LINKAGES IN THE INTERNATIONAL BUSINESS COMMUNITY: ACCOUNTING EVIDENCE

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Abstract. This paper makes a case that accounting is a professional function in which activities depend on the needs of those business groups it serves. As the information needs of these separate national business groups converge, there will be precipitated a parallel growth of an internationalized accounting community. This study investigates two hypotheses about the international linkage between accounting practices and the information needs of the financial community.

INTRODUCTION  
Accounting practice is a reflection of some of the fundamental cultural values on which a society is based [Baladouni 1977]; thus, divergencies in accounting practices reflect the differences in the underlying economic, social, and political values of the interest groups served. Conversely, where accounting practices converge it suggests a convergence of the value systems of a spectrum of separate national user groups which rely on accounting data in their decision-making processes. This convergence of accounting practices implies some process of convergence of users’ needs in different nations. Hypotheses have been tested to establish whether the traditional linkage between practices and user needs (in a national arena) has also evolved in the international arena. And whether, in its wake, the multinational corporation (MNC) has created a transnational community of financial information users whose needs are so convergent that they have stimulated a parallel development in the separate national accounting professions which serve them.

HYPOTHESES  
A fundamental premise of this study is that where important national user groups have common needs, this will be reflected in the similarity of accounting practices in those countries. Where previously separate national user groups evince similar value systems, then we would expect a parallel development within the separate national accounting professions and the practices they employ. In the short run it is likely that any convergence of values will be reflected in a convergence of Disclosure Practices. This area of professional practice is less technique-bound and therefore more flexible in its response to developing trends [Barrett 1975]. Over the longer term we might expect a slow but definite convergence in accounting principles employed. These are considerably more technical; their convergence would require infrastructural changes in local professional organizations, in educational and legal institutions, as well as in administrative structures. There would be considerable lead-time before the necessary changes could be effected and acted on jointly [Mueller 1967]. The hypotheses follow.

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Hypothesis 1: The convergence in Accounting Principles between countries is a function of the convergence in the needs of the user communities which they serve.

Stated briefly, that

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\text{Convergence of Accounting Principles} = f \left( \text{Convergence of User Needs} \right)
\]

Hypothesis 2: The convergence in Disclosure Practices between countries is a function of the convergence in the needs of the user communities which they serve.

Stated briefly, that

\[
\text{Convergence of Disclosure Practices} = f \left( \text{Convergence of User Needs} \right)
\]

The purpose was to establish whether there was any feedback into the accounting practices of countries where national bodies serve users who exhibit similar information needs. The first requirement was for broad ranging sets of data from which measures of convergence could be extracted. These data sets covered 7 selected countries: Belgium, Canada, France, West Germany, Netherlands, United Kingdom, and the United States. The data permitted separate measurements of variations in the needs of financial information users and the accounting practices in the same countries. (A flowchart of the methodological steps followed is given in Illustration I.)

Raw data on the financial statement users were available in the 245 responses received to a questionnaire sent to members of the Control and Consulative user groups in each of the 7 countries. The response rate was relatively uniform in each country (approximately 45 percent), and, among others, questionnaires were completed by bankers, financial managers, investment analysts, institutional investors, and stockbrokers. A data base on the Accounting Principles and Disclosure Practices was available in published form [Price Waterhouse 1975] which contained statistics on the scope of application of 264 different accounting practices in 46 different countries. The information is nonparametric and provides a single estimate of the extent to which an Accounting Principle or Disclosure Practice is encountered locally [da Costa 1978].

The questionnaire administered to information users covered several areas of professional interest. The issues addressed were techniques of financial analysis and technical accounting matters. Their thrust was to establish the orientation of the users with regard to existing financial information sources and accounting services and to solicit attitudes toward, and desire for, changes in the nature of information and services normally provided by the accounting profession. The steps taken and methodology employed in arriving at measurements for each national user group are set out in the Appendix. The major analytical tool employed was principal components factor analysis. This procedure groups highly correlated variables into a common factor. Clusters of questions addressing a common topic were factor analyzed to derive underlying themes. Each factor represented a potential theme underlying the needs of the user groups. The themes implied an intuitively acceptable cross-section of possible needs which might occupy the respondents. The factors were interpretable and accounted for a significant percent of the variance in the response to each cluster of questions (at least 56 percent of each cluster).