and is intended to lead to the adoption of the best practice currently available.

Reflecting the increasing authority of the IASB as the international standard setter, international convergence is commonly used in the context of countries adopting IFRS.

The establishment of the International Accounting Standards Committee (IASC) in 1973, the predecessor to the IASB is largely considered to be the first international milestone of international accounting harmonisation. Founded by the accountancy bodies of ten countries (Australia, Canada, France, Germany, Ireland, Japan, Mexico, the Netherlands, the United Kingdom and the United States), the IASC had the broad objective of formulating international accounting standards. In this function, the IASC

[2] Similarly, Nobes (2008, p. 75) defines harmonisation as ‘a process of increasing the compatibility of accounting practices by setting bounds to their degree of variation’. Likewise, Doupnik and Perera (2009, p. 70) refer to harmonisation as ‘the reduction of alternatives while retaining a high degree of flexibility in accounting practices. Harmonization allows different countries to have different standards as long as the standards do not conflict’.

issued International Accounting Standards (IAS). However, for the first two decades, IAS allowed multiple options and were generally regarded as the result of a 'lowest-common-denominator' approach. Due to the limited success of the IASC in achieving international comparability, their approach changed in the 1990s with increasing efforts placed upon developing standards that could be endorsed by the International Organization of Securities Commission (IOSCO) for cross-listing purposes. This was achieved in May 2000, when the IOSCO's technical committee recommended to securities regulators that foreign issuers should be allowed to use core IAS to gain access to a country's capital market, instead of using national standards (Doupnik and Perera, 2009, pp. 69–113; Nobes, 2008).[3]

In 2001, the IASC was replaced by the International Accounting Standards Committee Foundation (IASCF), which oversees and appoints the members of the IASB, who in turn develop international accounting standards, referred to as IFRS since the establishment of the IASB. Given the increasing legitimacy problems and concerns regarding the IASC's commitment towards developing high-quality global accounting standards, the succession was accompanied by changes in the objectives and structure of the IASB. Indeed, the establishment of the IASB marked the starting point of a transition from accounting harmonisation to a focus on accounting convergence (Doupnik and Perera, 2009; Nobes, 2008, pp. 69–113). This focus on accounting convergence is evidenced by the four objectives of the IASB (IFRS Foundation, 2011a, Preface to IFRS):

[3] Of the fourteen countries represented in the IOSCO's technical committee, only Canada and the US refused the use of IAS for listing purposes for foreign companies and kept requiring reconciliation to local standards.

a) to develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles. These standards should require high-quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the various capital markets of the world and other users of financial information make economic decisions;
b) to promote the use and rigorous application of those standards;
c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings;
d) to promote and facilitate the adoption of IFRS, being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and IFRS.

Since the establishment of the IASB, IFRS have gained increasing momentum. According to a survey by Deloitte Touche Tohmatsu (2010), 89 countries have adopted, or intend to adopt, IFRS for all their domestic listed companies. As such, more than 100 jurisdictions, including the European Union (EU) and Australia, require or permit the use of IFRS. Canada, Korea and Argentina are among the most recent adopters, accepting IFRS in 2011 (IFRS Foundation, 2011b). The increasing importance of IFRS is further evidenced by the 'Norwalk agreement' between the IASB and the United States (US) Financial Accounting Standards Board (FASB), in which both boards pledged to apply their best efforts to achieve full compatibility of financial reporting standards by converging the US Generally Accepted Accounting Principles (GAAP) and IFRS. To this end, a number of short- and long-term convergence projects and

respective milestones towards achieving full convergence were identified in the 2006 Memorandum of Understanding (IFRS Foundation, 2008). In 2009, the IASB and FASB reconfirmed their commitment and agreed to intensify their efforts to complete major joint projects as described in the Memorandum (IFRS Foundation, 2009). Despite these convergence efforts, a final decision by the US Securities and Exchange Commission (SEC) on adopting IFRS into the financial reporting system for US issuers remains pending. Although the SEC is expected to make its final decision in 2011, with a potential adoption of IFRS in 2015 (SEC 2010a, 2010b), ongoing controversies and debates regarding IFRS adoption may lead to further postponements. US stakeholders have raised concerns regarding the principle-based approach of IFRS, which requires accountants to exercise their professional judgement and which stands in contrast to the rules-based approach of the current US GAAP. For example, opponents fear that increased reliance on professional judgement may harm inter-firm comparability (Agoglia, Doupnik and Tsakumis, 2011; Hail et al., 2010a). However, concerns have also been raised by stakeholders from other nations, who fear that the significant influence of the FASB on the development of IFRS may lead to an increasing 'Americanisation' of convergence. These concerns are fuelled by exposure drafts that are word-for-word replications of FASB standards, such as the first IFRS exposure draft on fair value measurement in 2009 (FASB, 2007; IASB, 2009). The current joint effort of IASB and FASB in the development of a revised conceptual framework has also drawn criticisms, particularly since the US has yet to commit to adopting IFRS (Deegan, 2009, p. 185). The increasing worldwide adoption of IFRS and the IASB's focus on achieving international comparability of financial reporting have led to a significant increase in research related to the exercise of accountants' professional judgement, the development and application of specific accounting standards and cross-

national and cross-cultural issues concerning adaptation, implementation and evaluation of IFRS (Ashbaugh and Pincus, 2001; Atwood, Drake, Myers and Myers, 2011; Byard, Li and Yu, 2011; Christensen, Lee and Walker, 2007; Daske, Hail, Leuz and Verdi, 2008; Ding, Hope, Jeanjean and Stolowy, 2007; Hail et al., 2010a, 2010b; McAnally, McGuire and Weaver, 2010; Tyrrall, Woodward and Rakhimbekova, 2007). In these ongoing controversial discussions about the adoption of IFRS and with regard to the objective of the IASB to enhance global comparability of financial information, researchers have increasingly emphasised the importance of distinguishing between the harmonisation of accounting regulations and standards—referred to as 'de jure' harmonisation—and the harmonisation of accounting practices, known as 'de facto' harmonisation (Doupnik and Perera, 2009, p. 70; Nobes, 2008, p. 75). This distinction between 'de jure' and 'de facto' accounting harmonisation is important given that harmonisation of accounting standards ('de jure' harmonisation) may not necessarily lead to harmonisation of accounting practices ('de facto' harmonisation) and thus may contradict the IASB's main objective. Indeed, international accounting researchers have debated the potential of achieving global convergence of accounting practices because of the significant social, cultural, legal, political and economic differences across countries (Hoogendoorn, 2006; Nobes, 2009; Schultz and Lopez, 2001). This debate has been further reinforced by research providing evidence that consistent accounting regulations or standards may not necessarily lead to consistent application of standards in practice across countries (Canibano and Mora, 2000; Chand and White, 2006; Doupnik and Riccio, 2006; Doupnik and Richter, 2003, 2004; Psaros, Patel and Wanakulasuriya, 2003; Rahman, Yammeesri and Perera, 2010; Schultz and Lopez, 2001).

The increasing number of studies examining IFRS and debating the advantages of international accounting convergence and the specificities of IFRS provide evidence of the timeliness and topicality of this thesis. Importantly, while prior research has largely focused on quantifiable and narrowly focused theoretical approaches, this study aims to demonstrate that critical examination of countries' contextual environments can enhance accounting research and practice. Until now, contextual and critical insights into determinants of IFRS adoption and development as well as emerging issues and biases have received remarkably little attention, as aptly emphasised by Hopwood (1994, p. 250–251):

> our understanding of many key aspects of international accounting is more rudimentary than many people think and than some would want us to believe. The processes of institutionalization in the area are poorly understood. The emergence of interests in international accounting has not been explored. Little is known to outsiders of the complex and shifting politics that pervade the area.

Almost two decades later, international accounting research is still criticised for failing to provide in-depth contextual insights into the convergence process that take into account relevant interdependencies, interests and politics (Chua and Taylor, 2008). A deeper understanding of the determinants of IFRS adoption, relevant national characteristics and current issues can help identify potential limitations, challenges and constraints to the future development of IFRS and the IASB. As such, international accounting researchers, standard setters, practitioners and educators would benefit from a contextual and critical analysis with an interdisciplinary focus. This study contributes to the literature by providing a critical and contextual evaluation of accounting development and convergence in Germany. The focus is on contextual factors as well as the influence of international politics, power struggles and legitimacy concerns and their interdependencies.

1.3 Aim and Objectives

The objectives of this thesis are addressed in four research projects that examine various aspects of convergence in Germany including the relevance of categorisations of national accounting models as well as specific issues relating to the adoption of IFRS and the application of professional judgement in IFRS in particular. Specifically, the four research projects have the following objectives:

1. to critically examine the theoretical and methodological contributions and limitations of prior research that aims to cluster and classify national accounting models;

2. to provide a holistic examination of accounting development and IFRS adoption in Germany;

3. to develop a theoretical framework to critically evaluate the relationships between power structures, perceived legitimacy and individual attitudes towards international standard-setting processes and principles;

4. to empirically investigate cross-cultural differences in German and Italian accountants' judgements related to materiality judgements and investigate the factors that influence these judgements.

Additional information related to the four papers that are part of this PhD thesis are provided below.

1.3.1 Paper 1: A Critique of Gray's Framework on Accounting Values Using Germany as a Case Study

This paper critically evaluates Gray's framework on accounting values, with specific reference to the issues surrounding this framework's largely unquestioned adoption in international accounting literature. Using Germany as a case study, this paper shows that reliance on simplistic quantified theoretical models fails to enhance our understanding of accounting systems and may result in misleading and dubious classifications. The paper proposes that international accounting research may be further enhanced by taking into account contextual factors such as political, legal, social and historical environments of countries. Applying this more holistic approach to Germany, the paper provides additional insights into the factors differentiating German accounting, and specifically German disclosure rules, from other accounting models.

This paper addresses the first objective of this thesis by providing evidence that international accounting research will be enhanced by examining accounting in its social and institutional context rather than focusing on technical considerations and broad classifications. The findings of the first paper set the background and methodological approach for the other three research projects by providing evidence that reliance on oversimplified classifications neglects the distinctiveness of national accounting models and the factors that shape these models. This thesis views accounting research as a social and dynamic discipline that requires ontological and epistemological openness and multiple discourses in its debates rather than compartmentalisation into categorisations, dimensions and clusters.

This paper has been published in *Critical Perspectives on Accounting*:

Heidhues, E. & Patel, C. (2011). A critique of Gray's framework on accounting values using Germany as a case study. *Critical Perspectives on Accounting*, *22*(3), 273–287.

1.3.2 Paper 2: Adoption of IFRS in Germany: A Neo-Institutional Analysis

This paper examines the adoption of the IFRS in Germany from a neo-institutional perspective. Based on a historical review of German accounting, this paper examines the institutional dynamics of international accounting harmonisation and convergence by referring to the influence of coercive, mimetic and normative forces on the adoption of IFRS in the German context.

This paper addresses the second objective of this study by providing a holistic examination of the convergence process that identifies the influence of country-specific contextual factors and international developments. This critical evaluation of institutional dynamics in international accounting harmonisation and convergence enhances international accounting research by providing insights into the importance of legitimacy and power as motives in the adoption process. It builds on the findings of the first paper by examining the importance of contextual factors in the convergence process in Germany. Further, the findings of this study regarding the relative importance of coercive, mimetic and normative forces in the adoption process may provide an impetus for further evaluation of the motives of and consequences for actors and institutions in the international convergence process. The findings of this paper, which provide insights at the national level, contribute to the motivation of the third paper,

which examines individual perceptions and attitudes towards the IASB and the promotion of professional judgement in the convergence process.

An earlier version of this paper was presented at the *2007 European Critical Perspectives on Accounting Conference* in Glasgow, UK. Feedback from conference participants has been included in the revised paper in this thesis.

1.3.3 Paper 3: The Influence of Power and Legitimacy on German Attitudes towards the IASB and the Promotion of Professional Judgements

This paper provides insights into issues and concerns regarding the exercise of professional judgement related to IFRS from a German perspective. Evidence is drawn from semi-structured interviews with German accountants and leading accounting academics and from a content analysis of German professional journals and newspaper publications. Specifically, this paper examines German public perceptions of the increasing promotion of professional judgement by the IASB and evaluates the relationships between power structures, perceived legitimacy and individual attitudes towards international standard-setting processes. The paper further aims to make a methodological contribution to international accounting research by developing an integrative model of public perception of the standard-setting process by linking interviewees' perceptions of professional judgement to power structures and legitimacy considerations.

This strand of research is important because legitimacy perceptions and attitudes may influence and define support and opposition to the international convergence process.

Given the increasing adoption of IFRS around the world, the findings may be of interest to regulators, international accounting researchers, practitioners and standard setters. Further, this paper encourages empirical examination of differences in the practical application of professional judgement: the topic of the fourth and final paper of this thesis.

An earlier version of this paper has been presented at the *2009 International Association for Accounting Education and Research (IAAEER)—Associação Nacional do Programas de Pós Graduação em Ciências Contábeis (ANPCONT) Congress on International Accounting* in Sao Paulo, Brazil.

1.3.4 Paper 4: The Influence of Uncertainty Avoidance on Accountants' Materiality Judgements: A Cross-Cultural Study of German and Italian Accountants

The final paper of this thesis examines cross-cultural differences in materiality judgements of German and Italian accountants. Germany and Italy have been selected because both countries belong to the Continental European accounting model and very little research has addressed differences in the judgements of accountants from countries with similar accounting models. Indeed, researchers often assume that professional accountants within a cluster such as the Continental European accounting model have similar cultural values and are largely consistent in their exercise of professional judgement (Garcia Lara and Mora, 2004). Furthermore, despite well-known methodological and theoretical limitations, previous cross-cultural accounting studies have largely focused on examining the influence of Hofstede's (1980) uncertainty

avoidance measure on accountants' materiality judgements. Importantly, Hofstede's (1980) value survey model was developed to measure culture at the national level. As such, Hofstede's (1980) measures do not allow evaluation and prediction at the individual level without causing an ecological fallacy by drawing inferences about individual behaviour from data about aggregates. This study addresses this methodological limitation by using Yoo and Donthu's (1998, 2002) measure of individual uncertainty avoidance. Further, a number of contextual factors have been taken into account to provide deeper insights into cultural differences. Drawing on relevant sociological, psychological and historical literature, this study proposes the following hypothesis.

H1: Compared to Italian professional accountants, German professional accountants are more conservative in their materiality judgements.

H2: There is a positive relationship between professional accountants' individual level of uncertainty avoidance and conservatism in materiality estimates.

For the purpose of comparison and to evaluate prior research, the paper includes a third hypothesis by calculating Hofstede's uncertainty avoidance scores.

H3: Countries with higher uncertainty avoidance scales provide more conservative materiality estimates compared to countries with lower uncertainty avoidance scales.

Data to test the hypothesis was collected using a survey questionnaire administered to professional accountants in Germany and Italy. To ensure greater equivalence between

subjects from the two countries, both German and Italian accountants were required to hold current membership in a professional accounting body in their respective country. German participants were required to be certified auditors *(Wirtschaftsprüfer*), who belong to the Chamber of Auditors (*Wirtschaftsprüferkammer*). Italian participants were required to be certified accountants (*Dottori commercialisti ed Esperti Contabili*), who belong to the Italian accounting professional body (*Ordine dei Dottori Commercialisti ed Esperti Contabili—CNDCEC*). Reponses from a sample of 224 respondents were analysed using Mann-Whitney U tests and correlation analysis.

The results of this study challenge the simplistic categorisation of countries into clusters and the accompanying assumptions of similarities within clusters. The results also provide support for examining accounting by taking into account the unique social, political and economic factors in a country. The findings are relevant to researchers, practitioners and standard setters because the evidence shows how professional accountants' within a country cluster significantly differ in their interpretation and application of IFRS and the potential factors causing these differences.

An earlier version of this paper has been presented at the *2011 European Accounting Association 34th Annual Congress*, Rome, Italy, April 2011.

1.4 Methodology

Concerned with the influence of contextual factors on accounting development and convergence in Germany, this study adopts a holistic approach that is consistent with an understanding of accounting as a socio-technical function (Choi and Mueller, 1978;

Jaggi and Low, 2000; Patel, 2004). As such, the study focuses on the influence of political, legal, social, cultural, historical and economic factors on accounting and accountability in Germany.

Research has shown that contextual factors account for differences in accounting systems as evident in the different categorisations of accounting models. However, comparisons and categorisations of countries often fail to provide in-depth insights into the specificities of national accounting systems (Ali and Hwang, 2000; Ball, Kothari and Robin, 2000; Choi et al., 2002; Gray, 1988; Nobes, 1998; Nobes and Parker, 1995, 2004; Radebaugh and Gray, 2002). In addition to categorisations of accounting models, accounting research has been increasingly concerned with specific contextual factors, with a particular focus on culture since Gray's (1988) theoretical paper about the influence of cultural variables on national accounting models (Agracer and Doupnik, 1991; Braun and Rodriguez, 2008; Chan, Lin and Lai Lan Mo, 2003; Doupnik and Richter, 2004; Eddie, 1990; Gul and Tsui, 1993; Yamamura, Stedham and Satoh, 2004). However, with only a few exceptions (Chand and White 2006; Chand, Day and Patel, 2008; Patel, 2004, 2006) many of these studies fail to provide a comprehensive insight into the cultural variable.

In relation to this lack of multidimensionality in cross-cultural studies, Patel (2004) advocates the inclusion of relevant historical, sociological and psychological literature to provide a holistic and comprehensive insight. Similarly, Baskerville (2003) emphasises the role of a nation's political, social and economic organisation in understanding specific accounting practices. However, international accounting research faces two main issues in this regard. Categorisations of accounting models often fail to

capture the complex features of a national accounting system by making something complicated seem simple by ignoring important parts of it. Further, research that measures the influence of a specific variable such as culture often neglects the multidimensionality and interdependence of contextual factors.

Consistent with Patel's (2004) and Baskerville's (2003) suggestions, this thesis provides a holistic examination by including the relevant political, cultural, economic, social, legal and historical factors. This multidisciplinary approach captures the socio-technical function of accounting as well as the interdependent nature of contextual factors (Bourdieu, 1998), which have often been marginalised in accounting research (Baskerville, 2003; Patel, 2004).

The objective to provide holistic insights into accounting development and convergence in Germany requires inclusion of various methodological approaches in the papers comprising this thesis. The critical analysis of accounting categorisations in Paper One further emphasises the need for multiple discourses in research on convergence of accounting and accountability. As such, the remaining three papers focus on integrating multidisciplinary perspectives and methodological approaches. Specifically, the second paper on accounting development and adoption of IFRS in Germany concentrates on neo-institutional theory and legitimacy considerations. Neo-institutional theory provides a valuable theoretical framework in this context because of its focus on the environment as an essential constituent in establishing the social structures of an institution. Moreover, neo-institutional theory emphasises the importance of legitimacy and social acceptance in institutional development and change, which provide valuable insights in explaining IFRS adoption in Germany.

The third paper further extends this focus on legitimacy by integrating the influence of power on legitimacy perceptions and attitudes towards the promotion of professional judgement by the IASB. Specifically, the third paper explores the relationships between perceived characteristics of the standard-setting process, legitimacy considerations and attitudes towards the IASB and its emphasis on promoting professional judgement. Given the paper's focus on multiple interrelated factors of influence that are difficult to quantify, a qualitative research approach was considered appropriate. Indeed, qualitative research is considered particularly beneficial when exploring relationships between factors that are complex, dynamic and influenced by the broader contextual environment (Eisenhardt, 2002; Stake, 1995; Yin, 2003).

Fourteen German professional accountants and leading academics were selected and interviewed. These data were further enhanced by a content analysis of public press releases and newspaper articles from Germany's largest business and finance newspaper, *Handelsblatt*, from the adoption of IFRS in 2005 until October 2010. The combination of both interviews and content analysis was considered capable of generating detailed insights and ensuring data reliability. Importantly, contrary perceptions and attitudes were carefully deliberated to ensure a balanced and comprehensive examination.

As discussed previously, this thesis advocates using a range of theoretical and methodological approaches to provide holistic insights into accounting development and convergence in Germany. Consistent with this approach, the final paper uses the hypothetico-deductive approach to examine cross-cultural differences in German and

Italian accountants' materiality judgements. Political, social, cultural, legal and historical factors in Germany and Italy's environments have been taken into account in the *a priori* hypothesis development. Data to test the hypothesis proposed in this paper were collected as part of a survey questionnaire administered to accountants holding membership to a professional accounting body in Germany or Italy. Participants' exercise of professional judgement was examined by providing a realistic scenario that could be representative of decisions professional accountants would encounter in practice. Reliability and validity of the instrument was further enhanced by extensive pilot testing. Further, a double back-translation process was undertaken to ensure the consistency of the different language versions. Data of 224 respondents were statistically analysed using the Mann-Whitney U test to show significant differences in the materiality judgements of German and Italian accountants. Finally, correlation analysis was used to examine the influence of uncertainty avoidance on individual accountants' judgements.

In summary, the methodology of this thesis aims to provide in-depth holistic insights into accounting development and the adoption of IFRS in Germany, with a particular emphasis on the influence of social, political, cultural, economic and historical factors. The multidisciplinary approaches and methodologies of the separate papers correspond to this objective and contribute to international accounting research by emphasising accounting as a social and institutional structure.

1.5 Contributions

This thesis makes several theoretical and methodological contributions to international accounting research, specifically in the area of accounting development, international convergence and accountants' professional judgement. This thesis provides an evaluation of convergence in Germany by taking into account the German accounting development and by examining issues and attitudes concerning the application of professional judgement. Primarily, this thesis contributes by providing insights into German accounting development and by indicating issues in the convergence process that may create challenges and constraints in achieving the IASB's main objectives.

The first paper provides evidence of the limitations of international accounting categorisations by providing a critical evaluation of Gray's framework on accounting values. Importantly, the paper shows that quantified theoretical models largely fail to enhance our understanding of accounting systems. In contrast, the case study of Germany provides evidence that additional insights can be gained by evaluating accounting in its social and institutional context. Indeed, the paper shows that reliance on simplistic cultural dimensions and accounting values largely fails to capture the factors defining and differentiating national accounting models. As such, the paper contributes to international accounting research by emphasising the importance of understanding accounting as a social discipline that requires contextual and holistic examinations.

The second paper responds to recent calls for greater contextual insights into the determinants of IFRS diffusion (Chua and Taylor, 2008; Judge, Li and Pinkster, 2010).

The paper reveals that the influence of power and politics on the adoption of IFRS in Germany may have significant implications for its future development and acceptance. Using Germany as a case study, the paper shows that a lack of normative alignment with a nation's socio-economic and political environment may result in ongoing discussions about the applicability and superiority of IFRS as 'best' international practice. Further, by taking a neo-institutional perspective, contributions have been made to explaining the determinants of opposition towards IFRS and the IASB.

The third paper makes two major theoretical and methodological contributions. From a methodological perspective, the study proposes a theoretical framework that aims to provide insights into the determinants of individual attitudes towards standard-setting processes by referring to power structures and perceived legitimacy. The explorative findings reveal issues and concerns related to the standard-setting process of the IASB that may create challenges with regard to the acceptance of future developments of IFRS. Moreover, the findings in the German context provide further evidence of the necessity to integrate broader perspectives in evaluating standard-setting processes of the IASB.

The final paper of the thesis provides evidence that professional accountants from Germany and Italy significantly differ in their materiality judgements and shows some of the factors influencing accountants' professional judgement. As this study reveals, it is a misconception that in countries with similar accounting models, accountants will make comparable professional judgements. This finding may challenge the IASB's assumption that the application of one set of accounting standards will lead to financial comparability across countries. This study also makes methodological contributions to

cross-cultural accounting research by providing evidence of the limitations of applying Hofstede's uncertainty avoidance dimension in accounting research. Consistent with the previous papers of the thesis, the findings of the final study reinforce the need for including broader perspectives in international accounting research.

1.6 Organisation of the Thesis

This thesis is comprised of six chapters. Chapters Two, Three, Four and Five correspond to the four papers that, in their entirety, examine accounting development and issues in the German convergence process. The order of the four papers in this thesis follows a structured approach by critically examining broader issues in international accounting and convergence in Germany prior to an in-depth evaluation of individual attitudes towards professional judgement and its specific application in the German context. Based on the findings of the four separate papers, the sixth chapter provides the conclusions of the thesis.

Given that this thesis follows the 'thesis by publication' approach, the references for the introduction, conclusion and each paper have been provided at the end of each respective chapter. The reference list at the end of the thesis amalgamates the references of the entire thesis. The semi-structured interview guide that was used to collect data on accountants' perceptions and attitudes regarding professional judgment and the IASB (Paper Three, Chapter Four) has been included in the Appendix. Similarly, the survey questionnaire that was used to collect data for the empirical study on differences in the exercise of professional judgement (Paper Four, Chapter Five) has been included in the Appendix.

Chapter 1	Introduction and Overview	
Chapter 2	Paper 1:	A Critique of Gray's Framework on Accounting Values Using Germany as a Case Study
Chapter 3	Paper 2:	Adoption of IFRS in Germany: A Neo-Institutional Analysis
Chapter 4	Paper 3:	The Influence of Power and Legitimacy on German Attitudes towards the IASB and the Promotion of Professional Judgements
Chapter 5	Paper 4:	The Influence of Uncertainty Avoidance on Accountants' Materiality Judgements: A Cross-Cultural Study of German and Italian Accountants
Chapter 6	Conclusion	

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Chapter 2: A Critique of Gray's Framework on Accounting Values Using Germany as a Case Study

2.1 Abstract

In the move towards globalisation and convergence, the influence of culture on accounting has been increasingly recognised as an important and controversial topic. However, quantified and narrowly focused approaches such as Gray's (1988) framework of accounting values and various extensions of it have largely dominated and strongly influenced cross-cultural accounting research and education without a critical evaluation of their theoretical and methodological limitations. Indeed, a significant number of studies, curricula and textbooks in international accounting have uncritically adopted Gray's exploratory framework. As such, the objective of this paper is to show the limitations of Gray's proposed hypotheses and the issues associated with the framework's largely uncritical adoption in international accounting literature. We provide evidence that Gray's framework gained authority and prominence in international accounting research largely because of subsequent researchers' unquestioning acceptance and application of this methodology. We propose that international accounting research may be further enhanced by taking into account contextual factors such as political, legal, social and historical environments of countries. Using Germany as a case study, we apply this more holistic approach to provide additional insights into the factors differentiating German accounting from other accounting models. We recommend that accounting research be enhanced by a

critical examination of the contextual environments of countries, rather than a focus on measurement, quantification, simplification and categorisation.

2.2 Introduction

International harmonisation of accounting standards and the move towards convergence have revived an increasing interest in the influence of culture in accounting and auditing. The growing number of countries adopting IFRS and the increasing acceptance of International Standards on Auditing (ISA) has further raised researchers' attention. For example, more than 100 countries require or permit the use of IFRS, with more countries, such as Canada, India and Korea, planning to adopt IFRS by 2011 (Deloitte Touche Tohmatsu, 2007; IASB, 2007). This move towards convergence is driven largely on assumptions and assertions based on enhancing international comparability of accounting and auditing information.

However, it is important to note that IFRS and IAS strongly rely on the 'substance-over-form' approach, with a strong reliance on professional judgement. There is ample evidence that accountants' and auditors' professional judgements are influenced by cultural values. Indeed, a growing number of studies have analysed the influence of culture on standard setting (Bloom and Naciri, 1989; Ding et al., 2005; Schultz and Lopez, 2001), auditor independence (Agacer and Doupnik, 1991; Hwang, Staley, Chen and Lan, 2008; Patel and Psaros, 2000) and accountants' values and judgements (Doupnik and Riccio, 2006; Doupnik and Richter, 2003, 2004; Patel, 2003). Although culture has long been recognised as an important and controversial topic in accounting, a large number of cross-cultural accounting studies have failed to capture the

complexity and richness of cultural influences (Belkaoui and Picur, 1991; Lindsay, 1992; Patel, 2004; Welton and Davis, 1990). Moreover, quantified and narrowly focused dimensional approaches such as Hofstede's (1980) and Hofstede and Bond's (1988) cultural dimensions, Gray's (1988) framework of accounting values and the various modifications of that framework have largely dominated cross-cultural accounting research. Indeed, a significant number of studies, such as Williams and Tower (1998), Schultz and Lopez (2001) and Hope et al. (2008), have tested and applied Gray's (1988) exploratory framework without critically evaluating its relevance and soundness. Additionally, curricula and textbooks in international accounting such as Mathews and Perera (1991, 1993, 1996), Roberts et al. (2002, 2005) and Doupnik and Perera (2009) have also relied heavily on Gray's (1988) framework, often without questioning its assumptions. In the remainder of this paper, Gray's (1988) framework of accounting values and the various modifications and extensions of that framework will be referred to as 'Gray's framework'.

Based on Hofstede's (1980) four cultural dimensions, Gray (1988) developed an exploratory framework incorporating four accounting values: professionalism, uniformity, conservatism and secrecy. He proposed that these values 'may be used to explain and predict international differences in accounting systems and patterns of accounting development internationally' (Gray 1988, p. 5). Specifically, Gray (1988) hypothesises that Hofstede's (1980) cultural dimensions of power distance, individualism, uncertainty avoidance and masculinity determine accounting values, which explain the differences in accounting systems internationally. Gray's (1988) deterministic and componential framework resulted in the formulation of simplistic and narrowly defined hypotheses such as, 'the higher a country ranks in terms of uncertainty

avoidance and power distance and the lower it ranks in terms of individualism and masculinity the more likely it is to rank highly in terms of secrecy' (Gray, 1988, p. 11).

Since Hofstede (1980), Hofstede and Bond (1988) and Gray's frameworks have significant influence on accounting research and accounting education, it is important and timely that such deterministic and narrowly focused frameworks be critically evaluated. As such, the objective of this paper is to show the limitations of Gray's proposed hypotheses and the issues associated with the framework's largely uncritical adoption in international accounting literature. We provide evidence to show that Gray's framework gained authority and prominence in international accounting research largely because of subsequent researchers' unquestioning acceptance and application of Gray's methodology. In contrast to this 'oversimplification', we propose that international accounting research can be further enhanced by emphasising the importance of contextual factors such as political, legal, social and historical environments of countries.

Using Germany as a case study, we apply this more holistic approach to provide additional insights into the factors differentiating German accounting, and particularly German financial disclosure, from other accounting models and practices. Of the four accounting values specified in Gray's framework, the secrecy hypothesis has been formulated in a significant number of studies (Doupnik and Tsakumis, 2004; Gray and Vint, 1995; Hope, 2003; Hope, Kang, Thomas and Yoo, 2008; Jaggi and Low, 2000; Wingate, 1997; Zarzeski, 1996). Moreover, Gray's secrecy and conservatism hypotheses are considered to be the most important accounting values because of their

potential to influence recognition, measurement and disclosure of financial items (Doupnik and Riccio, 2006; Doupnik and Tsakumis, 2004).

Although Gray's framework claims to include 'ecological influences' and 'institutional consequences', these linkages are not clearly explained and are largely neglected in the development of his narrowly focused two-dimensional accounting values (Gray, 1988, p. 7). Indeed, the importance of political, legal, historical, social and economic factors and their interdependencies in evaluating national accounting models is not evident in the hypothesis development that specifically focuses on Hofstede's (1980) four societal values. It is our objective to show that valuable insights and greater understanding of national accounting systems can be achieved by using holistic and richer perspectives to provide deeper insights into culture, accounting values and its interdependencies.

Using Germany as a case study, this paper critically examines the influence of political, legal, historical, social and economic factors on Germany's accounting system and provides explanations as to why German accounting may be perceived to be more 'secretive', relative to accounting in other countries. Specifically, we demonstrate that the largely oversimplified application of Gray's framework may have led to misconceptions in the explanation and prediction of differences and similarities between accounting values and systems internationally. We argue that international accounting research should not be blinded by the simplicity of Hofstede's (1980) and Gray's framework, but should further focus on capturing the complexity of cultural and contextual influences on accounting by including more holistic perspectives.

The remainder of this paper is organised as follows. The first section introduces Gray's framework of accounting values and evaluates its uncritical adoption and application by subsequent researchers. The second section focuses on examining financial disclosure in the German accounting model. In light of this German case study, the final section concludes the paper by highlighting various reasons for the popularity of Gray's framework in mainstream international accounting research. The recommendation is also made for international accounting research to take into account the historical, social, economic and legal factors in a country, rather than perpetuating the narrow focus on measurement, quantification, simplification and categorisation.

2.3 Gray's Theoretical Framework of Accounting Values

As already discussed, Gray (1988) suggests that the accounting values of professionalism, uniformity, conservatism and secrecy may be used to explain and predict differences between national accounting models. Gray (1988, p. 8) defines these four accounting value dimensions as follows:

Professionalism v. Statutory control: 'a preference for the exercise of individual professional judgement and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control';

Uniformity v. Flexibility: 'a preference for the enforcement of uniform accounting practices between companies and the consistent use of such practices over time as opposed to flexibility consistent with the perceived circumstances of individual companies';

Conservatism v. Optimism: 'preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach';

Transparency v. Secrecy: 'preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach'.

Since Gray's framework is theoretically based on Hofstede's (1980) four-dimensional culture model, the next section provides a brief summary and definitions of Hofstede's (1980) societal value dimensions. In a later study, the Chinese Culture Connection (1987) empirically established a fifth dimension, Confucian Dynamism, which Hofstede also referred to as long-term versus short-term orientation (Hofstede, 1991).[4] However, Gray's (1988) framework is completely based on Hofstede's (1980) study. Therefore, we refer to Hofstede's (1980) four-dimensional model.

Hofstede's (1980) research claims to explore cultural differences and similarities among nations and controversially defines culture as, 'the collective programming of the mind that distinguishes one group or category of people from others' (Hofstede 1980, p. 25). Specifically, Hofstede (1980) proposes that culture is a system of societal norms that consists of value systems that are shared by major groups of the population. Importantly, he claims that societal values determine the development and maintenance

[4] Note that many cross-cultural accounting researchers have mistakenly attributed the development of the 'Confucianism' dimension to Hofstede (1980) or Hofstede and Bond (1988) rather than to the Chinese Culture Connection (1987).

of institutions and their way of functioning in society. Based on an extensive international survey that included data related to perceptions of work-related attitudes of IBM employees in over 50 countries, Hofstede (1980) concluded that four underlying societal value dimensions supposedly represent elements of common structures in societies. Hofstede (1980) further claimed that the four value dimensions of power distance, individualism, uncertainty avoidance and masculinity are useful for measuring and positioning the cultural values of individual countries against each other and in explaining institutional structures and behaviours. Hofstede (1984, p. 83) defines and describes the four value dimensions as follows:

Power Distance refers to 'the extent to which members of society accept that power in institutions and organizations is distributed unequally';

Individualism pertains to 'a preference for a loosely knit social framework in society wherein individuals are supposed to take care of themselves and their immediate families only. Its opposite, collectivism, stands for a preference for a tightly knit social framework in which individuals can expect their relatives, clan or other in-group to look after them in exchange for unquestioning loyalty';

Uncertainty Avoidance is defined as 'the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. (…) Strong uncertainty avoidance societies maintain rigid codes of belief and behaviour and are intolerant towards deviant persons and ideas. Weak uncertainty avoidance societies maintain a more relaxed atmosphere in which practice counts more than principles and deviance is more easily tolerated';

Masculinity and its opposite, Femininity, address the way in which a society allocates social roles to the sexes. 'Masculinity stands for a preference in society for

achievement, heroism, assertiveness and material success. Its opposite, Femininity, stands for a preference for relationships, modesty, caring for the weak and the quality of life'.

Based on these four societal values, Gray (1988, p. 9–11) formulated four directional hypotheses to link his four accounting values of professionalism, uniformity, conservatism and secrecy theoretically to Hofstede's (1980) four societal value dimensions:

1. The higher a country ranks in terms of individualism and the lower it ranks in terms of uncertainty avoidance and power distance then the more likely it is to rank highly in terms of professionalism.

2. The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism then the more likely it is to rank highly in terms of uniformity.

3. The higher a country ranks in terms of uncertainty avoidance and the lower it ranks in terms of individualism and masculinity then the more likely it is to rank highly in terms of conservatism.

4. The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity then the more likely it is to rank highly in terms of secrecy.

Gray (1988, p. 5) proposes that these hypotheses 'may be used to explain and predict international differences in accounting systems and patterns of accounting development

internationally' and further classifies countries into 10 clusters namely, 'Anglo', 'Nordic', 'Germanic', 'More Developed Latin', Less Developed Latin', 'African', 'Asian Colonial', 'Less Developed Asian', 'Japan' and 'Near Eastern'. Further, Gray (1988) suggests that there is a relationship between 'professionalism/uniformity', the authority of an accounting system and its enforcement. Gray proposes that 'conservatism' is the most relevant accounting value influencing measurement practices, while 'secrecy' is the most relevant accounting value in influencing disclosure of financial information. The following sections provide criticisms of Gray's framework and Hofstede's (1980) dimensions and evaluate issues with specific reference to their subsequent application by international accounting researchers and their widespread usage in accounting research and education.

2.4 Criticisms of Gray's Model of Accounting Values and Its Subsequent Application

In our earlier discussion, we stated that the influence of Gray's framework has grown significantly and achieved a dominant position in international accounting research and accounting education. This is evidenced by the significant number of studies that invoke or test Gray's framework (Askary, 2006; Baydoun and Willett, 1995; Chanchani and Willett, 2004; Doupnik and Richter, 2004; Eddie, 1990; Fechner and Kilgore, 1994; Gray and Vint, 1995; Hope, 2003; Jaggi and Low, 2000; MacArthur, 1996, 1999, 2006; Marrero and Brinker, 2007; Mathews and Reynolds, 2001; Perera, 1989; Roberts and Salter, 1999; Salter and Niswander, 1995; Schultz and Lopez, 2001; Sudarwan and Fogarty, 1996; Williams, 1999, 2004; Williams and Tower, 1998; Wingate, 1997; Zarzeski, 1996). More recent examples of publications that emphasise the continuing

popularity of Gray's framework in international accounting research include Askary, Yazdifar and Askarany (2008), Braun and Rodriguez (2008), Hooi (2007), Hope et al. (2008), Noravesh, Dilami and Bazaz (2007) and Rodriguez (2009). Moreover, most major international accounting textbooks use Gray's framework to show the influence of culture on accounting systems. Examples of such texts include Choi and Mueller (1992), Choi, Frost and Meek (1999, 2002), Doupnik and Perera (2009), Gernon and Meek (2001), Gray (1993, 1997, 2002), Gray, Salter and Radebaugh (2001), Mathews and Perera (1991, 1993, 1996), Nobes and Parker (2008, 2010), Radebaugh and Riahi-Belkaoui (1994), Roberts, Weetman and Gordon (1998, 2002, 2005, 2008) and Smith and Gurd (2000).

Subsequent researchers have largely ignored the major criticisms of Gray's framework. For example, researchers such as Braun and Rodriguez (2008), Hope et al. (2008), MacArthur (1999), Schultz and Lopez (2001, 2006) and Williams and Tower (1998) have uncritically adopted the conceptual foundation of Gray's framework. Recall that Gray (1988) develops his theoretical framework based on Hofstede's (1980) four cultural dimensions. However, Gray appears to be unaware of significant early criticisms of Hofstede's (1980) framework (Cooper, 1982; Roberts and Boyacigiller, 1984; Triandis, 1982; Westwood and Everett, 1987). For example, Robinson (1985, p. 115) concluded that:

> In sum, given Hofstede's theoretical orientation, sample, and method of analysis, the outcome of his study is predictable. Once he has elected to consider only between-country differences, chosen samples that exclude working class people and preclude analysis of within country differences and selected scale items on the basis of their ability to distinguish between countries rather than between individuals, classes or sexes, it is not at all surprising that he finds remarkable differences between societies in values. One wonders, in fact, how he could have reached any other conclusion.

It is important to note that Gray (1988, p. 6) provides a simplistic explanation regarding the validity of Hofstede's cultural dimensions by arguing that, 'if Hofstede has correctly identified Individualism, Power Distance, Uncertainty Avoidance, and Masculinity as significant cultural value dimensions then it should be possible to establish their relationship to accounting values'. Accounting researchers have largely failed to recognise the serious limitations of Hofstede (1980) and this lack of critical analysis significantly limits the validity of Gray's framework. For example, Baskerville (2003, p. 2) in an appropriately entitled paper, 'Hofstede never studied culture', concluded that 'the manner in which Hofstede established the dimensions of culture, and the subsequent reification of 'culture' as a variable in cross-national studies in accounting, led to dependence on cultural indices as an explanatory variable in accounting practices and behaviour'. Indeed, Hofstede's (1980) concept of national culture is highly simplistic and fails to take into account significant within country differences and ignores important contextual factors such as legal, social, political and economic influences on culture (Patel, 2004; Roberts and Boyacigiller, 1984). This shortcoming has been recognised in a growing body of literature relating to national diversity and the validity of Hofstede's (1980) dimensions in a globalised world. This literature recognises the importance of conflict and power in understanding culture (Alexander and Seidmann, 1990; Archer, 1989; Baskerville-Morley, 2005; Bock, 1999; Doupnik and Tsakumis, 2004; Harrison and McKinnon, 1999; McSweeney, 2002; Patel, 2004; Smelser, 1992).

Also note that Hofstede (1980, p. 54) collected his data between 1967 and 1973 and researchers such as Schultz and Lopez (2001), Williams (2004), Doupnik and Riccio (2006) often assume that these outdated data and conclusions are still applicable in the

twenty-first century. Finally, Hofstede's deterministic and static view of culture has largely been rejected in cross-cultural research (Baskerville, 2003; Billig, 1994; Myers and Tan, 2002; Patel, 2004). Indeed, an increasing number of researchers have progressed beyond deterministic and synchronic versions of culture (Billig, 1994, p. 661) to a view of culture as 'contested, temporal and emergent' (Kahn, 1989, p. 13).

Despite the significant number of criticisms, Hofstede's work has been applied extensively in international accounting and accountability research (Beugelsdijk and Frijns, 2010; Chan et al., 2003; Chow, Harrison, McKinnon and Wu, 2002; Doupnik and Riccio, 2006; Harrison, 1992; HassabElnaby and Mosebach, 2005; Hope et al., 2008; Hughes, Sander, Higgs and Cullinan, 2009; Kachelmeier and Shehata, 1997; Smith and Gurd, 2005; Smith and Hume, 2005; Soeters and Schreuder, 1988; Sudarwan and Fogarty, 1996). It is argued that 'the use of Hofstede's indices of cultural dimensions appeared to give cross-cultural studies in accounting stature and scientific legitimacy, and respectability within accounting research' (Baskerville, 2003, p. 11). Likewise, we argue that the uncritical adoption and application of Gray's framework provides evidence of an 'overgeneralisation' of theoretical approaches based on assumptions of scientific legitimacy and respectability. For example, Braun and Rodriguez (2008, p. 4) are critical of Gray's framework but conclude that, 'we build our hypothesis and empirical tests on the presumption that the framework is effective at explaining financial reporting outcomes.' Indeed, Gray's framework does not only reflect the serious limitations and failings of Hofstede's dimensions, but its subsequent large-scale applications further promoted the use of theoretically and methodologically questionable approaches in international accounting research. It appears that international accounting research is driven by a strong impetus to provide classifications

and categorisations, often without considering whether these categorisations provide relevant insights. This focus on measurement also applies to other research, such as the relevance and value of quantitative corporate governance research (Shapiro, 2006).[5] Similarly, cross-cultural accounting research appears to be in danger of relying on overgeneralisations and obsession with categorisations and cultural dimensions that often fail to capture the complexity and dynamics of cultures. Exceptions to this strong emphasis on positivistic research have been provided by researchers such as Carnegie and Napier (2002), who have shown the importance of including historical factors and social processes in the study of accounting change and diffusion. Further, Patel (2003, 2006) provides evidence of the potential synergies and benefits that arise from cross-cultural accounting studies combining qualitative and quantitative methodologies and incorporating interdisciplinary perspectives.

Importantly, concerns exist regarding the validity of Gray's framework, despite numerous attempts to test its validity (Doupnik and Tsakumis, 2004). In particular,

[5] Similar concerns may be raised regarding some quantitative cross-cultural management studies. For example, Crossland and Hambrick (2007) aim to provide evidence on the CEO effect on organisational outcomes in Germany, Japan and the US by applying a variance components analysis methodology. Although providing insights into different national values and institutional structures as part of their theoretical argument, a group of German firms were excluded from the statistical analysis because of taking executive decisions as a group and thus not fulfilling the criteria of having a designated CEO. Moreover, Crossland and Hambrick (2007) mention that some German companies have a speaker rather than a designated chairman, which they recognise as a weaker executive position. However, these differences were not taken into account in the statistical analysis in which speakers were coded as CEOs. Although these categorisations allow the authors to run statistical comparisons among CEOs in Germany, Japan and the US, the relevance of the results may be improved by extending such quantitative cross-cultural management studies to include further qualitative data and critical literature.

Gray's (1988) secrecy hypothesis has been subjected to a number of empirical tests by international accounting researchers. While some studies provide partial support for Gray's (1988) hypothesis (Gray and Vint, 1995; Zarzeski, 1996), these results and, specifically, the hypothetico-deductive methodologies on which these studies have largely been based should be questioned. For example, studies examining Gray's secrecy hypothesis by taking into account various contextual factors, such as the legal system, do not find evidence that Hofstede's cultural values influence 'secrecy' and 'transparency' in national accounting systems (Jaggi and Low, 2000; Sudarwan and Fogarty, 1996).

Moreover, Gray claims that his explanations of accounting values are 'derived from a review of accounting literature and practice' and often simply contrast aspects of Anglo-American accounting models to Continental European accounting models (Gray, 1988, p. 8). Gray seems to have followed Hofstede's clusters by suggesting an 'Anglo' cluster that includes the United Kingdom (UK), the US and the Anglophone Commonwealth countries, despite early accounting publications such as those of the American Accounting Association (1977), Frank (1979), Nair and Frank (1980), Nobes (1983), Previts (1975) and Seidler (1967), challenging the common assumption of homogeneity between accounting practices in the UK and US. Further, Gray (1988, pp. 12–13) relies on Hofstede's statistical development of country clusters (1980, pp. 223, 316, 324) to formulate accounting clusters and relevant accounting values. Underpinning Gray's framework is the assumption that accountants in different countries basically represent the same distribution of cultural values as Hofstede's (1980) sample subjects. Therefore, if accountants systematically differ from Hofstede's (1980) subjects, then Gray's (1988) application of Hofstede's (1980) scores and rankings to infer accounting values is open

to criticism. However, these limitations have not diminished the popularity of Gray's (1988) framework and, indeed, many researchers have relied on Gray's (1988) hypotheses to simply derive national accounting values from Hofstede's (1980) societal values. As such, Gray's framework may have provided an excuse for subsequent researchers not to empirically investigate other possible dimensions of accounting values.

We argue that Gray's terminology may imply and promote the perception that Anglo-American accounting models and principles are superior to other accounting models. Consequently, this terminology may increase biases against the Continental European accounting model. For example, Gray (1988) refers to 'professionalism' to describe Anglo-American accounting models and 'statutory control' to explain accounting in Continental European accounting models. 'Professionalism' is defined as 'preference for the exercise of individual professional judgement and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control' (Gray, 1988, p. 8). Further, professionalism is related to the judgements of accountants, whereas statutory control refers to the role of accountants, who are primarily concerned with the implementation of prescriptive and detailed legal requirements. As such, Gray's (1988) choice of concepts may promote the perception that Continental European accountants are inferior in terms of their 'professionalism'. We further suggest that similar judgemental biases can be identified in Gray's three other accounting values—'secrecy v. transparency', 'uniformity v. flexibility' and 'conservatism v. optimism'. Indeed, it would be interesting to examine accountants' perceptions of concepts such as 'transparency', 'optimism' and 'flexibility', which are used to describe Anglo-American accounting models, as

compared to accountants' perceptions of concepts such as 'secrecy', 'conservatism' and 'uniformity', which are used predominantly to describe Continental European accounting models.

As discussed previously, Gray's framework has been adopted in many international accounting texts. As such, students all over the world are taught Gray's framework and hypotheses, often without critically discussing its theoretical foundations. Further, many textbooks uncritically feature Gray's graphical mapping of accounting systems, giving authority to the existence of cultural clusters based on linkages between Hofstede's societal values and Gray's accounting values (Choi and Mueller, 1992; Choi et al., 1999, 2002; Doupnik and Perera, 2007; Gray et al., 2001; Mathews and Perera, 1991, 1993, 1996; Radebaugh and Gray, 1993, 1997, 2002). This strong emphasis on Gray's accounting values and its graphical representation of cultural clusters in international accounting textbooks is of particular concern considering that Gray (1988) did not provide any statistical details on how he used Hofstede's data to calculate the positioning. While it is important and valuable to introduce international accounting students to various models and their application, we argue that the often uncritical description of Gray's framework may give greater authority to Gray's hypotheses and classifications than can be derived from Gray's framework. It is also important to note that some textbooks have provided a more balanced discussion of Hofstede's societal dimensions and Gray's hypotheses in their recent editions (Gernon and Meek, 2001; Nobes and Parker, 2008, 2010; Riahi-Belkaoui, 1994; Roberts et al., 1998, 2002, 2005, 2008, Smith and Gurd, 2000).

Gray's framework has often been applied to show differences between national accounting models and between the Anglo-American and the Continental European accounting model in particular (Choi and Mueller, 1992; Choi et al., 2002; Radebaugh and Gray, 1993, 1997, 2002). These categorisations have become more important with increasing convergence of accounting standards and adoption of the IFRS as national or regional standards (Flower, 1998; Zeff, 1998). Considering the level of attention Gray's framework has been receiving, it is important and timely to examine its limitations in greater detail.

The next section provides a detailed analysis of the German accounting model to show the limitations of Gray's framework. In particular, we provide evidence that Gray's framework largely fails to provide insights into similarities and differences between national accounting models. We aim to critically assess Gray's framework by providing valuable explanations for the structure and development of financial disclosure in Germany.

2.5 Germany's Accounting Model: Gray's Accounting Values Applied

As discussed earlier, Gray (1988) proposes that Hofstede's (1980) cultural dimensions determine accounting values, which can then be used to categorise and predict differences between national accounting systems. Based on Hofstede's (1980) research, Germany's ranking on Hofstede's (1980) dimensions should predict a comparative positioning of Germany's accounting values and subsequently the structure and institutionalisation of its accounting model. Based on an extensive international survey on work-related attitudes of IBM employees, Hofstede (1980, 1983) generated societal

values and rankings for 50 countries including Germany. Table 2.1 shows the scores and rankings of Germany and, for comparison purposes, also the scores and rankings of the UK, the US and France. Higher scores and rankings in Table 2.1 indicate greater strength of the respective societal value in a country. It is important to note that Hofstede's (1980) dimensions and scores do not provide absolute scores but a relative positioning of countries. As such, the rank that Germany scored on Hofstede's (1980) dimensions is necessary to predict comparative positionings on Gray's (1988) two-dimensional accounting values.

Table 2.1. Hofstede Cultural Dimension Scores and Ranks by Country

Country	Individualism		Power Distance		Uncertainty Avoidance		Masculinity	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Germany	67	15	35	42–44	65	29	66	9/10
US	91	1	40	38	46	43	62	15
UK	89	3	35	42–44	35	47/48	66	9/10
France	71	10/11	68	15/16	86	10–15	43	35/36

Source: (Hofstede, 1980)

According to Hofstede's (1980) data, Germany can be described as an individualistic country, with relatively low power distance, medium uncertainty avoidance and high masculinity. Gray's classification is used for a comparative prediction and categorisation of the accounting values of 'professionalism' and 'secrecy' in the German context.

According to Gray's (1988) professionalism hypothesis and the data provided by Hofstede (1980), a proposition can be made that Germany is less likely to have a system based on professional judgement than the US or UK, but more likely than France. However, Gray's (1988, p. 12) graphical classification of culture areas shows that both the 'Germanic'[6] and the 'Anglo'[7] cluster have a very strong emphasis on professionalism. Recall that Gray develops his dimensional accounting values by contrasting aspects of Anglo-American accounting models to Continental European accounting models. As such, the 'Germanic' cluster and 'Anglo' cluster should theoretically be located at opposing ends of the professionalism–statutory control continuum rather than being relatively close.

Similar concerns relate to the 'secrecy' and 'conservatism' dimensions, which are supposed to provide insights into the measurement and financial disclosure practices of countries. For example, Gray (1988, p. 13) proposes that the 'Germanic' cluster emphasises secrecy to a greater extent than other clusters such as 'Anglo', 'Nordic' and 'Asian Colonial'. This classification for Germany contradicts Gray's hypothesis. It remains questionable how these judgemental hypothesis and clusters are supposed to, 'explain international differences in accounting systems' (Gray, 1988, p. 5). Indeed, Gray's propositions and graphical mapping of accounting dimensions may at times be regarded as misleading rather than providing a useful explanation of differences between accounting values and accounting models.

[6] The 'Germanic' cluster includes Germany, Switzerland, Austria and Israel (Gray, 1988, p. 6).

[7] The 'Anglo' cluster includes Australia, Canada, Ireland, New Zealand, the UK, the US and South Africa (Gray, 1988, p. 6).

The theoretical and methodological issues discussed in the previous sections may be acceptable for an initial publication of an exploratory framework to then be considered and tested by international accounting researchers. However, subsequent researchers have largely failed to critically evaluate the framework's limitations and to further develop and refine Gray's framework. Gray (1988) proposed that 'cultural differences identified by Hofstede's cross-cultural research (1980, 1983) may explain international differences in accounting systems'. However, our analysis, provided in the sections that follow, clearly shows that Gray's propositions are too simplistic to explain why accounting systems differ internationally. Indeed, we argue that reliance on simplistic theoretical models of accounting values fails to enhance understanding of accounting systems and might lead to misleading and dubious classifications and predictions. Further, the following sections on the development of Germany's financial disclosure practices provide greater insights into the richness and complexity of accounting systems.

2.6 The Legitimacy of 'Secrecy' in Financial Disclosure

Confidentiality and the restriction of financial disclosure to those that are closely involved with the management of the business have long been regarded as an important characteristic of the German accounting model (Choi and Meek, 2008; Choi et al., 1999, 2002). The emphasis on confidentiality and the restriction of financial disclosure has been deeply embedded in the German accounting system and is still supported by a majority of German enterprises and stakeholders (Al Koni, 1998; Baker and Quick, 1998; Börstler, 2006; Roberts et al., 2005; Rost, 1991). Nevertheless, it is important to distinguish between various legal forms of entities such as sole proprietorships,

commercial partnerships and corporations. For example, large commercial partnerships and corporations are subject to additional accounting regulations. Similarly, the size of an entity has been used as a criterion for distinguishing disclosure rules and regulations (Eierle, 2004; Fey and Fladt, 2006). Since 2005, publicly listed entities have been required to prepare their consolidated statements in accordance with IFRS. However, single entity statements still need to be prepared in accordance with the *Handelsgesetzbuch* (HGB—German Commercial Code). The next section provides valuable historical insights into development and longstanding importance of 'secrecy' in German accounting and refers to differences among various legal forms of entities.

The restriction of financial disclosure to those that are closely involved with the management of the business has its early roots in the accounting records of the wealthy merchant families of the sixteenth century. For example, an examination of the Fugger merchant family reveals the existence of a secret book, which contained important financial information. This book had to be clearly distinguished from other records, because it was written by and restricted to the master of the business and contained details of profit or loss, commercial terms, interest rates and wages (Penndorf, 1913; Weitnauer, 1931).

Since the time of the Fugger, confidentiality and the principle idea of restricting sensitive information to people engaged in the business have been reinforced by a number of factors including the dominant role of government and banks as providers of private capital (Al Koni, 1998; Denzel, 1983; Rost, 1991). The German capitalist system is based on close relationships between the state, labour and banks as providers of capital (Casper and Vitols, 1997; Perry and Noelke, 2006). Since the nineteenth

century, banks have dominated stock exchanges, had extensive ownership in companies, been represented on supervisory boards and, later, established their own audit firms, giving them access to inside information (Quick, 2005; van Dien, 1929). As a result, accounting regulations emphasised conservative valuation methods and, importantly, they were not compelled to disclose so-called 'sensitive' information. Indeed, restricted financial disclosure because of the specific German capitalism is still supported by the majority of stakeholders and is incorporated in the current German accounting system (Al Koni, 1998; Baker and Quick, 1998; Börstler, 2006; Deeg, 1997; Radebaugh and Gray, 2002; Roberts et al., 2005; Rost, 1991). While Gray (1988) argues that a more collectivist society is more likely to have a secretive accounting model, the preference to restrict disclosure of financial information is the result of the specific German interdependencies between state, banks and entities. This supports our argument that accounting should be critically examined in its context rather than thought of in terms of accounting models based on categorisation, simplification and generalisations.

Further insights into Germany's preference for a restriction of financial disclosure are gained by taking into account the emphasis on creditor protection and prudence on one hand and balancing this with the emphasis on merchants' freedom and privacy on the other. While the emphasis on creditor protection may suggest an accounting system with greater 'transparency', the strong focus on merchants' privacy has often limited endeavours to increase financial disclosures. An emphasis on maintaining restrictions on financial disclosure has been evident since the enactment of the HGB in 1900. Specific accounting regulations ensured that the documentation and recording of relevant information became an important feature of German accounting requirements (Moxter, 1976; Schmidt-Busemann, 1977). However, the focus was on merchants' self-

information and not necessarily the right of information by third parties. Third parties only had a right to this information in the case of bankruptcy (Gareis and Fuchsberger, 1891; Schmidt-Busemann, 1977).

The emphasis on creditor protection and merchants' privacy at the same time is the result of the specific German cultural, social and legal environment. International accounting literature strongly emphasises creditor protection, prudence and the reliance on statutes as fundamental characteristics of the German accounting model (Choi and Mueller, 1992; Choi et al., 1999, 2002; Radebaugh and Gray, 2002). However, the importance of privacy and freedom in German society has largely been neglected as an explanation for a tendency to restrict disclosure of financial information. Enlightenment philosophers such as Kant (1724–1804) promoted the ideal that individual freedom is the greatest good. Higher authorities and public legal justice are required to ensure respect for each individual's freedom (Riley, 1983; Saage, 1973). German accounting regulations are largely consistent with these cultural ideals, which attempt to foster prudence and prevent negligence, but also emphasise privacy over financial affairs. Gray's (1988) hypotheses about the cultural influences on the 'secrecy' value are too simplistic and restrictive to explain these distinct cultural features and thus fail to provide relevant insights into differences between accounting models.

The strong focus on 'secrecy' that is evident in early twentieth century German accounting law was modified in the stock corporation decrees in the 1930s. It is interesting to note that the inter-war period was characterised by a growing interest in international equity and the perception that the public has a legitimate interest in accounting information (Barth, 1953; Eierle, 2004; Walker, 2000). For example, the

content of financial reports and auditing requirements were modified in the *Aktienrechts(not)verordnung* (Stock Corporation Emergency Decree) of 1931. With the objective of attracting foreign investors and equity financing, the German government adopted a number of Anglo-American principles and perspectives (Barth, 1953; Eierle, 2005; Klausing, 1931). As such, annual reports had to include explanatory comments, display major variations from earlier periods and introduce certain sub-categorisations into the balance sheet and profit and loss statement (Eierle, 2004). One of the major functions of the new requirements in the balance sheet was to ensure a clear presentation of an entity's liquidity (Barth, 1953). Further, the *Aktienrechts(not)verordnung* codified explicit auditing requirements for stock corporations and associations limited by shares. This was largely a government reaction to pressure from foreign investors for reports by independent auditors. Moreover, spectacular bankruptcies and business failures had resulted in a demand for supervisory boards to monitor financial reports effectively (Barth, 1953; Eierle, 2004). Audit requirements were further enhanced by the *Aktiengesetz* (Stock Corporation Law) of 1937, which effectively introduced compulsory audits by enacting that annual reports without an external audit were void by law (Barth, 1953; Doupnik and Perera, 2007).

These changes depart from the earlier restrictions on disclosure of financial information and reveal the early beginnings of an adjustment process to implement international investors' requirements. Nevertheless, restriction of financial disclosure and the merchant's privacy were still important features of German accounting and culturally supported (Eierle, 2004). Further, differences existed between public expectations in relation to stock corporations and other private enterprises, which Gray's framework cannot capture.

The differences in public expectations are revealed in the enactment of the *Gesetz über die Prüfung von Jahresabschlüssen* (Audit of Annual Reports Law) in 1937, which emphasised a perpetuation of confidentiality in German accounting requirements. The minister of justice was authorised to extend the scope of the requirement for compulsory audits of annual reports to *Gesellschaften mit beschränkter Haftung* (GmbH—limited liability companies). However, the compulsory audit requirements were only applicable to banks (Eierle, 2004). This is of particular importance because the minister's decision meant that the majority of German businesses did not have to audit their annual accounts. Our evaluation of the audit law refers only to expectations and preferences regarding financial disclosure rules and it is not describing any Nazi enactments as legitimate.

While confidentiality was an important German accounting value, creditor protection and the interest of the public in accounting information was gaining greater importance. Already in 1930, the government had argued that the public had a legitimate interest in information about stock corporations' financial results (Eierle, 2004). This debate was reinforced by a number of large corporate collapses, such as that of the Krupp group in 1966. Suppliers, customers and employees were not aware of the company's risky situation because the publication of financial reports was not required until three years later (Busse von Colbe, 1996). Both government and the public were concerned about this lack of information and questioned the appropriateness and conceptual basis of existing regulations. This situation led to the enactment of the *Publizitätsgesetz*

(Disclosure Law) of 1969, which required large unincorporated groups and firms[8] to disclose their financial reports and draw up consolidated statements independent of their legal form (Busse von Colbe, 1996; Eierle, 2004).

Despite these changes with the *Publizitätsgesetz*, confidentiality remained an important aspect of German accounting regulation, particularly for Small and Medium sized entities (SMEs), as revealed in the enactment of the *Bilanzrichtliniengesetz* (Accounting Directives Act) in 1985. The *Bilanzrichtliniengesetz* introduced major changes to GmbHs because of requirements regarding financial reports, consolidated reports and auditing. However, SMEs—still regarded as the 'backbone' of the German economy—often relied on the legal form of GmbH and were relieved of the above requirements by extensive exceptions based on size (Beisse, 2001; Bundesministerium für Wirtschaft und Technologie, 2007; Kayser and Wallau, 2006).

The exemptions for SMEs can also be related to the specific German relationship between SMEs and the wider society following from the 'Rhenish' system of capitalism. In contrast to the Anglo-American capitalist system, 'Rhenish' capitalism is based upon close relationships between entities and stakeholders, who are continuously monitoring management and are involved in long-term strategic decision making (Albert, 1993; Bátiz-Lazo, Locke and Muller, 2008; Streeck, 1997). Specifically, the 'Rhenish' system of capitalism is characterised by largely consensual relationships

[8] The categorisation of large groups and firms focused on three key figures: Employees exceeding 5,000; balance sheet total exceeding DM 125 million and sales exceeding DM 250 million. A group or firm was considered large when it fulfilled at least two criteria on three subsequent balance sheet dates (PublG, 1969, § 1).

between labour and capital with an emphasis on employee participation, a strong focus on bank financing or internally generated capital and a supporting role of the state (Albert, 1993; Albert and Gonenc, 1996; Perry and Noelke, 2006). This form of capitalism has further contributed to close relationships between SMEs and the public. A large number of SMEs are family-owned businesses, providing economic and social contributions and exhibiting long-term consensual relationship with employees (Aicher, 2003, Institut für Mittelstandsforschung, 2010; Röhl, 2008; Wimmer, 2009). This public involvement has for a long time fostered trust, confidence and a sense of security among companies, employees and the public (Perry and Noelke, 2006). Moreover, many SMEs are characterised by close relationships with banks, which are still major providers of capital and important shareholders. This stable financial environment has further contributed to long-term consensual relationships with less reliance on additional financial disclosure. Although global financial integration and international expansion have changed management and finance strategies, many German SMEs still possess elements of the specific German form of 'Rhenish' capitalism and culture (Aicher, 2003; Crouch, 1999; Deeg, 1997; Institut für Mittelstandsforschung, 2010, Röhl, 2008; Soskice, 1997).

The distinct role of SMEs and their influence on the restriction of financial disclosure can also be seen in the *Kapitalgesellschaften und Co.-Richtliniengesetz* (KapCoRiLiG—Qualifying Partnerships Act) of 2000 (Deutscher Bundestag, 2000). This act extended the option to prepare consolidated financial reports consistent with either the US GAAP or IAS to all entities, bringing Germany into compliance with the European Council directive of January 1993 (Bömelburg, 1999; Brinkmann, 2006; Eierle, 2005; Ernst, 2000). The time lag of seven years between the issuing of the European Council

requirement and its enforcement in Germany was largely because of the government's intention to support the restricted financial disclosure that had been a major feature of German accounting since its beginning. Qualifying partnerships (limited partnerships with a limited liability entity as general partner)[9] are a common legal form of SMEs and the German government did not want to burden them with additional requirements. Specifically, the directive's financial disclosure and filing requirements were seen as an invasion of privacy that would conflict with the German value of a merchant's freedom and privacy (Bömelburg, 1999; Eierle, 2004).[10]

The enforcement process of the *Kapitalgesellschaften und Co.-Richtliniengesetz* provides insights into the complex relationship between the focus on confidentiality of German entities and European and international accounting requirements. Indeed, globalisation and the requirements of international capital markets have led to further changes in German accounting law. Shortly after the enacting of the *Kapitalaufnahmeerleichterungsgesetz* (KapAEG—Capital Raising Act) in 1998, which allowed preparation of consolidated statements according to internationally accepted

[9] A very common form of qualifying partnership is the GmbH & Co. KG. A KG (Kommanditgesellschaft) is similar to a limited partnership in the UK, which has at least one general partner with unlimited liability and one partner whose liability is limited. The GmbH (Gesellschaft mit beschränkter Haftung) is a private limited company and conceptually comparable to the UK private limited company. In a GmbH & Co KG, the GmbH is the general partner of the KG, which allows for the restriction of the liability of the general partner to the net assets of the GmbH (Eierle, 2005).

[10] The perceived conflict has created problems since the enactment of the *Bilanzrichtliniengesetz* (accounting directives act) of 1985, which gave rise to a situation in which a number of companies refused to file their accounts with the commercial register, believing that their privacy would be extensively harmed if they did (Bömelburg, 1999; Ernst, 2000; Fischer, Klopfer and Sterzenbach, 2004).

accounting standards (IAS or US GAAP) and was directed at improving competitiveness on capital markets, the German government also passed the *Gesetz zur Kontrolle und Transparenz im Unternehmensbereich* (KonTraG—Governance Act, 1998). The KonTraG aimed to improve financial reporting disclosure and corporate governance by requiring listed stock corporations to include cash flow statements and segment reports in their group reports in accordance with international accounting practices (HGB, §297). In 2002, the *Transparenz- und Publizitätsgesetz* (TransPuG—Transparency Act) extended these requirements to all publicly traded groups, also requiring additional disclosure on movements in shareholder funds (Eierle, 2004, 2005).

The convergence process has further differentiated requirements for listed and non-listed as well as single entity statements and consolidated statements in Germany. The European IAS regulation ((EC) No. 1606/2002) required listed entities to prepare consolidated financial reports consistent with IAS/IFRS (European Parliament and Council, 2002) and became effective for reports of financial years beginning on or after 1 January 2005. In relation to the implementation of international accounting standards by the European IAS regulation, Germany enacted the *Bilanzkontrollgesetz* (Financial Reporting Control Act) and the *Bilanzrechtsformgesetz* (Accounting Law Reform Act) in 2004 (BilKoG, 2004; BilReg, 2004). These enactments further extended financial disclosure requirements for large companies and groups. For example, the *Bilanzrechtsformgesetz* extended the disclosure requirements for notes to financial instruments and required additional information in the director's report by including an analysis of risks and opportunities (Eierle, 2005). Publicly traded companies are now the only entities required to disclose fees paid for audit and non-audit services. However, individual financial statements still need to be consistent with the German

accounting principles of the HGB because of their role in the calculation of dividend payments and income tax (Eierle, 2005; Herzig, 2000; Kahle, 2002), although companies may voluntarily prepare additional individual statements according to IFRS. Certainly, these changes have largely been driven by the forces of globalisation and the European drive towards convergence rather than arising out of Germany's specific social and cultural environment.

It is clear that the convergence process has extended Germany's disclosure regulations. However, these changes largely apply to consolidated statements of publicly listed companies, which need to be differentiated from entities that prepare financial statements in accordance with the HGB. Indeed, 'secrecy' is still a major feature in the German accounting model, as evidenced by recent rigorous discussions about implementing IFRS for SMEs (Deutscher Industrie- und Handelskammertag et al., 2005; Europäisches Parliament, 2007; FAZ, 2006; Kuhn and Stehle, 2006; Schürmann, 2006). As in the case of the KapCoRiLiG, SMEs in Germany fear that they may experience negative consequences if sensitive financial information were disclosed in accordance with IFRS (Börstler, 2006; Kuhn and Stehle, 2006).

Stille Reserven (secret reserves) are another aspect that international accounting literature often describes as characteristic of the German accounting model and that supposedly emphasises the German tendency towards 'secrecy' as an accounting value (Choi et al., 2002; Choi and Meek, 2008). Consistent with restrictions in financial disclosure, *Stille Reserven* have a longstanding tradition, dating back to nineteenth century Germany (Gallhofer and Haslam, 1991; Klausing, 1931). However, these reserves are more accurately linked to the ideal of ensuring creditor protection and

capital maintenance, rather than to ‘secrecy’ (Börstler, 2006). Since the late nineteenth century, *Stille Reserven* have been the topic of controversial and rigorous debates. Despite this, the German government and other stakeholders have generally continued to support them. As early as 1884, with the enactment of the *Aktienrechtsnovelle* (Stock Corporation Law Amendment) regulations regarding *Stille Reserven* were discussed. Banks as the main financiers of the time, the government and management saw advantages in restricting excessive capital expenditure by supporting creditor protection. This included the creation of *Stille Reserven* to ensure a smooth and regular dividend policy (Gallhofer and Haslam, 1991; Klausing, 1931). Legal rules that specified the application of the *Niederstwertprinzip* (historic cost principle) and vague depreciation policies further encouraged and created these secret reserves (Dietzen, 1937; Gallhofer and Haslam, 1991; Klausing, 1931).

It is interesting to note that the emphasis on prudent accounting with the establishment of *Stille Reserven* was not a specific German characteristic but is believed to have also been commonplace in the UK in the late nineteenth and early twentieth centuries (Billings and Capie, 2009; Napier, 1995, p. 266). Largely consistent with the German experience, hidden reserves in the UK were used to smooth profits in times of economic uncertainty and political turmoil and as protection against shareholders’ excessive dividend expectations (Arnold, 1997; Arnold and Collier, 2007; Billings and Capie, 2009). Moreover, the accounting profession in the UK was largely supportive of hidden reserves with strong criticisms being evoked only after the Royal Mail Case in 1931 (Arnold and Collier, 2007). However, these similarities between the UK and Germany largely ended with the UK Companies Act of 1947, which required a more comprehensive accounting disclosure and effectively abolished hidden reserves, except

for in companies in the banking, insurance and shipping industries (Arnold and Collier, 2007). The UK Companies Act of 1947 was principally a response to the needs of shareholders, rather than being concerned about businesses' accountability to society (Moltby, 2000). These differences between the UK and Germany clearly show the importance of moving away from the narrow focus on categorisation and quantification and the importance of taking into account historical and other contextual factors in evaluating accounting models in specific countries (Carnegie and Napier, 2002).

In Germany, *Stille Reserven* (secret reserves) remained an important and controversial issue into the second half of the twentieth century, as evident in the enactment of the *Aktienrechtsreform* (Stock Corporations Act) of 1965. In general, the government followed a conservative approach with the *Niederstwertprinzip*, strict *Niederstwertprinzip* (principle of the lower of cost and market) and *Realisationsprinzip* (realisation principle) to ensure creditor protection and capital maintenance. Nevertheless, the government tried to restrict deliberate overvaluation of liabilities and undervaluation of assets, which were often used to conceal profits and subsequent capital distribution to shareholders (AktG, Art.133–155). Importantly, the government did not question the practice of creating *Stille Reserven* in general. In fact, the government argued that *Stille Reserven* established under accounting law were an appropriate element of reasonable commercial risk anticipation (Eierle, 2004, 2005).

This approach to accounting is consistent with German cultural values, which largely emphasise the importance of reliability and stable development over the short-term focus on relevance advocated by the IASB. This public emphasis on reliability and economic stability has been shaped by the economic experiences in the twentieth

century in particular. Major economic crises in the late 1920s and early 1930s and the devastating economic consequences of hyperinflation have heavily influenced public perceptions of monetary values, economic stability and, consequently, accounting requirements. For example, inflation has remained a major concern of the German public and has further fostered support for conservative accounting rules (Busse von Colbe, 1996; Ferguson, 1997; Schildbach, 1990). Studies from 2004 to 2008 have provided evidence that inflation is the greatest fear of the German public, consistently ranking higher than fear of war, terror and natural disasters (R+V-Infocenter, 2008). Therefore, an accounting system that emphasises conservative valuations and economic stability is in accordance with German public perceptions and requirements.

Our analysis has shown that confidentiality and limited financial disclosure remain embedded in the traditional German accounting model for reasons related to merchants' privacy, the important role of bank financing and the strong support of SMEs that still drives Germany's economy. We have provided insights into Germany's traditional accounting model and its emphasis on confidentiality by taking into account the cultural, political, economic and historical influences on accounting. Although international convergence of accounting standards is influencing Germany's accounting regulations and has led to a greater emphasis on disclosure, these changes are largely a reaction to internationalisation and the adoption of European directives. The recent changes in German accounting law with the enactment of the *Bilanzrechtsmodernisierungsgesetz* (Act to Modernise Accounting Law) in May 2009 provide evidence that Germany still follows a unique approach by combining traditional German accounting principles with generally accepted principles in IFRS (Hellmann, Perera and Patel, 2009). Indeed, the HGB was modernised with the objective of

providing an alternative to IFRS to prevent the adoption of IFRS for all entities (Bundesministerium der Justiz, 2009).

2.7 Discussion and Conclusion

Our evaluation of Gray's framework of accounting values has revealed a number of concerns regarding its theoretical and methodological assumptions and issues associated with its largely uncritical adoption in international accounting research. Even though Gray's work is essentially exploratory, with Gray himself suggesting that 'much work lies ahead' (Gray, 1988, p. 14), subsequent researchers have often uncritically invoked and applied Gray's framework without any concerns related to its assumptions. Upon examination, we have argued, Gray's reliance on Hofstede's societal dimensions to underpin his creation of four accounting values and country clusters has resulted in an overly simplistic framework, which fails to appreciate contextual differences between countries. Although Gray's framework enjoyed more prominence in the 1990s, recently published studies (Braun and Rodriguez, 2008; Hope et al., 2008, Noravesh et. al., 2007; Rodriguez, 2009) provide evidence of its continuing popularity with many accounting researchers. Moreover, Gray's framework has led to a proliferation of textbooks, which have also largely failed to discuss its limitations, thereby further enhancing Gray's popularity. Indeed, we argue that the often uncritical adoption and application of Gray's framework by subsequent researchers has led to an 'overgeneralisation' of the usefulness of Gray's framework in international accounting research.

The wide acceptance of Gray's framework despite its limitations raises the important question of why frameworks such as that of Gray (1988) gain widespread acceptance and support in international accounting research. The widespread use and acceptance of Gray's accounting values suggests that an application of Gray's framework is taken as a token of scientific legitimacy and respectability in international accounting research. Further, Gray was seen as one of the leading international accounting researchers and this may have led subsequent researchers to be cautious in challenging Gray's hypotheses. Moreover, we may conclude that the obsession of subsequent accounting researchers may lie in the fact that they found the use of Gray's framework contributing to their career in the competitive and often self-referential environment of accounting research. Indeed, Hopwood (2007, p. 1371) argues that the strong career focus in accounting research 'encourages conservatism and conformity ... with new methodological approaches attracting a large number of followers'. Further, we argue that concerns and inconsistent results in the international accounting literature have not received appropriate attention, often being dismissed, and that this further popularised Gray's framework.

Another factor contributing to the initial appeal and wide acceptance of Gray's framework may be the opportunity for cross-cultural accounting researchers to employ quantitative, statistical measures to analyse cultural influences in accounting and provide international comparisons of behaviour. Indeed, Gray's exploratory framework with the call for further research provided international accounting researchers with many opportunities to engage in basic empirical research. Moreover, Gray's (1988) reliance on Hofstede's cultural values may have been another contributing factor, by providing international accounting researchers with another set of data for hypotheses

testing. These research opportunities may have been particularly appealing to research students who may be more comfortable with applying hypothetico-deductive approaches rather than writing richly nuanced critical qualitative narratives. International accounting researchers and younger academics in particular are undoubtedly under increasing pressure to 'publish or perish', with promotions and tenure decisions often being dependent on the number and perceived quality of publications. Over the last two decades, a few researchers have criticised the privileged status of positivistic research in the top accounting journals (Gendron, 2009; Hopwood, 2007; Reiter and Williams, 2002; Shapiro, 2006; Tinker, Merino and Neimark, 1982; Williams, Jenkins and Ingraham, 2006). As such, comparative international accounting research reflects this focus on quantitative studies employing the hypothetico-deductive method. International accounting research seems to emphasise classifications and categorisations, often without considering whether these categorisations provide relevant insights. Similarly, cross-cultural accounting research tends towards overgeneralisations, creating categorisations and cultural dimensions that often fail to capture the complexity and dynamics of cultures.

In contrast to the strong focus on quantification, categorisations and measurements evident in publications related to Gray's framework, we argue that international accounting research may be enhanced by taking into account important contextual factors. Indeed, accounting research is a social and dynamic discipline that requires ontological and epistemological openness and multiple discourses in its debates rather than being limited to categorisations, dimensions and clusters. Our evaluation shows that historically the German accounting model had a tendency to restrict financial disclosure and this is in contrast to the Anglo-American accounting models that have a

strong emphasis on financial disclosure. Although Gray's model shows differences between the 'Germanic' cluster and the 'Anglo-American' cluster (Gray, 1998, p. 13) on disclosure, subsequent quantitative research studies have largely failed to provide adequate explanations for these differences. In contrast, we provide evidence to show that the German accounting model is the result of the specific German cultural, economic, social and legal environment. Indeed, Gray and subsequent researchers' concepts about accounting values fail to capture Germany's distinct socio-economic model and capitalist tradition that has resulted in an accounting model that promotes greater stability and restrictions of financial disclosure. Indeed, the development of secretive tendencies and other concepts such as conservatism in the German accounting model provides evidence that reliance on simplistic cultural dimensions and accounting values neglects the distinctiveness of national accounting models and the factors that shape these models.

Our evaluation of Gray's framework has clearly shown that reliance on simplistic quantified theoretical models largely fails to enhance our understanding of accounting systems and may at times result in misleading and dubious classifications. Using Germany as a case study, we apply a more holistic approach to provide additional insights into the factors differentiating German accounting from other accounting models. We recommend that accounting research will be enhanced by a critical examination of contextual environments of countries rather than a focus on measurement, quantification, simplification and categorisation.

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Chapter 3: Adoption of IFRS in Germany: A Neo-Institutional Analysis

3.1 Abstract

This paper critically examines the adoption of IFRS in Germany from a neo-institutional perspective. Specifically, this paper evaluates the institutional dynamics of international accounting harmonisation and convergence by referring to the influence of coercive, mimetic and normative forces on the adoption of IFRS in the German context. Taking into account the development of the German accounting model with particular reference to its historical, political, economic, cultural and legal influences, we provide evidence to show the importance of legitimacy and power structures in the adoption of IFRS. Indeed, this paper challenges assumptions of technical superiority, universal applicability and normative support as motives and consequences in the ongoing convergence process.

3.2 Introduction

Over the last decade, the accounting convergence process with the development and adoption of IFRS as national standards has become the focus of governments, professionals and researchers. In 2005, the EU (including Germany) and Australia adopted IFRS. A survey by Deloitte Touche Tohmatsu (2010) reported that 89

countries have adopted or intend to adopt IFRS for all their domestic listed companies. Currently, more than one hundred jurisdictions require or permit the use of IFRS, with countries such as Canada, Brazil and Argentina being the most recent adopters (IFRS Foundation, 2011). This growing number of countries implementing IFRS and their experiences and emerging challenges have further raised researchers' interest in this controversial topic (Ashbaugh and Pincus, 2001; Atwood et al., 2011; Byard et al., 2011; Christensen et al., 2007; Daske et al., 2008; Ding et al., 2007; Hail et al., 2010a, 2010b; Kvaal and Nobes, 2010; McAnally et al., 2010; Mechelli, 2009; Niskanen, Kinnunen and Kasanen, 2000; Stolowy, Haller and Klockhaus, 2001; Tyrrall, Woodward and Rakhimbekova, 2007). However, these studies have concentrated on the development and application of specific accounting standards and practices and/or cross-national and cross-cultural issues concerning adaptation, implementation and evaluation of IFRS. Moreover, an increasing number of studies have been devoted to classifications of accounting models and categorisation of accounting standards, principles and values (Chanchani and Willett, 2004; D'Arcy, 2000, 2001; Doupnik and Richter, 2004; Doupnik and Salter, 1993; Gray, 1988; Kamla, Gallhofer and Haslam, 2006; Nair and Frank, 1980; Patel, 2003, 2007; Perera and Mathews, 1990; Salter and Doupnik, 1992). However, very few studies have critically examined the historical development of accounting practices and issues related to convergence in its socio-economic context and, importantly, we are not aware of any study that has rigorously examined the institutionalisation of Anglo-American accounting practices as international practice with an emphasis on power and legitimacy in the move towards convergence of accounting standards.

The purpose of this paper is to critically examine the development of German accounting and the adoption of IFRS in 2005 from a neo-institutionalist perspective. Specifically, this paper examines the convergence process in Germany by invoking DiMaggio and Powell's (1983) concept of institutional change and isomorphism. Our objective is to provide deeper and holistic insights into the changing focus of German accounting development by critically evaluating the influence of country-specific contextual factors and international developments. Specifically, the institutional dynamics of international accounting harmonisation and convergence are evaluated critically by taking into account power structures, the issue of technical superiority and institutional expectations. Due to this paper's focus on Germany's adoption of IFRS, our study restricts itself to developments in IFRS in Germany up to and including 2005. It is beyond the scope of this study to analyse changes to IFRS in Germany after this time.

While the process of convergence has been analysed from various perspectives in the international accounting literature, most studies have concentrated on examining factors such as economic effects and cross-cultural comparability (Baker, Biondi and Zhang, 2010; Callao, Jame and Lainez, 2007; Chand, Patel and Patel, 2010; Christensen et al., 2007; Haverals, 2007; Kvaal and Nobes, 2010; Pfitzer and Kahre, 2004; Sami and Zhou, 2004), legal considerations (Budde, 1998; Chiapello and Medjad, 2009; Haller and Eierle, 2004; Hommelhoff and Schwab, 1998; Schmidt, 2002) and the influence of culture (Doupnik and Richter, 2004; MacArthur, 1999; Marrero and Brinker, 2007; Patel, 2003). Moreover, advocates of the convergence process have largely emphasised economic benefits as the predominant rationale for worldwide IFRS adoption, although this assumption has received limited empirical

support (Chua and Taylor, 2008; Judge et al., 2010). In a recent publication, Judge et al. (2010) argue that economic explanations are likely to be inadequate to explain IFRS diffusion and importantly, they neglect to provide greater insights into determinants of IFRS adoption at the national level. Similarly, Chua and Taylor (2008) argue that the role of social and political factors in the development and diffusion of IFRS remains under researched. Consistent with these calls for greater insights into the processes and rationales of IFRS adoption, this paper follows a holistic approach by critically examining the influence of political, economic, legal, historical and social factors and their interdependencies on the adoption of IFRS in Germany. In this context, neo-institutional theory provides a valuable theoretical framework because of its focus on the environment as an essential constituent in establishing the social structures of an institution. The conception of institutions as the outcomes and mediums of their wider environment has long been established in sociological and accounting literature (Berger and Luckmann, 1966; Lounsbury, 2008; Meyer and Rowan, 1977). Neo-institutional theory also emphasises the importance of legitimacy and social acceptance in institutional development and change. Within this theoretical paradigm, DiMaggio and Powell (1983) identified three processes, namely coercive, mimetic and normative, to explain and evaluate the existence of similarities in organisational structure and thought. Given the focus on legitimacy and isomorphism, neo-institutional theory may provide in-depth insights into IFRS adoption in Germany.

Neo-institutional theory has previously been applied in management accounting research (for example, Carpenter and Feroz, 1992; Dirsmith, Heian and Covaleski, 1997; Fogarty, 1996; Fogarty and Rogers, 2005; Quattrone and Hopper, 2001;

Tsamenyi, Cullen and Gonzalez, 2006). However, this study further contributes to international accounting literature by drawing on neo-institutional theory emphasising coercive, normative and mimetic forces to examine the move towards IFRS in Germany. Importantly, this paper provides insights into conflicting perceptions of legitimacy in German accounting development and emphasises the significance of power dynamics in international accounting research (Berger and Luckmann, 1967; Mizruchi and Fein, 1999).

The remainder of this paper is organised as follows. The first section examines relevant aspects of institutional theory to provide insights into the relationship between sociological interpretations of accounting as an institution and the dynamics of convergence of accounting standards. The second section critically analyses and evaluates the development of accounting in Germany with particular reference to its political, legal and socio-economic features. This contextual analysis outlines the rationale for and emphasises the legitimacy of Germany's conservative and legalistic accounting practices. Against this background, the third section invokes neo-institutional theory to provide insights into IFRS adoption in Germany with a particular emphasis on the changing rationale of German accounting developments. The paper concludes with a discussion of the major findings.

3.3 The Relevance of Institutional Theory in Accounting

Since the emergence of institutional theory in the nineteenth century, insights into institutions have been contributed by several disciplines, including economics,

political science and sociology (Durkheim 1978; Veblen 1919; Weber 1961, 1972; Wilson 1889; Willoughby 1896). With a focus on social structures, institutional theory has been invoked in various disciplines to examine a range of factors such as stability, order, conflict and change in social life (Scott, 2004; Steinmo, Neil and Paul, 2001; Swedberg, 1991). In accounting, institutional theory has largely been used to examine the interdependencies between accounting and its social environment, with a focus on either accounting as an internally generated institution or the influence of the institutional environment on accounting practices (Durocher, Fortin and Cote, 2007; Scapens and Roberts, 1993; Scapens, 1994; Scott 1991, 1995, 2004). For example, a number of management accounting studies have examined DiMaggio and Powell's (1983) concept of institutional isomorphism and Scapens (1994) institutional perspective on management accounting practices to examine accounting change and issues related to legitimacy (Carruthers, 1995; Cooper, Greenwood, Hinings and Brown, 1998; Covaleski and Dirsmith, 1988; Dirsmith et al., 1997; Fogarty, 1996; Fogarty and Rogers, 2005; Jang, 2005; Robson, Humphrey, Khalifa and Jones, 2007).

While this wide range of studies has resulted in various, and sometimes conflicting, interpretations and various definitions of institutions and their constituents, this study examines the convergence process in Germany from a neo-institutional perspective with an emphasis on isomorphism and legitimacy. Specifically, this study regards institutions as social structures that rely on rules, norms and routines that have become established as guidelines for social behaviour (Berger and Luckmann, 1967, pp. 70ff; DiMaggio and Powell, 1991; Jepperson, 1991; Scott, 1991, 1995, p. 33). Accounting as the 'official' language of business, which creates accountability

relationships, aims to achieve legitimacy and predictable behaviour. This is provided through the regular use of accounting information, which facilitates decision-making, even in complex and uncertain environments (Carruthers, 1995, p. 32; Scapens, 1994). Accordingly, accounting standards and practices and the resulting accountability relationships can be regarded as institutions because they represent typifications of habitualised actions that provide meaning and stability (Berger and Luckmann, 1967, p. 72; Carruthers, 1995; DiMaggio and Powell, 1991; Scott 1991, 1995, p. 33).

Based on the sociological perspective of neo-institutionalism, this paper examines the convergence process in Germany by invoking DiMaggio and Powell's (1983) concept of institutional change and isomorphism. DiMaggio and Powell (1983) assert that institutional pressures lead to a process of homogenisation of organisational cultures, structures and output; a process they name isomorphism. Although recognising competitive and institutional isomorphism, DiMaggio and Powell's (1983, p. 150) focus on institutional isomorphism because 'organizations compete not just for resources and customers, but for political power and institutional legitimacy, for social as well as economic fitness'. Since its initial publication, numerous publications have shown the relevance of using DiMaggio and Powell's (1983) concept of isomorphism as a tool to enhance our understanding of politics and ceremonies pervading institutions in the realm of financial and management accounting (Carpenter and Feroz, 1992; Covaleski and Dirsmith, 1988; Masrani and McKiernan, 2011; Rodrigues and Craig, 2007; Touron, 2005; Tsamenyi et al., 2006).

DiMaggio and Powell (1983) identify three mechanisms through which structural isomorphic changes such as worldwide adoption of IFRS arise, namely coercive, mimetic and normative isomorphism. Coercive isomorphism is related to political influences and the importance of establishing legitimacy. Coercive isomorphism, 'results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society in which organizations function' (DiMaggio and Powell, 1983, p. 150). Coercive isomorphism can occur as the result of direct government intervention and regulation or may be the result of pressures to conform to the cultural expectations of the institutional environment and society. In contrast to the concept of coercive authority inducing isomorphic changes, mimetic isomorphism initiates change in response to uncertainty. Ambiguous goals, poorly understood organisational technologies or the existence of symbolic uncertainty in the environment leads organisations to model themselves after similar organisations. Under the pressure of uncertainty, organisations are likely to mimic organisations that are perceived to be more successful and legitimate. Importantly, the dominance of certain structures because of mimetic processes is largely attributed to the lack of variation to choose from rather than to convincing evidence of enhanced efficiency. The third mechanism through which isomorphic changes takes place is normative isomorphism. Normative pressures for isomorphism stem primarily from professionalisation and the struggle of organisational members to establish a cognitive base and legitimacy for their profession. Isomorphic change is driven by the construction and promulgation of norms regarding organisational and professional behaviour. Therefore, important contributors to professionalisation include university specialists, who establish the cognitive base of formal education and legitimate knowledge, and professional bodies

and networks, which promote and diffuse norms across organisations (DiMaggio and Powell, 1983). Importantly, isomorphic change is largely the result of institutional endeavours to gain and retain legitimacy driven by the need to conform to expectations by embracing political pressures, social expectations and established norms. Given this focus on conformance with external pressures and legitimacy, a critical examination of IFRS adoption in Germany based on DiMaggio and Powell's (1983) concept of isomorphism may provide useful insights into the forces, pressures and constraints that result in the global move towards IFRS adoption.

Although DiMaggio and Powell's (1983) concept of isomorphism has been widely recognised for its contribution to examining organisations' attempted compliance with the perceived expectations of the broader environment (Scapens, 2006), researchers have increasingly recognised the potential of incorporating economic considerations into neo-institutional theory rather than focusing exclusively on institutional forces (Powell 1991; Greenwood and Hinings 1996; Tsamenyi et al. 2006). Consistent with Tsamenyi et al. (2006) who draw on the work of Scott (1991) and Powell (1991), both institutional and market pressures are considered as exerting pressures on institutions and are taken into account in the study of IFRS adoption in Germany. It is recognised that neo-institutional research has recently been criticised for its predominant emphasis on isomorphism, which neglects the influence of changing institutional rationalities and multiple logics to understand organisational variety and practice (Lounsbury, 2008). However, since the objective of this paper is to examine adoption of IFRS as a process leading to homogeneity and the convergence of worldwide accounting standards rather than cross-national heterogeneity in the application of IFRS since adoption, neo-institutional theory

invoking DiMaggio and Powell's (1983) concept of isomorphism is considered a beneficial tool in this study.

This paper provides holistic insights by taking into account power structures, the issue of technical superiority, institutional expectations and economic considerations as related to convergence. Consistent with the neo-institutional approach, this study focuses on the legitimacy of IFRS in the German context. Legitimacy is important because it justifies and explains an institution's structure and existence, focusing on compatibility between an institution and its environment (Berger and Luckmann, 1966; Carruthers, 1995; DiMaggio and Powell, 1983; Fogarty, 1996; Fogarty and Rogers, 2005; Meyer and Rowan, 1977; Robson et al., 2007; Scott, 1991; Suchman, 1995). Indeed, an institution's potential to provide social order and control is dependent on its legitimacy, which is seen to reflect its stability, credibility and comprehensibility (Berger and Luckmann, 1966; Meyer and Rowan, 1977; Suchman, 1995). As Scott (1995, p. 45) appropriately emphasises, "Legitimacy is not a commodity to be possessed or exchanged but a condition reflecting cultural alignment, normative support, or consonance with relevant rules and laws". As such, accounting practices need to fit the institutional environment to gain and reflect legitimacy, an aspect much of the existing institutional accounting literature has focused on (Abernethy and Chua, 1996; Covaleski, Dirsmith and Michelmann, 1993). However, few studies have examined legitimacy issues in relation to the convergence process.

Imperative to our understanding of accounting regulations is the recognition of their historical development and an understanding of the wider environment that they

reflect (Berger and Luckmann, 1967, p. 72; Lounsbury, 2008; Meyer and Rowan, 1977). Accounting and accountability should be viewed in their relevant contexts by taking into account the influence of social, political, economic, legal and historical factors. An examination of interactions between accounting and its specific context provides useful insights into the emergence and development of accounting standards, practices and the resulting accountability relationships (Berger and Luckmann, 1966; DiMaggio and Powell, 1983; Meyer, 1994). The next section provides insights into the development of the German accounting model. This is followed by an analysis of the convergence process from a neo-institutional perspective with particular emphasis on isomorphism, legitimacy and economic pressures.

3.4 Development and Legitimacy of the German Accounting Model

The focus of this section is on establishing how the specific German accounting model has developed from its early beginnings in the fourteenth century until the adoption of IFRS for consolidated statements of listed companies in 2005. The historical evolution of accounting in Germany is evaluated with particular reference to socio-economic, cultural and legal features as well as other influences such as the role of bank financing and EU requirements. The analysis reveals the rationale of Germany's conservative and legalistic accounting practices, which constitute a distinct accounting model. This historical analysis, which enables us to revisit and re-evaluate the past, could contribute to a better understanding of the ongoing convergence process and provide future implications. This requires an appreciation of the past as a tool that can be used to understand and interpret current contexts

(Bedeian, 1998; Busse von Colbe, 1996; Griffin, 1995; Kieser, 1994; Philipps Carsen and Carsen, 1989). However, until now, this historical understanding has not received adequate attention in studies on the ongoing convergence process.

We show that the traditional German accounting model differs significantly from IFRS, which reflect Anglo-American accounting with a capital-market orientation and a focus on the concept of a 'true and fair view', largely driven by the extensive use of professional accountants' judgements (Hail et al., 2010a; Jones and Luther, 2005). In contrast, Germany has traditionally put greater emphasis on legal form and statutory control (Nobes and Parker, 2004; Radebaugh and Gray, 2002). Further, the German accounting model has historically favoured creditor protection and prudence in its conservative measurement approaches (Choi et al., 1999, 2002; Choi and Mueller, 1992; Nobes and Parker, 2004; Radebaugh and Gray, 2002). This is in contrast to Anglo-American practices and standards, which are the conceptual basis of IFRS and have exerted an increasing dominance in determining the specificities of the current trend towards convergence (Botzem and Quack, 2009; Perry and Nölke, 2006; Wagenhofer, 2003, 2005). The next sections provide general insights into the structure of the German accounting model and the adoption of IFRS in Germany.

3.4.1 The German Accounting Model and the Move towards IFRS in Germany

In the late 1980s, the debate about international accounting practices in Germany was fuelled by the substantial increase in the capital needs of German companies and the subsequent push towards international capital markets (Kurylko, 1994; Liener, 1995). Significant differences between financial reports consistent with US GAAP and those

consistent with German standards led to further negative perceptions about German accounting principles in the international community and increased industry pressure on the German legislators (Böcking, 2001; Kirsch and Scheele, 2004; Pellens, Fullbier and Gassen, 2004). As a result, the *Kapitalaufnahmeerleichterungsgesetz* (Capital Raising Facilitation Act) was enacted in 1988 to improve the competitiveness of German companies (Delvaille et al., 2005; KapAEG, 1998). This allowed groups headed by companies with listed stocks to prepare consolidated statements according to internationally accepted accounting standards, namely IAS or US GAAP (Eierle, 2005).

The application of the *Kapitalaufnahmeerleichterungsgesetz* was confined to consolidated reports, with individual entity reports still having to be consistent with German accounting standards, largely due to their use in determining dividend and taxation payments (KapAEG, 1998). However, the option to prepare consolidated reports in conformity with US GAAP or IAS introduced Anglo-American principles into the German accounting model. These principles differ significantly from Germany's accounting model, which focuses on creditor protection and the principle of prudence. The Anglo-American accounting standards largely focus on providing information to investors with the 'substance-over-form' approach, which requires extensive use of professional judgements (Botzem and Quack, 2009; Haller, 1995b; Leuz, 2000).

An important step towards international convergence was the European IAS regulation ((EC) No. 1606/2002), which required listed entities to prepare consolidated financial reports consistent with IAS/IFRS (European Parliament and

Council, 2002). This requirement became effective for reports of financial years beginning on or after 1 January 2005. The EU provision included an option for member countries to postpone the enactment to 1 January 2007 for entities providing only debt instruments (Brinkmann, 2006).

In relation to the implementation of international accounting standards by the European IAS regulation, Germany enacted the *Bilanzkontrollgesetz* (BilKoG—Financial Reporting Control Act) and the *Bilanzrechtsformgesetz* (BilReg—Accounting Law Reform Act) in 2004 (BilKoG, 2004; BilReg, 2004). The German legislators allowed entities providing debt instruments to postpone the changeover for two years, while non-capital market orientated companies were allowed to prepare their consolidated financial statements in conformity with IAS/IFRS (Brinkmann, 2006). Individual financial statements still needed to be consistent with the HGB because of their role in the calculation of dividend payments and income tax (Eierle, 2005; Herzig, 2000; Kahle, 2002). However, companies could voluntarily prepare additional individual statements according to IFRS for information purposes. Further, publication requirements in the *Bundesanzeiger* (Federal Gazette) as applied to large corporations could be satisfied by publishing individual financial statements prepared in accordance with IFRS.

While adjustments to national accounting law in line with internationally accepted accounting principles have reduced differences between consolidated reports consistent with the HGB and those prepared according to IAS/IFRS, important differences remain. More comprehensive disclosure notes and the inclusion of cash flow statements and statement of changes in equity in consolidated financial

statements highlight the adaptation of the HGB to IFRS (HGB, §297). However, the traditional focus on creditor protection and capital maintenance has largely been maintained. It is important to note that discussions about an extended application of IFRS in the German accounting model have resulted in rigorous debates about the usefulness of IFRS in Germany (Buchholz, 2006; Deutscher Industrie- und Handelskammertag and PricewaterhouseCoopers, 2005; FAZ, 2006; Grass, 2007; Hüttche, 2002; Oehler, 2005; Winkeljohann and Herzig, 2006). Indeed, the latest modernisation of the HGB in 2009 with the enactment of the *Bilanzrechtsmodernisierungsgesetz* (BilMoG—Modernisation Act) had the objective of creating a cost effective and simple alternative to IFRS. This modernisation was aimed at maintaining the cornerstones of German accounting such as the authoritative principle and reducing the pressure on companies to adopt IFRS. Although this modernisation further adapted German accounting law to international accounting standards—for example, by allowing the recognition of self-generated immaterial goods such as self-created patents or production and manufacturing procedures—many traditional features of German accounting, such as the principle of prudence, remain (Ballwieser, 2010). As previously mentioned, this paper examines the adoption of IFRS in 2005. As such, references made to German accounting law henceforth refer to the HGB before the enactment of the BilMoG.

Given that the evaluation of IFRS adoption in Germany also includes an evaluation of the claimed technical superiority of IFRS, it is important to provide insights into the structure of the HGB and to recognise differences between consolidated accounts and individual statements as well as between entities with limited liability and other companies. For example, Germany has a relatively short history of consolidated

reporting compared to the UK, with requirements for consolidated statements first enacted in the *Aktiengesetz* (Stock Corporation Act) in 1965. Currently, consolidated reports have an informative function only, standing in contrast to single entity statements, which are the basis of dividend and income tax calculations. Despite the implicit focus of consolidated statements on investors' needs, consolidated statements were nevertheless required to conform to the regulations stated in the HGB and the *Grundsätze ordnungsgemäßer Buchführung* (principles of orderly accounting) (Haller, 1995a). With regard to the structure of the German accounting system, the HGB defines relevant accounting rules for all entities, complemented by additional regulations for stock corporations, limited partnerships and limited liability companies since restructuring in 1985. The recognition and valuation criteria that are set for all entities in the third title of the HGB (§§253–256) require the application of the principle of prudence, evidenced by asymmetric recognition of gains and losses (Baetge et al., 1995; Guay and Verrecchia, 2006). Further explanation of the differences between entities and single entity and consolidated statements will be given in the following sections, providing insights into the historical development of German accounting law.

3.4.2 Creditor Protection and Prudence in the German Accounting Model

Since the beginning of German accounting in the fourteenth century, creditor protection has been one of the main German accounting principles. Indeed, political, social and legal developments over the last two centuries have led to an increasingly institutionalised form of creditor protection with the established principle of prudence in the HGB. This principle of prudence is legally expressed in the *Realisationsprinzip*

(realisation principle) (HGB, §252, para.4, no.1), the *Imparitätsprinzip* (recognition of loss principle) (HGB, §252, para.4, no.1), the *Niederstwertprinzip* (HGB, §253, para.1) and strict *Niederstwertprinzip* (principle of lower and cost and market) (HGB, §252). Some specific events are discussed to demonstrate the influence of specific German developments on the longstanding importance of creditor protection.

Legally, creditor protection became established with the introduction of early German commercial law such as the *Preußisches Allgemeines Landrecht* (ALR—Prussian Civil Code)[11] of 1794, which was greatly influenced by the French Ordonnance de Commerce of 1673 (Barth, 1953; Clark, 1998; Hattenhauer, 1970; Moxter, 1976; Renton, 1910). The ALR had two accounting functions. First, it required merchants to organise and record transactions and was intended to reinforce the importance of orderly bookkeeping to enable control of the growing trading activities. Second, the requirements emphasised the importance of creditor protection. The legal aim was to ensure that merchants had proof of their 'orderly' business management, which could be used as evidence in court (Schmidt-Busemann, 1977). While the ALR did not enforce periodic drawing of balance sheets or the taking of inventory, bookkeeping requirements could be deduced from the penal provisions in case of bankruptcy. As such, the ALR is seen as the first step towards legal introduction of creditor protection (Moxter, 1976; Schmidt-Busemann, 1977).

[11] Other German states tried to enact commercial codifications such as the Kingdom of Württemberg. However, these endeavours did not enhance the development of commercial law in the German jurisdiction and therefore a more detailed analysis of these shall be excluded (Schmidt-Busemann, 1977).

The legitimacy of the legal introduction of creditor protection in the ALR needs to be examined in relation to the political and social order of eighteenth century Prussia. According to feudal rules, legislations were enacted by the monarch without the involvement of the public. However, King Friedrich the II (1772–1786), who laid the cornerstone for the ALR, is often viewed as a progressive ruler in his beliefs and socio-political ambitions. This was expressed in his concern over public affairs, his tolerance and his focus on accountability towards the public. This emphasis on accountability was in accordance with the then emerging philosophical views of the Enlightenment (Mönch, 1971; Münch, 1996) and, in particular, with the views of the German philosopher Immanuel Kant (1724–1804). Kant believed that an ideal society emphasises individual freedom as the greatest good. Within this ideal society, the boundaries of individual freedom are determined with respect to the individual freedom of others, requiring the establishment of a higher authority and public legal justice (Riley, 1983; Saage, 1973). While the ALR was not strongly focused on freedom, its enactment was a step away from feudal dominance, towards a greater accountability and freedom under the control of a higher authority (Koselleck, 1976; Mönch, 1971). In this regard, the introduction of the ALR and its commercial requirements reflected the normative and cognitive expectations of the public. These beginnings of cultural alignment and the moral support of accounting regulations provide early evidence of the legitimacy of creditor protection in the German accounting model.

Creditor protection has remained of significant importance to the German accounting model. This is reflected in the major enactments of the nineteenth century, namely the General German Commercial Code (ADHGB) of 1861 and the HGB in January 1900.

These enactments clearly reveal the importance of creditor protection and show the influence of contextual factors on accounting legislations. Further, they were the result of endeavours to retain coherence between accounting law and the institutional environment, aimed at ensuring the legitimacy of the German commercial codes.

The enactment of the ADHGB reveals how the legislators tried to balance the need for protection of creditors and the public, while simultaneously respecting merchants' freedom and privacy (Gareis and Fuchsberger, 1891; Schmidt-Busemann, 1977). This challenge was met by requiring merchants to keep accounting records, but giving them certain choices about form and content (ADHGB, §§28, 29). The legislators' objective of balancing private and public interests also becomes clear in the indirect enforcement of the ADHGB, as merchants were only penalised in the case of legal proceedings when irregular records provided evidence to the detriment of the merchant (Schmidt-Busemann, 1977).

The indirect enforcement of the ADHGB reflects the normative and cognitive values and beliefs of the period. Beginning with the Enlightenment, the nineteenth century was characterised by a movement from absolutism to democratic concepts of nation states and greater focus on people's rights and state regulations (Mönch, 1971). As in the previous century, the writings of philosophers such as Kant and Hegel continued to influence the norms and beliefs of the public and fostered views on the importance of rationality and independence (Hegel, 1942; Riley, 1983; Saage, 1973). These growing beliefs in autonomy and rationality were congruent with the regulations of the ADHGB. Merchants had a degree of autonomy in keeping relevant financial reports, with failure to provide 'orderly' records only prosecuted in the case of

bankruptcy (Schmidt-Busemann, 1977). This example gives an indication of the legitimacy of the German accounting regulations, which became legally expressed in the ADHGB. Despite the indirect enforcement, creditor protection was again a central feature of the ADHGB (ADHGB, §§28, 29).

The legitimacy is further revealed in discussions surrounding the drawing of the ADHGB, which was heavily influenced by the French Code de Commerce. While the legislators appreciated the merit of the French Code, they argued that the French legislation was the result of the mistrustful French system of police and paternalism and questioned its application to German states and law. The legislators argued that the pre-emptive and punitive measures that forced merchants to keep accounting records would be unsuitable in the more liberal German environment (Krieger, 1957; Lutz, 1858). This example emphasises two important features of German accounting reform. First, it reveals the importance of cultural characteristics in influencing national accounting regulations. Second, it demonstrates the importance of the German understanding of creditor protection, which values merchants' freedom and privacy (Gareis and Fuchsberger, 1891; Schmidt-Busemann, 1977).

The importance of cultural support and moral alignment as bases of legitimacy were further revealed in the enactment of the HGB, which followed public's interest in the protection of economic efficiency and functional capability in Germany's growing economy (Gallhofer and Haslam, 1991; Goren and Forrester, 1979; John, 1989; Schmidt-Busemann, 1977). In January 1900, the legislators enacted the HGB to replace the ADHGB. However, this was not so much a reform of the existing law as it was a necessary classification and adaptation of requirements necessitated by the

enactment of the new *Bürgerliches Gesetzbuch* (BGB—German Civil Code) (Barth, 1953; Staub, 1900).[12] Consequently, the HGB adopted the accounting requirements of the earlier ADHGB with only minor modifications, which reflected some adaptations to ensure compliance with the commercial environment (Hahn, 1899). The main purpose of the HGB remained accountability in the interest of both merchants and other stakeholders. The growing participation of entities in credit transactions further necessitated and embedded the principle of creditor protection in German accounting requirements (Ballerstedt, 1965; Leffson, 1976; Moxter, 1976; Schmidt-Busemann, 1977). The regulations ensured that documentation and recording relevant information became important features of accounting requirements (Moxter, 1976; Schmidt-Busemann, 1977), although small merchants were exempt, partly because of their marginal economic relevance (Raiser, 1969).

An important feature of the HGB was the merchant's obligation to keep books consistent with the *Grundsätze ordnungsgemäßer Buchführung* (principles of orderly accounting), which evolved to be the general principle underlying all requirements stated in the HGB (Barth, 1953; Leffson, 1976). Importantly, the HGB's intentions and its main principles, such as creditor protection and *Grundsätze ordnungsgemäßer Buchführung*, are still valid today, because the HGB, although modified in certain parts, is the basis of German accounting law and has to be observed by all merchants (HGB, §238).

[12] The HGB was enacted on 10 May 1897 but become effective on 1 January 1900.

In addition to legislators' enactments of commercial codes, the importance of creditor protection has been revealed in a number of other regulations and enactments. Largely driven by certain incidents in the German environment, these reveal the importance of contextual factors. For example, the legislators' enactment of the third *Aktienrechtsnovelle* (Corporation Law Novella) in 1884 was clearly a reaction to corporate collapses during the early years of the 1870s. Germany witnessed strong capital expansion, which was fostered in part by abolishing the need for government approval in founding stock corporations (Gallhofer and Haslam, 1991; Quick, 2005). Further, the public was generally supportive of company formations, which promised significant dividends. However, some companies could only generate the profits required to pay these dividends by engaging in aggressive earnings management. Due to substantial losses suffered by investors, the German legislators were forced to react because the public did not perceive the existing regulations as appropriate or conceptually sound (Eierle, 2004; Gallhofer and Haslam, 1991; Merkt, 2001; Schmidt-Busemann, 1977). The enacted *Aktienrechtsnovelle*, which required assets to be valued by applying the *Niederstwertprinzip* and to show profits only when realised, represents an attempt to secure creditor protection and restore legitimacy (Koch, 1957; Merker, Most and Koster, 1965).[13]

This attempt to restore the legitimacy of German accounting regulations was driven by the public's social and economic expectations. Indeed, the *Aktienrechtsnovelle* was positively supported by all major parties involved, revealing the broadly based

[13] An earlier stock corporation law novella was enacted in 1870. The establishment of supervisory boards, regulations to impede excessive dividend distributions and further disclosure requirements failed to enhance creditor protection (Graves, Dean and Clarke, 1989).

acceptance of creditor protection as an important principle in German accounting law. Both the major banks, as the main financiers of the time, and the Government saw advantages in the legislation as a mean of restricting excessive capital distribution (Gallhofer and Haslam, 1991). The public was generally supportive of the Government's attempts to quieten the increasing economic volatility. Moreover, the public perceived the legislators' decisions as being legitimate and in accordance with their expectations. The German legislators' focus on social reforms is also evident in early welfare programmes, which contributed to this relatively positive relationship between the state and the public (Baehring, 1985; James, 1994).

The major economic crisis in Germany during the late 1920s and early 1930s prompted changes in accounting law. When the economic crisis peaked with major corporate collapses, the *Aktienrechts(not)verordnung* was enacted as an emergency decree in 1931 (Eierle, 2005; Leffson, 1976). This enactment included extensive modifications to financial accounting and reporting requirements (Barth, 1953; Eierle, 2004). Accounting regulations concerning the valuation and recognition of assets and liabilities in annual financial statements were tightened. However, they still followed the traditional principle of creditor protection. For example, the legislation enforced the strict *Niederstwertprinzip* for current assets and prohibited the recognition of start-up costs as assets (Eierle, 2004). Further, despite some criticisms, the *Aktiengesetz* of 1937 maintained the prevailing valuation rules (Eierle, 2004). While a change from the *Niederstwertprinzip* to the market value was advocated by some practitioners, the legislators decided against it. The preference for the existing law was based on reliability and it was felt that this would not be achieved by having asset valuations change on a daily basis. Importantly, it was recognised that reliability

of accounting was important for the development of the German economy (Barth, 1953). This decision again indicates the importance of the national interest in legitimising accounting requirements. The economic crisis of the late 1920s and early 1930s led the public to support conservatism with a view to ensuring economic development and future stability. As such, the public's experience and expectations contributed to the conservative accounting requirements in the *Aktiengesetz* of 1937.[14]

The devastating economic consequences of the hyperinflation in Germany in the early 1920s played an important role in shaping public perceptions of monetary values and, consequently, accounting requirements (Ferguson, 1997). This was further reinforced by the inflationary situation after the Second World War. Indeed, inflation and its consequences are still a concern for the German public (Busse von Colbe, 1996; Schildbach, 1990). Fear of inflation and consequent losses have driven an understanding that accounting should prevent the so-called 'inflation bacillus' entering the economy (Busse von Colbe, 1996, p. 417). This has fostered strong support for conservative valuation rules. Reflecting this public demand, since the currency reform of 1948, German commercial law has specified its accounting rules in conformity with the *Niederstwertprinzip*, which emphasises the conservative focus in the German accounting system (Busse von Colbe, 1996) and is essential for legitimacy. Later reforms and enactments of accounting regulations, such as the *Aktienrechtsreform* of 1965, re-enforced the conservative tendency and the strong focus on creditor protection while adapting to public interests and international

[14] The stock corporation law was enacted during the time of the Nazi regime. Note that our evaluation of the stock corporation law only refers to expectations and preferences regarding valuation rules and does not intend to describe any Nazi enactments as legitimate.

endeavours at the same time (Leffson, 1987). Importantly, the legislators still followed a conservative approach with the *Niederstwertprinzip*, strict *Niederstwertprinzip* and *Realisationsprinzip* to ensure creditor protection and capital maintenance.

Since the 1970s, European and international accounting harmonisation endeavours have heavily influenced German accounting. European accounting harmonisation in particular became an important topic in the 1970s and 1980s due to the creation of the European Economic Community (EEC) in 1957 (European Economic Community, 1957; Neihus, 1972; Nobes, 1980; Willis, 1978). However, European harmonisation endeavours remained difficult and controversial because of the fundamental differences between Anglo-American and Continental European accounting models and the failure to negotiate mutual recognition of European and US accounting standards with the SEC in the late 1980s and early 1990s. As a result of these controversies and the increasing pressure from some European member states for greater engagement with international endeavours, the European commission was forced to react and decided in 1990 to support and cooperate with the IASC (Eierle, 2004). The decision to become a member of the consultative group as well as observer on the board marked a turning point in the European accounting harmonisation process. Efforts to develop independent European accounting standards were largely dismissed in favour of greater participation in the international harmonisation and convergence process. Greater involvement by the EU in the harmonisation and convergence process reached a preliminary peak with the enactment of the European IAS regulations, which required capital-market orientated companies to prepare consolidated financial reports consistent with IAS/IFRS. This

obligation became effective for reports of financial years beginning on or after 1 January 2005 (European Parliament and Council, 2002; Haller, 2002; Haller and Eierle, 2004).

The German implementation of the European directives for harmonisation of accounting regulations in the EEC in the 1980s provides valuable insights into the problematic nature of accounting harmonisation and the importance of legitimacy. European accounting harmonisation in the 1980s was mainly achieved by political compromises that allowed nation states to maintain their status quo. The German legislators used the implementation of the European directives, which was attained by the enactment of the *Bilanzrichtliniengesetz* of 1985, as an opportunity for reforming the HGB. This reform restructured the HGB to its current form, which requires uniform accounting standards for all entities (HGB, §§238–264). Further, the German legislators imposed additional accounting standards for stock corporations, associations limited by shares and limited liability companies. However, the German approach remained conservative by implementing European directives with the objective of only fulfilling minimum requirements (Eierle 2004, 2005; Haller 2003).

Germany's intention to preserve the status quo in the enactment of the *Bilanzrichtliniengesetz* is reflected in the implementation of the 'true and fair view' principle, which was only enacted for stock corporations and not for all entities. Importantly, the legislators did not implement the 'true and fair view' principle as an overriding principle, but subjected this to the *Grundsätze ordnungsmäßiger Buchführung* (principles of orderly accounting). Consequently, stock corporations still had to interpret accounting regulations in accordance with the *Grundsätze*

ordnungsmäßiger Buchführung, which supports the application of creditor protection and the principle of prudence (Beisse, 2001; Eierle, 2004). Indeed, the concept of 'true and fair view' in German accounting law needs to be differentiated from the Anglo-American 'true and fair view override', which can be invoked to depart from statutory provisions and accounting standards. In contrast, the German understanding of the 'true and fair view' must only be applied if there are no provisions or doubts about interpretation and application of certain provisions (Fey and Fladt, 2006). The German legislators limited the enactment of the 'true and fair view' principle because it was perceived as an indeterminate and subsequently 'dangerous legal concept' (Beisse, 2001). These reasons provide some insights into how a lack of public support resulted in a partial implementation of the European harmonisation directive.

This paper has provided evidence to show the longstanding tradition of creditor protection and prudence in Germany. Financial crises, fraud and European and international integration have often influenced public perception about the appropriateness of existing accounting standards. Stakeholders' perceptions and expectations, such as the preference for greater reliability and the focus on creditor protection, have driven the importance of prudence and capital maintenance in the German environment. Importantly, legitimacy of the traditional German accounting model has been conditioned by conforming to perceptions and expectations of stakeholders. Ongoing internationalisation has also influenced companies' and the public's perceptions of IFRS and posed challenges to the legitimacy of IFRS in Germany.

The previous sections have shown that the German accounting system has constantly changed to gain and retain legitimacy. To what extent the pursuit of legitimacy has been driving the adoption of IFRS in Germany will be assessed in the next sections by focusing on coercive, mimetic and normative forces. This analysis is further enhanced by including economic considerations in the discussion of the adoption of IFRS in Germany.

3.5 Adoption of IFRS and Isomorphism

3.5.1 Coercive Isomorphism

As discussed earlier, coercive isomorphism is related to political influences, authoritative interventions and the importance of establishing legitimacy. The following paragraphs examine to what extent coercive forces led the German government to support European endeavours to harmonise international accounting, which in turn led to the enactment of the European IAS directive in 2002, requiring consolidated statements of listed companies to be prepared in accordance with IAS/IFRS from 2005 (European Parliament and Council, 2002).

As evident in the earlier discussions, European endeavours to harmonise accounting standards have been an important topic since the 1970s. However, before adoption of international accounting standards, European harmonisation endeavours were often complicated by differences in the objectives and regulations of national accounting models as well as the diversity of cultural, political and economic factors within the EU. Member states were often reluctant to compromise, leading to the establishment

of minimal requirements that did not necessarily ensure comparability of statements across Europe (Haller, 2002; Thorell and Whittington, 1994). Indeed, the decision of the European Parliament to adopt IFRS has been regarded as the result of the failure to develop autonomous European standards that would be recognised on international securities markets. Given the failure of negotiations between the SEC and European member states to mutually recognise European and US accounting standards in the late 1980s and early 1990s (Biener, 1994; Cairns, 1994; Schuetze, 1994), the European commission was forced to react. With the aim of both ensuring that European companies would have equal opportunities to participate in international capital markets and increasing the attractiveness of European capital markets, the European commission decided to converge with internationally accepted standards by supporting and cooperating with the IASC (Commission of the European Communities, 1995). This was also seen as a measure to reinstate European influence on international accounting developments (Haller, 2002). It has been argued that the decision to support the IASC was a 'face-saving' and politically acceptable alternative to European governments adopting US standards (Leblond, 2011; Schaub, 2005; Simmons, 2001; Whittington, 2005). As such, the adoption of international accounting standards can be regarded as a cover carrying the image of multilateral legitimacy while being closely aligned with Anglo-Saxon accounting practices (Simmons, 2001). These developments provide evidence of the political forces pushing the adoption of international accounting standards rather than a focus on normative considerations and debates of technological superiority.

The political decision to support the adoption of international accounting standards is closely related to the economic dominance of the US and the importance of the US

and UK capital markets, with the New York stock exchange being the world's largest stock market. Indeed, Anglo-American economic dominance and financial power and the desire of companies to access its capital markets has been regarded as the origin of an international harmonisation process that strongly reflects Anglo-American accounting preferences. As Simmons (2001, p. 611) stated, 'Simple market power is moving harmonization toward the dominant center's preferred accounting approach'. Indeed, international accounting standards would have little credibility without acceptance by the SEC, which requires alignment with US accounting practices. Economic power and prestige of the US capital markets was also increasingly important to German corporations such as Daimler-Benz, which, in 1993, started to reconcile consolidated statements with US GAAP to ensure listing on the New York stock exchange. Numerous large German entities such as Adidas and Bayer followed suit by voluntarily preparing statements in accordance with US GAAP or IAS (Haller, 2002; Simmons, 2001). The desire of German companies to access global capital markets and the economic power of the US reinforced support for the adoption of international accounting standards in favour of any specific European solution. This decision was further reinforced by fears that large European companies would otherwise be increasingly drawn to US GAAP, which the EU was unable to influence politically (Commission of the European Communities, 1995).

The case of Daimler-Benz was especially important in the German decision to support international accounting standards. The presentation of a reconciliation statement from German accounting income and equity to income and equity figures in accordance with US GAAP for the financial year 1993 revealed substantial discrepancies between these statements and resulted in a loss of reputation on the part

of German accounting standards (Haller, 1995a). Given the importance of international capital markets for German companies and Germany's role in the harmonisation process within the EU, the move to support international accounting standards can be regarded as a political move to counteract a potential loss of legitimacy rather than an objective evaluation of technical superiority of international standards or US GAAP. Indeed, the German legislators had considerable influence on the accounting harmonisation process in the EU as evidenced by the close alignment of the fourth and seventh European directives with German accounting standards for stock corporations (Eierle, 2004, p. 145). Moreover, it can be asserted that Germany's dominant role in European integration and harmonisation and the legislators' subsequent endeavours to establish European accounting harmonisation with the objective of facilitating free trade and the free movement of capital was perceived as legitimate by the public and by German companies in particular. Required to represent German interests and confronted with the failure of negotiating for the international recognition of European standards, supporting and cooperating with the IASC may be regarded as a political strategy on the part of the German government to maintain legitimacy nationally as well as internationally.

Following the decision to converge, the European Commission became a member of the IASC's consultative group as well as an observer on the IASB. In the following decade, until the adoption of IFRS for consolidated statements of listed corporations in 2005, the focus of financial reporting increasingly shifted towards an emphasis on investors aimed at enhancing capital market efficiency (Haller, 2002). Importantly, this focus on investors needs to be distinguished from the traditional focus on creditor protection in the German accounting model. Accordingly, the appropriateness and

legitimacy of international accounting standards in Germany are perceived differently by different stakeholder groups. Although IFRS are only required for consolidated statements of listed companies, German SMEs have voiced numerous concerns regarding an extended application of IFRS in Germany. Further insights are provided through a discussion of the normative forces of IFRS adoption in Germany.

It has been shown that coercive forces have contributed to the adoption of IFRS in Germany. German legislators have sought to maintain political legitimacy by supporting and fostering the move towards accounting internationalisation, which finally led to the adoption of IFRS. However, the move in favour of IFRS rather than towards European harmonisation was largely influenced by the coercive authority of the US, which is regarded as a hegemonic power in the global financial market. As such, the adoption of IFRS differs from earlier accounting developments in Germany, which were largely reactions to changes and issues in the German economic, political and social environment. Importantly, the requirements of international capital markets, political pressures and the objective of ensuring Germany's legitimacy in a globalised world may have forced German legislators to ignore technical considerations regarding the appropriateness of IFRS, particularly with regard to the German focus on creditor protection and prudence rather than shareholder information.

3.5.2 Mimetic Isomorphism

Mimetic isomorphism initiates change in response to uncertainty and leads institutions to model themselves after structures that are perceived to be more

successful and legitimate. Importantly, certain structures may dominate because of a lack of options rather than convincing evidence of enhanced efficiency. The decision to support international accounting endeavours and cooperate with the IASC may be regarded as an imitation of successful structures with respect to providing access to international capital markets. As discussed in the previous section, European accounting harmonisation failed to provide greater comparability among European financial statements, failed to enhance the competitiveness of European entities and did not provide them with access to international capital markets as evident in the failed negotiations for mutual recognition of European and US standards (Biener, 1994; Cairns, 1994; Schuetze, 1994). In contrast, European governments and institutions believed that convergence with international standards and the adoption of IFRS would achieve these objectives for stock corporations and would thus be a more successful strategy compared to European harmonisation. As explained in the discussion on coercive forces, the pressure to adopt international standards is strongly related to the failure of other potential solutions. Indeed, the dominance of international standards is not evidence of their effectiveness and efficiency. Rather, they represent the only alternative, given the negative political message that adoption of US accounting standards would send to other nations and regions (Schaub, 2005).

Global integration of capital markets has further contributed to the adoption of IFRS by increasing the need to meet investors' information needs in financial statements. Research has shown that the greater importance of the capital markets in the UK and US compared to Continental Europe has resulted in a stronger emphasis on providing information that is useful to investors rather than a on prudence and capital maintenance. IAS and later IFRS, based on Anglo-American accounting models and

specifically developed with the objective of meeting global accounting requirements, reflect this focus on satisfying investors' demands (Jones and Luther, 2005; Leuz and Verrecchia, 2000). Moreover, the European legislators' decision to require consolidated reports consistent with IAS/IFRS aimed to enhance comparability, transparency and thus capital market efficiency, which would in turn lead to lower cost of capital and greater investment, generating opportunities for growth and employment (Schaub, 2005). Financial reports prepared in accordance with accounting systems prevalent in Continental European countries and German accounting standards in particular were considered to be less informative and value relevant to international investors because of their lack of market and investor orientation (Ali and Hwang, 2000; D'Arcy, 2000; Leuz and Verrecchia, 2000). This is largely consistent with the earlier historical analysis that has revealed that the traditional German accounting model focused on creditor protection and prudence by adopting a conservative and cautious approach to measurement of assets, liabilities and profits. The growing internationalisation of capital markets combined with accountants' lack of experience in creating consolidated statements that meet investors' needs may have created uncertainty. In this regard, adoption of IFRS can be understood as a strategic move to model European and German standards after structures that are perceived to be more successful and legitimate.

Pressures from the industry may also have contributed to the creation of mimetic isomorphic pressures. Indeed, a number of German entities prepared statements in accordance with IAS/IFRS prior to requirements by German legislators. The voluntary adoption of IFRS by German entities provides evidence that preparation of statements in accordance with IAS/IFRS was considered to be more successful in

fulfilling investors' demands than statements prepared in accordance with the traditional German accounting model (Leuz and Verrecchia, 2000). Given that German entities were required to prepare consolidated statements in accordance with the HGB until enactment of the KapAEG in 1998, considerable resources were spent on either reconciling statements with IAS or US GAAP, preparing dual reports or preparing two separate sets of statements, one in accordance with German accounting standards and one in accordance with internationally recognised standards. This duplication increased industry pressure on the German legislator to allow preparation of consolidated financial statements consistent with internationally recognised standards instead of requiring the preparation of consolidated statements in accordance with German accounting standards (Haller, 2002). Indeed, the KapAEG followed these pressures by allowing consolidated statements of listed companies to be prepared in accordance with IAS or US GAAP. Additionally, Canibano and Mora (2000) provide evidence that the behaviour of so-called European 'global players' in the 1990s created a *de facto* harmonisation process, which increased pressures to formalise European harmonisation. European institutional bodies reacted accordingly, initially by deciding to support and cooperate with the IASC and later with the European IAS regulation, which required capital-market orientated companies to prepare consolidated financial reports consistent with IAS/IFRS from 2005 (Canibano and Mora, 2000; Commission of the European Communities, 1995; European Parliament and Council, 2002). This behaviour of European and German legislators provides further evidence of the mimetic forces that influenced the adoption of IFRS. Indeed, the legislators decided to model accounting requirements for consolidated statements based on the actual behaviour of European global players that indicated the legitimacy of statements prepared in accordance with IAS/IFRS.

As already noted, the increasing emphasis on international standards because of mimetic forces should not be interpreted as evidence for their technical superiority. Indeed, the European IAS regulation prompted increasing debate concerning an extended application of IFRS, fuelling controversial discussions about the legitimacy of IFRS in Germany. For example, IFRS are largely equity investor-orientated (IASB, 2007b, Framework §10) and often fail to provide information to other users of financial reports despite claims to provide useful decision-making information for a wide range of users (IASB, 2007b, Framework §12). Indeed, the application of IFRS neglects the heterogeneous information interest of users of financial reports (Brinkmann, 2006; Edwards, Birkin and Woodward, 2002). Further, the IASB claims to protect creditor interest by providing useful information, while Germany's accounting model focuses on institutionalised creditor protection (Baetge, 2000; Kahle, 2003; Pfitzer and Kahre, 2004). These contrary perspectives resulted in a number of challenges and debates since the adoption of IFRS in Germany, particularly concerning the potential adoption of IFRS for SMEs. Indeed, IFRS were considered to have failed to fulfil the requirements and expectations of non-listed companies (Deutscher Industrie- und Handelskammertag and Pricewaterhouse Coopers, 2005; Hüttche, 2002; Kahle, 2003; Schürmann, 2006). These technical considerations will be further discussed in the examination of normative pressures towards IFRS adoption in Germany.

3.5.3 Normative Isomorphism

Normative isomorphism creates conformity through the construction and promotion of norms regarding organisational and professional behaviour. DiMaggio and Powell

(1983) emphasise the importance of educational institutions and professional bodies in the diffusion of norms across organisations. Therefore, the following paragraphs critically examine the norms and values expressed in IFRS as well as the focus on the IASB as a private standard-setting authority as factors contributing to the adoption of IFRS in Germany. Specifically, this paper analyses the extent to which German stakeholders share the norms that are transmitted by IASB in the development of IFRS.

German stakeholders have had strong reservations towards IFRS, which are perceived as dominated by arbitrary judgements, giving rise to serious concerns about the comparability and reliability of IFRS. For example, IFRS uses uncertainty expressions such as 'probable', 'reasonable', 'virtually certain' and 'reliably' (IASB, 2007). Consequently, accountants have wide discretionary authority in the application of IFRS standards (Börstler, 2006; Brinkmann, 2006; Dewing and Russell, 2004; Fischer, Klopfer and Sterzenbach, 2004; Lüdenbach and Hoffman, 2004; Wagenhofer, 2003). This discretionary authority is reinforced by some imprecise and unspecified terminologies such as 'identifiability' and 'control' (Baetge, 2005; DGRV, 2005; Euler, 2001). Besides possibilities for earnings management, the reliability of financial reports is compromised by cross-cultural differences in the interpretation of these uncertainty expressions (Brinkmann, 2006; Doupnik and Richter, 2004; Jermakowicz and Gornik-Tomaszewski, 2006; Moxter, 2002). However, the IFRS framework identifies reliability as a precondition of providing useful decision-making information (IASB, 2007b, Framework §31). Consequently, the objective of IFRS to provide reliable and decision-relevant information to investors and other users may be restricted (Committee on Economic and Monetary

Affairs, 2008; Herzig, 2005; Theile, 2003). These issues may have been of particular concern to German accountants who had to apply their professional judgement in accordance with the *Grundsätze ordnungsmäßiger Buchführung* and the principle of prudence, despite the fact that European harmonisation introduced the terminology of 'true and fair view' into the German accounting model. Consequently, the judgements of German accountants also have to be in accordance with the *Niederstwertprinzip* (historic cost principle), *Realisationsprinzip* (realisation princinple) and *Imparitätsprinzip* (recognition of loss principle).

The IASB's advocacy of the fair value approach, which bases valuation of assets on market prices, was also subject to extensive discussion given that it opposed the *Niederstwertprinzip*, which has traditionally been used in Germany (Ernst & Young, 2005; Perry and Nölke, 2006). In this discussion, arguments have been presented that fair values contribute to increasing market efficiencies and relevance. While the argument of increased efficiency might hold true from a theoretical perspective, the fair value approach introduces arbitrary judgements because of complex and subjective assessments. Bernstein (2002) and Patel (2006) argue that this focus on professional judgement results in diminishing comparability, both between different enterprises and between different time periods and ignores evidence that culture influences the judgements of professional accountants.

The importance of these concerns about reliability, comparability and usefulness may increase in the German environment, which significantly differs from Anglo-American settings. In particular, higher volatilities in valuations and concerns about reliability contrast with Germany's traditional focus on prudence and creditor

protection as a basis for sustained economic development. The differences between the expectations of German stakeholders and the principles that are advocated by the IASB fuelled the debate about extended applications of IFRS for individual financial reports in Germany, particularly for SMEs (Buchholz, 2006; Deutscher Industrie- und Handelskammertag and Pricewaterhouse Coopers, 2005; Eierle, Haller and Beiersdorf, 2007; FAZ, 2006; Grass, 2007; Hüttche, 2002; Oehler, 2005; von Keitz and KPMG, 2006; von Keitz and Stibi, 2004; Winkeljohann and Herzig, 2006). Although the economic environment, over the last decade in particular, has changed because of internationalisation and resulting market pressures, a full implementation of IFRS would have raised serious issues because of their inadequacy to adapt to the needs of a majority of German stakeholders (Edwards et al., 2002; Haller and Eierle, 2004). Indeed, strong public resistance to the idea resulted in the formation of interest groups such as the *Vereinigung zur Mitwirkung der Entwicklung des Bilanzrechts fuer Familiengesellschaften e.V.*, which comprised a number of well-known German family-owned companies. A significant number of German SMEs criticised the 'optimistic, laissez-faire, risk-taking' elements in the Anglo-American approach, which often result in the recognition of unrealised profits. Opponents argued that this would create serious problems if creditors and owners demanded increased profit distributions based on inflated profit figures generated by IFRS (Arbeitskreis Bilanzrecht der Hochschullehrer Rechtswissenschaft, 2002; Schön, 2001; Schulze-Osterloh, 2003; von Keitz and KPMG, 2006).

The discussions in Germany provide evidence that the norms expressed in IFRS are not fully supported by German stakeholders. Although supporting the international convergence process, the specificities of IFRS were questioned and lacked normative

support. Indeed, supporting greater investor orientation to ensure access to international capital markets may not necessarily equate to supporting the specificities of IFRS that largely follow the short-term and financial market orientation of Anglo-American economies (Perry and Nölke, 2006). In contrast, the German model has emphasised long-term consensual relationships between labour, capital and the state. This has been manifested in the main principles of the HGB. As such, the adoption of IFRS, which has been perceived to largely follow practices that correspond to Anglo-American environments by being compatible with their political economy may lack normative support in Germany (Dewing and Russell, 2004; Perry and Nölke, 2006).

Similarly, German acceptance of the IASB as a private standard-setting authority contrasts with Germany's accounting system, which is principally based on legal enactments by the government. The standard-setting authority of the German government can be traced to the influence of the Roman philosophy of law that focuses on individuals' duties and obligations to establish authority and order, stability and security and universal justice. In accordance with this paternalistic philosophy, the state has enacted extensive codifications that prescribe legal norms and set society's moral standards to ensure a rational and well-stipulated order. Within this order, the interests of the public are strongly emphasised. This focus on code law strongly differentiates Continental European countries from Anglo-American countries, which are regulated by common law with a greater focus on individual rights and freedom (Rost, 1991).

Enactments of accounting rules and standards also tend to reflect the legal philosophy and the code law structure prevalent in Germany. Evidence suggests that legislators often took into account economic, social and socio-political consequences of alternative accounting standards and regulations with an emphasis on both the consequences for different interest groups and the aggregate macroeconomic effects. In accordance with this paternalistic philosophy, the German government has had full authority over the accounting standards-setting process. While the accounting profession has been able to influence the standard-setting process, their influence has been limited to involvement in drafting laws and providing commentaries, recommendations and official statements. Other stakeholders in Germany have not mounted any serious challenge to the government's authority over the standard-setting process and determination of regulations (Moxter, 1995). A number of German accounting researchers argue that accounting requires legitimised legal regulation because of the importance of accounting information to national economies and the public (Beisse, 1999; Budde, 1998; Hommelhoff and Schwab, 1998; Kirchhof, 2000; Schmidt, 2002). Professionals and private persons are not found to be objective and competent to judge various economic, social and socio-political consequences of alternative accounting standards and regulations (Moxter, 1995). As such, the German authorities have tried to balance the diverse and at times conflicting expectations of public and private interests.

In light of Western Europe's traditional focus on code law regulation, it is not surprising that management of the IASB has attracted considerable attention and led to strong controversies about the legitimacy of private standard-setting authorities (Ballwieser, 2001; Committee on Economic and Monetary Affairs, 2008; Edwards et

al., 2002; Perry and Nölke, 2006). Importantly, these controversies surrounding the legitimacy of the IASB provide ongoing evidence for the lack of normative support for a professional standard-setting authority and the IASB in particular. Legitimacy of IASB decisions has been questioned because final decisions rest only in the hands of the board without further democratic control. Moreover, the European Parliament raised concerns regarding IASB's legitimacy because of a perceived lack of transparency regarding the board's mandate and working plans (Ausschuss für Wirtschaft und Währung, 2007; Committee on Economic and Monetary Affairs, 2008; DGRV, 2005). Further, the representativeness and objectivity of the IASB remained a controversial issue. A major concern was the structure of the IASB, whose board members are selected by the trustees of the IASCF. Consistent with the IASCF constitution, the board members were chosen in relation to their 'professional competence' and 'practical experience' and consequently, the majority were accounting professionals (IASCF constitution, 19). Further, the IASCF constitution requires 'integrity' and 'objectivity' as qualifying criteria for membership in the IASB. However, competence and experience are acquired in specific economic and social contexts and, consequently, objectivity and independence might be affected. This is because the application of knowledge and subsequent solutions for specific problems reflect the social context in which that knowledge has been acquired and is biased *per se* (Gramsci, 1971; Perry and Nölke, 2006). Therefore, consistent with our earlier discussion, the technical knowledge and expertise of the IASB is perceived to be shaped by social expectations and conceptual assumptions that largely reflect Anglo-American accounting models, which have received limited normative support by German stakeholders.

Overall, evidence suggests that the adoption of IFRS in Germany is not fully explained by the existence of normative pressures. Indeed, critical debates concerning the fair value approach, discretionary decisions in IFRS and the role of the IASB as a private standard setter clearly show a lack of conformity in thought regarding the underlying values and norms of the international convergence process. Agreement and consistency exists regarding the underlying imperative to enhance international convergence by developing international standards. Normative pressures have certainly contributed to the decision to implement international accounting standards in Germany. However, the specificities of this implementation with the provision of authority to the IASB have not been the result of a normative consensus on what should constitute technical expertise, global authority or the underlying principles of global accounting standards. Indeed, normative pressures have led to a common objective but not necessarily agreement on a common way to achieve this objective.

3.6 Discussion and Conclusions

The objective of this paper was to critically examine the development of German accounting and the adoption of IFRS from a neo-institutionalist perspective. Based on a historical examination of accounting development in Germany, the adoption of IFRS was evaluated with an emphasis on the influence of coercive, mimetic and normative forces. In this discussion, the influence of power structures, the issue of technical superiority and institutional expectations have been taken into account.

The paper provides evidence of the changing focus of German accounting development from an emphasis on national interests and values towards greater focus on international considerations. The historical analysis has shown that Germany's accounting model has followed a legalistic approach focusing on creditor protection and has adopted a conservative and cautious approach to measurement of assets, liabilities and profits. Importantly, the historical analysis provides evidence that the legitimacy of the German accounting model is based on its alignment with the social, cultural, political, economic and legal context in Germany. Indeed, development of the traditional German accounting model has strongly followed normative considerations, thereby reflecting values and concerns of importance to German society. Globalisation and global integration of capital markets have changed these traditional structures, challenging values and existing norms. Consistent with these changes in society, accounting regulations and systems have been required to adapt to meet the challenges of international capital markets. This paper provides evidence of an underlying imperative to enhance international convergence by developing international standards. As such, the move towards international standards can be regarded as legitimate in fulfilling stakeholders' requirements. However, the processes and rationales of IFRS adoption require a deeper analysis with particular regard to the significance of power dynamics in international accounting.

The discussion of pressures to adopt IFRS has emphasised the importance of coercive and mimetic pressures in the adoption process and the relative lack of normative alignment with German values. Indeed, the analysis has shown that the move towards internationalisation of accounting standards secured political legitimacy of German legislators. However, the need to move away from the specific German model was

due to the coercive authority of the US as a hegemonic power in global financial markets. As such, the adoption of IFRS differs significantly from earlier accounting developments in Germany, which were principally reactions to changes and issues in the German economic, political and social environment. In contrast, the adoption of IFRS was largely driven by international considerations and political pressures to ensure legitimacy and the positive reputation of the German accounting model from an international perspective.

Similarly, this evaluation identified mimetic pressures that contributed to IFRS adoption in Germany. Specifically, uncertainty with regard to appropriate standards for capital markets, increasing industry pressure and the acceptance of statements prepared in accordance with internationally accepted accounting standards fostered the adoption of IFRS in Germany. Therefore, the adoption of IFRS may be regarded as a strategic move to model European and German standards after structures that were perceived to be more successful and legitimate. This is consistent with earlier developments in German accounting history. For example, the ALR was greatly influenced by the French Ordonnance de Commerce of 1673, which was perceived as a legitimate and successful accounting model. Importantly, measures of the French Ordonnance de Commerce that were considered unsuitable in the German environment were adapted to suit the requirements and values of German merchants and society. The analysis of IFRS adoption shows that the increasing focus on international standards because of mimetic forces does not provide evidence of the technical superiority and appropriateness in the German environment of IFRS.

The discussion of normative isomorphism has shown that agreement existed in Germany regarding the underlying imperative to enhance international convergence by developing international standards. However, discussions and concerns regarding the fair value approach, discretionary decisions in IFRS and the role of the IASB as a private standard setter provide evidence that adoption of IFRS has not been the result of normative consensus on what should constitute technical expertise, global authority or the underlying principles of global accounting standards. Further, adoption of IFRS has significantly differed from earlier accounting developments, which, as this historical analysis has revealed, have normatively aligned with prevalent values and considerations in German society.

The results of this study provide evidence of the importance of economic power and Anglo-American dominance in international accounting in influencing the adoption of IFRS in Europe and Germany. Accounting standard setting has always been a political process. However, the examination of IFRS adoption in Germany provides evidence of the increasing influence of international power and politics on national accounting developments. This has significantly changed the rationale of accounting development, which is now increasingly driven by coercive and mimetic forces rather than normative considerations.

The rising importance of coercive and mimetic forces and the relative reduction in the importance of normative alignment has significant implications for the future development and acceptance of IFRS in the German accounting model. For example, the limited normative alignment with the German socio-economic and political environment has resulted in ongoing discussions about the applicability and

superiority of IFRS as ‘best practice’. Moreover, significant controversies exist regarding the legitimacy, international representativeness and transparency of the private standard-setting body IASB. Indeed, the lack of normative support of the technical specificities of IFRS, in combination with the perception of Anglo-American dominance in international accounting, may create opposition towards greater international integration of accounting standards. The heated debates regarding the extension of IFRS to SMEs provide evidence of the ongoing challenges and opposition from organisations as well as the public, which may also influence beneficial development of international convergence for listed companies. The provision of insights into the adoption process from a neo-institutional perspective may contribute to explaining the determinants of opposition towards IFRS and the IASB. Future research may explore this process for other countries. This is particularly relevant for countries with a longstanding accounting tradition and countries that have accounting values that diverge from the market orientation of Anglo-American accoutning models. In this regard, studies of IFRS adoption in countries such as China or India may contribute to our understanding of the determinants of current and future challenges facing IFRS and the IASB.

This paper has shown that IFRS adoption has largely been the result of economic and political power and pressures in the international economy rather than normative alignment with German traditional values and expectations. Given the identified lack of normative support, future research may also examine the legitimacy of IFRS and the IASB in Germany in more detail, in particular with regard to changes in perceptions and attitudes since the adoption in 2005. Indeed, international accounting research and practice would benefit from deeper insights into these processes because

a lack of normative support may challenge the future of international convergence. As has been shown, differences between accounting models develop as a result of different environments and their respective regulative, normative and cognitive perceptions and expectations. Compliance with these differing norms, values and expectations is important in enhancing the legitimacy of accounting regulations, with this legitimacy being essential to the survival and success of IFRS, the IASB and the international convergence process.

3.7 References

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Chapter 4: The Influence of Power and Legitimacy on German Attitudes towards the IASB and the Promotion of Professional Judgements

4.1 Abstract

In the convergence process, with the development and adoption of IFRS as national standards, politics and problems associated with the standard-setting process of the IASB have increasingly been recognised as an important and controversial topic. However, most studies have failed to explore and capture the complexity of factors influencing attitudes and public opinion toward the standard-setting process of the IASB. Given that exercise of professional judgement in IFRS and its promotion by the IASB is a critical issue in the current development of accounting principles and standards, this paper aims to provide insights into issues and concerns regarding the exercise of professional judgement in IFRS from a German perspective. The objective of this paper is to critically examine German public perception of the increasing promotion of professional judgement by the IASB. Based on Durocher et al.'s (2007) model of user participation in standard-setting processes, a framework is developed and presented to critically evaluate the relationships between power structures, perceived legitimacy and individual attitudes towards international standard-setting processes. Based on interviews with German accountants and leading accounting academics and a content analysis of German financial newspaper

publications, evidence is provided that the enduring concerns of German stakeholders regarding the promotion of professional judgement by the IASB are strongly influenced by the perception of power asymmetries and legitimacy issues in the standard-setting process.

The study contributes to international accounting research and practice by providing an integrative model of public perception of the standard-setting process by linking perceptions of the promotion of professional judgement to power, legitimacy and the determinants of individual attitudes. Indeed, the evaluation of German opinions on the IASB's standard-setting process further emphasises the politics and problems associated with the international standard-setting process and has significant implications for international accounting practice and research.

4.2 Introduction

Over the last decade, international accounting harmonisation and convergence and the increasing adoption of IFRS as national standards have become dominant topics in international accounting research (Alp and Ustundag, 2009; Ashbaugh and Pincus, 2001; Cairns, Massoudi, Taplin and Tarca, 2011; Christensen et al., 2007; Daske, 2006; Daske and Gebhardt, 2006; Daske et al., 2008; Ding et al., 2007; Gastón, Garcia, Jame and Lainez Gadea, 2010; Haverals, 2007; Hellmann et al., 2010; Lantto and Sahlström, 2008; Othman and Zeghal, 2006; Peng and van der Laan Smith, 2010; Schleicher, Tahoun and Walker, 2010; Tyrrall et al., 2007). In this move towards convergence, the politics associated with international accounting standard setting by

the IASB has become an important and controversial topic in international accounting research. Although previous studies have aimed to examine political issues and stakeholder's perception towards the standard-setting process of the IASB (Alali and Cao, 2010; Chiapello and Medjad, 2009; de Lange and Howieson, 2006), no study has critically examined the complexity of factors influencing attitudes and public opinion toward this standard-setting process. Given that attitudes are likely to guide behaviour and lead stakeholders to either advance the work of the IASB or create obstacles, it is timely and relevant to analyse attitudes towards this issue. A recent study has provided evidence that stakeholders' acceptance of IFRS and preparers' overall perception of IFRS may influence compliance and the quality of financial reports (Navarro-García and Bastida, 2010). As such, it is the objective of this paper to provide insights into determinants of attitudes towards the IASB's standard setting and critically examine the influence of power structures and perceived legitimacy on individual attitudes and public opinion[15]. Specifically, this study examines German attitudes towards the promotion of professional judgement by the IASB since the adoption of IFRS in the EU in 2005.

Based on semi-structured interviews with German accounting professionals and leading accounting academics, this paper critically examines German public perceptions of the increasing promotion of professional judgement by the IASB. This study focuses on accountants' exercise of professional judgement in the interpretation and application of IFRS because professional judgement has attracted significant

[15] Public opinion is defined as an 'aggregate of the individual views, attitudes and beliefs about a particular topic, expressed by a significant proportion of the community'. Importantly, attitudes and values are crucial in the development of public opinion (Encyclopedia Britannica, 2011).

attention in discussions on the comparability, reliability and accounting quality of IFRS. IFRS have often been characterised as principle-based standards that, according to Sir David Tweedie, chairperson of the IASB, require both companies and their auditors to exercise professional judgement (FASB, 2002). This use of professional judgement in IFRS is emphasised by the 'substance-over-form' approach in IFRS framework (IASB, 2007). Moreover, the importance of professional judgement is reinforced by standards requiring fair value approaches and discretionary decisions, such as IAS 39, which have been discussed extensively in the international accounting literature (Adhikari and Betancourt, 2008; Cairns et al., 2011; Fargher, 2001; Gray, 2003; Landsman, 2007; Schmidt, 2007; Tan, Hancock, Taplin and Tower, 2005). Most studies have discussed professional judgement by evaluating relevance, reliability and informational value of fair value approaches (Barth and Clinch, 1998; Barth et al., 2000; Betts and Wines, 2004; Cairns et al., 2011; Dechow et al., 2010; Ernst & Young, 2005; Hilton and O'Brien, 2009; Mozes, 2002; Muller and Riedl, 2002; Sunder, 2008). These studies are often based on the application of specific quantitative measurement tools or specific case studies with few studies providing broader insights into the topic of professional judgement (Barth et al., 2000; Chand and White, 2006; Theile, 2003). To our knowledge, no study has critically examined attitudes towards the promotion of professional judgement by the IASB since the adoption of IFRS in the EU in 2005. Given that attitudes and resulting intentions may influence stakeholders to support or critically challenge the work of the IASB, an analysis of the determinants of attitudes towards the promotion of professional judgement by the IASB is timely and important with regard to further development and implementation of accounting standards.

This study invokes and proposes an adaptation to Durocher et al.'s (2007) explorative framework to examine individual attitudes towards standard-setting processes and standard-setting bodies. This model links micro-behavioural and macro-organisational research to show how individual responses are shaped by organisational characteristics. Consistent with Durocher et al.'s (2007) approach, this study operationalises Hardy's (1994) power framework in the standard-setting context and links the descriptive categories of Hardy's (1994) power framework to the structural components of attitudes by referring to Suchman's (1995) legitimacy typology. In doing so, the paper reveals the relationships between the power characteristics of the standard-setting process and the cognitive, affective and behavioural components of attitudes by referring to the influence of pragmatic, moral and cognitive legitimacy. This framework is applied to the context of German attitudes towards the promotion of professional judgement by the IASB. The model proposed in this study provides deeper insights into the attitudes of German accounting academics and accounting professionals, shedding further light on the determinants of positive and negative evaluations of the standard-setting process. Further, the influence of attitudes on behaviour is discussed by referring to the work of Ajzen, such as Ajzen's (1991) theory of planned behaviour. The discussion provides insights into how attitudes influence behaviour and thus may influence the success of the ongoing convergence process.

The remainder of this paper is organised as follows. The first section reviews previous literature on legitimacy perceptions and attitudes towards the standard-setting process of the IASB. The second section introduces an adapted version of Durocher et al.'s (2007) explorative framework on determinants of participation in

the standard-setting process, to be used to examine the relationships between power structures, legitimacy and German public opinion and attitudes towards the standard-setting process. Interview results are analysed and discussed in the third section. The fourth section provides a discussion on the behavioural implications of attitudes. The final section concludes the paper and discusses implications for future research.

4.3 Previous Research on Legitimacy Perceptions and Attitudes towards the IASB and IFRS

Consistent with the increasing global importance of IFRS and the IASB, both the political aspects of international standard setting and perceptions regarding the IASB and its standard-setting processes have received increasing attention in international accounting research. Literature on the legitimacy of the IASB and its standard-setting processes can be divided into two categories with the majority of studies critically questioning the legitimacy and accountability of the IASB and its standard-setting processes by referring to its development and diffusion with an emphasis on the influence of dominant interest groups (Chiapello and Medjad, 2009; Chua and Taylor, 2008; de Lange and Howieson, 2006; Gallhofer and Haslam, 2007; Georgiou, 2010; Irvine, 2008; Larson, 1997, 2007; Larson and Kenny, 2011; Luthardt and Zimmermann, 2009; McGrew and Robotti, 2006; Schmidt, 2002; Zeff, 2002). Other researchers have focused on the legitimacy of the IASB's due process and provide clear evidence of the influence of political and economic constituents on the development of specific IAS and IFRS, respectively (Chatham, Larson and Vietze, 2010; Cortese and Irvine, 2010; Cortese, Irvine and Kaidonis, 2009, 2010; Kenny and

Larson, 1993; Larson and Brown, 2001; Noël, Ayayi and Blum, 2010; Richardson and Eberlein, 2011; Zeff, 2002). Given the importance of legitimacy and accountability for institutional survival and success in the ongoing convergence process, researchers have started to examine stakeholders' participation as a critical component of establishing legitimacy in standard-setting processes (Georgiou, 2010; Larson, 2007, 2008; MacArthur, 1996). However, studies in this area remain limited, having largely focused on examining comment letters rather than on including broader conceptions of power and politics. Although not in the context of international standard setting, the study of users' participation in Canadian standard setting by Durocher et. al. (2007) is a notable exception that provides holistic insights into stakeholders' participation. Importantly, Durocher et al.'s (2007) study focuses on power and legitimacy and provides in-depth insights into stakeholders' motivations based on extensive interview data.

The increasing adoption of IFRS has also led to a number of studies examining stakeholder's perception of issues and challenges in the convergence process (Beattie, Goodacre and Thomson, 2006; Georgiou, 2010; Jermakowicz and Gornik-Tomaszewski, 2006; Jermakowicz, Prather-Kinsey and Wulf, 2007; Joshi, Bremser and Al-Ajmi, 2008; Joshi and Ramadhan, 2002; Larson and Street, 2004; McEnroe and Sullivan, 2006, 2011; Navarro-García and Bastida, 2010; Rezaee et al., 2010). However, these studies have largely focused on analysing questionnaire data rather than on examining the determinants of perceptions. Moreover, research exploring attitudes towards the standard-setting process of the IASB is very limited with few studies focusing on the influence of key stakeholder groups (Georgiou, 2010; Kwok and Sharp, 2005). One notable exception is the study by Kwok and Sharp (2005),

who analysed the IASC process with particular emphasis on the distribution and exercise of power and its impact on the development of standards. However, no study has examined the influence of power perceptions and legitimacy on attitudes. Given that attitudes are likely to guide behaviour and thus lead stakeholders to either advance the work of the IASB or create challenges, it is timely and relevant to analyse attitudes towards the standard-setting process of the IASB.

4.4 Proposed Framework to Study Attitudes towards the Promotion of Professional Judgement by the IASB

This study proposes a refined version of Durocher et al.'s (2007) framework on users' participation in the accounting standard-setting process to study attitudes towards the standard-setting process and standard setters. Consistent with Durocher et al.'s (2007) approach, the proposed framework combines the micro-domain's focus on individuals and groups with the macro-domain's focus on organisations and organisational environments (Durocher et al., 2007; Klein, Tosi and Cannella, 1999). This multilevel approach provides deeper and sharper insights into the determinants of individual attitudes by emphasising the context that surrounds individual processes (Klein et al., 1999). The framework proposed in this study integrates frameworks and theories from organisational theory and psychology. Consistent with Durocher et al. (2007), Hardy's (1994) power framework is used to characterise the standard-setting process and Suchman's (1995) typology of legitimacy is used to link stakeholders' perceptions of international standard-setting processes to attitudes. Attitudes and the determinants of attitude formation are examined by including a componential attitude

model. It is important to note that the relationship between attitudes and Suchman's legitimacy typology is characterised by reciprocal interdependencies. Durocher et al.'s (2007) model proposes an influence of power structures on perceived legitimacy, which in turn determines users' participation. In contrast, our study suggests a reciprocal interdependence between the micro-level of attitudes and perceptions of legitimacy. Therefore, perceived legitimacy may influence attitude formation, while expressed attitudes may influence perceptions of legitimacy. The model is depicted in Figure 4.1.

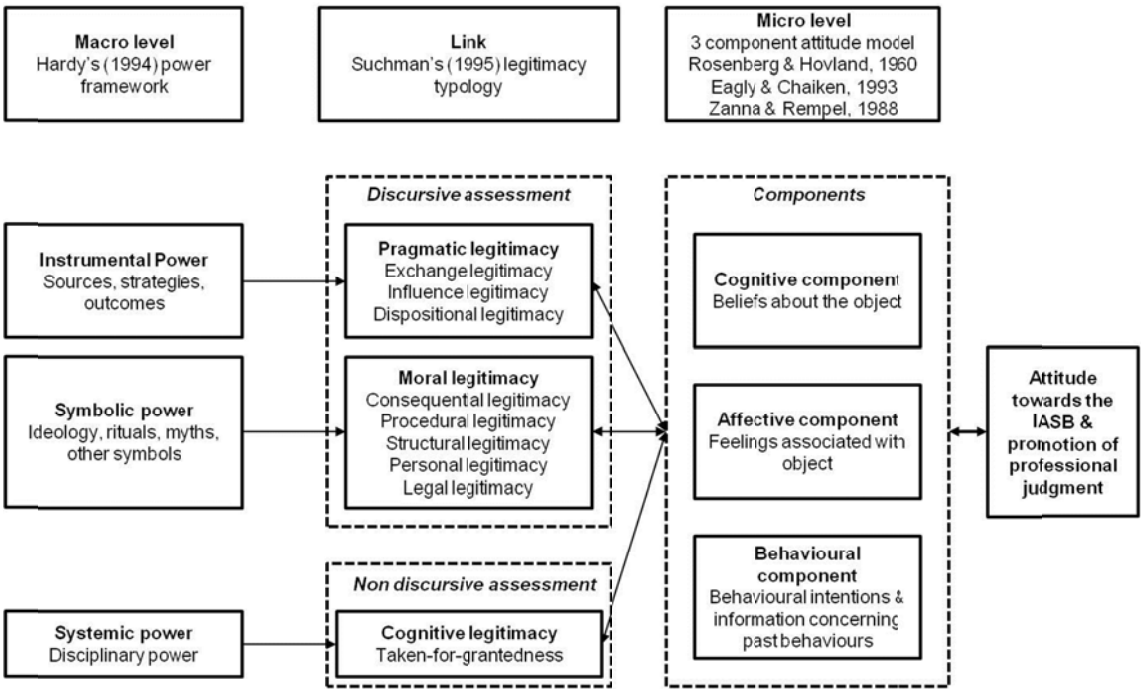

Figure 4.1: Meso-Level Approach to Studying Determinants of Attitudes

4.4.1 Three-Component Attitude Model (Eagly and Chaiken, 1993)

For over 70 years, attitudes have been considered one of the most indispensable concepts in social psychology (Allport, 1935; Haddock and Maio, 2007; Manstead, 1996). This is because 'they affect both the way we perceive the world and how we behave' (Haddock and Maio, 2007, Sage Publications, online). Despite this longstanding importance, no universally accepted definition of attitude exists. However, a core feature that researchers have emphasised in numerous definitions is the evaluative aspect of attitudes. Indeed, attitudes are often defined as evaluative responses, such as liking versus disliking, pleasantness versus unpleasantness or favouring versus disfavouring towards attitude objects (Haddock and Maio, 2007; Manstead, 1996). For the purpose of this paper, we follow the conceptual definition by Eagly and Chaiken (1993, p. 1), which also emphasises attitudes as evaluative responses and states: 'attitude is a psychological tendency that is expressed by evaluating a particular entity with some degree of favour or disfavour'. This definition is particularly relevant to this study because it encompasses and emphasises three essential features of attitudes, namely evaluation, attitude object and tendency. In contrast to researchers that focus on evaluative responses only (Albarracin and Wyer, 2001; Kruglanski and Stroebe, 2005), Eagly and Chaiken (1993, 2007) argue that attitudes can be expressed through different types of responses including judgements as well as emotions and overt behaviours. As such, Eagly and Chaiken's (1993) definition is congenial to the various definitions employed to describe attitudes by encompassing various characterisations of latent tendencies that constitute attitudes (Eagly and Chaiken, 2007).

While no universal agreement exists on the internal structure and components of attitudes, the most influential and widely cited conceptualisation is the three-component structure, which refers to attitudes being revealed in cognitive, affective and behavioural components (Eagly and Chaiken, 1993; Haddock and Maio, 2007; Katz and Stotland, 1959; Manstead, 1996; Rosenberg and Hovland, 1960; Vaughan and Hogg, 2010). This structure has become prominent through the work of Rosenberg and Hoveland (1960) and has been established more recently in publications by Eagly and Chaiken (1993). The cognitive component of attitudes consists of thoughts and beliefs about the attitude object, which are formed by associating certain attributes with the attitude object (Eagly and Chaiken, 1993; Fishbein and Ajzen, 1975). People may process information about an attitude object, such as the IASB, which then forms their beliefs. For example, if people believe that a private standard-setting body such as the IASB is able to enhance the quality and comparability of global reporting, they are likely to link the attitude object with positive attributes. In contrast, if people believe that the IASB reduces the quality of international financial reporting, they would link the IASB with negative attributes. It is important to understand that Eagly and Chaiken (1993) refer to cognitive evaluations as beliefs, while other researchers have used terms such as knowledge, opinion, inferences or information (Eagly and Chaiken, 1993).

The affective component of the three-component model refers to the emotions, moods and feelings that people experience associated with the attitude object (Eagly and Chaiken, 1993). For example, some people may experience hope and optimism when thinking about the IASB and the global convergence project, while other people may experience emotions such as anger and aggression. Consistent with cognitive

evaluative responses, people who evaluate an attitude object positively are likely to experience positive emotions and feelings, while people disfavouring the attitude object are likely to experience negative feelings and emotions. In contrast to some other researchers (Fishbein and Ajzen, 1975), Eagly and Chaiken (1993) distinguish between the affective behaviour as a response, in which the evaluation is expressed, and the evaluation itself.

The behavioural component comprises the actions that people exhibit with regard to the attitude object. These actions may be overt or may be intentions to act that are not necessarily expressed (Eagly and Chaiken, 1993). For example, people that have a positive evaluative response towards the IASB may support international convergence projects, while people with a negative evaluation may criticise the work of the IASB in their research and business publications.

Based on the conceptualisation that attitudes are revealed in the form cognitive, affective and behavioural responses, Eagly and Chaiken (1993) further assert that attitudes are formed by cognitive, affective and behavioural processes. Similarly, Zanna and Rempel (1988) argue that attitudes are based on three classes of information: cognitive, affective and information concerning past behaviours. Indeed, the idea that attitudes have cognitive, emotional (affective) and behavioural foundations has been proposed by a large number of researchers (Breckler, 1984; Eagly and Chaiken, 1993; Greenwald, 1968; Miserandino, 2007; Rosenberg and Hovland, 1960; Triandis, 1971; Zanna and Rempel, 1988). Specifically, cognitive foundations are thought to be learning processes that occur when people gain and process information about attitude objects and form certain beliefs because of this

information. This information may be learned directly or indirectly by observing other people's reactions, involves any kind of active information processing such as logical reasoning, imagining and reflecting and can be gained by activities such as reading, writing and listening (Eagly and Chaiken, 1993; Miserandino, 2007).

In contrast to the cognitive formation based on logical reasoning, the affective foundation of attitudes refers to emotions and feelings that are associated with the attitude object. People often refer to those feelings as something they 'just know in their heart' or situations in which they have a 'gut feeling'. According to Zanna and Rempel (1988), affective evaluations that form the basis for attitudes may also be the result of previous experiences with the attitude object that have resulted in emotional evaluations. Specifically, Zanna and Rempel (1988) argue that although these emotions are based on cognitive knowledge and past behaviour, emotions may not depend solely on factual beliefs related to past experiences. Therefore, emotional information should be considered in the formation of attitudes. Further, emotions and feelings may be derived from people's values and preferences, their sensory reactions, length of exposure and forms of conditioning (Breckler, 1984; Eagly and Chaiken, 1993; Miserandino, 2007; Staats and Staats, 1957; Zajonc, 1980, 1984). Finally, behavioural foundations of attitudes refer to situations in which attitudes are formed by actions, which may occur if actions are taken before an attitude has been established or people are still unsure about their attitudes (Bem, 1972; Eagly and Chaiken, 1993; Miserandino, 2007). Moreover, Zanna and Rempel (1988) propose that information concerning past behaviours or behavioural intentions may form evaluative responses towards attitude objects. In this case, engaging in certain actions such as joining a colleague at a meeting of a working group opposing international

convergence may lead to a situation in which attitudes are formed in accordance with this behaviour (Miserandino, 2007). Similarly, previous experience with the IASB may strongly inform attitudes (Zanna and Rempel, 1988). Importantly, these evaluations based on cognitive, affective and behavioural sources of information are not mutually exclusive. Indeed, the formation of attitudes may be the result of people taking into account all three sources of information at the same time (Zanna and Rempel, 1988).

This tripartite model of attitudes is of particular importance to our analysis of attitudes towards the IASB. Indeed, the component model is applied to reveal attitudes towards the IASB and specifically towards the promotion of professional judgement by the IASB. Importantly, the model will also be invoked to show how attitudes have been formed based on cognitive, affective and behavioural information and how these processes may be taken into account when attempting to change attitudes towards the IASB in the future. In the context of accounting and in particular with regard to convergence and the role of the IASB, attitudes are crucial due to their influence on stakeholders' willingness to either promote or oppose the processes, principles and standards of the IASB as well as the IASB itself. The relationship between attitudes and potential behaviours such as participation in the standard-setting process, opposition against specific standards or the IASB as a private standard setter will be explained in more detail in the discussion section of this paper.

It is important to note that some researchers have criticised the tripartite model because of difficulties in distinguishing and empirically measuring the cognitive, affective and behavioural components of attitudes (Fishbein and Ajzen, 1975;

Ostrom, 1969). However, it has been pervasive in psychology as well as other fields of research such as organisational studies and marketing (Dean, Brandes and Dharwadkar, 1998; Eagly and Mladinic, 1989; Huskinson and Haddock, 2004; Nabi and Krcmar, 2004; Piderit, 2000). Indeed, in their assessment of the three-component model, Eagly and Chaiken (1993, p. 13–14) agreed that the three components are often not empirically distinguishable. However, they argue that the model is an 'important conceptual framework, one that allows psychologists to express the fact that evaluation can be manifested through responses of all three types, regardless of whether the types prove separable in appropriate statistical analysis'. The problems associated with distinguishing between cognitive, affective and behavioural components of attitudes have been taken into account in the development of the proposed framework. As such, it is assumed that Suchman's forms of legitimacy have the potential to affect attitudes on all component levels.

4.4.2 Hardy's Power Framework (1994)

It has long been recognised that accounting and accounting standard setting are not merely the result of technical considerations, but of an inherently political process (Fogarty, 1998; Posner 2007; Puxty, Willmott, Cooper and Lowe, 1987; Zeff, 2002; Watts and Zimmermann, 1979). Indeed, more than three decades ago, Horngren (1973) hypothesised that 'the setting of accounting standards is as much a product of political action as of flawless logic or empirical findings. Why? Because the setting of standards is a social decision.' Given the political and social influences on accounting, power structures are an important characteristic of the standard-setting process. Consistent with Durocher et al. (2007), the political dimension of the

standard-setting process is analysed by referring to Hardy's (1994) power framework. Hardy (1994, p. 220) follows a broad definition that 'equates power with a force that influences outcomes'. Further, this framework differentiates between three dimensions of power, namely instrumental power, symbolic power and systemic power. Instrumental power refers to 'the ability to secure preferred outcomes in the face of competition and conflict' (Hardy 1985, p. 388), which is grounded in the differential access to resources (Durocher et al., 2007; Ranson, Hinings and Royston, 1980). Based on a review of the relevant literature, Durocher et al. (2007) classify the sources of instrumental power into four categories: authority, control of access to critical resources, structural position and individual and collective characteristics (Durocher et al., 2007; Hardy, 1985; Pfeffer, 1992). These comparative resources can be mobilised by political actors to support their goals and influence their agendas (Hardy, 1985). Therefore, in the context of international standard setting, instrumental power may be examined by studying stakeholders' relative control of comparative sources, such as their influence on the IASB. Further, instrumental power is revealed in the strategies that stakeholders pursue to achieve their goals and in the results of those actions, such as the development and introduction of specific standards and principles.

Symbolic power is the second dimension of Hardy's (1994, p. 228) framework, which is defined as 'the ability to secure preferred outcomes by preventing conflict from arising'. Symbolic power may be used to legitimise outcomes through the deliberate management of meaning. This legitimisation process is based on using symbols, language, rituals and myth to influence stakeholders' attitudes towards outcomes. Symbolic power may support the use of instrumental power or it can be used instead

of instrumental power to remove the threat of competition and conflict (Hardy, 1994). Importantly, the intentional use of symbolic power by one group of political actors may convince other parties to take for granted the existing order and political outcomes (Durocher et al., 2007; Hardy, 1994; Lukes, 1974). For example, the IASB may use symbolic power to prevent conflict, which in the long term may lead to a situation in which stakeholders accept the IASB and their processes as natural and unchangeable.

In contrast to instrumental and symbolic power that involves conscious and deliberate strategies by political actors, Hardy (1994, p. 230) refers to systemic power[16] as the 'unconscious acceptance of the values, traditions, cultures and structures of a given institution or society'. Systemic power is an institutionalized form of power, which may benefit some groups and disadvantage others without actors actively employing strategies and policies to achieve these benefits. Building on the work of Focault, Hardy (1994) refers to systemic power as a form of disciplinary power. Disciplinary power stems from normative judgements of acceptable knowledge and discourse in society and subsequently establishes control over people's thinking and behaviour by guiding what is perceived as normal and what is perceived as deviant. Importantly, normative judgements, which build the basis of disciplinary and systemic power, are often established by experts whose opinions and actions create norms that are accepted by society (Alvesson, 1996, Durocher et al., 2007, Focault, 1980, Hardy, 1994). Applied to the context of accounting, we would not expect an overall negative

[16] Hardy (1994) refers to systemic power as 'the power of the system'. This paper uses the term systemic power consistent with the use by Durocher et al. (2007).

attitude towards the IASB if the members of the IASB were accepted as experts with the normative authority to set IFRS. However, current debates in accounting research and practice about the politics of the standard-setting process by the IASB clearly show that the IASB's legitimacy is yet to be completely accepted by stakeholders (Larson, 2002; Larson and Kenny, 2011; Luthardt and Zimmermann, 2009; Martinez-Diaz, 2005; Noël et al., 2010; Richardson and Eberlein, 2011). Indeed, accounting research has discussed the influence of political strategies on increasing the systemic power of the IASB, which may result in benefits for certain groups such as the Big 4—PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Young and KPMG—and multinational corporations (Chiapello and Medjad, 2009; Perry and Noelke, 2006). Although this view stands in contrast to Hardy's (1994) conception of systemic power, other authors have previously emphasised the strategic nature of accounting standard bodies that try to socially construct reality by creating a base of expert knowledge to legitimise the authority and power of the accounting profession (Hines, 1989, 1991; Lee, 1995).

This study invokes Hardy's (1994) power framework to examine the IASB and their standard-setting processes from a macro-perspective. Specifically, stakeholders' perceptions of the instrumental, symbolic and systematic power of the IASB are examined with the objective of showing how these power perceptions influence selected stakeholders' attitudes towards the IASB and its standard-setting processes and policies, which represents the micro-level of the proposed framework to study determinants of attitudes (see Figure 4.1). Consistent with Durocher et al. (2007), Suchman's legitimacy theory is used to link the micro- and macro-level in our study. Importantly, reciprocal interdependencies exist between attitudes and perceived

legitimacy. Specifically, legitimacy perceptions are considered to influence attitude formation while expressed attitudes may influence legitimacy perceptions. Suchman's legitimacy theory and linkages between attitude formation and attitude expression are explained in the next section.

4.4.3 Suchman's Legitimacy Theory (1995)

Legitimacy is an important aspect in the political assessment of accounting standards and accounting standard setters. According to Fogarty (1998, p. 519), 'standard setting in the private sector involves the skilful and subtle negotiation of legitimacy in multiple arenas'. In fact, stakeholders' perceived the legitimacy of the IASB and its standards as important with regard to the acceptance of the ongoing convergence process. Indeed, concerns regarding the legitimacy of the IASB and the influence of political and economic power on the IASB have been discussed in research and practice (Chiapello and Medjad, 2009; Noël et al., 2010). Further, legitimacy relates to perceptions of individuals and subsequently influences cognitive, emotional and behavioural components of attitudes. Suchman (1995, p. 574) defines legitimacy as 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions'. Suchman (1995) identified three distinct forms of legitimacy, namely pragmatic, moral and cognitive legitimacy, which are discussed in the following sections.

4.4.3.1 Pragmatic Legitimacy

Pragmatic legitimacy is linked to the self-interest of an organisation's immediate stakeholders, who evaluate the extent to which the organisation affects their well-being. Consequently, stakeholders analyse organisational behaviour with respect to its direct consequences for themselves (Suchman, 1995; Wood, 1991). Durocher et al. (2007) link pragmatic legitimacy to the instrumental dimension of power as this power dimension secures desired outcomes by intentionally mobilising comparative sources of power.

Pragmatic legitimacy is subdivided into three forms: exchange legitimacy, influence legitimacy and dispositional legitimacy. Stakeholders may grant exchange legitimacy based on an evaluation of the expected value of specific organisational policies. In this context, standards and principles issued by the IASB may be seen as policies emerging from the standard-setting processes of the IASB. Consistent with Durocher et al. (2007), exchange legitimacy may link the instrumental dimension of power of the international standard-setting process to stakeholders' attitudes. These attitudes can be formed through cognitive and affective processes. For example, if stakeholders, such as financial analysts, perceive that the promotion of professional judgement by the IASB enhances the quality of corporate financial reporting, they are likely to grant exchange legitimacy to this promotion. The cognitive process of granting exchange legitimacy to the promotion of professional judgement by evaluating relevant information is part of the cognitive process associated with attitude formation and will result in a positive attitude towards the promotion of professional judgement by the IASB. Consistent with Zanna and Rempel (1988),

stakeholders' granting of exchange legitimacy may also involve affective processes that may influence attitudes towards the promotion. This would be the case if a promotion of professional judgement in previous situations has led to emotional reactions that would cause an affective reaction in a similar situation.

Influence legitimacy is the second form of pragmatic legitimacy and is based on stakeholders' support because they believe the organisation is responsive to their needs and interests. This is often the case if an organisation involves stakeholders in the policy-setting process or adopts stakeholders' standards (Suchman, 1995). Consistent with Durocher et al. (2007), the involvement of stakeholders clearly relates to the structural position as a comparative source of power and can also be related more broadly to general strategies that are mobilised to secure responsiveness. As such, influence legitimacy serves as a link between the instrumental division of power and attitudes. Attitudes may be influenced by cognitive evaluations of organisational processes but also by affective responses. For example, stakeholders that observe their representatives being involved in the standard-setting process may have favourable affective responses. Importantly, attitudes being formed by affective processes may in turn influence the extent to which influence legitimacy is granted. Finally, past behavioural experiences may influence attitudes, which in turn can enhance or oppose the extent to which influence legitimacy is granted.

The third form of pragmatic legitimacy is dispositional legitimacy, which is granted to organisations that are perceived to share similar values and have the best interests of their stakeholders at heart. In this regard, organisations are often treated as distinct individuals that posses styles and tastes and are judged by referring to evaluative

attributes such as ‘wise’ or ‘trustworthy’ (Suchman, 1995). The IASB can be viewed as a comparative source of power that may have the best interest of its stakeholders at heart and responds to stakeholders’ needs in a morally responsible manner. Therefore, dispositional legitimacy may be granted if the IASB is considered by its stakeholders as reacting to their interests and needs. Dispositional legitimacy may also link the instrumental dimension of power of the IASB to attitudes. Indeed, given the sociologically naïve perception of attributes associated with dispositional legitimacy, it is most likely to influence emotional components of attitudes. For example, if stakeholders perceive the IASB as making ‘wise’ decisions consistent with their values and needs, they may grant dispositional legitimacy. This positive emotional evaluation is consistent with expressing a positive attitude towards the IASB.

4.4.3.2 Moral Legitimacy

In contrast to pragmatic legitimacy, which rests on judgements regarding potential benefits and the fulfilment of self-interest, moral legitimacy is based on positive normative evaluations. Specifically, moral legitimacy rests on constituents’ beliefs that an organisation is enhancing societal welfare by ‘doing the right thing’ within the socially constructed value system of the society (Suchman, 1995). Organisations maximise their legitimacy by conforming with institutional rules that reflect societies’ accepted typifications of behaviour (Berger and Luckmann, 1967, p. 54; Meyer and Rowan, 1977). Given the importance of myth and socially constructed beliefs, moral legitimacy can be clearly related to symbolic power, which involves the deliberate management of meaning by using symbols, language, rituals and myth to influence stakeholders’ attitudes towards outcomes. Suchman (1995) identified four forms of

moral legitimacy, namely consequential legitimacy, procedural legitimacy, structural legitimacy and personal legitimacy. Durocher et al. (2007) further added legal legitimacy, which has also been useful in evaluating issues in this study.

Consequential legitimacy refers to moral judgements of an organisation's accomplishments and the properties of its outputs. These technical properties of outputs are socially constructed rather than having a concrete existence that could be measured empirically (Suchman, 1995). In the context of international standard setting, an example of a moral evaluation would be the extent to which standard setting is consistent with the public interest. In this regard, consequential legitimacy can serve as a link between the symbolic dimension of power of the IASB, the standards released by the IASB and attitudes towards these standards. If stakeholders perceive that the IASB is acting in the public interest, they may grant consequential legitimacy, which will positively affect stakeholders' attitudes. Indeed, the cognitive processes of evaluating symbolic power and in turn consequential legitimacy are also forming attitudes, which may be expressed on the cognitive, emotional and behavioural level.

Procedural legitimacy refers to a moral evaluation of the techniques and procedures that an organisation uses to achieve socially valued outcomes (Suchman, 1995). A number of researchers have discussed the importance of procedural legitimacy in the context of accounting standard setting and have referred to procedural legitimacy as being established and maintained by open debates, transparency, adequate reasoning and adequate time and opportunities for stakeholders to influence the process (Beisheim and Dingwerth, 2008; Johnson and Solomons, 1984; Schmidt, 2002). The

due process of the IASB is regarded in this paper as a ritual by which stakeholders perceive that their contributions to developments influence final outcomes. Procedural legitimacy is consequently linked to the symbolic dimension of power of the standard-setting process and has an influence on the cognitive and affective formation of attitudes. These attitudes may be expressed in cognitive, affective and behavioural terms (Fogarty, 1994).

While procedural legitimacy relates to the procedures of an organisation, structural legitimacy refers to a moral evaluation of an organisation's structures and its ability to perform specific types of work (Scott, 1977, 1992). The adoption of socially accepted structures conveys the message that the organisation is working in an appropriate manner on collectively valued goals (Meyer and Rowan, 1977; Suchman, 1995). As such, Suchman (1995) explains structural legitimacy as the belief that an organisation is the 'the right organization for the job' based on an evaluation of the organisational identity and structure. Applied to international accounting standard setting, structural legitimacy would refer to the symbolic existence of committees and representatives that allow for the representation of all stakeholders. Structures may be adopted and symbolic committees formed to establish the perception of structural legitimacy and prevent conflict from arising (Pfeffer, 1981; Suchman, 1995). Therefore, structural legitimacy may be linked to the symbolic dimension of power and influence the formation of affective and cognitive attitudes. Perceptions and feelings of being represented in the structure of the IASB and its committees and trust in the organisation's structures to develop standards positively influences attitudes.

Personal legitimacy is the final form of legitimacy suggested by Suchman (1995). It relates to the charisma of organisational leaders. Personal legitimacy is based on the perception that an organisation's leaders are capable of reordering and transcending organisational routines. The legitimacy of an organisation is based on the confidence and good faith of internal participants and external constituents towards the oragnisation rather than on technical validation (Meyer and Rowan, 1977). In the context of international accounting standard setting, personal legitimacy refers to the charisma of the members on the IASB and stakeholders' confidence and faith in their capabilities and experience. Professional competence and practical experience are the main qualifications for membership of the IASB. As outlined in the IASC foundation constitution, the IASB is supposed to be 'the best available combination of technical expertise and diversity of international business and market experience in order to contribute to the development of high-quality, global accounting standards' (IFRS Foundation, 2010, p. 7). Personal legitimacy depends on stakeholders' perceptions of board members' expertise, professional competence and charisma. As such, personal legitimacy can be linked to the symbolic dimension of power of the standard-setting process. Indeed, perceptions of the expertise and competence of the members of the IASB influence the granting of personal legitimacy, which influences cognitive and emotional formation of attitudes. For example, stakeholders may grant personal legitimacy if members of the IASB can convince them to be technical experts contributing to the development of quality accounting standards and stakeholders would hold a positive attitude towards these members and the IASB as a group accordingly.

Durocher et al. (2007) add legal legitimacy as a fifth form of moral legitimacy. Legal legitimacy is based on having a legal mandate to set rules and regulations. Given the controversial discussion concerning the IASB's mandate to set international accounting standards, legal legitimacy is an important element in a discussion on the IASB's legitimacy and the power characteristics of its standard-setting processes. Linked to the symbolic dimension of power of the standard-setting process, legal legitimacy is based on stakeholders' perceptions that the government supports the standard setter (Durocher et al., 2007). This influences attitudes towards the standard setter. In the context of the IASB, German stakeholders would grant legitimacy based on the German government's support for the role of the IASB as the international standard setter, which will subsequently influence stakeholder's attitudes towards the IASB and its standard-setting processes.

4.4.3.3 Cognitive Legitimacy

Cognitive legitimacy is related to the 'mere acceptance of the organisation as necessary or inevitable based on some taken-for-granted cultural accounts'. In contrast to pragmatic and moral legitimacy, cognitive legitimacy does not involve the pursuit of interests or evaluations but is based on the simple acceptance of institutionalised actions and order. In this context, institutions are regarded as social structures that rely on rules, norms and routines that have become established as guidelines for social behaviour (Berger and Luckmann, 1967; DiMaggio and Powell, 1991; Jepperson, 1991; Scott 1991, 2004). Accounting standard setters and the resulting standards and practices can be regarded as institutions because they represent typifications of habitualised actions that provide meaning and stability in

society (Berger and Luckmann, 1967; Carruthers, 1995; Scott, 1995). This institutionalisation process is built on the distribution and externalisation of expert knowledge in society (Berger and Luckmann, 1967). As a result of this process, the existence of institutions such as standard-setting bodies and their role in the standard setting-process may become a taken-for-granted reality. Given that cognitive legitimacy is based on taken-for-granted assumptions and not on discursive evaluations, it can serve as a link between the systemic dimension of power and attitudes in the standard-setting process. As such, stakeholders may grant cognitive legitimacy to the standard-setting process based on the condition that standards are derived from institutions that have been externalised by their social acceptance and the involvement of expert knowledge. A lack of cognitive legitimacy may yield negative attitudes in the sense that stakeholders may question and challenge the existence of a specific institution such as the IASB and its members. The reverse conclusion, that granting of cognitive legitimacy may result in positive attitudes, is not supported. Indeed, Suchman (1995) clearly states that the assumption that only one organisation can pursue specific objectives is very rare in pluralist political cultures. Further, even if organisations engage in highly objectified practices, the organisation and its members may still fail to be taken-for-granted (Suchman, 1995). For example, the due process of international standard setting may be considered as highly objectified. However, this does not necessarily grant cognitive legitimacy to the IASB and its board members.

Figure 4.1 shows the theoretical framework using Hardy's (1994) power framework to characterise the standard-setting process and Suchman's (1995) typology of legitimacy to link stakeholders' perceptions of the international standard-setting

processes to attitudes. This model is used to examine German attitudes towards the IASB and the promotion of professional judgement by the IASB. Importantly, reciprocal interdependencies exist between forms of legitimacy and attitudes. As discussed previously, perceived legitimacy may influence attitude formation, while expressed attitudes may influence perceptions of legitimacy. Our analysis refers to German attitudes towards the IASB and the promotion of professional judgement from 2005 to 2010. This period is selected because it covers the period before, during and after the adoption of IFRS for consolidated statements in Europe in 2007. As such, the study provides insights into attitude formation and change when adopting IFRS, which may be relevant to other countries planning to adopt IFRS. Given that this analysis covers a period of five years, the focus is on change and continuity of general attitudes rather than specific attitudes at a particular point in time. This is consistent with the objective of this paper to examine general attitudes towards the IASB and the promotion of professional judgement in particular rather than examining attitudes towards the development of a specific accounting standard at a certain point in time.[17] Based on the theoretical discussion of the linkages between Hardy's (1994) power dimensions and Suchman's (1995) forms of legitimacy, the model is used to critically examine the relationship between the perceived

[17] Some attention needs to be given to the complex relationships between sources of power and forms of legitimacy. For example, Durocher et al. (2007) point out that strategies and symbols used by standard setters may not only affect pragmatic and moral legitimacy but also affect taken-for-granted considerations. Although we acknowledge these complex relationships, the framework presented in Figure 4.1 emphasises the one-to-one relationships between types of legitimacy and Hardy's power dimensions that have been described earlier.

characteristics of the standard-setting process, legitimacy and attitudes by adopting a synchronic view at various moments in time.

4.5 Research Methods

Given that the objective of this study is to critically examine German attitudes towards the promotion of professional judgement by the IASB, a qualitative approach was considered appropriate to help identify the main issues. Qualitative research is considered particularly advantageous in explorative research and when relationships between different factors are complex, dynamic and influenced by the broader contextual environment (Eisenhardt, 2002; Stake, 1995; Yin, 2003). The relationship between the perceived characteristics of the standard-setting process, legitimacy and attitudes towards the IASB and its emphasis on promoting professional judgement is considered to be complex phenomena because of the multiple interrelated factors of influence that are difficult to quantify.

The data analysed for the study was collected through semi-structured interviews with German accounting professionals and leading academics in accounting. The selection process of the interviewees was based on criteria such as professional experience with IFRS, previous or current commitment to institutions involved with German and international accounting standard-setting processes, academic reputation and quality publications on the subject matter of international and German accounting. Contact was established via email, with most requests for interviews receiving a positive response.

Fourteen interviewees were selected and interviewed in July 2008 as part of a larger research project on professional judgement. The length of the interviews varied from 56 minutes to 2 hours and 20 minutes. All interviews were recorded and transcribed to avoid inaccuracies because of poor recall (Yin, 2003). All interviewees received a semi-structured interview guide that included broad open-ended questions on their personal understanding of the term 'professional judgement', the factors influencing the use of professional judgement in IFRS as well as their opinions and concerns regarding the extensive use of professional judgement in IFRS and its promotion by the IASB. The atmosphere in all of the interviews was very friendly and open. The interviewees were given the opportunity to openly talk about their concerns and views on the promotion of professional judgement by the IASB.

The data was further enhanced by a content analysis of public press releases and newspaper articles from the adoption of IFRS in 2005 until October 2010. Specifically, publications from Germany's largest German business and finance newspaper, *Handelsblatt*,[18] from the period 1 January 2005 to 30 September 2010, were analysed for articles and press releases regarding the role of the IASB, its standard-setting processes, issues concerning the application and interpretation of IFRS and specifically the use of professional judgement in IFRS. Based on these

[18] The *Handelsblatt* is Germany's largest daily business and finance newspaper with an average circulation of 144,472 in the fourth quarter of 2010. For comparison, the *Financial Times Deutschland* is the second largest daily business and finance newspaper with an average circulation of 103,609 in the same quarter (IVW Informationsgemeinschaft zur Feststellung der Verbreitung von Werbeträgern e. V., 2011).

selection criteria, the content of 138 articles was analysed with the objective of identifying German attitudes towards the IASB and the promotion of professional judgement by the IASB.

The transcribed interviews were coded with respect to the perceived characteristics of the standard-setting process, forms of legitimacy granted and expression of attitudes towards the IASB and the promotion of professional judgement in particular. Given the three-componential structure of attitudes, the context in which the interviewees provided information and the emotions with which the information was expressed were taken into consideration to gain further insights into the affective (emotional) component of attitudes towards the promotion of professional judgement by the IASB. Key themes and relationships were summarised for each interviewee and the coding reviewed to ensure consistency across interviews. Constant review of codes, interpretations and relationships in the individual interviews led to the identification and verification of key relationships among the various factors comprising the theoretical framework developed in this study. Moreover, careful deliberation was given to contrary perceptions and attitudes to ensure the comprehensive evaluation of the complexity of relationships in the proposed model. The initial coding process was further supported and complemented by the analysis and coding of the 138 newspaper articles.

Data obtained in the interviews was further corroborated by the careful selection of interviewees who are likely to evaluate the promotion of professional judgement and the IASB from different perspectives and thus representing various stakeholders' perceptions. Specifically, of the 14 interviews, five were conducted with accounting

academics, four with financial accountants and five with certified auditors. Two of the interviewees were actively engaged in the adoption process through their respective positions and memberships in the *Deutsches Rechnungslegungs* Standards Committee (German Accounting Standards Committee) and the IASB Working Group on SMEs. Further, two interviewees were members of workings groups on financial accounting in the *Schmalenbach-Gesellschaft für Betriebswirtschaft e.V.* (Schmalenbach Society for Business Administration e.V.).

Data has been further corroborated through the use of multiple sources including semi-structured interviews, content analysis of 138 newspaper articles and review of academic literature on the adoption of IFRS and convergence. This use of multiple sources, known as data triangulation, is commonly used in qualitative research to enhance data quality by improving internal accuracy and validity (Gomm, 2008, p. 243; Yin, 2003). Moreover, the use of different sources provides insights into a broader range of issues and factors, which is consistent with our objective to provide a contextual evaluation on attitude determination (Jick, 1979; Webb, Campbell, Schwartz and Sechresr, 1966).

The findings are structured and categorised according to identified relationships between perceived characteristics of the standard-setting process, forms of legitimacy and attitudes. In this context, the emphasis is on examining the determinants of attitudes towards the promotion of professional judgement by the IASB, which are anlaysed at cognitive, emotional and behavioural levels.

4.6 Results

The data analysis resulted in a number of relationships between power characteristics, legitimacy perceptions and attitudes towards the IASB and in particular the promotion of professional judgement by the IASB. Overall, the data provides evidence that German stakeholders support the ongoing convergence process but have negative attitudes towards the exercise of professional judgement in the context of specific principles and accounting standards such as the use of fair values. It is important to note that this paper does not aim to evaluate and discuss all factors and concerns regarding the usefulness and reliability of fair values, but rather analyses German attitudes towards fair value accounting with regard to perceptions of information usefulness and exchange legitimacy in particular. The data also provides evidence of negative attitudes towards the IASB as a private standard setter.

Consistent with the research focus of this study, the results provided in the following sections aim to reflect a variety of perspectives rather than reporting relative frequencies by stating percentage figures. This is consistent with data presentation in qualitative analysis, which is focused on understanding socially constructed concepts and contains a minimum of standardisation, statistical methods and quantitative measurement (Engel and Weggenig, 1991; Sarantakos, 2005, p. 344). Terms such as ‘many’ or ‘few’ may be used in describing the data. However, these proportions are not provided as statistical information but rather aim to show theoretical saturation.

4.6.1 Instrumental Power, Exchange Legitimacy and Attitudes: Complexity, Volatility and Comparability

Instrumental power is revealed in the outcomes of the standard-setting process: that is, the principles and IFRS proposed by the IASB. The perceived usefulness of these standards conditions exchange legitimacy and, subsequently, attitudes towards the standards and the IASB as a standard setter. Indeed, the legitimacy of a standard setter is dependent on the perceived quality and usefulness of accounting standards. The usefulness of one set of global accounting standards such as IFRS becomes evident considering the increasing globalisation and internationalisation of markets. Transnational corporations, internationally active companies and investors may benefit from the introduction of one set of accounting standards, which, according to the IASB, increase comparability and reduce complexity (IFRS Foundation, 2011, Preface to IFRS). Our results show that German stakeholders are generally supportive of the development of international accounting standards for listed corporations. Despite many issues surrounding the development of IFRS and the role of the IASB, the general objective of introducing global accounting standards has been largely supported for listed companies and this attitude has remained unchanged since the introduction of IFRS in 2005. Importantly, stakeholders expressing this positive attitude towards the development of global standards for listed companies are aware of the difficulties of achieving consistency across nations:

> I think it is excellent that you agree on one set of accounting standards worldwide and that all accountants speak the same language, that is really good. But you cannot believe that the same language will always be spoken with the same accent. So, the accent will differ, but you will still be able to communicate; that's why it is good. In contrast, if you do not even speak the same language, then you do not even need to talk about accents (A2).

Despite support for the development of global standards, German stakeholders mentioned numerous issues regarding the quality and usefulness of the information provided by statements prepared in accordance with IFRS, which condition the perception of exchange legitimacy. Specifically, the interviews and the literature analysis provide clear evidence that usefulness of information and comparability of financial statements prepared in accordance with IFRS is perceived to be limited due to the complexity of IFRS and the volatility of financial figures in statements. Specifically, stakeholders note that decision usefulness of IFRS is harmed by strong volatilities in the recognition and evaluation of items due to the application of fair value accounting, which requires accountants to apply their professional judgement (Bieg, Bofinger, Kuting, Kussmaul, Waschbusch and Weber, 2008a; Schildbach, 2009).

A common concern in the discussion on usefulness of information (exchange legitimacy) was the practical relevance of estimated fair values and impairments on goodwill. Indeed, the interviewees as well as newspaper articles refer to the information value of statements prepared in accordance with IFRS to financial analysts and investors. Consistent with a study of the German Accounting Standards Board (Gassen and Schwedler, 2008) that evaluated European attitudes towards the decision usefulness of fair values, the general impression was that fair values can be useful and relevant, depending on the chosen measurement concept. Specifically, approaches that require extensive use of professional judgement in their application, such as mark-to-model approaches to measure fair values and management estimates in impairment testing, were discussed critically and considered to be less useful for decision making than evaluations based on market values or historical cost.

Specifically, the analysis of newspaper articles provides evidence of a negative attitude towards volatilities in financial statements that are driven by the focus on fair value accounting. Moreover, the lack of exchange legitimacy and resulting negative attitude towards standards that require extensive use of professional judgement such as accounting for goodwill was expressed by referring to the behaviour of financial analysts, who often disregard items based on discretionary decisions:

> There I know that German financial analysts are having major arguments: What are we doing with goodwill? Most analysts simply take it out of their calculations. Everything that is related to goodwill will simply be deleted in the spread sheets that are used. I think that is problematic (…) that is bad for the accounting profession (A1).
>
> Regarding external funds, so creditors and banks (…). There it is generally the case that they have some items that they take out of their calculations. As soon as they are not relevant for the valuation (…). Banks still calculate explicitly and they all say at the moment. We do not require IFRS. They just like the HGB (German Commercial Code) the same (A5).

Consistent with evidence in the accounting literature and statements by the accounting profession, complexity of IFRS is considered to further limit usefulness of accounting information as only experienced analysts are perceived as being able to interpret and critically evaluate accounting statements (Baetge, 2005; Committee on Economic and Monetary Affairs, 2008; Haller, 2002; Institut der Wirtschaftsprüfer, 2011; Jermakowicz and Gornik-Tomaszewski, 2006; Larson and Street, 2004). The complexity of IFRS, which is largely driven by complex standards that require accountants' professional judgement, has been considered problematic since the adoption of IFRS in 2005. Specifically, complex standards such as IAS 39 'Financial

instruments'[19] and IAS 17 'Leases' have been regarded with negative attitudes by stakeholders. Further, results provide evidence of stakeholders' perception that the high number of changes in IFRS standards may further increase complexity and thus reduce comparability and usefulness of information. These negative attitudes are largely justified by cognitive considerations such as evaluating the effects of fair value accounting on volatilities but are also expressed by using emotional terms such as, 'A flood of figures obstructs the view on the essential' (Metzger, Prange, Eberle, Hofmann, Fockenbrock and Sommer, 2010, p. 4) or 'Many accounting figures are incomprehensible and thus useless for laymans' (Küting, as reported by Fockenbrock, 2006a, p. 18). Similarly, usefulness of complex standards has been discussed by the interviewees with regard to cost benefit analysis:

> And then, there is also the question, if we need this whole complexity, also in the notes. So, we have always, also according to IFRS cost-benefit considerations and here I think that the IASB overinterprets the benefit (A5).

The perception of limited usefulness and the failure to grant exchange legitimacy has also resulted in very critical evaluations of new proposals by the IASB and a tendency to emphasise negative attitudes over positive. For example, the content analysis of German financial newspaper publications shows that proposed changes aimed at reducing complexity of accounting statements prepared in accordance with IFRS are acknowledged based on cognitive evaluations of their usefulness. However, emotional expressions reflecting a positive attitude are largely missing in the

[19] In 2009, the IASB started a three-phase project to replace IAS 39 with IFRS 9 entitled, *Financial Instruments.* IFRS 9 is expected to become a complete replacement for IAS 39 by the end of June 2011 (IFRS, 2010).

publications analysed for this study. In contrast, the German Institute of Auditors (Institut der Wirtschaftsprüfer—IDW) has recently criticised the increasing overall complexity as detrimental to the quality and acceptability of IFRS (Institut der Wirtschaftsprüfer, 2011). As such, the analysis suggests that negative attitudes remained strong between 2005 and 2010, despite efforts by the IASB to enhance understandability of some standards such as proposing amendments to the measurement of liabilities in IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. As such, the analysis suggests a reciprocal relationship between usefulness of information provided by IFRS, exchange legitimacy and attitudes. A perceived lack of usefulness of IFRS results in a lack of exchange legitimacy, which conditions negative attitudes and, in turn, may negatively influence future perceptions of exchange legitimacy.

4.6.2 Instrumental Power, Exchange Legitimacy and Attitudes: Accountants' Professional Judgement and Earnings Management

As discussed in the previous section, the perceived usefulness of IFRS conditions exchange legitimacy and subsequently attitudes towards IFRS and the IASB as a standard setter. In the discussion on the use of professional judgement and the quality and usefulness of IFRS, managements' ability to influence accounting statements and earnings management were critically discussed by all interviewees. Opportunities to influence accounting figures and earnings management were also the central topic of debate in the analysed newspaper publications from January 2005 to October 2010. Indeed, fair value accounting was the main concern of all interviewees and was discussed in 56 of 138 articles with only three articles expressing an overall positive

attitude towards the use of fair values in IFRS. The importance interviewees gave to the discussion on the usefulness of IFRS and fair value accounting reflects the extensive debate on the use of fair values in international accounting literature. The main arguments of advocates and opponents are sufficiently known and concentrate on decision usefulness, reliability and comparability of accounting information (Andrew and Hilton, 2009; Barth, 1994; Barth and Landsman, 1995; Barth et al., 2008; Becker and Wiechens, 2008; Bens, 2006; Cairns et al., 2011; Eckes and Flick, 2008; Krumwiede, 2008; Parr, 2008; Penman, 2007; Perry and Noelke, 2006; Plantin, Sapra and Shin, 2008; Whittington, 2008). Overall, the results provide strong evidence that German stakeholders do not grant exchange legitimacy and show negative attitudes towards the use of fair values in IFRS unless fair values are based on existing market values. As two interviewee state:

> This tense relationship: relevance-reliability. And I would say that a fair value may be more relevant, if there are markets. Then you can take it. But if you do not have markets, then we have the problem to decide what do we want. Can a value that is derived from a theoretical model by an opportunistically acting management really give more information than an objectified value that was set on a market, a historical value. That is the question (A8).
>
> When you have market values, a fair value approach is surely better in fulfilling the information function, because you have recent values, but when you get into models, then I do not think anything of it, because I believe that your discretion is just too big. So, I think there would be no one, who would say: This strongly theory-driven perception, that has at the back of his mind that the capital market is efficient and so forth… this theory-driven perception is not supported by anybody and if, then really only in infinite small numbers. Irrelevant (A5).

As indicated by the above statements, all interviewees considered fair values relevant when market values exist but most were highly critical of estimated fair values. Indeed, accountants' discretionary decisions in estimating fair values were considered

to be highly subjective and were perceived to harm the usefulness of statements by limiting objectivity and reliability. These concerns regarding the usefulness of fair values in IFRS are largely consistent with perceptions expressed in academic literature, which show the historical importance of reliability in accounting in Germany (Balida, 2008; Böcking, 2004; Dawo, 2004; Fockenbrock, 2008; Gwilliam and Jackson, 2008; Laux and Leuz, 2009; Pellens, Crasselt, Schmidt and Sellhorn, 2008; Pfaff, 2008; Schildbach, 2011).

Critical factors identified regarding the exercise of professional judgement and comparability were the influences of corporate aims and managers' personal objectives. Such objectives may include simple cost concerns that result in a tendency to exercise judgement in a manner that is consistent with IFRS and HGB and even US GAAP to reduce time and costs in preparing numerous financial statements. More importantly, however, the interviews and newspaper articles provide strong criticisms regarding the influence of personal objectives such as attainment of personal financial gains and entities' concerns about equity structure and credit ratings as influential factors in estimating fair values:

> I think this is just a question of personal motivation. Simply when you look at management contracts how close personal aims are linked to financial accounting information (A4).
>
> Corporate objectives of course and there is always profit management and you will never get standards that are free of possibilities for profit management, because you always have some discretion. For example, goodwill is a big topic, if you have for example mergers and acquisitions, allocating these goodwills (…) yes, that is where the music plays in regards to profit management (…) (A5).
>
> I think this fair value thinking is a way of thinking that may work in a neo-classical model (…) under certain ideal assumption. But we are in a world, where people maximise their self-interest, where we have

> brutal information asymmetries, where I know, everyone cheats on everyone. And there I cannot rely on that a manager calculates the correct discounted cash flow (A8).

Consistent with the quotations above, the discussions of fair value accounting in IFRS in the newspaper articles analysed provide further evidence of strong negative attitudes due to a lack of usefulness of information (exchange legitimacy) provided by financial statements based on fair values. Although this negative attitude has been largely based on cognitive evaluations explaining the influence of fair values on decision usefulness, objectivity and comparability of statements, it has often been expressed in emotional terms. For example, financial newspaper articles have referred to 'giant possibilities for earnings management, so far unknown to existing accounting systems' (Küting, as cited by Weber, 2006), 'Attention, hot air [in balance sheets] (Fockenbrock, 2006b), 'Invitation for creative earnings management' (Stölzel, 2007), 'Playground for jongleurs' (Küting, 2008), 'Fair value as an instrument of irresponsible accounting' (Schürmann, 2009) and 'Who needs good figures estimates high values, who rather prefers to understate takes lower values' (Metzger et al., 2010, p. 4). Importantly, negative attitudes have been expressed since the adoption of IFRS in 2005 and were still the topic of debate and concern in 2010. Although the focus of discussion on fair values has shifted slightly from general concerns in 2005 to the practical influence of fair values in times of financial crisis since 2008, attitudes towards fair values and accountants' subjective exercise of professional judgement have remained just as negative as in 2005. Consistent with these perceptions of German accountants and accounting academics, an increasing number of studies provide empirical evidence that discretionary decisions are likely to be influenced by managerial opportunism (Andrew and Hilton, 2009; Bagnoli and

Watts, 2000; Dechow and Sloan, 1991; Hecker and Ljubicic, 2008; Holthausen, Larcker and Sloan, 1995).

The results suggest that the complex calculation methods that are used to estimate fair values have not increased exchange legitimacy. Indeed, interviewees and newspaper articles provide clear evidence that German stakeholders largely oppose the belief that subjective assessments and mathematical models are reliable:

> Because there is nothing as insecure as the future. If I estimate future development and many balance sheet items depend on estimates regarding the future, then accounting becomes more insecure (A2).
>
> And all these prescribed accounting policies and procedure in the standards, that shall describe a non-realised fair value as secured, do not change anything that there is not one single person in this world, who knows for sure what will be tomorrow. So, and to eliminate this insecurity with complicated calculations, that is an illusion, which however many Anglo-Saxon representatives hang on to in this context, because they live with the firm belief that everything that you can calculate is correct. That is in my opinion a devilish fallacy. And who has worked with capital market theories knows that even those people that got a Nobel prize for that muffed up billions upon billions in America (A13).

This negative attitude towards fair values has been reinforced by the perception that fair values complicate intra- and inter-firm comparability of financial reports. Impairment testing, goodwill depreciations and ‘big bath’ have been discussed as further limiting usefulness of accounting information. For example, ‘big bath’ describes the managerial practice of using large profit reducing write offs in one year to create an advantageous financial base, which is conducive to a greater rate of returns in the next year (Healy, 1985):

> When the new financial manager came, impairment was done like crazy. And that results in a very nice position for financial managers. Because you have once a bad news, but everyone says: Ah, there is a new one, he cleans up. And then you have huge devaluations, which has the effect that you are no longer bothered by it. (…) But in the end, well, no one sells it like that, but I can see in practice all the time that many regulations according to IFRS provide the opportunity to include unrelated circumstances by changing assumptions, because there are so many assumptions that have to be made. Take the example of impairment and big bath accounting; it is almost impossible to compare such accounting periods, because you have all these special effects in there (A1).

Finally, the role of fair values in the financial crisis may have further contributed to the negative attitudes towards fair values in IFRS. Our content analysis shows that a number of newspaper articles between 2008 and 2010 refer to fair values as deepening the financial crisis by creating pro-cyclical economic effects. German newspaper and academic publications show a more negative attitude regarding the influence of fair values on the financial crisis than international accounting research in general (Bayer, 2008; Bieg et al., 2008b; Boyer, 2007; Gassen, 2009; Hering, Olbrich and Rollberg, 2010; Laux and Leuz, 2010; Pellens et al., 2009).

4.6.3 Comparative Sources of Power, Influence Legitimacy and Attitudes towards the IASB and Promotion of Professional Judgement

As discussed earlier in this paper, influence legitimacy refers to the perception of comparative sources of instrumental power and the strategies used to mobilise this power. Sources of instrumental power were identified as authority, critical resources, structural position and individual or group characteristics. The next section briefly discusses these sources of power before analysing the strategies used to mobilise this

power with specific reference to attitudes towards the IASB and the perceived promotion of professional judgement in IFRS.

The authority of the IASB has been a topic of significant debate in the EU and Germany (Ausschuss für Wirtschaft und Währung, 2008; Chiapello and Medjad, 2009; Schmidt, 2002). Although the IASB has been accepted as the international standard setter and the EU has required IFRS for consolidated statements of listed companies since 2005, the authority of the IASB as a private standard setter remains controversial. For example, research has shown that the acceptance of the IASB as a legal institution has been a reactive process driven by the lack of European agreement on a common accounting system that left acceptance of the IASB as the only solution to a paralysed European harmonisation process (Chiapello and Medjad, 2009; Hulle, 2004). This understanding that acceptance of the IASB's authority has been the result of European failures has also been mentioned in comments in financial newspapers (Luttermann, 2009). Our analysis further shows that longstanding concerns exist towards the authority of the IASB because of its political interests and mandate. Since 2005, these questions of authority, mandate and political interest have reoccurred in the financial newspapers with recent articles entitled, 'The unknown enemy from London' (Metzger and Hennes, 2010a, p. 18) and 'IASB: an uncontrolled power' (Luttermann, 2009). Although, the EU initially granted the IASB influence legitimacy by respecting it as the international standard-setting authority, authority and power of the IASB have been questioned by the EU and specifically German stakeholders, who have raised doubts as to whether a private institution should have the authority to rule global accounting. German concerns further refer to the IASB's political legitimacy,

its lack of transparency and democratic control as well as the perception of the IASB as an unbounded political power whose authority should be controlled.

Concerns regarding the authority of the IASB become further evident in discussions on the structural position and resources of the IASB. Issues concerning the representativeness and nomination of board members by trustees of the IASCF have been discussed in international accounting literature with a particular emphasis on the appointment process of IASC trustees and the selection criteria of IASB members, who are principally selected for their expertise (Chiapello and Medjad, 2009). Similarly, our analysis provides evidence of longstanding concerns regarding the representativeness and objectivity of the IASB. Specifically, results suggest that influence legitimacy has been questioned by German stakeholders because of an ongoing perception that the IASB is dominated by accounting professionals with an Anglo-Saxon background, who promote the Anglo-Saxon accounting tradition (Ausschuss für Wirtschaft und Währung, 2007, 2008; Baetge, 2005). Importantly, our analysis of Germany suggests that perceptions of the IASB being an elitist group with members aiming to promote the Anglo-Saxon accounting tradition has been maintained since 2005, despite efforts by the IASB to create greater transparency and emphasise international representativeness in the board structure.

Similar concerns have been raised with regard to resources, in particular with regards to the funding of the IASB, which is overseen by the trustees of the IASC Foundation. The IASB depends on voluntary donations, which are largely provided by the major accounting firms, investment banks, rating agencies and international

corporations.[20] As such, issues such as lack of democratic control and undue influence of supporters of the IASB on standard-setting processes have been discussed in international accounting literature (Cortese and Irvine, 2010; Cortese et al., 2010; Larson and Kenny, 2011). Our results show that these concerns are also shared by German stakeholders. As one interviewee states:

> So, they develop their own world and then they try to push it through. And I think primarily by the question of financial support, what has always been a topic in the IASB (A5).

Concerns regarding the structure of the IASB are also important with regard to the relative source of power of specific groups or individuals. The results provide evidence of a strong perception that the standard setting of the IASB benefits certain individuals and groups, specifically the large audit companies and large multinational corporations, which have previously been identified as powerful with regard to providing monetary support (critical resources) to the IASB. For example, the interview results provide evidence that the complexity of IFRS is perceived to contribute to a concentration process on the audit market because only leading audit companies have the capabilities to assess and implement increasingly complex IFRS. This perception is also clearly expressed in newspaper articles that recurrently refer to IFRS as enlarging the market for the big four accounting firms.

[20] Since 2007, the IASCF has aimed to change from receiving voluntary donations directly to a model of national levies. The national levies are supposed to be forwarded to the IASCF from a national organisation that collects donations and contributions from corporations and other organisations in its country. However, several countries remain either outstanding from the agreement, or have limited themselves to a short-term commitment (Larson and Kenny, 2011).

In contrast to the criticisms regarding monetary resources and the structure of the IASB, the development and implementation of IFRS can also be seen as a critical resource granting instrumental power. Our analyses suggest that IFRS are perceived as beneficial and important by a number of large corporations and German politicians. For example, the federal minister of justice, Sabine Leutheusser-Schnarrenberger, confirmed German support for the IASB and IFRS in a speech held at an expert meeting on the 'Future of Accounting' in April 2010. She referred to the IASB as a success story that is evidenced by increasing adoption of IFRS across the globe (Leutheusser-Schnarrenberger, 2010). However, the minister also critically reviewed the question of to what extent Germany should be ready to compromise and referred to the different conceptions of accounting held in Germany and the U.S, to which she refers as 'the other side of the Atlantic Ocean' (Leutheusser-Schnarrenberger, 2010). This discussion about compromises, with particular reference to the US, is an example of the importance that Germans assign to discussions about the American influence on the IASB and the development of IFRS. The influence of authority, critical resources, structural positions and the power of specific groups or individuals on influence legitimacy is further discussed in the context of strategies that are employed to mobilise the powers identified previously.

The theoretical framework in this study identifies two principal strategies for mobilising instrumental power, namely coalitions among or between stakeholders to influence the standard setter and the framing of issues by providing limited or biased information. The results of this study provide evidence of these strategies being used to influence the IASB and the development of IFRS. Our results show that the promotion of fair value accounting is perceived to be driven by Anglo-Saxon power

and dominance in the standard-setting process, which is based on the mobilisation of comparative resources such as monetary support and on the structure of the board of the IASB. Our results suggest that Anglo-Saxon dominance in the standard-setting process is also driven by Anglo-American dominance in the political economy.

The political dimension of international convergence and the strong political power of Anglo-American actors have been commented on in the majority of interviews:

> Now we are not too far away from London and we catch quite a lot of what is going on there: De facto, it is completely American dominated (…) IASB is game of power politics. At the moment the Anglo-Americans dominate, but that may change. I would not bet much on the Europeans though (A8).
>
> I am convinced that standardisation of accounting and accounting norms is exclusively a political process. I have not seen it as important when I was younger, but by now that is… that is pure politics and in political processes it is always really difficult to make a prediction, because it is nothing that you can calculate naturally (A5).

Moreover, the results show that the power in this political process of international standard setting is perceived to be held by Anglo-Saxon representatives, who are also perceived to have comparatively greater representativeness on the IASB. The strong political power of Anglo-Saxon representatives is consistent with the perception that IFRS are largely based on Anglo-Saxon accounting models. Indeed, international accounting literature provides evidence that Anglo-American dominance in the political economy significantly influenced the defining of the specificities of IFRS (Gallhofer and Haslam, 2007; Perry and Noelke, 2006). Specifically, Perry and Noelke (2006) argue that the fair value accounting approach reinforces the importance of the financing over the productive sector, which is more compatible with the Anglo-American economies. Moreover, growing internationalisation and

control of US and British multinationals in the world markets has benefited large Anglo-American accounting firms. This concentration of accounting services, with the four big players benefiting from an increasing demand for global accounting services, has further strengthened Anglo-American dominance (Cooper et al., 1998; Datamonitor, 2008; Jang, 2005; Suddaby, Cooper and Greenwood, 2007). As such, political dominance defines access to critical resources, which are perceived to be mobilised to influence the standard-setting process towards greater acceptance of fair value approaches.[21] In this context, coalitions of Anglo-Saxon interests are perceived to contribute to Anglo-American biases against the German accounting model, as expressed by one interviewee:

> They want to get rid of reliability (in the convergence process with the FASB), that is going so relentlessly towards fair value approach. In this context, when you raise your hand in one of the international committees and say: Guys, think if that is really clever to abolish the prudence principle, then thousand fingers are pointed towards you and say: Oh, you there in Germany with your funny system, always prudent, prudent (A8).

The following statement provides further insights into how biased provision and interpretation of information frame the international accounting standard-setting process towards preference for fair value accounting:

[21] It is important to note that this study reports on perceptions of German stakeholders, which are based on subjective assessments and do not necessarily represent objective evaluations of information. For example, Cairns (2006) argues that the view that IFRS are 'fair value based standards' is largely a result of misunderstanding and confusion about IFRS. Although we do not necessarily share Cairns' opinion, it is critical to emphasise that this paper reports attitudes and legitimacy perceptions of German stakeholders without claims that these should be considered as objective evaluations.

> There are fantastic studies and accounting concepts regarding the fair value approach, regarding future values, which have all been invented previously, that have been thought of before the Americans even knew what an accounting entry is. My apologies, that was mean, but—my impression is that no one is aware of this (A2).

Overall, the results provide evidence of a lack of influence legitimacy. Indeed, German stakeholders perceive themselves to be at a comparative disadvantage in their access to resources and largely unable to mobilise powers to influence the standard setting of the IASB. This general perception is further reinforced in the context of the promotion of fair values. This lack of influence legitimacy has resulted in negative attitudes towards the promotion of professional judgement by the IASB. Although these negative attitudes seem to have been formed by cognitive evaluations of the characteristics of the standard-setting process, the explanations and expressions of interview participants provide evidence of negative emotions towards the lack of influence legitimacy. For example, one newspaper article entitled, 'The Beginning of the End of the Dream (Nightmare)' refers to the 'Americanization of financial markets' and critically remarks that US dominance has a deep influence on single corporations via regulatory agencies and statues (Schürmann, 2008). Another article cites German accounting professor, Karl-Heinz Küting, former head of the IDW, on the issue of the Americanisation of global accounting: 'IFRS are practically like a Trojan horse, they incorporate US rules, they just have a different label' (Küting, as cited by Bergermann, Schonwitz, Henry, Schurmann, Gerth and Reimer, 2008). This lack of influence legitimacy and the resulting negative attitudes are also expressed in statements of behavioural intentions, such as the previously mentioned speech by the German Minister of Justice, who urged German and European businesses to

contribute to the standard-setting process and make themselves heard in London (Leutheusser-Schnarrenberger, 2010). Further, these negative attitudes, such as those shown in the ongoing discussion on the board structure of the IASB, may deter German stakeholders from granting greater influence legitimacy, despite efforts by the IASB to create transparency and better balance on international representativeness in the board structure. This is of particular importance with regard to the discussion on future development and support towards the principles promoted by the IASB.

The negative attitudes influenced by a lack of exchange and influence legitimacy also affect dispositional legitimacy, the third form of pragmatic legitimacy. Given that stakeholders question exchange and influence legitimacy, interviewees did not see the IASB as an institution that would be regarded as reacting to its interests and needs. Indeed, emotional responses stating that IFRS is following Anglo-American tradition and supports the major accounting firms reveal the lack of dispositional legitimacy. While values such as increased global comparability of financial statements are shared, negative emotions surface with regard to the IASB's ability to make 'wise' and 'trustworthy' decisions. As such, while German stakeholders may share the objective of creating global accounting standards, a lack of dispositional legitimacy remains, caused by the perception that the IASB does not necessarily consider German objectives in the development and implementation of its procedures and standards. This lack of dispositional legitimacy increases negative attitudes, expressed on the emotional level in particular, as seen in the previous quotations.

4.6.4 Government Support, Legal Legitimacy and Attitudes towards the IASB as a Private Standard Setter

Legal legitimacy is based on having a legal mandate to set rules and regulations and refers to stakeholders' belief that the government supports the standard setter (Durocher et al., 2007). Although the adoption of IFRS by the EU and relevant enactments in German law create the impression of legal legitimacy, the evidence discussed previously regarding concerns about the IASB as a private standard setter, its political legitimacy, mandate and transparency clearly show that the IASB has insufficient legal legitimacy despite its legal mandate. Indeed, since the adoption of IFRS in 2005, German stakeholders as well as the European Commission have repeatedly raised questions regarding the authority of the IASB to set global standards and the lack of influence on the standard-setting process by European institutions and representatives (Ausschuss für Wirtschaft und Währung, 2007, 2008). In this regard, the IASB's move towards greater transparency and international representativeness of the board can be seen as a strategy to foster legal legitimacy in countries such as Germany. Similarly, the establishment of the monitoring board was intended to increase the public accountability of the IASCF by establishing a formal link between trustees and public authorities (IASCF, 2008, p. 10, 2010).

Although the German government supports the IASB and the development of IFRS, serious concerns regarding legal legitimacy have been raised in the context of the development of IFRS for SMEs. Currently, the IASB does not have a mandate to set standards for SMEs in Germany. However, the development of IFRS for SMEs has prompted serious discussion in Germany due to fears that German SMEs may be

required to apply these standards in the future. Since the adoption of IFRS for consolidated accounts, a number of academic and professional articles have been published about the applicability of IFRS for SMEs (Eierle et al., 2007; European Commission, 2010; Fülbier and Gassen, 2010; Oehler, 2005; Schildbach, 2009; von Keitz and Stibi, 2004; Winkeljohann and Herzig, 2006). The central point of the debate is the introduction of Anglo-Saxon accounting practices, such as the extensive disclosure rules and use of fair values, into German SMEs. The modernisation of the HGB that was enacted in the BilMog in 2009 has been regarded as an alternative to IFRS for SMEs (Deutscher Bundestag, 2008, 2009; Stiftung Familienunternehmen and VMBEF, 2010). Nevertheless, the proposal of IFRS for SMEs has been rigorously watched by German stakeholders, who are concerned that the IASB creates so-called financial 'reality' for SMEs–argued by some to be an Anglo-Saxon construction—without political or legal legitimacy (Stiftung Familienunternehmen and VMBEF, 2010). This lack of legal legitimacy, in combination with the ongoing development of IFRS for SMEs, has created serious concerns and negative attitudes towards the agenda of IFRS. Our results show that, for some, the promotion of IFRS for SMEs without legal legitimacy is another indicator showing the political agenda of the IASB, which aims to introduce Anglo-Saxon accounting principles into Continental Europe without the appropriate political discourse about its mandate and legal legitimacy.

4.6.5 The Public Interest, Consequential Legitimacy and Attitudes towards the Interests of the IASB

Consequential legitimacy may be granted in the situation that the IASB is seen to be acting in the public interest. This refers to a moral evaluation of symbolic power. Although the IASB claims to develop high-quality standards for the benefits of users, the extent to which German stakeholders perceive the IASB as acting in the public interest is limited. The results indicate the existence of differences between perceptions of academics and practitioners of SMEs, versus auditors and practitioners of large listed corporations. In particular, leading accounting academics perceived the standard-setting process of the IASB as a political process dominated by Anglo-Saxon interests that clearly dismisses Continental European and German interests. As discussed earlier, the results provide evidence that the IASB is perceived to follow the interests of the big four accounting firms, large corporations and shareholders rather than the interests of a larger group of stakeholders. Practitioners in listed corporations evaluated the work of the IASB more positively in general. For example, the former CFO of the German MAN Group praised IFRS as an alternative concept of high technical quality that is greatly valued by companies, which are no longer at subject to the unpopular US GAAP (Hornung, 2008). Although other stakeholders may agree that an alternative to the dominance of US GAAP is in the German public interest, other articles and statements judge the role of the IASB more negatively. Specifically, the promotion of professional judgement and fair values is perceived to contradict German public interest that has a traditional focus on providing reliable information to stakeholders with an emphasis on the principle of prudence. For example, the current head of the IDW, Naumann, emphasises in an interview that the

country needs a German standard-setting institution that respects and strongly acts upon German interests (Metzger and Hennes, 2010b).

Our results show that the lack of consequential legitimacy towards the IASB and the promotion of professional judgement may be further reinforced by the lack of German or Continental European coalitions to defend their public interest:

> When you start discussing on the European level, then you realise that a French is a French, the German a German, the Italian has also another opinion (…) you cannot lump all the countries together. As such, we have a problem. We do not bundle our interests at all, because we have so many aversions and different opinions and maybe also different traditions, that that is almost impossible (A8).

Somewhat in contrast to this perception, international accounting research has recognised the political influence of European standard setters on the standard-setting processes of the IASB (Georgiou, 2010; Zeff, 2007).[22] As such, German perceptions may be influenced by subjective evaluations of European lobbying and comparative evaluations with regard to the Anglo-American influence on the IASB. However, German attitudes are based on their subjective perceptions, which have resulted in this lack of consequential legitimacy and unfavourable attitudes.

Issues regarding the development of IFRS for SMEs further contribute to a lack of consequential legitimacy by German stakeholders. The development of IFRS for

[22] For example, European lobbying pressures were evident in the 2006 exposure draft on IAS 1, which included the option of presenting other comprehensive income in a separate statement to the 'Statement of Recognised Income and Expenses' despite the IASB's preference for a single statement on financial performance (Zeff, 2007).

SMEs is considered to conflict with German public interest. This topic has influenced the granting of consequential legitimacy to the IASB since 2005. This shows the importance of taking into account the principles and political interests that the IASB expresses in different contexts. Further, it highlights the importance of awareness on the part of international standard setters that their actions may influence a broader set of legitimacy perceptions and attitudes.

Indeed, with regard to attitudes and public opinion on the IASB and the promotion of professional judgement, the perception that German concerns and interests are largely neglected by the IASB has resulted in strong negative attitudes towards the promotion of professional judgement and fair value accounting in particular. The negative attitudes may be further reinforced by the perception that the IASB fails to acknowledge German accounting expertise. The following statement shows that these negative attitudes are also expressed on the emotional level by bitterness towards the IASB:

> I think there is sometimes also a bit of bitterness, so according to the principle 'The HGB (German Commercial Code) was not that bad' and 'Why do we give up our old national traditions and subdue ourselves to the dictate of globalization' (A1).

These negative attitudes may influence the perception of consequential legitimacy, even if the IASB aims to address German interests. For example, a number of German and Continental European concerns have been taken into account in the revision of IFRS for SMEs. Although German stakeholders recognise these changes, such as the reduction of notes to the financial statements, as improvements to feasibility, concerns remain regarding the appropriateness of IFRS for SMEs in

addressing the needs of German stakeholders (Breker, 2010; Institut der Wirtschaftsprüfer, 2010). Overall, our results do not provide evidence of a strong increase in consequential legitimacy.

4.6.6 Characteristics of the Views Discussed in Standard Setting, Procedural Legitimacy and Attitudes towards the Increasing Promotion of Professional Judgement in IFRS

Procedural legitimacy can be established and maintained by open debates, transparency, adequate reasoning and time, and opportunities for stakeholders to influence the process (Johnson and Solomons, 1984; Beisheim and Dingwerth, 2008; Schmidt, 2002). In the context of the development of standards and the promotion of professional judgement by the IASB, the results provide evidence that debates lack openness for opinions, transparency and adequate reasoning. Although the due process suggests adequate time and opportunities for stakeholders to influence the standard-setting process (Luthardt and Zimmermann, 2009), our results suggest that German stakeholders do not perceive that their contributions are adequately discussed. Evidence that self-interested constituents and coalitions influence the standard-setting process in a subjective manner to secure favourable outcomes has also been provided in the context of other standards such as IFRS 6, the accounting standard for the extractive industries (Cortese et al., 2010). In the context of our study, the perception that German opinions are not taken into account by the IASB has been related to the political and economic power of Anglo-American players, which are perceived to set the IASB's agenda and push their approaches without a rigorous evaluation of different opinions. Indeed, Germans experience the debates on

the IASB as biased because political power influences perceptions on applicability and viability of principles:

> I think the Americans research this topic (fair values) since the 1980s and came to the result that this timely information is better than information to amortised costs, so historical values. My personal opinion is: In ten years—no, I have claimed that already three years ago. So in seven years we turn around the world again and come back to the principle of historical cost, but then it comes from America and then all will scream and say: Fantastic, something great has been developed again. Then we will do it again (A2).

Moreover, the findings suggest increasing concerns about the political dimension and the move towards fair value approaches as a result of the IASB–FASB convergence project. Indeed, the American influence is perceived to be growing with the convergence project and SEC's acceptance of IFRS for cross-border listings:

> The project (IASB–FASB convergence) is pushed from London, but in the end by American FASB staff (…). Everything you get as papers with the logo of the IASB has been sent by the FASB in Norwalk, Connecticut. That means this whole IASB–FASB 'we converge' and 'we meet somewhere in the middle' is complete rubbish. That is pure power politics and in my opinion not supported by Continental Europeans. (A8)
>
> The importance of US GAAP is increasingly diminishing in my opinion. Because we now have IFRS and most apply IFRS and I think that will lead to that the Americans will increasingly try as well to have greater influence on the IASB (A1).

The results also provide evidence of a lack of open debate on the part of the IASB. Indeed, the content analysis of the newspaper articles provides clear evidence of the perception that the IASB has failed to engage in open discussion on fair values despite the belief that fair values have contributed to the financial crisis. Specifically, debates about convergence and theoretical questions were perceived to take priority

over more important topics such as fair value accounting. For example, a recent article accuses the IASB of diverging from its objective and following an agenda that it is not appropriate (Metzger and Hennes, 2010a, p. 18).

The perceived lack of consideration for German opinions has further been attributed to language issues, which limit possibilities to acknowledge German expertise and research. The influence of studies and publications in Germany remains limited as many of these are still available in German only and German research findings are mostly ignored. Interviewees criticise this limited international awareness of the abilities and tradition of the German accounting profession:

> And of course you are disadvantaged if you are not a native speaker. My colleagues can quickly get some pdf file from one their colleagues at a university, and I might have the same results, but unfortunately in German.(…). As such, you could provide a lot of input from research and experience, but you have a certain lingual disadvantage (A1).

The perceived lack of consequential legitimacy, based on these identified characteristics of the standard-setting process, has resulted in very negative attitudes towards the political dimension of the standard-setting processes in the IASB. Findings show that these attitudes are expressed on both the cognitive and emotional level. Perceived biases in the standard-setting process and the focus of the IASB on promoting fair values without adequate discussion is likely to have further increased negative attitudes towards the promotion of professional judgement.

4.6.7 Committees, Structural Legitimacy and Attitudes towards the Americanisation of Accounting

Structural legitimacy refers to the symbolic existence of committees and representatives that allow the representation of all stakeholders. The section discussing comparative sources of power as part of instrumental power has provided evidence of the issues associated with the structure and representativeness of the IASB itself, which is perceived to reflect the Anglo-American dominance in the political economy. Consistent with this perception, the interviews provide evidence of a lack of structural legitimacy of committees associated with the IASB that would allow symbolic representation of stakeholders. Although committees and working groups to discuss developments and proposals of the IASB have been established, the importance of these committees has been questioned:

> So, there is a group of eloquent Anglo-American people that push, who drive the whole thing obviously into one direction in my opinion and all the other ones are a façade. And when you are not even sitting on the board, you are not politically important (A8).

The belief that only board members are important leads also to a negative attitude towards the importance of German contributions in the discussion on the promotion of professional judgement. There is a growing conviction that German concerns will continue to be treated with indifference or polite rejection in favour of further Americanisation of international accounting.

4.6.8 Personal Characteristics of Board Members, Personal Legitimacy and Attitudes towards the Promotion of German Expertise

In the context of international accounting standard setting, personal legitimacy refers to the charisma of the members on the IASB and stakeholders' confidence and faith in their capabilities and experience. Given that professional competence and practical experience are the main qualifications for membership of the IASB, it would be assumed that personal legitimacy is granted to the members of the IASB. The technical competence of the members of the IASB has not been questioned with regard to the development of IFRS. However, their expertise has been questioned in the context of developing IFRS for SMEs (Metzger, 2010; Schildbach, 2009).

A second criterion for personal legitimacy is the independence of board members. The discussions in the previous sections have shown that German stakeholders do not perceive the board members as independent but following an Anglo-Saxon accounting tradition and promoting the interests of large corporations and audit firms. The personal legitimacy of board members may be further limited due to a perception that board members represent an elite based largely on their knowledge of Anglo-Saxon accounting and eloquence in the English language. In contrast, German accounting experts are often perceived to be more reserved:

> Yes, I think we are not arrogant enough, we are not self-assertive enough. As I perceive it, American researchers are way more arrogant, so more self-assertive (A2).

This perceived lack of legitimacy has resulted in a negative attitude towards the appropriateness of the selection criteria of board members. However, this lack of personal legitimacy may also foster greater German involvement in the standard-setting processes of the IASB. The findings suggest that German experience may contribute in potential discussions on the influence of fair values on economic stability because of the traditional German concern with creditor protection. Similarly, German expertise is perceived to contribute to discussion on the development of IFRS for SMEs.

4.6.9 'IASB as Experts' and Cognitive Legitimacy

Cognitive legitimacy is based on the condition that standards are derived from institutions that have been externalised by their social acceptance and the involvement of expert knowledge. As discussed in the previous sections, German stakeholders do not readily grant cognitive legitimacy to the IASB. This lack of cognitive legitimacy has resulted in negative attitudes towards the IASB, its members and the promotion of professional judgement by its members. These negative attitudes may limit the potential to grant cognitive legitimacy, given that these considerations influence social acceptance.

4.7 Discussion and Analysis

In summary, the analysis of German attitudes towards the IASB and the promotion of professional judgement has shown a continual lack of legitimacy granted to the IASB

and the promotion of professional judgement by the IASB in particular. In the context of the promotion of professional judgement, the analysis shows that the lack of pragmatic legitimacy is most profound as evidenced by the critical discussion on exchange and influence legitimacy. Pragmatic legitimacy is conditioned by instrumental power, which refers to 'the ability to secure preferred outcomes in the face of competition and conflict' (Hardy 1985, p. 388) and is grounded in the differential access to resources (Durocher et al., 2007; Ranson et al., 1980). As such, German stakeholders' perceptions are based on the belief that they are disadvantaged in terms of resources and strategies to mobilise these resources with the objective of sharing their views on the implications of an extensive use of professional judgement in IFRS and influencing the IASB in accordance with their perceptions.

Further, the findings have shown that serious concerns exist with regard to forms of moral legitimacy, which are conditioned by symbolic forms of power. Although the IASB aims to legitimise outcomes such as the promotion of professional judgement through the deliberate management of symbols, rituals and myth, German stakeholders are not granting legitimacy on the moral level. More specifically, German stakeholders seem to acknowledge the symbolic processes, rituals and structures that the IASB has established, such as the due process and the establishment of working groups. However, moral legitimacy remains unforthcoming because of the perception that these rituals and symbols are invoked and used by Anglo-Saxon representatives to promote Anglo-Saxon accounting views rather than to establish processes that are consistent with the moral perceptions of German stakeholders. In the context of analysing attitudes towards the IASB and the promotion of professional judgement, attention should be given to the different forms

of moral legitimacy. Specifically, the lack of structural, personal and legal legitimacy relates to the perception of the IASB as the international standard setter, driven by the belief that the IASB's structures and the characteristics of its board members promote the Anglo-Saxon accounting tradition. In contrast, the lack of consequential and procedural legitimacy relates directly to the promotion of professional judgement. Germans perceive that debates by the IASB are biased and framed in support of the promotion of professional judgement (procedural legitimacy), which is perceived to contradict German public interest (consequential legitimacy). Finally, the findings have also provided evidence that German stakeholders do not take the institution IASB for granted and thus do not provide cognitive legitimacy.

This lack of pragmatic, moral and cognitive legitimacy towards the IASB and the promotion of professional judgement by the IASB has resulted in ongoing negative attitudes towards the IASB. The content analysis of newspaper articles between January 2005 and October 2010 provides further evidence of continual negative attitudes towards the IASB. Negative attitudes towards the promotion of professional judgement by the IASB have intensified since the financial crisis in 2007. The findings provide some evidence that concerns regarding the role of fair values in the financial crisis have further reduced exchange and influence legitimacy from German stakeholders and thus increased negative attitudes towards the IASB and the promotion of professional judgement. Further, the results provide evidence of a reciprocal relationship between attitudes and legitimacy. The lack of legitimacy has resulted in negative attitudes, which have been expressed on the cognitive, emotional and, to some extent, behavioural levels of intention. The findings provide further

evidence that the existence of these negative attitudes limits the potential for changing legitimacy perceptions. For example, the IASB has taken into account concerns regarding transparency and representativeness of the board members. However, German stakeholders have not yet reversed their legitimacy perceptions.

Based on the interview results and content analysis of newspaper articles, two reasons for this lack of change in legitimacy perception are proposed. With regard to the cognitive component of legitimacy, it would be assumed that changes to processes are evaluated on a cognitive level. However, evidence suggests an evaluation bias by which changes are recognised but evaluated based on different criteria than the initial observation. These findings are consistent with attitude research that has provided evidence of perception biases in the evaluation of new information to ensure congruency with existing attitudes. Particularly strong attitudes are supposed to be likely to bias evaluations of situations and influence behaviour accordingly (Eagly, 1998). For example, changes to the representativeness of the board have been made. However, legitimacy evaluations have remained the same, referring to the power of Anglo-Saxon members on the board rather than taking the number of Anglo-Saxon members as an evaluation criterion. Moreover, the results have shown that lack of legitimacy has resulted in negative emotional responses. Given that the emotional components of attitudes are based on feelings and subjective perceptions, efforts by the IASB to increase influence legitimacy by increasing international representativeness of the board members may only be effective if these efforts are able to change stakeholders' cognitive evaluations and emotions.

Similar relationships between attitudes and legitimacy perceptions may be identified for influence legitimacy. The results show that German stakeholders perceive themselves as being less influential with regard to the promotion of standards and accounting principles. However, this perception may be biased and driven by previously established negative attitudes towards the IASB. Accounting literature provides some evidence that the influence of European interests on international standard setting has increased (Georgiou, 2010; Zeff, 2007). However, German perceptions of influence legitimacy have remained largely unchanged since 2005. These findings have implications for the IASB by providing evidence that strategies and processes to increase the legitimacy of the IASB and standard-setting processes may fail due to established attitudes on the cognitive and emotional levels. Moreover, the literature suggests that pragmatic legitimacy is less resilient than moral legitimacy (Suchman, 1995; Zucker, 1987). As such, perceptions of exchange and influence legitimacy may be more readily influenced by the IASB than moral forms of legitimacy such as consequential legitimacy.

The importance of legitimacy with regard to organisational credibility, continuity, persistence and meaning has long been recognised in the literature (Suchman, 1995). Institutions and organisations that are perceived legitimate are more likely to receive resources and support (Parsons, 1960; Suchman, 1995). For example, Meyer and Rowan's (1977) proposition on the incorporation of societally legitimated rationalised elements in formal structures to maximise legitimacy, increase resources and the capability of survival applies in the context of perception about the representativeness of the IASB. As outlined in the previous sections, German stakeholders question the legitimacy of the formal structure of the IASB, which influences the long-term

survival of the IASB in its current form. Our findings have shown that German stakeholders question the structure and political mandate, which also influences the resources and support provided. Organisations that lack legitimacy are 'more vulnerable to claims that they are negligent, irrational and unnecessary' (Meyer and Rowan, 1991, p. 50). This relationship between lack of legitimacy and claims that IFRS are irrational and unnecessary is evident when evaluating German stakeholders' response to IFRS for SMEs. Given the objective of the IASB to develop global standards to enhance the international comparability of accounting, the acceptance of the IASB and IFRS is an important factor in the ongoing convergence process. As Richardson and Eberlein recently stated, 'the future success of the IASB will depend on how skilfully it can manage competing legitimacy claims' (Richardson and Eberlein, 2011, p. 240).

The extent to which the lack of legitimacy and negative attitudes may hinder the success of the IASB can be further analysed by referring to Ajzen and Cote's (2008) work on the prediction of behavioural attitudes. Ajzen and Cote (2008) distinguish between global attitudes and attitudes towards behaviour, which have different explanatory power regarding the prediction of actual behaviour. Global attitudes are evaluations of a specific object, which can be a physical object, an institution or a person. In the context of our study, evaluations concerning the IASB and the promotion of professional judgement are global attitudes that do not involve any particular action as such. The literature provides evidence that global attitudes are limited with regard to predicting specific behaviours because a particular behaviour

may be influenced by a variety of other factors that are unrelated to the global attitude.[23]

Although global attitudes, such as an unfavourable attitude towards the IASB, may not be a good predictor of a specific behaviour, such as writing a comment letter on a specific topic, global attitudes are likely to become evident when observing broad, general patterns of behaviour towards the IASB across context and time. As such, the negative attitude towards the IASB as a global standard setter may lead to behavioural trends such as further political questioning of the board and its mandate, proposals on controlling the power of the IASB and more extended discussions about the acceptance of international accounting standard setters and regional alternatives. The unfavourable attitude towards the IASB may compound its work by requiring greater emphasis on developing legitimacy, establishing positive attitudes and building acceptance, rather than on spending resources and effort on the development of quality standards.

The second form of attitude distinguished by Ajzen and Cote (2008) are 'attitudes towards behavior', in which the attitude object is a specific behaviour, such as publicly criticising the promotion of professional judgement. This link between attitudes and behaviour can be further supported by referring to Ajzen's (1985) theory of planned behaviour. According to the theory, behaviour is influence by three

[23] The finding that global attitudes are poor predictors of actual behaviour can be related to the considerations expressed in the principle of compatibility (Ajzen, 1988; Ajzen and Fishbein, 1980). According to the principle, attitudes and behaviour are strongly correlated if measures of attitude and behaviour involve the same action, target, context and time elements.

factors: evaluation of behaviour (favourable v. unfavourable), social pressure to perform or not perform the behaviour (subjective norms) and perceived behavioural control, which refers to a person's perceived capacity to perform the behaviour. These three factors determine a person's behavioural intention to perform a certain behaviour with more favourable evaluations and subjective norms and greater perceived behavioural control leading to stronger behavioural intentions. These intentions should be put into action if a sufficient degree of control over the behaviour exists. Indeed, in the context of our study, the ongoing criticisms of the promotion of professional judgement by the IASB can be explained by referring to Ajzen's theory of planned behaviour. The findings show positive attitudes towards behaviours, such as publicly criticising the promotion of professional judgement by the IASB. Moreover, social pressure to conform to this behaviour is likely to exist given that the extensive use of professional judgement in IFRS has been criticised by a variety of stakeholders since 2005. Stakeholders often act as guest authors in newspapers or engage in discussions of the European Commission. This emphasises again the importance of attitudes with regard to the promotion and opposition against convergence and specific accounting standards. Awareness and comprehension of these relationships is of particular relevance to standard-setting bodies, by providing relevant insights into the factors contributing to and determining opposition and support, and may assist in the development of relevant strategies to foster international support for IFRS. This study provides a theoretical framework that may assist the IASB in addressing concerns and establishing legitimacy to ensure the long-term survival of the IASB as an international standard setter.

4.8 Conclusions

By extending Durocher et al.'s (2007) framework on standard-setting processes, this paper has provided insights into the relationships between characteristics of international standard-setting processes, legitimacy perceptions and German attitudes towards the IASB and the promotion of professional judgement by the IASB. Based on interviews with German stakeholders and a content analysis of articles published between January 2005 and October 2010, the paper has provided evidence of negative attitudes towards the representativeness and mandate of the IASB and the promotion of fair value approaches in its standard setting in particular. With regard to the negative attitude towards the promotion of fair values, it is important to emphasise that the analysis has focused on German attitudes towards fair value accounting and did not aim to provide an evaluation of the general usefulness and reliability of fair values.

Importantly, these negative attitudes have remained relatively constant since the adoption of IFRS in the EU in 2005, with the financial crisis in 2007 further establishing negative evaluations and opinions towards the promotion of professional judgement and fair values by the IASB. These negative attitudes are determined by legitimacy perceptions of the IASB and its standard-setting processes, which in turn are determined by the power characteristics of the standard-setting process. Specifically, instrumental, symbolic and systemic power determines pragmatic, moral and cognitive legitimacy perceptions, which determine cognitive, affective and behavioural components of attitudes. Moreover, the results provide evidence of a

reciprocal relationship between legitimacy perceptions and attitudes, which is of particular relevance with regard to the future promotion and acceptance of the IASB and its standard setting. As such, the IASB's objective of ensuring the credibility and continuity of its role as a private standard setter and its standard-setting processes may be harmed by the existence of established negative attitudes on the cognitive and emotional level, which influence legitimacy perceptions. Finally, the paper has provided insights into the importance of attitudes with regard to stakeholders' support and opposition towards the IASB and particular standards. Indeed, the paper has shown that lack of legitimacy and negative attitudes have already led German stakeholders to question the political mandate and power of the IASB, despite the efforts of the IASB to re-establish the perception of legitimacy towards the IASB's representativeness.

Further investigations may focus on this reciprocal relationship between legitimacy perceptions and attitudes by providing a detailed analysis of stakeholders' attitudes and the IASB's efforts to enhance legitimacy and overcome negative attitudes in the context of a specific issue with the IASB or a specific accounting standard. For example, the paper shows that attitudes, particularly if expressed on the affective level, influence legitimacy perceptions. Future research could evaluate to what extent a specific strategy of the IASB to enhance legitimacy is able to overcome these attitudes and what factors are dominant in changing attitudes and legitimacy perceptions. Indeed, insights into potential strategies to enhance legitimacy and change attitudes would benefit the IASB in its attempt to maintain acceptance as the global standard setter. Further, this study has focused on the relationships between perceived characteristics of the standard-setting process, legitimacy and attitudes in

the German context with a focus on the IASB and the promotion of professional judgement. Future research may apply the framework to other countries and contexts. For example, future research may evaluate these relationships in the context of countries that plan to adopt IFRS in the future. Indeed, early knowledge about the relationship between legitimacy and attitudes towards the IASB may be used to address issues and facilitate the convergence process.

The paper has made several contributions to international accounting literature and practice. First, the paper proposes a framework for analysing the complex relationships between individual attitudes, legitimacy and power characteristics, enhancing the theoretical foundation for analysing attitudes in accounting research. Deeper insights into attitude formation and the relationship between attitudes and legitimacy are central to our understanding of the effects and consequences of the convergence process and the standard-setting role of the IASB. Further, the application of the framework in the German context has provided insights into German attitudes towards the IASB and the promotion of professional judgement, which may help to understand German opposition and acceptance of the IASB and IFRS. Given the importance of legitimacy and attitudes towards the promotion of convergence, or the lack thereof, the theoretical framework and the results provided from a German perspective may also be taken into account by international standard setters when deciding on potential strategies and changes to enhance the acceptance of the IASB and IFRS. Moreover, the analyses show that established attitudes may affect legitimacy perceptions despite efforts to establish to create greater credibility and may influence and challenge the success of the ongoing convergence process. Given the difficulties associated with overcoming negative attitudes and a perceived

lack of legitimacy, the findings in this paper are of relevance to stakeholders in countries that plan to adopt IFRS. The framework proposed in this paper may inform international and national standard setters about potential legitimacy issues and the influence on attitudes, which can be taken into account when introducing IFRS. The IASB's ability to address concerns and establish legitimacy will ensure the long-term survival of the IASB as an international standard setter. Finally, the findings contribute to international accounting research by providing evidence of the necessity of integrating broader perspectives and, specifically, the importance of power and legitimacy in international accounting research.

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4.10 Appendices

Appendix I: Semi-Structured Interview Guide (English)

Please note that the interview guide provided is a guide only. Given that the focus of the interviews was to identify attitudes and legitimacy perceptions about the promotion of professional judgement and the IASB, interviewees were guided to extend on their opinions and perceptions when appropriate rather than following the interview guide in a chronological order.

Interview Guide

A Demographics

A.1 Person:

Could you please provide some information about yourself and your professional education/training?

- Age
- Education and further training
- Occupational history/career
- Involvement with accounting standards (HGB/IFRS)

B Accountants' perceptions on the exercise of professional judgement

B.1 Professional judgement:

- **Definition:** What does the phrase 'professional judgement' mean for you? How do you understand it in the context of IFRS?

- **Use:** What is your personal opinion on the use of professional judgement? Do you generally support the use of professional judgement in accounting or do you think other approaches would be preferable?
- **Preferences/Attitudes:** Do you think accountants have a preference for the use of professional judgement in comparison to legalistic approaches? What are potential reasons for these preferences? (for example, previous standards)
- **Preferences/Attitudes (specific):** Could you refer to different situations or standards in which the exercise of professional judgement is generally preferred and, in contrast, different situations or standards in which legalistic approaches are preferred?

B.2 Factors influencing professional judgement:

- **Attitude:** Which factors influence a preference for professional judgement and legalistic regulations respectively? Please provide examples
  - Political factors
  - Legal factors
  - Social factors
  - Historical factors
  - Cultural factors
  - Education
  - Other

- Do you think these factors are becoming in any way more or less important?

- Do you think that globalisation has any influence on these factors of influence and accountants' preferences respectively?
- Do you think that there are generational differences for the preference of professional judgement or legal approaches respectively?

C Adoption of IFRS Use of professional judgement in IFRS?

- **<u>Preference/Attitude:</u>** Do you think accountants interpreting and applying IFRS like or prefer the extensive use of professional judgement in IFRS. Why or why not? (Role of the IASB in the promotion of professional judgement)
- **<u>Change of preference/attitude:</u>** Have these preferences changed since the introduction of IFRS? Do you think the extensive use of professional judgement is in any way less or more preferred than before? Why?
- **<u>Determinants of attitudes:</u>**
    - Are there any specific problems with the use of professional judgement in IFRS? If yes, what kind of problems and why do they emerge?
    - Do you think professional judgement is applied consistently (Within country and between country differences)? Why or why not?
    - In relation to emerging problems (if problems are identified by the interviewee), do you think the extensive use of professional judgement in IFRS is justified? Could you recommend or think of any changes for improvement.

If the use of professional judgement is, in your opinion, not justified, why is the IASB promoting the use of professional judgement?

(If interviewees are very critical of professional judgement, mention the role/power of the IASB as the standard setter—include questions mentioned in section D)

- Are there any other comments or concerns in relation to the extensive use of professional judgement in IFRS that you would like to raise?

D IASB—Power and Legitimacy

- **<u>Attitude: Role of IASB in promotion of professional judgement:</u>**
  - What do you think the viewpoint of the IASB is on the use of professional judgement?
  - Do you agree with this view on professional judgement? If not, what are your critical concerns about IASB (if interviewee mentions concerns about the increasing use of professional judgement)
  - If German accountants are so critical about the professional judgement/fair values (refer to concerns mentioned earlier) can you provide your opinion on why and how the IASB justifies and promotes the use of professional judgement? (links in with next paragraph)
    - Power

- Accounting Tradition
- Financial Support
- Other

➢ ***<u>Attitudes/Perceptions: Power and Legitimacy of the IASB</u>***

- IASB as a private standard setter—What is your opinion in the discussion on the IASB as a global private standard setter? What are the main benefits and what are your main concerns if any?
  - Benefits
  - Concerns: Power
  - Concerns: Interests/Stakeholders (Representing whom?)
  - Concerns: Procedures
  - Concerns: Differences in Accounting Tradition
- Are there any other issues, benefits or concerns regarding the IASB that you would like to mention?

- THANK YOU FOR YOUR PARTICIPATION -

Appendix II: Semi-Structured Interview Guide (German)

Interview

A Demographische Daten

Person:

Könnten Sie sich bitte kurz vorstellen?

- Alter
- Bildungs- und Weiterbildungsweg
- Beruflicher Werdegang
- In welchem Zusammenhang arbeiten Sie mit Rechnungslegungsstandards (HGB/IFRS)

B Präferenzen hinsichtlich der Ausübung von Professional Judgement

B.1 Professional judgement:

- **Definition:** Was verstehen Sie genau unter dem Ausdruck „Professional Judgement“. Wie verstehen Sie diesen Ausdruck in Zusammenhang von IFRS.
- **Gebrauch:** Was ist Ihre persönliche Einstellung hinsichtlich einer weit reichenden Ausübung von Professional Judgement in IFRS. Befürworten Sie generell die Ausübung von Professional Judgement oder sind Sie der Ansicht, dass eine andere Herangehensweise zu bevorzugen wäre?
- **Präferenz/Einstellung:** Glauben Sie, dass Buchhalter und Wirtschaftsprüfer in Deutschland und Australien eine Präferenz haben fuer die weitreichende Anwendung von Professional Judgement im Vergleich

zu einer strikteren legal festgelegten Anwendung? Was könnten die Gründe für derartige Präferenzen sein (vorherig geltender Standard).

- **Präferenz/Einstellung (spezifisch):** Könnten Sie bestimmte Situationen erörterten in denen die Anwendung von Professional Judgement generell präferiert wird und im Gegensatz dazu, Situationen in denen ein legalistischer Ansatz präferiert wird?

B.2 Faktoren die Professional Judgement beeinflussen:

- **Einstellung:** Was könnten Faktoren sein die eine Präferenz für die Anwendung von Professional Judgement oder legal fixierten Regelungen beeinflussen oder fördern?
    - Politische Faktoren
    - Legale Faktoren
    - Soziale Faktoren
    - Historische Faktoren
    - Kulturell Faktoren
    - Ausbildung
    - Andere Faktoren

- Werden diese Faktoren in irgendeiner Weise mehr oder weniger bedeutend?
- Glauben Sie, dass Globalisierung einen Einfluss auf diese Faktoren und dementsprechend auf die Präferenzen von Buchhaltern und Wirtschaftsprüfern hat?

- Glauben Sie es gibt Generationenunterschiede hinsichtlich einer Präferenz für die Anwendung von Professional Judgement und legalistischen Ansätzen?

C Einführung von IFRS: Gebrauch von professional Judgement in IFRS

- **<u>Präferenz/Einstellung:</u>** Glauben Sie, dass Buchhalter und Wirtschaftsprüfer, die IFRS anwenden und interpretieren die weitreichende Ausübung von Professional Judgement in IFRS mögen oder präferieren?
- **<u>Änderungen der Präferenzen/Einstellungen:</u>** Haben sich derartige Präferenzen geändert seit der Einführung der IFRS? Glauben Sie, dass die Anwendung von Professional Judgement in irgendeiner Weise mehr oder weniger präferiert wird als zuvor? Warum?
- **<u>Determinanten der Einstellungen:</u>**
    - Gibt es spezifische Probleme mit der Anwendung von Professional Judgement in IFRS? Wenn ja, welcher Art sind diese Probleme and warum entstehen sie?
    - Glauben Sie, dass Professional Judgement vergleichbar angewandt wird (innerhalb eines Landes und zwischen Ländern)? Warum oder warum nicht?
    - Hinsichtlich der von Ihnen benannten Probleme (falls Probleme genannt wurden), glauben Sie das der intensive Gebrauch von Professional Judgement in IFRS gerechtfertigt ist? Könnten Sie Verbesserungsvorschläge und Änderungen nennen?

Falls Sie der Ansicht sind, dass der intensive Gebrauch von Professional Judgement in IFRS nicht gerechtfertigt ist, warum glauben Sie wird Professional Judgement dann vom IASB gefördert?

(Falls der Befragte sich sehr kritisch über professional Judgement äußert und dies mit der Rolle/Macht des IASB als privater Standard Setter in Verbindung bringt—Fragen von Teil D mit einbringen)

- Weitere Kommentare oder Befürchtungen, die sie gerne im Zusammenhand mit dem intensive Gebrauch von Professional Judgement äußern würden?

D IASB—Macht und Legitimität

- **<u>Einstellung: Rolle des IASB in der Foerderung von Professional Judgement:</u>**
  - Was ist Ihrer Ansicht nach die Einstellung des IASB zum Gebrauch von Professional Judgement?
  - Stimmen Sie mit dieser Einstellung überein? Falls nicht, was sind Ihre Befürchtungen gegenüber dem IASB? (Falls Befragte Befürchtungen über den ansteigenden Gebrauch von professional Judgement äußern)
  - Wenn Deutsche Rechnungsleger und Wirtschaftsprüfer kritisch sind gegenüber Professional Judgement/Fair values (sich auf vorherige Befürchtungen beziehen), können Sie dann in Ihrer Meinung sagen, warum und wie das IASB den Gebrauch von

Professional Judgement fördert und rechtfertigt? (verbunden mit nächstem Paragraphen)

- Macht
- Rechnungslegungstradition
- Finanzielle Unterstützung
- Andere Faktoren

- ***<u>Einstellung/Wahrnehmung: Macht und Legitimität des IASB</u>***
  - IASB als Privater Standard Setter—Was ist Ihre Meinung in der Diskussion um den IASB als globaler privater Standard Setter? Was sind die Vorteile und was sind Ihre größten Befürchtungen?
    - Vorteile
    - Befürchtungen: Macht
    - Befürchtungen: Interessen/Stakeholders (Repräsentation von wem?)
    - Befürchtungen: Prozedur
    - Befürchtungen: Unterschiede in der Rechnungslegungstradition
  - Andere Probleme, Vorteile oder Befürchtungen, die Sie in Bezug auf den IASB gerne nennen würden?

- VIELEN DANK FUER IHRE TEILNAHME! -

Chapter 5: The Influence of Uncertainty Avoidance on Accountants' Materiality Judgements: A Cross-Cultural Study of German and Italian Accountants

5.1 Abstract

Professional judgement and the factors influencing professional judgement have increasingly been recognised as important topics in the convergence process. Moreover, a number of studies have shown the importance of cross-cultural differences in accountants' judgements. However, cross-cultural accounting researchers have largely focused on examining cross-cultural differences in accountants' judgements by evaluating samples from countries with significant cultural differences or significant differences in accounting rules and regulations. Very little research has examined cross-cultural differences in accountants' materiality judgements by comparing Continental European accountants. As such, this study evaluates cross-cultural differences in materiality judgements of German and Italian accountants and investigates the factors that influence accountants' professional judgement. Despite well-known methodological and theoretical limitations, previous cross-cultural accounting research has largely focused on examining the influence of Hofstede's (1980) societal value dimensions on accountants' judgements and the influence of Hofstede's (1980) uncertainty avoidance measure on accountants' materiality judgements in particular. As such, this

study evaluates Hofstede's (1980) uncertainty avoidance dimension and aims to overcome a range of limitations of previous studies by invoking Yoo and Donthu's (1998, 2002) measure of individual uncertainty avoidance.

This study contributes to international accounting literature by providing evidence that professional accountants in Germany are more conservative in their materiality judgements compared to Italian professional accountants. Further, this study provides in-depth insights into the influence of individual uncertainty avoidance on accountants' exercise of professional judgements. These findings enhance international accounting research by providing further evidence that accountants' within a country cluster differ in their interpretation and application of IFRS. Importantly, these findings may challenge the IASB assumption that the application of one set of accounting standards will lead to financial comparability across countries. Moreover, this study reveals the need to include broader perspectives in international accounting research evaluating accountants' exercise of professional judgement. International accounting practitioners and international accounting standard setters could benefit from these insights, which allow for a better understanding of the exercise of professional judgement in Germany and Italy.

5.2 Introduction

Over the last decade, international accounting harmonisation and convergence with the increasing adoption of IFRS as national accounting standards have become dominant topics in international accounting research (Ashbaugh and Pincus, 2001;

Chand and Patel, 2008; Christensen et al., 2007; Daske and Gebhardt, 2006; Daske et al., 2008; Ding et al., 2007; Hellmann et al., 2010; Lantto and Sahlström, 2008; Larson and Kenny, 2011; Peng and van der Laan Smith, 2010; Rezaee et al., 2010; Tyrrall et al., 2007). Given that the primary goal of international convergence is enhancing comparability of financial statements across countries, the influence of accountants' professional judgement in the interpretation and application of accounting standards has increasingly been recognised as an important and controversial topic. Indeed, a growing number of studies have analysed the influence of culture on standard setting (Bloom and Naciri, 1989; Ding et al., 2005; Schultz and Lopez, 2001), auditor independence (Agacer and Doupnik, 1991; Hwang et al., 2008; Patel and Psaros, 2000) and accountants' values and judgements (Doupnik and Riccio, 2006; Doupnik and Richter, 2003, 2004; Patel, 2003). Although prior research has provided evidence that culture influences accountants' exercise of professional judgements, these studies have largely focused on demonstrating differences between accountants from very distinct cultures or accounting systems. For example, Chand (2008) as well as Doupnik and Richter (2004) examined differences in the judgement of professional accountants with regard to the interpretation and application of uncertainty expressions by comparing Australian and Fijian and German and American accountants respectively. Moreover, recent research on professional accountants' judgements (Chand, 2008; Doupnik and Riccio, 2006; Doupnik and Richter, 2003) has largely focused on providing evidence that accountants from different accounting clusters significantly differ in their exercise of professional judgement. Indeed, researchers have often based their country selections on theoretical models of accounting clusters such as Gray's (1988) framework of accounting values or Nobes (1983) international accounting classification,

predominantly to show differences between the Anglo-American accounting model and the Continental European accounting model.

This emphasis on evaluating differences between accounting clusters is driven by the assumption that professional accountants within a cluster such as the Continental European accounting model have similar cultural values and are relatively consistent in their exercise of professional judgement (Garcia Lara and Mora, 2004). However, a recent study on the value relevance of financial reporting data pre and post IFRS adoption highlighted major differences between EU countries and did not suggest an improvement in accounting quality (Devalle, Onali and Magarini, 2010). The study concludes that the main aim of IFRS, to improve cross-border comparability of financial statements by converging national accounting standards, may not have been achieved. Specifically, Devalle et al. (2010) argue that the consistency of implementation and enforcement of IFRS in different European countries, and the impact of national factors associated with culture and the legal system, merits further investigation in future research. Hence, it is the objective of this study to critically examine differences in Continental European accountants' exercise of professional judgement.

Previous research has provided evidence of differences in accountants' judgements across countries and has criticised the IASB's assumption that accountants in various countries are largely consistent in their exercise of professional judgement (Chand, 2008; Chand and White, 2006; Doupnik and Richter, 2003, 2004). However, very limited research has addressed the question of cross-cultural differences in accountants' judgements between two countries within supposedly similar accounting

models according to accounting categorisations such as Gray's (1988) model of accounting values. As such, it is the objective of this study to evaluate cross-cultural differences in Continental European accountants' judgements by examining differences in materiality judgements of German and Italian accountants' judgements when provided with a specific case scenario. Drawing on sociological, psychological and historical literature, this study specifically proposes that German professional accountants are more likely to make conservative materiality judgements as compared to Italian professional accountants. The results of this study provide evidence of variations in materiality judgements between German and Italian professional accountants. Importantly, these results challenge the IASB's assumption that IFRS enhance comparability of financial reporting across countries.

The second objective of this study is to investigate the factors that influence accountants' exercise of professional judgement. Although previous research has provided evidence that culture influences judgements, a large number of cross-cultural accounting studies have failed to capture the complexity and richness of cultural influences (Belkaoui and Picur, 1991; Lindsay, 1992; Patel, 2004; Welton and Davis, 1990). Moreover, Hofstede's (1980) and Hofstede and Bond's (1988) cultural dimensions, Gray's (1988) framework of accounting values and the various modifications of Gray's (1988) framework have largely dominated cross-cultural accounting research despite their well-known methodological and theoretical limitations. Indeed, a significant amount of cross-cultural accounting research has focused on examining Hofstede's (1980) societal value dimensions, with a particular emphasis on individualism and uncertainty avoidance, which has been defined by Hofstede (1984, p. 83) as 'the degree to which the members of a society feel

uncomfortable with uncertainty and ambiguity' (Beugelsdijk and Frijns, 2010; Chan et al., 2003; Han, Kang, Salter and Yoo, 2010; Hope, 2003; Hope et al., 2008; Salter and Lewis, forthcoming; Smith and Hume, 2005; Sudarwan and Fogarty, 1996). In the context of disclosure, conservatism and materiality judgements, researchers have focused, in particular, on the influence of uncertainty avoidance on accountants' judgements (Arnold, Bernardi and Neidermeyer, 2001a; Schultz and Lopez, 2001; Wingate, 1997). However, their studies provide mixed evidence and have failed to critically address the limitations of Hofstede's (1980) uncertainty avoidance dimension. Given the ongoing dominance of Hofstede's (1980) dimensions in accounting research, it is timely and important to provide a critical evaluation of Hofstede's (1980) uncertainty avoidance dimension and its explanatory power in cross-cultural accounting research. As such, this study provides deeper insights into the factors influencing professional judgement and aims to overcome many of the limitations of previous studies by examining uncertainty avoidance on the individual level. Previous studies have largely focused on providing statistical evidence for mean differences between group values. In contrast, this study empirically tests the relationships between accountants' individual uncertainty avoidance scores and professional judgement by invoking Yoo and Donthu's (1998, 2002) measure of individual uncertainty avoidance. Specifically, we propose that there is a positive relationship between accountants' individual uncertainty avoidance and conservatism in materiality estimates. The results further enhance cross-cultural accounting research by providing insights into the complex relationship between uncertainty avoidance and materiality judgements. Further, the application of an individual uncertainty measure provides evidence of the methodological limitations of applying

Hofstede's (1980) societal value dimensions and thus makes a methodological contribution to cross-cultural accounting research.

This study makes a number of contributions to international accounting literature. First, this study provides evidence that professional accountants in Germany and Italy differ in their exercise of professional judgement. Moreover, this study provides in-depths insights into the influence of individual uncertainty avoidance on accountants' exercise of professional judgements. These findings enhance international accounting research by providing evidence that accountants' significantly differ in their interpretation and application of IFRS. Importantly, these findings may challenge the IASB's assumption that the application of one set of accounting standards will lead to financial comparability across countries. Indeed, this study shows that significant differences exist between countries that are regularly considered to be similar with regards to their respective accounting models. As such, this study reveals the need for including broader perspectives in international accounting research in evaluating accountants' exercise of professional judgement.

The remainder of this paper is organised as follows. The first section provides a literature review on cross-cultural research in international accounting and provides insights into accounting and culture in Germany and Italy. Based on this literature review directional hypotheses are developed. The second section provides a detailed description of the research method and data analysis. The third section provides the empirical findings and the final section provides a brief summary and conclusion.

5.3 Theoretical Background and Hypotheses Development

5.3.1 Cross-Cultural Research on Accountants' Judgements in the Convergence Process

With the ongoing convergence process, a considerable amount of cross-cultural accounting research has been conducted investigating accountants' judgements related to the interpretation and application of accounting standards and IFRS in particular (Bernard and Gladie, 2007; Chand and White, 2006; Douglas, Davidson and Schwartz, 2001; Doupnik and Richter, 2003, 2004; Hope et al., 2008; Hughes, Sander, Higgs and Cullinan, 2009; Hwang et al., 2008; Patel and Psaros, 2000; Psaros and Trotman, 2004; Roxas and Stoneback, 1997). This increasing interest in cross-cultural differences in accounting judgements is related to the principle-based nature of IFRS. According to Sir David Tweedie, the chairman of the IASB this principle-based nature of IFRS requires exercise of professional judgment by both companies and their auditors (Carmona and Trombetta, 2008; Editorial, 2004; FASB, 2002). In contrast to the IASB's assumption that accounting is neutral and value free, cross-cultural accounting research has provided strong evidence that accounting is not neutral and that culture and other contextual factors influence accountants' professional judgement (Doupnik and Riccio, 2006; Doupnik and Richter, 2004; Patel, 2003, 2006; Schultz and Lopez, 2001; Tsakumis, Campbell and Doupnik, 2009).

Early evidence that accountants may differ in their judgements despite being provided with similar facts and rules has been provided by Schultz and Lopez (2001), who

showed that accountants from the US, Germany and France resolve warranty estimates differently. Specifically, Schultz and Lopez (2001) found that given the same case fact American accountants resolved warranty estimates at relatively lower dollar magnitudes than French and German accountants. Importantly, Schultz and Lopez's (2001) findings suggest that national culture, and particularly Hofstede's (1980) measure of uncertainty avoidance, influence accountants' judgements.

More recently, international accounting research has focused on examining cultural influences on the interpretation of uncertainty expressions (Chand and White, 2006; Doupnik and Riccio, 2006; Doupnik and Richter, 2003, 2004). For example, Doupnik and Richter (2004) examined how the accounting value of conservatism and the context in which probability expressions are used effect accountants' interpretations of those expressions. Based on a sample of German and American accountants, Doupnik and Richter (2004) found significant differences in the interpretation of several verbal probability expressions. Importantly, German accountants were more conservative in their interpretation in most cases. Extending Doupnik and Richter's (2004) study, Doupnik and Riccio (2006) provide support for a negative relationship between secrecy and probability expressions in the context of disclosure. Importantly, Doupnik and Riccio (2006, p. 239) conclude:

> The practical implications of these results are important in that they suggest that national cultural values can affect accountants' interpretation of probability expressions used in IFRSs, and as a result, differences in cultural values across countries could lead to differences in recognition and disclosure decisions based on those interpretations.

Surprisingly, very few studies have examined cross-cultural differences in accountants' materiality judgements (Arnold et al., 2001a), although materiality judgements and materiality thresholds are considered important issues in accounting research due to their impact on recognition and disclosure in financial statements as well as their influence on detecting accounting errors and misstatements. A significant number of studies have examined factors influencing materiality judgements such as personal characteristics, experience, audit structure and other contextual contingencies (Carpenter, Dirsmith and Gupta, 1994; Chewning, Pany and Wheeler, 1989; DeZoort, Harrison and Taylor, 2006; Estes and Reames, 1988; Heitzman, Wasley and Zimmerman, 2010; Iselin and Iskandar, 2000; Messier, Martinov-Bennie and Eilifsen, 2005; Moriarty and Barron, 1979). However, Arnold et. al.'s (2001a) study on the association between European materiality estimates and client integrity, national culture and litigation remains the only study emphasising the importance of cross-cultural differences. Specifically, Arnold et al. (2001a, p. 472) show that countries with higher uncertainty avoidance scores are more likely to show an increase in materiality thresholds. Consequently, they declare that Hofstede's (1980) measure of uncertainty avoidance is a 'powerful explanatory variable' that significantly influences materiality judgements. However, the validity of Arnold's et al. (2001a) results remains questionable because of methodological and theoretical limitations. For example, Ganguly and Turner (2001, p. 489) conclude that Arnold et al.'s (2001a) study reminded readers that cultural variables affect materiality thresholds but that the study failed to provide deeper insights into how and why cultural factors influence materiality judgements. Consistent with these criticisms, our study follows the objective to provide holistic insights into the relationship between uncertainty avoidance and materiality judgements by taking into account contextual

factors such as the political, economic, social and historical environment as well as accountants' professional work experience. The following section provides a review of the assessment of cultural differences in accounting research.

5.3.2 Measurement of Cultural Differences in Accounting Research

Despite significant criticisms, the predominant method of assessing accountants' cultural differences in international accounting research has been invoking Hofstede's (1980) or Hofstede and Bond's (1988) societal dimensions and Gray's (1988) accounting values (Braun and Rodriguez, 2008; Chan et al., 2003; Chand and White, 2006; Chow et al., 2002; Clements, Neil and Stovall, 2010; Doupnik and Riccio, 2006; Doupnik and Richter, 2004; Harrison, 1992; HassabElnaby and Mosebach, 2005; Hope et al., 2008; Hughes et al., 2009; Kachelmeier and Shehata, 1997; Schultz and Lopez, 2001; Soeters and Schreuder, 1988). However, both Hofstede's (1980) societal dimensions and Gray's (1988) accounting values have been heavily debated and strongly criticised for their simplistic assumptions as well as their theoretical and methodological limitations (Baskerville, 2003; Doupnik and Tsakumis, 2004; Heidhues and Patel, 2011; Hofstede, 2002, 2003; McSweeney, 2002). For example, Hofstede's (1980) concept of national culture is extremely simplistic and fails to take into account significant within country differences, ignoring important contextual factors such as legal, social, political and economic influences on culture (Patel, 2004; Roberts and Boyacigiller, 1984). It is also important to note that Hofstede's deterministic view of culture has largely been rejected in cross-cultural research (Baskerville, 2003; Billig, 1994; Myers and Tan, 2002; Patel, 2004).

In addition to the well-known limitations of Hofstede's work, it is important to note that Hofstede's (1980) value survey model was developed to measure culture at the national level. Specifically, Hofstede's (1980) scores can be used to measure cultural differences between societies and, given an appropriately sized sample of countries, Hofstede's (1980) national indices can also be used to measure the influence of national value dimensions on dependent variables such as national level of disclosure. However, Hofstede's (1980) dimensions do not allow evaluation and prediction of individual behaviour without causing an ecological fallacy.[24] Consistent with these requirements, a significant number of cross-cultural accounting studies (Chand, 2008; Chand and White, 2006; Schultz and Lopez, 2001) provide evidence of cross-cultural differences in accounting judgements by showing a) that significant differences exist between countries on one or more of the cultural dimensions and b) that significant differences exist between accountants' judgements. By establishing content equivalence and controlling for other factors, these results are commonly taken as evidence that culture influences judgement. However, for a sample size of two or three countries, this influence cannot be shown statistically because Hofstede's (1980) dimensions do not allow any correlation analysis at the individual level. As such, research based on Hofstede's (1980) dimensions may provide some evidence of cross-cultural differences in accounting judgements but fail to provide reliable and relevant insights into how culture influences professional accountants' judgements.

[24] Ecological fallacy occurs if researchers draw inferences about individual behaviour from data about aggregates.

There have been very few attempts to provide more sophisticated insights into cultural differences by incorporating interdisciplinary research methods and literature (Chand et al., 2008; Chand and White, 2006). Indeed, many recent studies continue to rely heavily on Hofstede's (1980) cultural dimensions (Archambault and Archambault, 2003; Braun and Rodriguez, 2008; Roxas and Stoneback, 1997; Schultz and Lopez, 2001), further promoted by authors such as Kapp, Bernardi and Bosco, (2011) who proclaim the continuing influence of Hofstede's dimensions and the uncertainty avoidance construct in particular. In contrast, this study employs a number of contextual factors and aims to provide insights into the influence of uncertainty avoidance on materiality judgements by including Yoo and Donthu's (1998, 2002) individual measure of uncertainty avoidance. This construct has previously been applied in marketing studies to measure the influence of uncertainty avoidance on consumer behaviour, entrepreneurial propensity and ethics (Chelariu, Brashear and Osmonbekov, 2008; Prasongsukarn, 2009; Yoo and Donthu, 2005). Given our aim of a critical analysis, the Hofstede measure of uncertainty avoidance has been included for the purpose of comparison.

The objective of this study is to evaluate cross-cultural differences between German and Italian professional accountants' materiality judgements. Specifically, we examine these cross-cultural differences from the perspective of conservatism with lower materiality estimates providing evidence of more conservative accounting judgements. Importantly, we argue that conservatism in materiality judgements may be explained, at least in part, by uncertainty avoidance and its cultural characteristics. As discussed previously, accountants' materiality judgements have been analysed from various perspectives. However, cross-cultural differences have been largely

neglected. The following sections provide insights into the German and Italian accounting system and cultures to offer directional hypotheses on German and Italian accountants' materiality judgements respectively.

5.3.3 Conservatism and Materiality Judgements

Consistent with a number of classifications of accounting models (Doupnik and Richter, 2004; Gray, 1988; Nobes, 1998; Radebaugh and Gray, 1997, 2002), the traditional German accounting model, based on the HGB, and the Italian accounting model, based on the Civil Code, can be differentiated from the Anglo-American accounting models that are the basis of IFRS with regards to measurement, recognition, standard-setting authority and, importantly, exercise of professional judgements. Moreover, classification charts often show relatively strong similarities between the German and the Italian accounting model. For example, the German and Italian accounting models have both been categorised as macro-uniform models with a comparatively weak reliance on equity finance (Doupnik and Salter, 1995; Nobes, 1998). Further, the Italian and German accounting regulations, enacted by their respective governments, place a strong emphasis on insiders' information needs and conservative measurement rules and are heavily influenced by taxation law.[25] Despite these similarities, it is important to note that there are distinct differences between the German and Italian accounting models.[26] Indeed, a number of studies have provided

[25] Note that in 2003, a reform of Italian company and tax law reduced the interdependence of accounting and tax regulations.

[26] Note that these categorisations apply to the traditional accounting models and not to the adoption and application of IFRS. Although, Germany and Italy adopted IFRS for the consolidated reporting of

evidence that categorisations of accounting models are too simplistic and largely fail to capture their full complexity (Baskerville, 2003; Doupnik and Tsakumis, 2004; Heidhues and Patel, 2011; Nobes, 2004). As such, the next sections provide deeper insights into the German and Italian accounting model and provide relevant insights into the social and cultural context of German and Italian accountants.

The German accounting model is known to be a conservative accounting system that emphasises creditor protection and prudence evidenced by asymmetric recognition of gains and losses (Baetge et al., 1995; Guay and Verrecchia, 2006). This emphasis on creditor protection and prudence is consistent with Germany's socio-economic environment, in which accounting and financial statements serve the interests of a variety of stakeholders including shareholders, creditors, tax authorities, employees, government, society and the greater environment (Baetge et al., 1995). This model of accounting has developed in accordance with the social, cultural, political, economic and legal context of Germany (Al Koni, 1998; Barth, 1953; Beisse, 2001; Brinkmann, 2006; Eierle, 2004; Haller, 2003; Hommelhoff and Schwab, 1998). For example, the focus on creditor protection and prudence in accounting is consistent with German cultural values, which largely emphasise the importance of reliability and stable development rather than a short-term focus on relevance as advocated by the IASB. Historically, the public emphasis on reliability and economic stability has been shaped by the economic experiences in the 20th century in particular. Major economic crises in the late 1920s and early 1930s and the devastating economic

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listed companies, individual financial statements still need to be prepared in accordance with the HGB and the Italian Civil Code.

consequences of hyperinflation strongly influenced public perceptions of monetary values, economic stability and, consequently, accounting requirements. For example, inflation has remained a major concern of the German public and has further fostered support for conservative accounting rules (Busse von Colbe, 1996; Ferguson, 1997; Schildbach, 1990). For example, studies from 2004 to 2008 show that inflation remains the greatest fear of the German public and has ranked consistently higher than fear of war, terror or natural disasters (R+V-Infocenter, 2008).

Conservative accounting requirements are also consistent with Germany's broader cultural characteristics. For example, German culture is perceived to be highly uncertainty avoidant with an emphasis on protection against potential eventualities. This is expressed in the number of life insurance policies that have been issued, which exceed the number of people in Germany (Thieltges, 2008). Further evidence may be provided by Germany's relatively high savings rate. Compared to the 14.2 per cent Italian gross household saving rate as a share of gross saving to gross income, the average German rate is 16.7 per cent, one the highest in the EU (Leetmaa, Rennie and Thiry, 2009). Studies examining differences in economic behaviour often refer to uncertainty avoidance and risk aversion as potential factors of influence (Bontempo, Bottom and Weber, 1997; Loayza, Schmidt-Hebbel and Serven, 2000).

Another German cultural characteristic, which has often been mentioned in the literature and that is also consistent with the calculated risk-taking behaviour described previously, is the German emphasis on order and accuracy with a tendency to detailed analysis and discussion (Djurssa, 1994; Gray, 1988; Hofstede, 1980; Kakabadse and Myers, 1996; Lubatkin and Floyd, 1997). Given that materiality

judgements impact on recognition and disclosure in financial statements and influence the detection of accounting errors and misstatements, these cultural characteristics are likely to influence materiality estimates. The German focus on detailed and reliable information, combined with the value placed on conscientiousness and order is likely to result in conservative materiality estimates to ensure correctness and avoid potential risks.

Consistent with the traditional German accounting model, the Italian Civil Code still applies conservative regulations to non-listed financial statements by stating criteria about form, disclosure, recognition, measurements and other related issues (Provasoli, Mazzola and Pozza, 2007; Rivola-Clay and Doupnik, 1987; Zambon, 1999). Recognition and measurement criteria as required by non-listed companies included in the Civil Code and in national accounting standards require, to some extent, the exercise of professional judgements (that is, estimates of assets' useful life, bad debts, provision and contingencies). However, financial statements are used for taxation purposes and as such judgements of Italian professional accountants have been limited by rigorous taxation rules. Indeed, the relationship between tax regulations and financial reports has become deeply institutionalised and remains important despite reforms to company and tax law in 2003, which provided a minor shift to the 'substance-over-form' approach by eliminating some of the relations between financial statements and tax returns (Zambon, 2002). Importantly, the changes in the development of Italian accounting and taxation rules over the last 50 years have resulted in a confused message related to the concept of 'accounting conservatism', which has been described as following different and sometimes inconsistent directions in the past (Alexander, Fiondella and Maffei, 2011).

At the beginning of the last century, Italian accounting theory, which is part of the so-called 'economia aziendale',[27] shifted from the concept of creditor protection to a concept of consumable income (defined as the amount that will not impair a company's ability to guarantee satisfactory return on equity) (Capalbo and Clarke, 2006, pp. 63–69, 99; Onida, 1951; Zappa 1937, pp. 65, 108–111). Compared to German accounting theory, Italian accounting theory does not generally support optimistic or conservative views for preparing financial statements (Alexander et al., 2011; Catturi, 2003, p. 35; Fasiello, 2010, p. 130; Ferrero, 1988, p. 13–15; Viganò, 1996, pp. 106–09). However, the Italian Civil Code has incorporated the prudence concept and the use of historical cost as a measurement basis since its first enactment in 1942. Further, prudent and rigid measurement approaches have been required by fiscal regulation and by Italian GAAP since the middle of the 1970s (Ceriani 2004, pp. 101–102). Moreover, the accounting profession has started to institutionalise the use of rigid taxation rules in the preparation of financial statements (Falsitta, 1985, pp. 5–8; Zambon, 2002) Currently, Italian accountants have to deal with a legal system that is complex, dense, technical and indeterminate (D'Alessandro, 2007; Di Vita, 2010). Further, the prevalence of small firms, the self-interest of families

[27] The discipline of Economia Aziendale was developed by Gino Zappa in 1926 as a comprehensive scientific framework devoted to the study of the 'azienda', which is an economic entity of production or consumption. The study of the 'azienda' is carried out by analysing its three coordinated subsystems: management, accounting and organisation. Accounting is not viewed as an independent discipline because an entity's accounting processes are designed and influenced by the analysis of the entity's operations and the way it is organised and managed (Zappa, 1927, pp. 30–40).

owning large stakes in listed companies and the general distrust towards institutions have influenced the practical application of accounting regulations (Bianchi and Enriques, 2001; Ciocca, 2003; Culpepper, 2007; Cumming and Zambelli, 2010; McLeay and Riccaboni, 2001; Melis, 2004). Indeed, Italian accountants may exhibit greater discretion in their judgements, which may have interfered with the practical application of the conservatism principle.

The level of discretion in applying accounting principles and regulations is also related to a nation's enforcement mechanisms (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1997; Melis and Carta, 2009). Compared to Germany, Italy's enforcement mechanism is considered to be less effective because of a number of issues such as contradictory regulations and allegations of corruption related to excessive earnings management and audit failures (Arnold et al., 2007; Chiarini, Domizio and Marzano, 2009; Coface, 2008; La Porta et al., 1997, 1998; Shavell, 2007). Audit failures and earnings management may be traced to compromises of independence and objectivity (Buchanan and Yang, 2005). Indeed, inappropriate relations and conflicts of interests have been identified as critical issues in the Italian audit environment (Minelli, Rebora and Turri, 2009). As such, it may be argued that Italian accountants are more likely to accede to client pressures by applying accounting rules less rigidly as compared to German accountants. Importantly, this may have lead Italian accountants to make less conservative materiality judgements. Indeed, Italian accountants face an increasingly complex and uncertain legal system, which changes regularly, while simultaneously having to deal with clients who are more concerned about taxation than appropriate financial disclosures.

Based on the above discussion, we propose the following hypothesis:

H1: Compared to Italian professional accountants, German professional accountants are more conservative in their materiality judgements.

5.3.4 Uncertainty Avoidance and Materiality Judgements

Although studies have aimed to provide evidence that uncertainty avoidance influences materiality judgements, results have been ambiguous. Specifically, a controversy exists on the direction of the relationship between uncertainty avoidance and conservatism in materiality judgements. As discussed previously, Schultz and Lopez (2001) have shown that accountants in countries with higher uncertainty avoidance have more conservative accounting systems and are likely to make more conservative accounting judgements. Applying this understanding of uncertainty avoidance to the case of materiality judgements, the hypothesis can be formed that higher uncertainty avoidance scores will result in more conservative judgements aimed at ensuring security with regards to disclosure and the detection of potential misstatements and errors. However, Wingate (1997) showed a negative relationship between required accounting disclosure and the level of uncertainty avoidance. Further, Arnold et al. (2001a, 2001b) show an increase in materiality for higher uncertainty avoidance. Arnold's results were critically discussed, in particular because of the weak explanation provided for the negative association between uncertainty avoidance and materiality judgements (Ganguly and Turner, 2001). According to Arnold (2001a) higher uncertainty avoidance leads to higher materiality

estimates because it serves accountants by creating ‘a level of pseudo certainty’ and fosters self-protection of the profession.

Consistent with Ganguly and Turner’s (2001) criticisms of Arnold et al.’s (2001a) study and a critical interpretation of uncertainty avoidance, we propose a positive relationship between uncertainty avoidance and materiality judgements. Hofstede (1980) states that societies with strong uncertainty avoidance feel more threatened by ambiguous or unknown situations and tend to establish rules and laws to diminish anxiety (Hofstede, 1980, 1984). While researchers such as Arnold et al. (2001a, 2001b) argue that this is consistent with higher materiality thresholds to diminish potential anxiety, we argue that this desire is consistent with a tendency towards more detailed disclosure and lower materiality thresholds to increase overall reliability of financial statements. Lower materiality thresholds may result in more detailed insights into the current financial state of an entity and hence, reduce accountants’ and other stakeholders’ anxiety.

As evident from the discussion above, the influence of uncertainty avoidance on materiality threshold estimates remains controversial. This controversy is further reinforced by using Hofstede’s (1980) measure of uncertainty avoidance, which does not allow for the statistical testing of relationships on the individual level. As such, it is our objective to test whether a significant relationship between uncertainty avoidance and materiality thresholds exists on the individual level. Given that the information provided in the case scenario presents a positive financial outlook of the organisation, there does not seem to be an apparent need for professional accountants

to create any level of ‘pseudo’ certainty, as asserted by Arnold et al. (2001b). As such, based on the previous explanations, we propose the following hypothesis:

H2: There is a positive relationship between professional accountants’ individual level of uncertainty avoidance and conservatism in materiality estimates.

For comparison purposes, Hofstede’s (1980) uncertainty avoidance measure has been included. Consistent with our previous hypothesis, we propose that:

H3: Countries with higher uncertainty avoidance scales provide more conservative materiality estimates compared to countries with lower uncertainty avoidance scales.

5.4 Methodology

This section reviews the instrument, participants and procedure used in this study.

5.4.1 Design and Instrument

The data in this study have been collected as part of a larger research project examining professional accountants’ judgements. Data to test the hypothesis proposed in this paper were collected as part of a survey questionnaire administered to professional accountants in Germany and Italy. In the questionnaire, participants were first asked to provide information on their personal preferences and values and

were then provided with a case study scenario, which required the application of professional judgement to provide materiality estimates.

The questionnaire has been developed and designed in consultation with academics at Universities in Australia, Germany and Italy. As part of the questionnaire development, extensive pretesting was undertaken. The first draft of the questionnaire was pre-tested at an Australian university with 15 accounting staff members. Consulted academics held membership in various professional accounting bodies such as CPA Australia and CA Australia and had previous experience working in professional accounting firms. After the correction of identified problems and changes to improve understandability and readability, the questionnaire was translated into German and Italian using a double back-translation process. The German and Italian versions of the questionnaire were further examined by German and Italian accounting academics. Based on their suggestions, the questionnaire was further improved, in particular with respect to readability and understandibility. Our study used the back-translation method to ensure that the different language versions of the English instrument were conceptually equivalent in each of the target countries. Using forward-translations and back-translations is a well-established method to meet this objective.

5.4.2 Independent Variables

The independent variable examined in this study was Yoo and Donthu (1998, 2002) measure of individual uncertainty avoidance. Yoo and Donthu's scale (1998, 2002) was developed to measure Hofstede's (1994) social value dimensions at the

individual level without incurring an *ecological fallacy*. As such, Yoo and Donthu's (1998, 2002) items bear great similarities to Hofstede's (1994) items by focusing on the importance of rules, regulations, standardised work procedures and instructions. Importantly, the scale has been adopted in a number of studies that provide evidence of the scale's reliability (Chelariu et al., 2008; Patterson et al., 2006; Prasongsukarn, 2009). Yoo and Donthu's (1998, 2002) uncertainty avoidance scale consists of five items that were measured on a five-point Likert scale with anchors of 'strongly disagree' and 'strongly agree'. Hofstede's (1994) value survey module questions for the measurement of uncertainty avoidance were included for the purpose of comparison. Hofstede's framework (1994) also includes four items that focus on the importance of rules, regulations, standardised work procedures and instructions.

5.4.3 Case Study Scenario

The case study scenario adopted in this study was first developed by De Zoort et al. (2006) to measure the effects of differential pressure strength on conservatism, variability and effort. Previous research has shown that accountants' judgements are likely to be influenced by various factors such as the auditor's perception of managements' integrity (Arnold, 2001), potential litigation (Schultz and Lopez, 2001; Wingate, 1997) or accountability pressure (DeZoort et al., 2006; Hoffman and Patton, 1997). This study examines cross-cultural differences in materiality judgements and aims to control other contextual factors that potentially influence materiality judgements. As such, the case study developed by De Zoort et al. (2006) was modified to ensure that characteristics that may increase the perceived riskiness of the company or the audit were stabilized at a low level.

The instrument provides background information about an audit client that manufactures industrial engineering goods and its pre-audit financial results. Participants were then asked to act as an auditor who is responsible for auditing financial statements prepared in accordance with IFRS. Specifically, participants were required to judge the materiality of a proposed adjustment to an allowance for a doubtful debt account. The materiality question was measured on a seven-point Likert scale with anchors of ‘very immaterial’ and ‘very material’. In a second question, participants were asked to provide a materiality threshold by specifying the smallest amount that they would consider material. It is important to note that these two materiality judgements differ fundamentally regarding their focus and objective (DeZoort et al., 2006). According to Georgiades (1996) and Messier et al. (2005), evaluation materiality judgements, such as asking whether an adjustment is considered material, focus on judging whether a potential misstatement has occurred in the financial statements. In contrast, judgements on materiality thresholds are related to the audit planning and focus on a preliminary assessment of materiality.

5.4.4 Participants and Procedure

Cross-cultural accounting studies often face problems ensuring the equivalence of their samples due to differences in degree structures and accounting bodies. However, equivalence is important to ensure validity and reliability of the results. In this study, we aimed to ensure this equivalence by requiring both German and Italian accountants to hold membership in a professional accounting body in their respective country.

German participants were required to be certified auditors (*Wirtschaftspruefer*) who belonged to the Chamber of Auditors (*Wirtschaftsprüferkammer*). Achievement of this certification is based on difficult examination procedures and practical experience (Hellmann et al., 2010). Italian participants were required to be certified accountants (*Dottori commercialisti ed Esperti Contabili*) who belonged to the Italian accounting professional body (*Ordine dei Dottori Commercialisti ed Esperti Contabili*—CNDCEC). The achievement of this certification is based on a State examination procedure after three years of practical experience. The Italian certification permits enrolment in the Italian Registry of Certified Auditors (*Registro dei Revisori Contabili*).

In Germany, data collection was based on a mail survey. Based on extensive consultation with Italian professional accountants, a decision was made to transform the research instrument into an online questionnaire for Italian participants to ensure a satisfactory response rate, which would have been very difficult to achieve with a mail survey. Based on usable responses, the total sample consists of 156 professional accountants from Germany and 68 professional accountants from Italy. Although the procedures were different in Germany and Italy, sample structures are largely consistent. There are no significant differences in work experience between the Italian and German accountants, with both groups having an average 12 to 14 years of work experience. In both groups, more than 50 per cent of the professional accountants have more than 14 years of work experience. The average age of the German participants is slightly higher than the average age of the Italian participants, with both groups showing the highest frequency in the age range 40–49. The percentage of male participants is somewhat greater in the German sample, at 81.3 per cent,

compared to 65.7 per cent in the Italian sample. Significant differences exist with regard to knowledge about IFRS, with 54.8 per cent of German professional accountants evaluating their IFRS knowledge as ‘good’ or ‘very good’ compared to only 17.6 per cent of Italian professional accountants.

5.5 Results and Discussion

5.5.1 Accountants’ Materiality Judgements

Hypothesis 1 predicts that German professional accountants are more conservative in their materiality judgements compared to Italian professional accountants. This hypothesis was tested by requiring respondents to judge the materiality of an adjustment to an allowance for a doubtful debt account (materiality evaluation) and to state the smallest amount that would be considered a material adjustment to the allowance for the doubtful debt account (materiality threshold). The results support our hypothesis. When asked whether an adjustment was considered material, the mean value of the responses by German professional accountants was 5.31 (with 1 denoted as ‘very immaterial’ and 7 denoted as ‘very material’) compared to 4.13 for the Italian professional accountants. Moreover, German and Italian professional accountants differed significantly on the smallest amount that was considered material with German professional accountants showing a mean materiality threshold of €43,833.64 compared to the Italian mean materiality threshold of €81,156.72. Results of a Mann-Whitney U test indicate significant differences for materiality evaluation and materiality threshold at the .01 level between German and Italian professional accountants, as shown in Table 1 below. Consistent with our hypothesis,

Italian professional accountants also exhibit greater discretion in their materiality judgements, evidenced by the standard deviations. In the case of judging materiality thresholds, the Italian sample shows a significantly greater standard deviation compared to the standard deviations of the German sample.[28]

Table 5.1: Mean Values—Materiality Judgements

	German Accountants (n=153)	Italian Accountants (n=67)
Materiality Evaluation	5.31 (1.249)	4.13 (1.465)
Materiality Threshold	43,833.64 (21,756.21)	81,156.72 (65,859.06)

Note. Standard deviations are given in brackets.

N = 221. All means differ at $p < .001$

These differences in materiality judgements, namely the differences in materiality evaluations and materiality thresholds between German and Italian professional accountants, provide evidence on cross-cultural differences in the interpretation and application of IFRS. As such, these results contribute to the debate on the quality of accounting convergence by showing that the IASB's objective of greater comparability may not be achieved (Devalle et al., 2010; Lainez and Gasca, 2006; Li, 2010; Nobes, 2006; Zeff, 2007). Although these results provide evidence of cross-cultural differences and thus have a profound influence on the quality of the convergence process, further insights are needed to determine the factors influencing accountants' judgements.

[28] Levene statistic significant at 0.01 level.

Earlier in this paper, we criticised that many studies assume that cultural differences are an explanation of differences in judgements, often without providing convincing empirical evidence of the relationship (Chand, 2008; Schultz and Lopez, 2001). This limitation of previous studies can be overcome by invoking cultural measures at the individual level. As such, an individual measure of uncertainty avoidance developed by Yoo and Donthu (1998, 2002) has been included to examine the influence of uncertainty avoidance on preferences and judgements.

5.5.2 Methodological Contribution: Uncertainty Avoidance and Materiality Judgements

The reliability of Yoo and Donthu's (1998, 2002) individual uncertainty avoidance scale was above the minimum acceptable level of 0.6 (Cronbach's alpha of 0.611). However, internal consistency could be improved by excluding the item, 'Instructions for operations are important' (Cronbach's alpha of 0.681).

A non-parametric Mann-Whitney U test indicates significant differences (significance at 0.01 level) in the mean value of the individual uncertainty avoidance of German and Italian professional accountants. Specifically, Italian professional accountants show greater individual uncertainty avoidance with a mean value of 3.90, as compared to 3.095 for German professional accountants (see Table 5.2). Therefore, our results support the existence of cultural differences regarding 'the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity' (Hofstede, 1984, p. 83).

Table 5.2: Mean Values—Individual Uncertainty Avoidance

	German Accountants (n=153)	Italian Accountants (n=67)
Individual Uncertainty Avoidance	3.0954 (.573581)	3.9000 (.42672)

Note. Standard deviations are given in brackets.

N = 221. All means differ at $p < .001$

Hypothesis 2 proposes a positive relationship between professional accountants' individual level of uncertainty avoidance and conservatism in materiality estimates. Given that the previous results indicate significant differences between German and Italian accountants' materiality judgements and also significant differences in the mean value of uncertainty avoidance, this hypothesis aims to examine the relationship between individual uncertainty avoidance and conservatism in accounting judgements. This is of particular importance given that the results indicate that German professional accountants are more conservative in their judgements but have a lower level of uncertainty avoidance. Indeed, these findings seem to contradict our hypothesis of a positive relationship between uncertainty avoidance and conservatism in materiality judgements. As discussed earlier in this paper, previous studies based on Hofstede's (1994) uncertainty avoidance measure were not able to test this relationship without causing an ecological fallacy.

The results of Kendall's Tau and Spearman's Rho initially indicate a significant relationship of 0.116 (at the 0.01 level) and 0.156 (at the 0.05 level) respectively between individual uncertainty avoidance and materiality threshold, but no

relationship between uncertainty avoidance and accountants' materiality evaluation (see Table 5.3). The relationship between uncertainty avoidance and materiality threshold is not in the predicted direction and not significant if controlled for the influence of sample group (nationality). Indeed, controlling for the influence of sample group (nationality) shows a significant positive relationship, with a correlation coefficient of 0.193 (significant at the 0.01 level) between uncertainty avoidance and accountants' materiality evaluation (see Table 5.4). The results are stable when controlled for age, gender, influence of professional work experience and IFRS knowledge (correlation coefficient of 0.198 significant at the 0.01 level). These results support our hypothesis that accountants' with higher uncertainty avoidance are more conservative in their materiality evaluations. However, the results fail to provide evidence for a relationship between uncertainty avoidance and accountants' materiality thresholds. The relationship between individual uncertainty avoidance and accountants' materiality judgements suggests that individual uncertainty avoidance may only influence judgements in situations that may be perceived as risky, such as in the evaluation of potential misstatements in financial statements.

Table 5.3: Correlation Matrix—Materiality Judgements and Uncertainty Avoidance

		Materiality Evaluation	Materiality Threshold
Kendall's Tau_b	Individual Uncertainty Avoidance	-.071	.116**
Spearman's Rho	Individual Uncertainty Avoidance	-.091	.157*

** Correlation is significant at the 0.01 level (1-tailed).

* Correlation is significant at the 0.05 level (1-tailed).

Table 5.4: Partial Correlations—Materiality Judgements and Uncertainty Avoidance

Control Variables		Materiality Evaluation	Materiality Threshold
Participant Group (German/Italian)	Individual Uncertainty Avoidance	.193**	-.053
Participant Group (German/Italian) Age, Gender, Professional work experience, IFRS knowledge	Individual Uncertainty Avoidance	.198**	-.033

** Correlation is significant at the 0.01 level (1-tailed).

Given the influence of sample group on the relationship between uncertainty avoidance and materiality evaluations and the significant differences between Italian and German professional accountants on the uncertainty dimension, correlations were also tested in each sample group. Consistent with the previous results, there was no significant relationship between individual uncertainty avoidance and accountants' materiality threshold in the German sample. However, results provide support for a significant positive relationship between individual uncertainty avoidance and accountants' materiality evaluation. The correlation coefficient for German professional accountants is 0.179 (significant at the 0.01 level) and increases to 0.271 (significant at the 0.01 level) when controlled for gender, age and years of professional work experience (see Tables 5.5 and 5.6).

Table 5.5: Correlation Matrix—Materiality Judgements and Uncertainty Avoidance (German Accountants)

		Materiality Evaluation	Materiality Threshold
Kendall's Tau_b	Individual Uncertainty Avoidance	.172**	.048
Spearman's Rho	Individual Uncertainty Avoidance	.213**	.069

** Correlation is significant at the 0.01 level (1-tailed).

Table 5.6: Partial Correlations—Materiality Judgements and Uncertainty Avoidance (German Accountants)

Control Variables		Materiality Evaluation	Materiality Threshold
Age, Gender, Professional work experience	Individual Uncertainty Avoidance	.271**	-.066

** Correlation is significant at the 0.01 level (1-tailed).

Uncertainty avoidance did not significantly correlate with accountants' materiality evaluation or materiality thresholds in the Italian sample. As such, this study provides partial evidence that accountants' values and beliefs significantly influence their judgements.

However, the results merit further interpretation. Although the results provide only partial support for the hypothesis that accountants with higher uncertainty avoidance scores are more conservative in their materiality evaluations, the results do not explain the significant differences in accountants' materiality judgements between Germany and Italy. German professional accountants are significantly more conservative in their materiality evaluations but show a significantly lower level of uncertainty avoidance. Given the significant difference between German and Italian professional accountants with regard to knowledge about IFRS, further evaluation has been undertaken regarding the influence of familiarity with IFRS on materiality judgements. The results suggest a significant positive relationship between IFRS knowledge and conservatism in materiality evaluations. However the relationship is not significant if controlled for group of participants (nationality). Further analysis

does not suggest a significant influence of familiarity with IFRS on accountants' materiality judgements. Nevertheless, this study clearly shows that other factors, such as personality variables or familiarity with IFRS, should be considered when discussing cross-cultural differences in accountants' judgements.

The importance of including broader perspectives and other variables in cross-cultural studies is of particular importance given that cross-cultural accounting research has largely focused on discussing cross-cultural differences by applying Hofstede's (1980) societal value dimensions. For comparison, and to elicit methodological issues present in cross-cultural accounting research, we propose a third hypothesis based on Hofstede's (1994) uncertainty avoidance measure. Consistent with the previous hypotheses, Hypothesis 3 proposes that countries with higher uncertainty avoidance scales provide more conservative materiality estimates compared to countries with lower uncertainty avoidance scales. Hofstede's uncertainty avoidance indices are calculated according to Hofstede's values survey module manual (1994), which states the following formula:

$$\text{Uncertainty Avoidance} = 25M(Q13) + 20M(Q16) - 50M(Q18) - 15M(Q19) + 120$$

M(Q13) refers to the mean score of question 13, M(Q16) refers to the mean score of question 16 and so on. Based on this formula and consistent with earlier results on individual uncertainty avoidance, the uncertainty avoidance indices for Germany and Italy are 19.25 and 39.75 respectively. Mann-Whitney U tests indicate that German and Italian professional accountants differ significantly on the four items that comprise Hofstede's uncertainty avoidance index (see Table 5.7). Therefore, the

country measure of uncertainty avoidance is significantly higher for the Italian sample of accountants than for the German sample of accountants.

Table 5.7: Mann-Whitney U Tests—Uncertainty Avoidance (Hofstede)

Item	Group	N	Mean	Mean Rank	Asymp. Sig. (2-tailed)
Hofstede Item 13	German Accountants	154	2.65	105.40	0.040
	Italian Accountants	66	2.85	122.39	
Hofstede Item 16	German Accountants	156	4.15	139.75	0.000
	Italian Accountants	68	2.13	49.98	
Hofstede Item 18	German Accountants	156	3.92	127.42	0.000
	Italian Accountants	68	3.09	78.27	
Hofstede Item 19	German Accountants	156	3.60	126.13	0.000
	Italian Accountants	68	2.88	81.24	

Earlier in this paper we provided evidence that German professional accountants are significantly more conservative in their materiality judgements. Combined with the finding that Hofstede's measure of uncertainty avoidance is significantly higher for the Italian sample than for the German sample, the results could mislead researchers to assume a negative relationship between uncertainty avoidance and conservatism in materiality judgements. Indeed, international accounting researchers such as Arnold

et al. (2001a) have aimed to provide explanations for negative relationships between uncertainty avoidance and conservatism in materiality judgements, which could be used to theoretically support similar conclusions. However, our results, based on the individual uncertainty avoidance measure, provide partial support for a positive relationship between individual uncertainty avoidance and conservatism in materiality evaluations and no support for a relationship between individual uncertainty avoidance and materiality thresholds. Moreover, our results indicate that differences in uncertainty avoidance can only partially explain cross-cultural differences in accountants' materiality judgements.

These findings have significant implications for cross-cultural research. Importantly, our findings suggest that cross-cultural studies applying Hofstede's societal value dimensions may be examined critically for their theoretical and methodological contributions. Moreover, these insights should provide an incentive to evaluate accountants' judgements by including new perspectives and scales. Researchers have often criticised the reliance of cross-cultural accounting research on Hofstede's (1980) societal dimensions (Baskerville, 2003; Heidhues and Patel, 2011). However, many cross-cultural accounting researchers seem to have failed to recognise that cross-cultural accounting research is a social and dynamic discipline that requires ontological and epistemological openness and multiple discourses in its debates. Indeed, we argue that greater insights could be gained by including interdisciplinary perspectives and measures from other disciplines such as psychology, which may facilitate a better understanding of the complexity and dynamics of cultures. This is of particular importance given that this study, consistent with previous studies, shows that cross-cultural differences in accountants' judgements exist. However, further

insights are needed to provide additional explanations for these differences. Although this study has shown that the adoption of an individual uncertainty avoidance measure can provide additional insights into accountants' judgements, it is important and timely to extend research on accountants' values and beliefs to gain a better understanding of accountants' judgements. Given that the IASB's objective is to ensure greater cross-cultural comparability, a better understanding of the factors influencing accountants' judgement and an understanding of the factors that result in significant cross-cultural differences is essential.

5.6 Conclusions

It was the objective of this study to show that German and Italian accountants' materiality judgements differ significantly when provided with a specific case scenario. Further, this study examined the influence of individual uncertainty avoidance on accountants' materiality judgements. The results provide evidence for cross-cultural differences in accountants' materiality judgements. Consistent with our hypothesis, German accountants are more conservative in their materiality judgements than are Italian professional accountants. The importance of these differences in materiality estimates becomes evident when one considers that accountants' materiality judgements and materiality thresholds have a significant impact on recognition and disclosure in financial statements and influence the detection of accounting errors and misstatements. As such, future research may address the question of to what extent these differences in conservatism in materiality estimates lead to misstatements and accounting errors. Further, the significant

differences revealed here may challenge the IASB's objective of cross-cultural comparability. The findings also challenge the assumption that convergence may be achieved more easily within the Continental European accounting cluster.

An evaluation of the factors influencing materiality judgements provides support for a positive relationship between German accountants' individual uncertainty avoidance and conservatism in materiality evaluations, but no relationship between individual uncertainty avoidance and materiality thresholds. The relationship between individual uncertainty avoidance and accountants' materiality judgements suggests that individual uncertainty avoidance may only influence judgements in situations that are perceived as risky, such as in the evaluation of potential misstatements in financial statements. It is important to note that the results fail to explain the significant differences in accountants' materiality judgements between Germany and Italy. Indeed, German professional accountants are significantly more conservative in their materiality evaluations while showing a significantly lower level of uncertainty avoidance as compared to Italian professional accountants.

Although the results contribute to cross-cultural accounting research by providing further insights into the complex relationship between uncertainty avoidance and materiality judgements, other factors should be considered when discussing cross-cultural differences in accountants' judgements. Importantly, the application of Yoo and Donthu's (1998, 2002) scale of individual uncertainty avoidance has further emphasised the methodological limitations of applying Hofstede's (1980) uncertainty avoidance dimension. Indeed, we argue that cross-cultural accounting researchers need to consider accounting as a dynamic discipline that requires multiple discourses

in its debates. As such, we propose that greater insights could be gained by including interdisciplinary perspectives and measures from other disciplines, such as psychology, which may facilitate a better understanding of the complexity and dynamics of cultures. This is of particular importance given that this study, consistent with previous studies, shows significant cross-cultural differences in accountants' judgements. Although this study has shown that the adoption of an individual uncertainty avoidance measure can provide additional insights into accountants' judgements, it is important and timely to extend research on accountants' values and beliefs to gain a better understanding of accountants' judgements. Given that the IASB's objective is to ensure cross-cultural comparability, an understanding of the factors influencing accountants' judgement and an understanding of the factors that result in significant cross-cultural differences is essential.

The results should be considered in the context of the study's limitations. First, our results are based on an analysis applying Yoo and Donthu's (1998, 2002) measure of individual uncertainty avoidance. In this study, our primary focus was on evaluating the influence of uncertainty avoidance, which has been used widely in international accounting literature. Although Yoo and Donthu's (1998, 2002) measure provided additional insights into accountants' judgements, future research may focus on other measures related to conservatism. Indeed, as Yoo and Donthu's (1998, 2002) items are very similar to Hofstede's items, they may also be criticised for a strong focus on work-related issues. Further, this study does not test the effects of task characteristics such as perceived complexity or familiarity with materiality judgements. Although the majority of accountants in our sample had extensive work experience and were thus unlikely to be unfamiliar with materiality judgements, future research may

control for these factors. Moreover, data collection was approached differently in Germany and Italy, which may have led to the different non-response bias. However, the German and Italian sample did not significantly differ with regard to professional work experience and age.

Overall, this study makes several contributions to international accounting research. The findings provided that significant cross-cultural differences exist between German and Italian accountants in relation to conservatism in materiality judgements. These insights are important to international standard setters who may consider reviewing standards and principles that result in significant cross-cultural variance. Similarly, these insights may benefit accounting practitioners because recognising the existence of systematic cross-cultural differences may allow for more reliability in the analysis of financial statements. Second, the paper provides insights into some of the factors influencing accountants' judgement, which are also beneficial to standard setters and practitioners. Given the IASB's objective to ensure cross-cultural comparability, an understanding of the factors that result in significant cross-cultural differences is essential. Finally, the paper makes a methodological contribution to international accounting research by emphasising the methodological limitations of applying Hofstede's (1980) uncertainty avoidance dimension. As such, it is suggested that greater insight could be gained by including interdisciplinary perspectives and measures from other disciplines, such as psychology, which may facilitate a better understanding of the complexity and dynamics of cultures. It is considered important and timely to extend research on accountants' values and beliefs to gain a better understanding of accountants' judgements.

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5.8 Appendices

Appendix I: Questionnaire (English version)

Please note that the questionnaire includes additional sections that have not been analysed as part of this PhD thesis.

Accountants' Professional Judgment Survey Questionnaire

The following survey on accountants' exercise of professional judgement is part of an international study by the Department of Accounting and Finance, Macquarie University, Sydney, Australia in cooperation with the Department of Financial Accounting and Auditing, University of Regensburg, Germany. This questionnaire has been designed to examine the factors that influence professional accounting judgments and materiality estimates. The questionnaire consists of three sections. Section one relates to your personal profile, section two comprises questions related to your personal views and values and in section three you are asked to provide your professional judgment on two case studies. Please be assured that the questionnaire is anonymous and the information obtained will be kept strictly confidential. We thank you very much for your support.

Section 1: Personal Profile

Please provide the following information about yourself by ticking the appropriate boxes or providing relevant details.

Are you: ☐ Male ☐ Female

How old are you?

☐ Under 20 ☐ 20 – 24 ☐ 25 – 29 ☐ 30 – 34
☐ 35 – 39 ☐ 40 – 49 ☐ 50 - 59 ☐ 60 or over

What is your nationality? _____

What was your nationality at birth (if different)? _____

What is your highest academic qualification?

☐ High School Certificate or equivalent ☐ Bachelor's degree
☐ Graduate Diploma ☐ Master's degree
☐ PhD / Dr. ☐ Other:_____

How many years of professional work experience in accounting do you have?

☐ Less than 3 years ☐ 3 - 5 years ☐ 6 - 8 years
☐ 9 – 11 years ☐ 12 – 14 years ☐ Greater than 14 years

Please indicate if you are a member of the following professional accounting bodies:

☐ CPA Australia ☐ CA Australia
☐ NIA ☐ Other (please specify): _____

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Section 1: Personal Profile (cont.)

If you are a member of a professional accounting body, please indicate how many years of work experience do you have since you qualified as an accountant?

_____ Years

In which of the following areas do you specialize or work?

☐ Audit ☐ Tax
☐ Consulting ☐ Other (please specify): _____

How do you rate your knowledge of International Financial Reporting Standards (IFRS) on the following scale?

☐ 1 no knowledge	☐ 2	☐ 3 average knowledge	☐ 4	☐ 5 very good knowledge

Are you familiar with another set of accounting standards than IFRS?

☐ No ☐ Yes **If yes, which one?**_____

Section 2: Personal Views & Values

To what extent do you agree or disagree with the following statements? Using the scale below, please write the appropriate number (1 to 5) in the box beside each item.

1 strongly disagree	2	3 undecided	4	5 strongly agree

	Scale (1-5)
One can be a good manager without having precise answers to most questions that subordinates may raise about their work.	
Competition between employees usually does more harm than good.	
A company's or organization's rules should not be broken - not even when the employee thinks it is in the company's best interest.	
It is important to have instructions spelled out in detail so that I always know what I'm expected to do.	
It is important to closely follow instructions and procedures.	
Rules/regulations are important because they inform me of what is expected of me.	
Standardized work procedures are helpful.	
Instructions for operations are important.	

2

Section 2: Personal Views & Values (cont.)

To what extent do you agree or disagree with the following statements? Using the scale below, please write the appropriate number (1 to 5) in the box beside each item.

1 strongly disagree	2	3 undecided	4	5 strongly agree

I am someone who…	Scale (1-5)
___ does a thorough job.	
___ is curious about many different things.	
___ is original, comes up with ideas.	
___ can be somewhat careless.	
___ is relaxed, handles stress well.	
___ is pensive melancholic.	
___ is a reliable worker.	
___ can be tense.	
___ is ingenious, a deep thinker.	
___ tends to be disorganized.	
___ worries a lot.	
___ has an active imagination.	
___ tends to be lazy.	
___ is emotionally stable, not easily upset.	
___ is inventive.	
___ perseveres until the task is finished.	
___ can be moody.	
___ values artistic, aesthetic experiences.	
___ does things efficiently.	
___ remains calm in tense situations.	
___ prefers work that is routine.	
___ makes plans and follows through with them.	
___ gets nervous easily.	
___ likes to reflect, play with ideas.	
___ has few artistic interests.	
___ is easily distracted.	
___ is sophisticated in art, music or literature.	

How often do you feel nervous or tense at work?

☐ never	☐ seldom	☐ sometimes	☐ usually	☐ always

3

Section 2: Personal Views & Values (cont.)

Using the scale below, please write the appropriate number (1 to 5) in the box beside each item.

1 strongly disagree	2	3 undecided	4	5 strongly agree

	Scale (1-5)
I frequently imagine how I will achieve my hopes and aspirations.	
I often think about the person I would ideally like to be in the future.	
In general, I am focused on preventing negative events in my life.	
I often think about the person I am afraid I might become in the future.	
I am anxious that I will fall short of my responsibilities and obligations.	
I typically focus on the success I hope to achieve in the future.	
I often worry that I will fail to accomplish my professional goals.	
I often think about how I will achieve professional success.	
In general, I am focused on achieving positive outcomes in my life.	
I frequently think about how I can prevent failures in my life.	
My major goal in my job right now is to achieve my professional ambitions.	
I often imagine myself experiencing bad things that I fear might happen to me.	
I am more oriented toward preventing losses than I am toward achieving gains.	
My major goal in my job right now is to avoid becoming a professional failure.	
I see myself as someone who is primarily striving to reach my "ideal self" — to fulfill my hopes, wishes, and aspirations.	
I see myself as someone who is primarily striving to become the self I "ought" to be — to fulfill my duties, responsibilities, and obligations.	
I often imagine myself experiencing good things that I hope will happen to me.	
Overall, I am more oriented toward achieving success than preventing failure.	

Exercise of accountants' professional judgment is an important component of interpreting and applying IFRS ("principles-based approach"). Another approach is to have specific rules and regulations, which requires very little exercise of professional judgment ("rules-based approach").

Indicate your preference for exercising 'professional judgment' in accounting standards.

☐ 1 not at all preferred	☐ 2	☐ 3 neutral	☐ 4	☐ 5 very strongly preferred

Indicate your preference for specific rules and regulations in accounting standards.

☐ 1 not at all preferred	☐ 2	☐ 3 neutral	☐ 4	☐ 5 very strongly preferred

Accountants differ in their judgments on 'conservatism' and 'optimism' in valuations in accounting. How do rate yourself in terms of 'conservatism' in accounting valuations?

☐ 1 not at all conservative	☐ 2	☐ 3 neutral	☐ 4	☐ 5 very conservative

Section 3: Case Studies

In this section, you are asked to provide your professional accounting perceptions and judgments on two case studies. Although you would normally require more information than is provided here, please make your decisions based on the limited information provided.

Case 1: Birch Group

As the head accountant of the Birch Group, you are required to make a judgment on the amount of warranty expense that should be reported in the financial statements in accordance with IFRS. Consider the amounts in the case material. From the standpoint of materiality, the amounts constitute a significant though not dominant percentage of the relevant financial statement bases.

The Birch Group manufactures and distributes patio furniture to independent retailers as well as regional chain stores. Its customers have a long, sound record of success. There is no reason to suspect that this will change in the foreseeable future. Birch's performance is regarded as reliable and consistent. Over the past 35 years, Birch's record of on-time delivery of a quality product has proved excellent. In accordance with management's strategies, financial accounts have shown high profits over the last few years. Birch has no going-concern problems.

Late in its fiscal year, Birch introduced a new line consisting of furniture sets with two adjustable lounges and a small table. A unique aspect of this line is the fibre's ability to withstand the most severe weather elements. Recently, however, a problem has developed that has resulted in a return rate higher than expected. The principal problem has been deterioration of the fibre. Sales data show that 100,000 of the sets were sold in the past year.

You have decided to establish a team to assist you with the analysis of the pertinent information. The team is composed of an outside expert and one insider who is familiar with the production process and the nature of the problem. Your inquiry has led you to conclude that the team is reliable and objective.

The team makes the following statement:
"Based on the comprehensive testing as detailed above, we are convinced that the unexpected chemical reaction led to the failure of the fibres in the L476 lounge set. This results in substantially higher failures than other models in this line. We conclude that the cost of each replacement will be $100. We have great confidence in this amount. The rate of product return, however, is more difficult to estimate. Our analysis indicates that the return rate will be in the 18 to 32 percent range. Varying probability distributions are possible."

Q1: What amount do you recommend be recorded for warranty expense in the financial statements?

$ _____

It is important that you show your computations underlying this amount.

_____

_____

_____

_____

In your capacity as an auditor responsible for auditing financial statements prepared in accordance with IFRS you are required to make materiality judgments related to the following case study.

Case 2: JGI Group

JGI is a medium-sized publicly-traded company that manufactures industrial engineering goods. JGI's financial performance has been satisfactory in recent years, with growth in income and Earnings per Share. Your firm has audited JGI's financial statements for the past five years since the company went public.

Using historical data on bad debts, JGI used its current Accounts Receivable Aging Schedule to determine an Allowance for Doubtful Debts balance of $100,000 based on accounts receivable of $750,000. After considering JGI's Accounts Receivable age listing, its prior experience with bad debts, and general economic and industry conditions, you calculate that JGI's allowance estimate should be $160,000. JGI's management does not intend to change the Allowance for Doubtful Debts during the current period because it considers the $60,000 audit difference to be immaterial to the financial statements.

For the current year, JGI has the following pre-audit financial results. These figures do not include the proposed $60,000 adjustment to the Allowance for Doubtful Debts.

Revenues	$12,560,000
Gross Profit	$4,294,000
Pre-tax Income	$750,000
Net Income	$525,000
Earnings per Share	$ 0.54

Total Assets	$19,120,000
Accounts Receivable	$750,000
Less $100,000 Allowance for Doubtful Debts	$650,000
Total liabilities	$15,000,000
Stockholder's equity	$4,120,000

Section 3: Case Studies (cont.)

In the following questions, we would like you to provide your judgment and perception of materiality estimates. When providing your judgment, please consider the IASB framework definition of materiality (F30) as follows:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

Q2: In your professional judgment, the $60,000 proposed adjustment to the Allowance for Doubtful Debts is

☐ 1 very immaterial	☐ 2	☐ 3	☐ 4 neutral	☐ 5	☐ 6	☐ 7 very material

Q3: You will note from this case that you have proposed $60,000 adjustment to the Allowance for Doubtful Debts, whereas JGI's management considers $60,000 to be immaterial. Use your professional judgment to specify the smallest amount you would consider to be a material adjustment to the Allowance for Doubtful Debts account:

$ _____
Your Materiality Estimate

Q4: Would you prefer a quantitative criterion such as "% of Accounts Receivable" or "% of Net Income after tax" to measure materiality rather than the definition above provided by the IASB?

☐ 1 not at all preferred	☐ 2	☐ 3 neutral	☐ 4	☐ 5 very strongly preferred

Q5: Which of the following percentages would you consider appropriate, if materiality would be measured by a quantitative threshold level such as, "% of Net Income after tax?

☐ 1% to 3%	☐ 3.1% to 5%	☐ 5.1% to 7%	☐ 7.1% to 9%	☐ 9.1% to 11%	☐ 11.1% to 13%	☐ 13.1% onwards

Thank you for taking the time to complete this survey. Your assistance in providing this information is very much appreciated. If you have any further comments, please provide them in the space below.

As a token of our appreciation for your participation in this survey, please indicate your preferred charity to which we shall donate $10.

- ☐ **UNICEF**
- ☐ **The Cancer Council Australia**
- ☐ **World Vision**
- ☐ **Médicines des Frontières**
- ☐ **Make a Wish Foundation**
- ☐ **The Salvation Army**

THANK YOU FOR YOUR PARTICIPATION!

Please return your completed questionnaire in the enclosed self-addressed, stamped envelope.

Eva Heidhues
Faculty of Business and Economics
Department of Accounting and Finance
Macquarie University NSW 2109
Australia

The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through its Secretary (telephone +61 (0) 2 9850 7854; email ethics@mq.edu.au). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.

Appendix II: Questionnaire (German Version)

Accountants' Professional Judgment
Empirische Erhebung

Liebe Teilnehmerin, lieber Teilnehmer,

der vorliegende Fragebogen ist zentraler Bestandteil einer internationalen Studie, die federführend von der Macquarie University, Sydney, Australien, in Kooperation mit dem Lehrstuhl für Financial Accounting and Auditing an der Universität Regensburg durchgeführt wird und die untersucht, wodurch Werturteile und Wesentlichkeitsbeurteilungen in der Rechnungslegung beeinflusst werden. Der Fragebogen besteht aus drei Teilen. Im ersten Teil erfolgt die Erhebung demographischer Daten, der zweite enthält Fragen zu Ihren persönlichen Werten und Einstellungen und im dritten Teil werden Sie gebeten, in zwei Fallstudien eine fachliche Beurteilung abzugeben. Wir danken Ihnen bereits im Voraus für Ihre Unterstützung und sichern Ihnen Anonymität und Vertraulichkeit im Umgang mit den gewonnenen Daten zu!

Teil 1: Persönliches Profil

Bitte beantworten Sie die nachfolgenden Fragen, indem Sie das jeweils gültige Kästchen ankreuzen oder die entsprechende Angabe machen.

Sie sind: ☐ Männlich ☐ Weiblich

Sie gehören zu welcher Altersgruppe?

☐ Unter 20 ☐ 20 – 24 ☐ 25 – 29 ☐ 30 – 34
☐ 35 – 39 ☐ 40 – 49 ☐ 50 - 59 ☐ 60 oder älter

Welche Nationalität haben Sie? _____

Welche Nationalität hatten Sie bei der Geburt (falls anders)? _____

Was ist Ihre höchste akademische Qualifikation?

☐ Abitur oder Äquivalent ☐ Vordiplom
☐ Bachelor ☐ Diplom / Magister
☐ Master ☐ Dr. / PhD
☐ Andere:_____

Über wie viele Jahre Berufserfahrung in der Rechnungslegung verfügen Sie?

☐ Weniger als 3 Jahre ☐ 3 - 5 Jahre ☐ 6 - 8 Jahre
☐ 9 – 11 Jahre ☐ 12 – 14 Jahre ☐ Mehr als 14 Jahre

Bitte geben Sie an, über welche der folgenden fachlichen Abschlüsse Sie verfügen.

☐ Steuerberater ☐ Vereidigter Buchprüfer
☐ Wirtschaftsprüfer ☐ Andere (bitte angeben): _____

MACQUARIE UNIVERSITY | FACULTY OF BUSINESS AND ECONOMICS

Teil 1: Persönliches Profil (fortg.)

In welchem der folgenden Gebiete haben Sie bisher am häufigsten gearbeitet?

☐ Prüfung ☐ Steuern
☐ Beratung ☐ Andere (bitte angeben): _____

In Ihrer täglichen Arbeit befassen Sie sich mit den Regeln des HGB oder der IFRS?

☐ HGB	☐ Beides, aber mehr HGB	☐ HGB & IFRS in gleichem Maß	☐ Beides, aber mehr IFRS	☐ IFRS	☐ Weder noch

Wie schätzen Sie Ihre Kenntnisse im Bereich der Rechnungslegung nach IFRS ein?

☐ 1 keine Kenntnisse	☐ 2	☐ 3 mittlere Kenntnisse	☐ 4	☐ 5 sehr gute Kenntnisse

Wie schätzen Sie Ihre Kenntnisse im Bereich der Rechnungslegung nach HGB ein?

☐ 1 keine Kenntnisse	☐ 2	☐ 3 mittlere Kenntnisse	☐ 4	☐ 5 sehr gute Kenntnisse

Haben Sie neben HGB bzw. IFRS noch Kenntnisse in einem anderen Rechnungslegungs-normensystem?

☐ Nein ☐ Ja **Falls ja, welche(s)?**_____

Teil 2: Einstellungen & Werte

In welchem Ausmaß stimmen Sie den folgenden Aussagen zu? Schreiben Sie bitte – unter Berücksichtigung der unten stehenden Skala – die zutreffende Nummer (1-5) in das Kästchen neben jeder Aussage.

1 stimme gar nicht zu	2	3 unentschieden	4	5 stimme stark zu

	Skala (1-5)
Instruktionen für Arbeitsvorgänge sind wichtig.	
Standardisierte Arbeitsabläufe sind hilfreich.	
Regeln / Verordnungen sind wichtig, weil sie mir mitteilen, was von mir erwartet wird.	
Es ist für mich wichtig, Instruktionen im Detail dargelegt zu bekommen, damit ich immer weiß, was von mir erwartet wird.	
Es ist wichtig, Anweisungen und Verfahrensweisen genau Folge zu leisten.	
Die Regeln eines Unternehmens oder einer Organisation sollten immer eingehalten werden, auch dann, wenn der Mitarbeiter denkt, sie liegen nicht im Interesse des Unternehmens.	
Konkurrenz unter den Mitarbeitern schadet mehr als sie nützt.	
Man kann ein guter Manager sein, auch ohne auf alle Fragen, die untergeordnete Mitarbeiter bezüglich ihrer Arbeit haben, genaue Antworten geben zu können.	

2

Teil 2: Einstellungen und Werte (fortg.)

In welchem Ausmaß stimmen Sie den folgenden Aussagen zu? Schreiben Sie bitte – unter Berücksichtigung der unten stehenden Skala – die zutreffende Nummer (1-5) in das Kästchen neben jeder Aussage.

1	2	3	4	5
stimme gar nicht zu		unentschieden		stimme stark zu

Ich bin jemand, der…	*Skala (1-5)*
___ seine Arbeit gründlich macht.	
___ auf viele verschiedene Dinge neugierig ist.	
___ originell ist, der Ideen hat.	
___ ein bisschen nachlässig sein kann.	
___ entspannt ist, der gut mit Stress umgehen kann.	
___ nachdenkend melancholisch ist.	
___ ein zuverlässiger Arbeiter ist.	
___ angespannt sein kann.	
___ einfallsreich ist, ein starker Denker.	
___ dazu neigt, unorganisiert zu sein.	
___ sich viele Sorgen macht.	
___ eine aktive Vorstellungskraft hat.	
___ dazu neigt, faul zu sein.	
___ der emotional gefestigt ist, sich nicht leicht aufregt.	
___ erfinderisch ist.	
___ weitermacht, bis die Aufgabe erledigt ist.	
___ launisch sein kann.	
___ künstlerische, ästhetische Erlebnisse wertschätzt.	
___ Dinge effizient erledigt.	
___ in angespannten Situationen ruhig bleibt.	
___ Routinearbeiten bevorzugt.	
___ Pläne macht und diese umsetzt.	
___ leicht nervös wird.	
___ gerne reflektiert, mit Gedanken spielt.	
___ wenige künstlerische Interessen hat.	
___ leicht abgelenkt ist.	
___ versiert ist in Kunst, Musik oder Literatur.	

Wie oft fühlen Sie sich bei der Arbeit nervös oder angespannt?

☐	☐	☐	☐	☐
nie	selten	manchmal	gewöhnlich	immer

3

Teil 2: Einstellungen und Werte (fortg.)

In welchem Ausmaß stimmen Sie den folgenden Aussagen zu? Schreiben Sie bitte – unter Berücksichtigung der unten stehenden Skala – die zutreffende Nummer (1-5) in das Kästchen neben jeder Aussage.

1 stimme gar nicht zu	2	3 unentschieden	4	5 stimme stark zu

	Skala (1-5)
Ich stelle mir häufig vor, wie ich meine Hoffnungen und Ambitionen erreiche.	
Ich denke häufig über die Person nach, die ich idealerweise gerne in der Zukunft wäre.	
Im Allgemeinen konzentriere ich mich darauf, negative Ereignisse in meinem Leben zu verhindern.	
Ich denke häufig über die Person nach, die ich fürchte, in der Zukunft zu werden.	
Ich bin besorgt, dass ich meiner Verantwortung und meinen Pflichten nicht gerecht werde.	
Ich konzentriere mich typischerweise auf den Erfolg, den ich hoffe, in der Zukunft zu erreichen.	
Ich mache mir häufig Gedanken, dass es mir nicht gelingen wird, meine beruflichen Ziele zu erreichen.	
Ich denke häufig darüber nach, wie ich beruflichen Erfolg erreichen werde.	
Im Allgemeinen konzentriere ich mich darauf, in meinem Leben positive Ergebnisse zu erreichen.	
Ich denke häufig darüber nach, wie ich Misserfolge in meinem Leben verhindern kann.	
Mein derzeitiges berufliches Hauptziel ist es, meinen fachlichen Ambitionen zu entsprechen.	
Ich stelle mir oft vor, wie mir schlechte Dinge passieren, von denen ich fürchte, dass sie eintreten werden.	
Ich bin mehr darauf ausgerichtet, Verluste zu vermeiden als Gewinne zu erzielen.	
Mein derzeitiges berufliches Hauptziel ist es, zu vermeiden, fachlich zu versagen.	
Ich sehe mich selbst als jemanden, der hauptsächlich danach strebt, sein „ideales Ich" zu erreichen – meine Hoffnungen, Wünsche und Ambitionen zu erfüllen.	
Ich sehe mich selber als jemanden, der danach strebt, derjenige zu werden, der ich sein „sollte" – um meine Aufgaben, Verantwortlichkeiten und Pflichten zu erfüllen.	
Ich stelle mir oft vor, wie mir schöne Dinge passieren, von denen ich hoffe, dass sie eintreten werden.	
Insgesamt bin ich mehr darauf ausgerichtet, Erfolge zu erreichen als Misserfolge zu vermeiden.	

Die Ausübung von „professional judgment" ist ein wichtiger Bestandteil der Interpretation und Anwendung der IFRS („principles-based approach"). Ein anderer normativer Ansatz ist, sehr detaillierte Regeln und Regulierungen zu haben, die nur eine sehr geringe Ausübung von „professional judgment" erfordern („rules-based approach").

Bitte geben Sie Ihre Präferenz für die Ausübung von „professional judgment" in der Rechnungslegung an.

☐ 1 gar nicht präferiert	☐ 2	☐ 3 neutral	☐ 4	☐ 5 sehr stark präferiert

Bitte geben Sie Ihre Präferenz für umfangreiche und detaillierte Regeln und Regulierungen in der Rechnungslegung an.

☐ 1 gar nicht präferiert	☐ 2	☐ 3 neutral	☐ 4	☐ 5 sehr stark präferiert

Mit der Rechnungslegung betraute Personen können sich in ihren Rechnungslegungsbewertungen unterscheiden, indem Sie eher optimistische oder eher konservative Bewertungen vornehmen. Wie beurteilen Sie sich selber hinsichtlich Ihrer Konservativität bei Bilanzierungsbeurteilungen?

☐ 1 gar nicht konservativ	☐ 2	☐ 3 neutral	☐ 4	☐ 5 sehr stark konservativ

Teil 3: Fallstudien

In den nachfolgenden zwei Fallstudien werden Sie gebeten, fachliche Bewertungen und Beurteilungen abzugeben. Auch wenn Sie normalerweise mehr als die bereitgestellten Informationen benötigen würden, treffen Sie bitte Ihre Entscheidungen auf der Basis der vorliegenden Informationen.

Fall 1: Der Birch Konzern

Als Leiter der Abteilung Rechnungswesen des Birch Konzerns sind Sie aufgefordert, eine Bewertung über den Betrag, der als Garantieaufwendung im IFRS-Abschluss verbucht werden soll, abzugeben. Betrachten Sie die Beträge in jedem Fall als wesentlich. Vom Standpunkt der Wesentlichkeit stellen die Beträge einen signifikanten, aber nicht dominanten Prozentsatz der relevanten Jahresabschlusszahlen dar.

Der Birch Konzern stellt Terassenmöbel her und vertreibt diese an unabhängige Verkäufer und regionale Ketten. Seine Kunden haben langfristig positive Ertragsaussichten. Es gibt keinen Grund zu glauben, dass sich dies in nahe liegender Zukunft ändern wird. Birchs Leistung gilt als zuverlässig und beständig. In den letzten 35 Jahren hat sich Birch durch die pünktliche Lieferung von Qualitätsprodukten einen hervorragenden Namen gemacht. In Übereinstimmung mit den Strategien der Geschäftsleitung haben die Jahresabschlüsse in den letzen Jahren hohe Gewinne ausgewiesen. Birch hat keine „going concern"-Probleme.

Im Laufe der Abschlussperiode hat Birch eine neue Produktlinie vorgestellt, die aus einem Möbelset mit zwei justierbaren Liegestühlen und einem kleinen Tisch besteht. Einzigartiger Aspekt dieser Linie ist die Leistungsfähigkeit der Faser, die auch die widrigsten Wetterbedingungen überstehen sollte. Seit kurzem hat sich jedoch ein Problem herausgestellt, das zu höheren Rückgabequoten als erwartet geführt hat. Dieses liegt in der mangelnden Halt- und damit Belastbarkeit der Faser. Die Verkaufszahlen zeigen, dass im laufenden Jahr 100.000 Möbelsets verkauft wurden.

Sie haben sich entschieden, ein Team aufzustellen, das Sie bei der Analyse der Informationen unterstützen soll. Das Team besteht aus einem externen Fachmann und einem Mitarbeiter, der mit den Produktionsprozessen und dem Problem vertraut ist. Ihre Untersuchung veranlasst Sie zu der Annahme, dass das Team zuverlässig und objektiv ist.

Das Expertenteam kommt abschließend zu folgender Stellungnahme:
„Basierend auf den oben detailliert beschriebenen umfangreichen Tests sind wir der Ansicht, dass eine unerwartete chemische Reaktion zum Versagen der Fasern im Möbelset L476 geführt hat. Dies resultiert in wesentlich mehr Defekten als bei anderen Modellen dieser Produktlinie. Wir kommen zu dem Ergebnis, dass die Kosten eines jeden Austausches €100 betragen werden. Wir sind uns in der Berechnung dieses Betrages sehr sicher. Der zu erwartende Rückgabeanteil an Produkten ist allerdings schwieriger zu bestimmen. Nach unserer Analyse wird sich die Rückgabequote auf 18-32% belaufen. Unterschiedliche Wahrscheinlichkeitsverteilungen sind möglich."

F1: Welchen Betrag empfehlen Sie, als Gewährleistungsaufwand in der abzuschließenden Periode anzusetzen?

€ _____

Bitte geben sie an, wie Sie Ihren Aufwandsbetrag errechnet haben.

_____

_____

_____

5

Teil 3: Fallstudien (fortg.)

In der folgenden Fallstudie werden Sie gebeten, Wesentlichkeitsbeurteilungen abzugeben. Stellen Sie sich bitte vor, dass Sie als Wirtschaftsprüfer dafür verantwortlich sind, IFRS-Abschlüsse zu prüfen. Einer Ihrer Klienten ist der börsennotierte JGI Konzern.

Fall 2: Der JGI Konzern

JGI ist ein mittelgroßer börsennotierter Konzern, der in der Anlagenindustrie tätig ist. JGIs Ergebnisse in den Konzernabschlüssen der letzten Jahre waren relativ beständig mit Zunahmen im Jahresüberschuss und Gewinn pro Aktie. Ihre Prüfungsgesellschaft hat JGIs IFRS-Abschlüsse der letzten 5 Jahre, seitdem das Unternehmen an die Börse geführt wurde, geprüft.

Basierend auf historischen Daten für zweifelhafte Forderungen hat JGI eine Alterungstabelle des derzeitigen Debitorenkontos erstellt. Auf einen Forderungsbestand in Höhe von €750.000 wurde eine Wertberichtigung auf zweifelhafte Forderungen in Höhe von €100.000 vorgenommen. Unter Berücksichtigung des Alters der Bestände an Forderungen aus Lieferungen und Leistungen, den früheren Erfahrungen mit zweifelhaften Forderungen und allgemeinen ökonomischen sowie branchenspezifischen Rahmenbedingungen gehen Sie davon aus, dass JGIs Wertberichtigung €160.000 betragen sollte. JGIs Unternehmensführung hat nicht die Absicht, die Wertberichtigung auf uneinbringliche Forderungen für die gegenwärtige Periode zu ändern, da sie den Prüfungsunterschied von €60.000 als unwesentlich für die Aussage des Abschlusses erachtet.

Für das laufende Jahr weist JGI folgende ungeprüfte Zahlen aus. Diese beinhalten nicht die vorgeschlagene Anpassung der Wertberichtigung auf zweifelhafte Forderungen von €60.000.

Umsatzerlöse	€12.560.000
Rohergebnis	€4.294.000
Jahresüberschuss vor Steuern	€750.000
Jahresüberschuss	€525.000
Gewinn pro Aktie	€0,54

Bilanzsumme	€19.120.000
Forderungen aus Lieferungen und Leistungen	€750.000
abzüglich Wertberichtigungen auf zweifelhafte Forderungen (€100.0000)	€650.000
Summe der Verbindlichkeiten	€15.000.000
Eigenkapital	€4.120.000

6

In den folgenden Fragen bitten wir Sie, Wesentlichkeitseinschätzungen vorzunehmen. Bitte beachten Sie bei Ihrer Bewertung die Definition von „Wesentlichkeit" im IASB Framework (F30), die wie folgt lautet:

> *"Informationen sind wesentlich, wenn ihr Weglassen oder ihre fehlerhafte Darstellung die auf der Basis des Abschlusses getroffenen wirtschaftlichen Entscheidungen der Adressaten beeinflussen könnten. Die Wesentlichkeit ist von der Größe des Postens oder des Fehlers abhängig, die sich nach den besonderen Umständen des Weglassens oder der fehlerhaften Darstellung ergibt. Somit ist die Wesentlichkeit eher eine Schwelle oder ein Grenzwert und weniger eine primäre qualitative Anforderung, die eine Information haben muss, um nützlich zu sein."*

F2: Die vorgeschlagene Anpassung der Wertberichtigung auf zweifelhafte Forderungen von €60.000 ist gemäß Ihrer fachlichen Beurteilung

☐ 1 sehr unwesentlich	☐ 2	☐ 3	☐ 4 neutral	☐ 5	☐ 6	☐ 7 sehr wesentlich

F3: Wie sich aus dem Fall entnehmen lässt, haben Sie als Wirtschaftsprüfer eine Anpassung der Wertberichtigung auf zweifelhafte Forderungen von €60.000 vorgeschlagen, während das Management von JGI diesen Betrag von €60.000 als unwesentlich ansieht. Wie hoch wäre gemäß Ihres „professional judgment" der kleinste Betrag, den Sie als eine wesentliche Anpassung der Wertberichtigung auf zweifelhafte Forderungen ansehen würden (geringster Betrag, der noch als wesentlich gelten würde)?

€_____
Ihre Schätzung der Wesentlichkeit

F4: Würden Sie ein quantitatives Kriterium wie zum Beispiel, „x% eines Bilanzpostens" der oben stehenden Definition des IASB zur Messung der Wesentlichkeit vorziehen?

☐ 1 gar nicht bevorzugt	☐ 2	☐ 3 neutral	☐ 4	☐ 5 sehr stark bevorzugt

F5: Wenn Wesentlichkeit allgemein durch einen quantitativen Schwellenwert wie „x% eines Bilanzpostens" gemessen werden würde, welche spezifische Prozentzahl würden Sie als angemessen erachten?

☐ 1% bis 3%	☐ 3,1% bis 5%	☐ 5,1% bis 7%	☐ 7,1% bis 9%	☐ 9,1% bis 11%	☐ 11,1% bis 13%	☐ 13,1% und mehr

Vielen Dank, dass Sie sich die Zeit genommen haben, diesen Fragebogen auszufüllen. Wir wissen Ihre Unterstützung sehr zu schätzen. Falls Sie Kommentare oder Anmerkungen zu dieser Studie haben, möchten wir Sie bitten, diese in das nachfolgende Feld einzutragen.

Bitte geben Sie eine Organisation an, der wir als kleines Dankeschön für Ihre Teilnahme an dieser Umfrage €5 zukommen lassen sollen.

- ☐ **UNICEF**
- ☐ **SOS Kinderdorf**
- ☐ **Deutsches Krebsforschungszentrum**
- ☐ **Welthungerhilfe**
- ☐ **Ärzte ohne Grenzen**
- ☐ **World Vision**

VIELEN DANK FÜR IHRE TEILNAHME!

Zur Rücksendung Ihres ausgefüllten Fragebogens liegt ein adressierter, frankierter Rückumschlag bei.

Lehrstuhl für Financial Accounting und Auditing
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D-93040 Regensburg, Postfach

Die ethischen Aspekte dieser Studie sind von der Ethikkommission der Macquarie Universität (Forschung mit Personen) überprüft worden. Falls Sie irgendwelche Beschwerden vorbringen möchten oder Bedenken hinsichtlich irgendeines ethischen Aspekts der Teilnahme an dieser Studie haben können Sie das Sekretariat der Ethikkommission kontaktieren (Tel.: +61 (0) 2 9850 7854; email: ethics@mq.edu.au). Alle Beschwerden werden vertraulich behandelt und untersucht und Sie werden über das Ergebnis informiert.

Appendix III: Questionnaire (Italian Version)

Giudizio professionale dei professionisti contabili
Indagine con questionario

La seguente indagine sull'esercizio del giudizio professionale da parte dei professionisti contabili è stata predisposta per esaminare come sono effettuati i giudizi contabili e come fattori culturali influenzano le percezioni e i giudizi. Il questionario consiste di tre parti. La prima parte riguarda dati demografici, la parte seconda comprende domande circa la misurazione dei vostri valori culturali e nella parte terza, si richiede di esprimere il vostro giudizio professionale in due casi di studio. Grazie infinite per il vostro supporto!

Sezione 1: Profilo Personale

Per favore, fornisca le seguenti informazioni selezionando le relative opzioni.

Genere: ☐ Uomo ☐ Donna

A quale categoria di età anagrafica appartiene?

☐ sotto l 20 ☐ 20 – 24 ☐ 25 – 29 ☐ 30 – 34
☐ 35 – 39 ☐ 40 – 49 ☐ 50 - 59 ☐ 60 o più

Qual è la vostra nazionalità? _____

Qual'era la vostra nazionalità (se differente dalla precedente)? _____

Qual è il vostro titolo di studio di livello più elevato?

☐ Diploma di scuola superiore ☐ Laurea quadriennale
☐ Laurea triennale ☐ Laurea specialistica
☐ MBA ☐ PhD / Dottorato di ricerca
☐ Altro (per favore specificare): _____

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Sezione 1: Profilo Personale

Per favore, indicate a quali dei seguenti Albi/Elenchi professionali appartenete:

☐ Dottori commercialisti ☐ Ragionieri e periti commerciali
☐ Nessuno ☐ Altro (per favore specificare)_____

Se fate parte di un Albo/Elenco professionale, per favore indicate da quanti anni ne fate parte? _____ Anni

In quali delle seguenti aree siete specializzati?

☐ Revisione ☐ Fiscale
☐ Consulenza ☐ Altro (per favore specificare): _____

Come valutate la Vostra conoscenza dei Principi Contabili Internazionali (IAS/IFRS) rispetto alla seguente scala?

☐ 1 Nessuna conoscenza	☐ 2	☐ 3	☐ 4	☐ 5 Ottima conoscenza

Conoscete l'applicazione di altri principi contabili diversi dagli IFRS?

☐ No ☐ Si **Quali?**_____

Sezione 2: Punti di vista e valori personali

In che modo condividete le seguenti affermazioni? Utilizzando la scala sottostante, per favore scrivete il numero appropriato (1-5) nella casella di fianco ad ogni affermazione.

1 Completo disaccordo	2 disaccordo	3 indeciso	4 condivido	5 Condivido completamente

	Scala (1-5)
Un individuo può essere un buon manager anche se non è in grado di fornire alle domande che gli vengono poste dai suoi subordinati.	
La competizione che si crea tra il personale dipendente è solitamente un aspetto negativo piuttosto che positivo.	
Una regola aziendale non va comunque infranta anche quando si ritiene che ciò sia nell'interesse dell'azienda.	
E' importante che i compiti da eseguire siano sempre spiegati in dettagli così so bene cosa ci si aspetta che io faccia.	
E' importante seguire attentamente le istruzioni e le regole.	
Le regole e le procedure sono importanti perché mi forniscono informazioni su quello che ci si aspetta da me.	
Le procedure di lavoro standardizzate sono utili.	
Le istruzioni per eseguire le mansioni sono importanti.	

2

Sezione 2: Punti di vista e valori personali

In che modo condividete le seguenti affermazioni? Utilizzando la scala sottostante, per favore scrivete il numero appropriato (1-5) nella casella di fianco ad ogni affermazione.

1	2	3	4	5
Completo disaccordo	disaccordo	indeciso	condivido	Condivido completamente

Sono una persona che…	*Scale (1-5)*
___ fa un lavoro impegnativo.	
___ è incuriosita da diverse cose.	
___ si ritiene originale e a cui vengono in mente idee.	
___ a volte può essere un po' distratta	
___ è rilassata, e gestisce bene lo stress.	
___ è pensosa e melanconica.	
___ è affidabile sul lavoro.	
___ può essere tesa.	
___ è ingegnosa, un profondo pensatore.	
___ tende ad essere disorganizzata.	
___ si preoccupa molto.	
___ ha un'immaginazione molto fervida.	
___ tende ad essere pigra.	
___ è emotivamente stabile, che non si arrabbia facilmente.	
___ ha inventiva.	
___ persevera finché l'attività non è conclusa.	
___ può essere di malumore.	
___ valorizza quelle esperienze di tipo artistico ed estetico.	
___ fa le cose in modo efficiente.	
___ rimane calmo nelle situazioni di tensione.	
___ preferisce il lavoro di routine.	
___ progetta piani e li porta a termine.	
___ diventa facilmente nervosa.	
___ a cui piace riflettere, giocare con le idée.	
___ ha pochi interessi artistici.	
___ si distrae facilmente.	
___ è sofisticata in ambito artistico, musicale o letterario.	

Quanto spesso vi capita di sentirvi nervosi o tesi sul lavoro?

☐	☐	☐	☐	☐
Mai	Raramente	A volte	Spesso	Sempre

3

Sezione 2: Punti di vista e valori personali

Utilizzando la scala sottostante, per favore scrivete il numero appropriato (1-9) nella casella di fianco ad ogni affermazione.

1 Completo disaccordo	2	3	4	5 Neutrale	6	7	8	9 Condivido completamente

	Scala (1-9)
Immagino spesso le modalità con cui raggiungerò le mie aspettative e aspirazioni.	
Penso spesso alla persona a cui, in un futuro, idealmente vorrei assomigliare.	
In generale, sono focalizzato nel prevenire che accadano eventi negativi nella mia vita.	
Penso, spesso alla persona negativa che potrei essere in futuro.	
Pensare che non sarò in grado di rispettare responsabilità e compiti mi crea ansia.	
Generalmente, mi focalizzo sul successo che spero di raggiungere in futuro.	
Sono preoccupato di fallire nel raggiungimento dei miei obiettivi professionali.	
Penso spesso a come sarò in grado di raggiungere il mio successo professionale.	
In generale, nella mia vita, sono focalizzato nel raggiungere risultati positivi.	
Frequentemente penso a come poter prevenire gli insuccessi della mia vita.	
Nel mio lavoro, il mio obiettivo più importante è raggiungere le mie ambizioni professionali.	
Mi capita, spesso, di immaginare brutti avvenimenti che ho paura mi potrebbero capitare.	
Sono più orientato nell'evitare le perdite piuttosto che nell'ottenere dei guadagni.	
Al momento, nel mio lavoro, il mio obiettivo principale è evitare l'insuccesso professionale.	
Mi vedo come qualcuno che sta lottando per raggiungere il suo "se stesso ideale" – così da soddisfare le mie aspettative, i miei desideri e le mie aspirazioni.	
Mi vedo come qualcuno che sta lottando per diventare la persona che "deve" essere – così da soddisfare i mie impegni, responsabilità e incarichi.	
Mi capita, spesso, di immaginare avvenimenti positivi che spero mi potranno capitare.	
Sono più orientato a raggiungere il mio successo rispetto che ad evitare l'insuccesso	

L'esercizio del giudizio professionale è una componente importante nell'interpretazione e nell'applicazione degli IFRS. Un approccio diverso è quello di avere norme e regole, che richiedono un utilizzo del giudizio professionale limitato.
Indicate la vostra preferenza per l'esercizio del vostro giudizio professionale nei principi contabili

☐ 1 Molto preferito	☐ 2	☐ 3	☐ 4 Neutrale	☐ 5	☐ 6	☐ 7 Per nulla preferito

Indicate la vostra preferenza per maggiori norme e regole nei principi contabili

☐ 1 Molto preferito	☐ 2	☐ 3	☐ 4 Neutrale	☐ 5	☐ 6	☐ 7 Per nulla preferito

I professionisti contabili si differenziano nell'espressione dei loro giudizi a seconda di un approccio "conservativo" rispetto a un approccio "ottimistico" nell'effettuare valutazioni.
Nell'effettuare valutazione di bilancio come vi ritenete rispetto ad un approccio "conservativo"?

☐ 1 Molto conservativo	☐ 2	☐ 3	☐ 4 Neutrale	☐ 5	☐ 6	☐ 7 Per nulla conservativo

Sezione 3: Casi di Studio

In questa sezione, è richiesta l'espressione di valutazioni e giudizi contabili con riferimento a due casi di studio. Nella pratica, ulteriori dati e informazioni sarebbero necessari ma, per favore, basate le vostre decisioni e valutazioni solo sulle informazioni di seguito riportate.

Caso 1: Arch Company

In qualità di direttore amministrativo della Arch Company, siete chiamati ad eseguire una stima circa l'accantonamento per rischi di garanzia da effettuare nel bilancio dell'esercizio in chiusura.

Seguite le normali regole contabili per rilevare il vostro giudizio. Essenzialmente, queste regole richiedono di rilevare una spesa stimata e una passività nello stesso esercizio in cui il ricavo è stato rilevato. Considerate gli importi del caso rilevanti. Dal punto di vista della rilevanza, gli importi costituiscono una percentuali significativa ma non dominante delle grandezze alla base del bilancio.

La Arch produce e distribuisce arredamento per terrazze,sia a rivenditori indipendenti che a catene della grande distribuzione organizzata. I suoi clienti hanno una lunga storia di successi commerciali e non c'è ragione che ciò cambi nel breve-medio termine. La Arch è sempre stata un'azienda seria e affidabile; negli ultimi 35 anni, si sono sempre rispettati eccellenti tempi di consegna e qualità dei prodotti. Dal punto di vista economico la Arch è sempre stata in grado di raggiungere elevati livelli. La Arch non ha assolutamente problemi di continuità aziendale.

Alla fine dell'esercizio in chiusura, Arch ha introdotto una nuova linea di arredamento con due sedie a sdraio reclinabili e un piccolo tavolo. L'aspetto unico di questa linea è la capacità dei materiali di resistere a severi precipitazioni atmosferiche. Tuttavia, recentemente, si è sviluppato un problema che è risultato in una percentuale di resi più alta di quanto previsto. Il problema principale è legato alla deteriorazione del materiale.

I valori delle vendite mostrano che 100.000 sets sono stati venduti nell'anno passato.

Decidete, di formare un team al fine di dare assistenza nel determinare l'ammontare delle spese di garanzia. Il team è composto da un esperto esterno e da un interno che conoscono i processi produttivi e la natura del problema. La vostra valutazione dell'esperienza del team vi porta a concludere che il team è affidabile e obiettivo. Un estratto del loro rapporto è riportato qui sotto.

Rapporto: Basandosi sulle prove comprensive come dettagliato sotto, siamo convinti che una inaspettata reazione chimica ha portato alla rottura delle fibre nel L476 set. Ciò risulta in un tasso di rottura sostanzialmente più alto che negli altri modelli di questa linea. Concludiamo che il costo di ogni sostituzione in garanzia sarà $100. Siamo molto sicuri di questo numero. Tuttavia, la stima del tasso di resa è difficile. La nostra analisi indica che il tasso di ritorno sarà incluso nell'intervallo dal 18 al 32 per cento.

Q4: Quale importo raccomandereste di iscrivere come spesa di garanzia?

$ _____

E' importante che mostriate i calcoli sottostanti tale importo

_____

_____

_____

_____

Case 2: JGI

La JGI Spa è una media azienda quotata che produce macchinari industriali. Negli ultimi anni la performance economico-finanziaria è stata soddisfacente, con crescita sia degli utili sia dei dividendi. La vostra società di revisione ha certificato i bilanci dell'azienda negli ultimi cinque anni ovvero dal momento in cui si è quotata.

Utilizzando i dati storici circa gli insoluti e l'analisi dello scadenziario dei crediti verso clienti, il management della JGI ha deciso di iscrivere in bilancio un fondo svalutazione crediti pari a $100.000 rispetto a crediti per $5.000.000. Considerando lo scadenziario dei clienti, gli insoluti pregressi e l'andamento economico e di settore, avete calcolato che il fondo svalutazione crediti da iscrivere in bilancio dovrebbe essere di $160.000. Il management di JGI non intende cambiare l'ammontare del fondo svalutazione crediti poichè pensa che la differenza di $60.000 sia irrilevante rispetto ai valori di bilancio.

Per l'anno corrente, JGI ha i seguenti valori finanziari pre-revisione. Tali importi non includono la rettifica proposta di incremento del fondo svalutazione di ulteriori $ 60.000.

Ricavi di vendita	$12,560,000
Reddito operativo	$4,294,000
Risultato prima delle imposte	$750,000
Utile d'esercizio	$525,000
Utile per azione	$ 0.54

Totale Attivo	$19,120,000
Crediti verso clienti	$5,000,000
(al netto del fondo svalutazione crediti per 100.000)	$4,900,000
Totale Debiti	$15,000,000
Patrimonio Netto	$4,120,000

Nelle seguenti domande, vorremo che deste il vostro giudizio e percezione circa stime di rilevanza. Quando date il vostro giudizio, per favore considerate la definizione di rilevanza tratta dal framework dello IASB che segue:

"L'informazione è rilevante se la sua omissione o errata presentazione può influenzare le decisioni economiche degli utilizzatori del bilancio. La rilevanza dipende dalla dimensione quantitativa della posta o dall'errore giudicati nelle specifiche circostanze di omissione o errata presentazione. Perciò, la rilevanza fornisce una soglia o un limite piuttosto che rappresentare una caratteristica qualitativa primaria che l'informazione deve possedere per essere utile."

Q1: Sulla base del vostro giudizio professionale, la proposta di rettifica in aumento del fondo svalutazione crediti per € 60.000 è

☐ 1 per nulla rilevante	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7 Molto rilevante

Q2: Avete notato in questo caso che i revisori hanno proposto una rettifica del fondo svalutazione crediti di $60.000, mentre il management di JGI ritiene che $60.000 non rilevanti. Utilizzate il vostro giudizio professionale per indicare il valore minimo che considerereste come rettifica rilevante al fondo svalutazione crediti:

$ _____

La vostra stima di rilevanza

Q3. Al posto della definizione di rilevanza riportata in precedenza preferireste l'utilizzo di un criterio quantitativo basato ad esempio come "% dei crediti verso clienti" o come "% dell'utile d'esercizio"?

☐ 1 Molto preferito	☐ 2	☐ 3	☐ 4 Indeciso	☐ 5	☐ 6	☐ 7 Per nulla preferito

Q4. Quali delle seguenti percentuali riterreste essere appropriato per valutare una rettifica RILEVANTE intesa come "% dell'utile d'esercizio dopo le tasse"?

☐ 1% to 3%	☐ 3.1% to 4%	☐ 5% to 6%	☐ 7% to 8%	☐ 9% to 10%	☐ 11% to 13%	☐ 13% e oltre

Grazie infinite per il tempo che avete dedicato a rispondere a questo questionario. Il vostro contributo nel fornire queste informazioni è molto apprezzato. Se avete ogni altro commento, per favore, scrivetelo nello spazio sottostante.

Per favore indicate l'istituzione di carità a cui dovrò donare $10 come piccolo contributo per la partecipazione a questa indagine

- ☐ **UNICEF**
- ☐ **The Cancer Council Australia**
- ☐ **World Vision**
- ☐ **Medicines des Frontiers**
- ☐ **Make a Wish Foundation**
- ☐ **The Salvation Army**

GRAZIE DELLA VOSTRA PARTECIPAZIONE!

Per favore restituite il vostro questionario completato nella busta pre- affrancata e pre-indirizzata.

Gli aspetti etici di questo studio sono stati approvati dal Comitato Etico della Macquarie University (Human Research). Se avete qualsiasi reclamo o riserve circa gli aspetti etici della vostra partecipazione, potete contattare il Comitato Etico tramite la sua Segreteria (telefono +61 (0) 2 9850 7854; email ethics@mq.edu.au). Ogni reclamo farete sarà trattato in modo confidenziale e investigato, e ne sarete informati circa il risultato.

Chaper 6: Conclusions

6.1 Introduction

The aim of this thesis was to critically examine accounting development and the convergence process in Germany with a particular focus on examining issues and attitudes concerning the exercise of professional judgements in IFRS that may create constraints in achieving the IASB's objectives. This thesis had two broad objectives, namely, (a) to enhance our understanding of national accounting developments and the convergence process by showing the importance of taking into account contextual factors, power and legitimacy and (b) to critically examine issues and perceptions regarding the promotion, interpretation and application of accounting standards requiring exercise of professional judgement. Based on an evaluation of Gray's framework of accounting values, the first paper addressed the first objective by providing evidence that reliance on simplistic categorisations neglects the distinctiveness of national accounting models and the factors that shape these models. The second paper examined convergence in Germany from a neo-institutional perspective and reinforced the importance of taking into account contextual factors and specifically legitimacy and power structures to enhance our understanding of the ongoing convergence process. The last two papers of this thesis addressed the second objective by exploring general perceptions towards the exercise of professional judgement and by investigating cross-cultural differences in accountants' judgements. Specifically, the third paper provided insights into the determinants of attitudes and

concerns regarding the promotion of professional judgement by the IASB, while the fourth and final paper of the thesis provided evidence of differences in accountants' materiality judgements in Germany and Italy.

The remainder of this chapter is organised as follows. Section Two provides summaries, implications and contributions of the four research projects. The third section draws general conclusions and implications for international accounting research and practice. The final section outlines the limitations of this thesis and provides suggestions for future research.

6.2 Summaries, Implications and Contributions of Individual Research Projects

This section provides a summary and the implications and contributions of each of the four papers comprising the thesis. The collective contribution of this thesis is explained in Section 6.3.

6.2.1 Paper 1: A Critique of Gray's Framework on Accounting Values Using Germany as a Case Study

The objective of this paper was to evaluate Gray's framework of accounting values and issues associated with this framework's largely uncritical adoption in international accounting literature. Importantly, the aim was to show that valuable insights and greater understanding of national accounting systems can be achieved by

using holistic and richer perspectives to provide deeper insights into culture, accounting values and their interdependencies.

The findings reveal a number of concerns regarding the framework's theoretical and methodological assumptions and issues associated with its largely uncritical adoption by subsequent researchers. Major criticisms relate to the uncritical application of Hofstede's societal dimensions and the subsequent simplistic creation of four accounting values and Gray's development of country clusters. The findings provide evidence to show that Gray's framework gained authority and prominence in international accounting research largely because of subsequent researchers' unquestioning acceptance and application of Gray's methodology.

In contrast to this 'oversimplification', the paper proposes that international accounting research can be further enhanced by emphasising the importance of contextual factors such as the political, legal, social and historical environments of countries. The case study of Germany demonstrates that the oversimplified application of Gray's framework may have led to misconceptions in the explanation and prediction of differences and similarities between accounting values and systems internationally. Evidence is provided that a contextual analysis provides additional insights into the factors differentiating German accounting and particularly German financial disclosure from other accounting models and practices.

The paper contributes to international accounting research by showing that accounting research is a social and dynamic discipline that requires ontological and epistemological openness and multiple discourses in its debates rather than

marginalisation to categorisations, dimensions and clusters. Specifically, the paper shows that international accounting research can be enhanced by taking into account important contextual factors rather than focusing on measurement, quantification, simplification and categorisation. Therefore, the findings imply that international accounting research should not be blinded by simplistic frameworks such as Hofstede's (1980) and Gray's categorisations, but should focus on capturing the complexity of cultural and contextual influences on accounting by including more holistic perspectives. The contributions and recommendations of this first paper identified the theoretical and methodological scope of the remaining papers, which further emphasised the importance of recognising the uniqueness of national accounting models.

6.2.2 Paper 2: Adoption of IFRS in Germany: A Neo-Institutional Analysis

The objective of this paper was to examine the development of German accounting and the adoption of IFRS from a neo-institutionalist perspective. Based on a historical examination of accounting development in Germany, adoption of IFRS was evaluated with an emphasis on the influence of coercive, mimetic and normative forces. The influence of power structures, institutional expectations and issues regarding technical superiority were taken into account.

The paper contributes to international accounting research by providing evidence of the changing focus of German accounting development, from an emphasis on national interests and values towards greater focus on international influences. Specifically, the historical analysis provides evidence that the legitimacy of the

German accounting model is based on its alignment with the social, cultural, political, economic and legal context in Germany. The development of the traditional German accounting model has strongly followed normative considerations thereby reflecting values and concerns of importance to German society. Globalisation and the global integration of capital markets have changed these traditional structures and challenged existing values and norms.

The neo-institutional analysis of IFRS adoption provides evidence of the importance of economic power and specifically Anglo-American dominance in international accounting as factors that have strongly influenced the adoption of IFRS in Europe and Germany. Accounting standard setting and its implementation has always been a political process. However, the examination of IFRS adoption in Germany provides evidence of the increasing influence of international power and politics on national accounting developments. This has significantly changed the rationale of accounting development, which is principally driven by the existence of coercive and mimetic forces rather than normative considerations.

The findings of this study have implications for international convergence. The increasing importance of coercive and mimetic forces and the relative reduction in the importance of normative alignment with German values may challenge future development and acceptance of IFRS in Germany. Indeed, ongoing discussions about the applicability and superiority of IFRS as 'best practice' and controversies regarding the legitimacy, international representativeness and transparency of the private standard-setting body, IASB, provide evidence of such challenges. These insights have implications for international accounting research and practice. The lack

of normative support of the technical specificities of IFRS in combination with the perception of Anglo-American dominance in international accounting may create opposition towards greater international acceptance of accounting standards. The provision of insights into the adoption process from a neo-institutional perspective may contribute to explaining the determinants of current and future challenges facing IFRS and the IASB. In particular, international and national accounting standard setters benefit from holistic perspectives that may allow them to address potential challenges and help to ensure the long-term survival of international convergence and the IASB.

Given the identified lack of normative support and the challenges in the adoption process of IFRS in Germany, the paper suggests that future research may consider providing insights into the perceived legitimacy of IFRS and the IASB and changes in perceptions and attitudes since the adoption in 2005. Researchers, practitioners and standard setters would benefit from such insights. Indeed, compliance with national norms, values and expectations is important in enhancing the legitimacy of accounting regulations, which is essential for the success of IFRS, the IASB and the international convergence process.

6.2.3 Paper 3: The Influence of Power and Legitimacy on German Attitudes towards the IASB and the Promotion of Professional Judgements

This paper aims to provide insights into the relationships between characteristics of the international standard-setting processes, legitimacy perceptions and German attitudes towards the IASB and the promotion of professional judgement by the IASB

in particular. The paper further aims to make a methodological contribution to international accounting research by developing an integrative model of public perception of the standard-setting process by linking interviewees' perceptions of professional judgement to power structures and legitimacy considerations.

Based on interviews with German stakeholders and a content analysis of articles published between January 2005 and October 2010, the paper provides evidence of negative attitudes towards the representativeness and mandate of the IASB and the promotion of fair value approaches in its standard setting in particular. Importantly, these negative attitudes have remained relatively constant since the adoption of IFRS in the EU in 2005. Moreover, the financial crisis in 2007 further re-enforced negative attitudes towards the promotion of professional judgement and fair values by the IASB. The paper shows that negative attitudes are largely determined by legitimacy perceptions of the IASB and its standard-setting processes. Further, the results provide evidence of a reciprocal relationship between legitimacy perceptions and attitudes. While the results show that legitimacy perceptions influence attitudes, the findings also revealed that established negative attitudes influence legitimacy perceptions. As a result, the IASB's objective to ensure the credibility and continuity of its role as a private standard setter and its standard-setting processes may be harmed by the existence of existing negative attitudes. These findings are of particular relevance with regard to the future promotion and acceptance of the IASB and its standard setting.

The paper makes several contributions to international accounting literature and practice. First, the paper develops a framework for analysing the complex

relationships between individual attitudes, legitimacy and power characteristics, enhancing the theoretical foundation for analysing attitudes in accounting research. Sharper insights into attitude formation and the relationship between attitudes and legitimacy are central to our understanding of the effects and consequences of the convergence process and the standard-setting role of the IASB. Further, the application of the framework in the German context provides insights into German attitudes towards the IASB and the promotion of professional judgement, which may increase understanding of German opposition and acceptance of the IASB and IFRS. Given the importance of legitimacy and attitudes towards the promotion of convergence, the theoretical framework and the results provided from a German perspective may also be taken into account by international standard setters when deciding on potential strategies and changes to enhance acceptance of the IASB and IFRS. Moreover, the analysis of Germany has shown that established attitudes may influence legitimacy perceptions, despite efforts to establish greater credibility and thus may influence and challenge the success of the ongoing convergence process. Indeed, the IASB's ability to address concerns and establish legitimacy may ensure the long-term survival of the IASB as an international standard setter. Finally, the findings contribute to international accounting research by providing further evidence of the necessity of integrating broader perspectives and of the importance of power and legitimacy in international accounting research.

6.2.4 Paper 4: The Influence of Uncertainty Avoidance on Accountants' Materiality Judgements: A Cross-Cultural Study of German and Italian Accountants

The objective of this study was to examine cross-cultural differences in the materiality judgements of German and Italian accountants. Specifically, the study examined the influence of 'individual' uncertainty avoidance on accountants' materiality judgements. In contrast to studies applying Hofstede's dimension of uncertainty avoidance, this study employed an individual uncertainty avoidance measure, which allowed for evaluation of the influence of uncertainty avoidance on accountants' individual judgements without incurring an ecological fallacy.

The results provide evidence of cross-cultural differences in accountants' materiality judgements by showing that German accountants are more conservative in their materiality judgements as compared to Italian professional accountants. The importance of these differences in materiality estimates becomes evident when one considers that accountants' materiality judgements and materiality thresholds have a significant impact on recognition and disclosure in financial statements and influence the detection of accounting errors and misstatements. Importantly, these significant differences in materiality judgements between German and Italian professional accountants provide evidence of systematic variations in materiality judgements even if international accounting categorisations describe their respective accounting models as supposedly similar.

The paper makes several contributions to international accounting research. First, this study provides evidence of significant cross-cultural differences between German and Italian accountants in relation to conservatism in materiality judgements. These differences may challenge the IASB's objective of cross-cultural comparability. Moreover, the findings challenge the assumption that convergence may be achieved more easily within the Continental European accounting cluster. These insights are important to international standard setters who may consider reviewing standards and principles that result in significant cross-cultural variance. Similarly, these insights may benefit accounting practitioners because knowledge about systematic cross-cultural differences may increase reliability of analysis of financial statements. Second, the paper provides insights into some of the factors influencing accountants' judgement. Given the IASB's objective to ensure cross-cultural comparability, an understanding of the factors that result in significant cross-cultural differences is essential.

The paper further makes a methodological contribution to international accounting research by emphasising the methodological limitations of applying Hofstede's (1980) uncertainty avoidance dimension. It is hypothesised that greater insights could be gained by including interdisciplinary perspectives and measures from other disciplines such as psychology, which may facilitate a better understanding of the complexity and dynamics of cultures. Indeed, it is considered important and timely to extend research on accountants' values and beliefs to gain a better understanding of accountants' judgements.

6.3 Overall Conclusions and Further Implications

This thesis provides a contextual examination of convergence in Germany and emphasises issues in the convergence process that may create constraints in achieving the IASB's main objectives. The findings of this study broadly show that international accounting research benefits from including broader perspectives and multidisciplinary approaches that enhance our understanding of the convergence process and facilitates identifying and explaining arising issues in this global process. Indeed, failure to understand accounting in a nation's social and institutional context is likely to result in additional challenges and impediments regarding the ongoing convergence process.

Specifically, the findings in this thesis provide evidence that international politics and power structures have an increasing influence on Germany's national accounting developments, often without adequate consideration of normative evaluations by German stakeholders. The findings provide evidence that German stakeholders have concerns regarding the political nature of the IASB, the technical superiority of IFRS and the extensive use of professional judgement in IFRS in particular. These attitudes and legitimacy concerns regarding the work of the IASB may have severe implications for the convergence process by creating opposition and resistance rather than a culture of acceptance and support. Moreover, evidence is provided that professional accountants from countries categorised under the so-called Continental European accounting model, namely Germany and Italy, show systematic differences in their exercise of professional judgement, which raises concerns about the potential

to achieve the IASB's main objective of international comparability of financial reporting. Moreover, these findings challenge the simplistic categorisation of countries into clusters and accompanying assumptions of similarities within clusters.

The findings from the contextual examination of convergence in Germany have important implications for the ongoing convergence process. The pace and scope of international convergence is being increasingly expanded by the ongoing globalisation process, with the large-scale growth of international capital markets that require comparable financial information. Indeed, the increasing adoption of IFRS may be regarded as an essential step towards accounting convergence with the aim of providing high-quality global accounting standards, which are expected to enhance the international comparability of financial information. However, convergence of accounting requires more than adopting a single set of accounting standards worldwide. The findings of this thesis show that adoption of a single set of accounting standards (de jure harmonisation) may not lead to convergence of accounting practices (de facto harmonisation). Attention needs to be given to national accounting environments and differences in accountants' judgements to identify and explain differences in accounting practices. Indeed, greater insights into differences in interpretation and application of accounting standards would benefit stakeholders who analyse financial reports prepared in accordance with IFRS. Moreover, if the IASB wants to achieve greater comparability, it needs an in-depth understanding of the various factors influencing accountants' judgements.

Convergence is a complex social and political process that requires stakeholders' acceptance and support to achieve its objectives. The failure to recognise the

importance of taking into account social, political, economic, cultural and historical factors may lead to additional challenges and constraints in achieving the IASB's main objectives. The findings provided in the German context have emphasised the importance of legitimacy with regard to acceptance and support for the convergence process. Indeed, if accounting convergence is believed to be a process of mutually developing a best practice approach, the IASB should aim to be more inclusive in building greater consensus among the major stakeholders. This is of particular importance given that the work of the IASB may be perceived to favour Anglo-American accounting practices. This emphasis on Anglo-American accounting principles and practices carries the implicit assumption that Anglo-American accounting values, practices and principles are superior and equally applicable to all countries. The findings of this study provide evidence that this perception of Anglo-American dominance creates additional issues and concerns regarding the authority and mandate of the IASB. Moreover, negative attitudes and concerns may result in increased opposition towards proposals and exposure drafts issued by the IASB and thus may limit the potential of convergence endeavours. An adequate understanding of issues and concerns and the ability to consider different approaches in its proposals may enhance the reputation of the IASB as an international standard setter. Importantly, this may balance the perception of Anglo-American dominance in international accounting and contribute to greater acceptance and support of IFRS and the IASB.

The provision of holistic insights into a nation's contextual environment and the specificities of its national accounting model may be particularly important for countries planning to adopt IFRS and countries that have accounting systems that

differ significantly from Anglo-American accounting models. The insights provided in this thesis emphasise that certain aspects of IFRS, such as the increasing focus on professional judgements and fair values in the German context, may lead to extensive debates when adopting IFRS. Early discovery and consideration of potential issues may help national and international standard setters to develop relevant strategies to facilitate the adoption process. Further, an understanding of accountants' experience with professional judgements and factors potentially influencing professional judgements may further assist in developing appropriate training programmes. This may be of particular importance for accountants from countries that have had relatively little exposure to accounting standards requiring extensive exercise of professional judgements.

The findings of this study also have implications for accounting education. Students' learning experiences could be enhanced by critically analysing the convergence process with an emphasis on the importance of power and legitimacy considerations on the adoption of IFRS. Indeed, international accounting curricula often emphasise technical aspects of accounting rather than considering accounting as a socio-technical function that needs to be understood in its institutional environment. Further, students would benefit from greater knowledge about various factors that influence accountants' judgements and potential differences in judgements and subsequent financial reports.

The consideration of contextual environments requires examination of the unique social, political and economic factors in a country. It should not be based on assumptions derived from simplistic accounting categorisations and classifications.

The results of thesis provide evidence that accounting classifications may fail to provide insights into national accounting models. Indeed, the results of this study challenge the simplistic categorisation of countries into clusters and the accompanying assumptions of similarities within clusters.

6.4 Limitations and Suggestions for Future Research

In this thesis, the case of Germany was used to provide in-depth insights into various aspects of convergence and the relevance of categorisations of national accounting models as well as specific issues regarding the adoption of IFRS and the application of professional judgement in IFRS. As such, the insights generated are applicable to Germany but should not be generalised by assuming similarities with other countries. Indeed, this thesis advocates contextual examinations of nations' unique social, economic, political, historical and cultural factors rather than reliance on simplistic accounting categorisations. It is important for researchers to focus on examining accounting development and convergence in a nation's specific social and institutional setting.

A qualitative research approach was adopted to examine the influence of power and legitimacy on German attitudes towards the IASB and the promotion of professional judgements. One of the limitations of this research method is the dependence on the individual skills of the researcher and the potential influence of the researcher's personal biases and values. Moreover, qualitative research often faces issues regarding data reliability and validity of conclusions. The paper aimed to minimize

these concerns by gathering data from multiple sources including through semi-structured interviews with stakeholders in the convergence process and a content analysis of newspaper publications. The use of multiple sources and data triangulation allows an examination of a broader range of issues and enhances the reliability of qualitative research by allowing internal checks on validity. Another concern regarding the usefulness of qualitative research is the limited potential to generalise results to other populations. However, this limitation does not affect the findings of this thesis. Indeed, the findings of this thesis emphasise the need for examining national accounting systems in their unique environments rather than relying on findings from supposedly similar countries.

Cross-cultural differences in accountants' materiality judgements from Italy and Germany were analysed using the hypothetico-deductive approach. As such, the limitations of this research approach need to be recognised. Importantly, quantitative research may only provide reliable and valid findings if appropriately prepared and rigorously executed. This thesis has aimed to address these potential limitations by ensuring rigour in the preparation of the survey instrument, data collection and analysis. Specifically, the survey instrument was extensively pilot tested with a particular emphasis on ensuring the consistency of the different language versions through double back-translation processes. Moreover, the population of potential participants was well defined and consistency between Germany and Italy ensured by requiring participating professional accountants to hold membership in a professional body.

The study examined differences in accountants' materiality judgements and specifically the influence of individual measure of uncertainty avoidance on accountants' judgements. Although numerous contextual influences on accountants' values and judgements were considered in the *a priori* hypothesis development and the survey questionnaire included factors such as gender, age and work experience, the list of variables is not exhaustive. Specific institutional and environmental factors present in the countries under examination, namely Germany and Italy, as well as other individual characteristics and personality variables may provide further explanations for differences in accountants' judgements. However, it is important to note that this study overcomes a number of limitations of previous cross-cultural studies by using an individual measure of uncertainty avoidance. Indeed, previous research has largely relied on Hofstede's (1980) cultural dimensions, which measure the prevalence of cultural values in specific groups. However, the insights generated at group level cannot be applied to measure relationships at the individual level. The use of Yoo and Donthu's (1998, 2002) individual uncertainty avoidance measure allows for the measuring of the relationship between individual uncertainty avoidance and individual accountants' materiality judgements.

The focus on Germany and Italy impairs the generalisability of the statistical results. As such, future research may consider examining accountants' judgements in different contexts and countries. Moreover, future research may focus on examining the influence of individual characteristics and personality variables on accountants' judgements. Greater insights could be gained by including interdisciplinary perspectives and measures from other disciplines such as psychology, which may facilitate a better understanding of the complexity and dynamics of cultures. This is

of particular importance given that the IASB's objective is to ensure cross-cultural comparability, which requires an understanding of various factors that may influence accountants' judgement.

In addition to further cross-cultural studies on accountants' judgements, international accounting research would benefit from further critical and contextual analyses of convergence processes with a particular focus on examining issues that may create constraints in achieving global comparability and may challenge the IASB's main objectives. As such, further research could concentrate on examining convergence in its social and institutional context. This holistic perspective could contribute to our understanding of how international accounting standards and practices develop and change. In addition, researchers could consider critically examining how international convergence shapes and changes institutional and social structures in society.

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