

A REVIEW OF THE IMPACT OF THE EU HARMONISATION EFFORTS ON EU MEMBER AND NON-EU MEMBER EUROPEAN COUNTRIES

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Avrupa Birliđi'nin Uyum Çabalarının Topluluk Üyesi Olan ve Olmayan Avrupa Ülkelerine Etkisi

Özet

Bu çalışmada, Avrupa Birliđi'nce kendi üye ülkeleri arasında muhasebe uyumunu sağlamak için oluşturulan muhasebe yönergelerinin Birliđe üye olan ve olmayan Avrupa ülkelerine etkisi literatürdeki mevcut çalışmaları gözden geçirmek sureti ile analiz edilmiştir. Bu çalışmada incelenen ampirik çalışma sonuçları, literatürde hakim olan Avrupa Birliđi'ne üye ülkelerdeki muhasebe uygulamalarının Birlik yönergelerinden önemli ölçüde etkilendiđi görüşüne rağmen, yönergelerin birlik üye ülkeleri üzerine mevcut muhasebe farklılıklarını önemli ölçüde ortadan kaldıracak ölçüde etkili olduğuna dair kesin deliller sunmamaktadır. Bunun yanı sıra, mevcut literatür, Avrupa Birliđi yönergelerinin Birliđe henüz tam üye olmayan Türkiye, İsviçre, Macaristan, Polonya ve Çek Cumhuriyeti gibi Avrupa ülkeleri muhasebe sistemleri üzerine belli ölçülerde etkisinin olduğunu, fakat Avrupa Birliđi'ne tam üye olmayı hedefleyen diđer ülkelerinden Baltık Cumhuriyetleri üzerinde ise etkisi olmadığını işaret etmektedir.

Abstract

This article reviews the previous studies that analysed the impact of the EU directives on accounting in both EU member, and non-EU member, European countries with the aim of identifying whether or not EU harmonisation efforts, which attempt to reduce differences in accounting amongst EU member countries, have had an impact on accounting in Europe as claimed by a number of authors. Whilst there exist strong arguments that accounting directives by the EU have had, to a certain extent, an impact on accounting in Member States, the review of the extant literature does not provide conclusive evidence regarding the effectiveness of the EU directives for reducing the differences in accounting practices even among the member countries. On the other hand, the studies reviewed in this paper while providing an overall indication that accounting in some of the non-EU member European countries, i.e. Turkey, Switzerland, Hungary, Poland, and the Czech Republic, has been influenced by the EU directives, there is no indication regarding the impact of the EU directives on accounting in the Baltic States that also desire to join the EU.

A Review of the Impact of the EU Harmonisation Efforts on EU Member and Non-EU Member European Countries

1. Introduction

Environment Determinism Theory (EDT) suggests that the accounting system in a country, is shaped by its environment, and there is substantial literature supporting the hypothesis that environmental variables influence a country's accounting system (SEIDLER, 1967a; MUELLER, 1967; PREVITS, 1975; RADEBAUGH, 1975; CHOI/MUELLER, 1992; FRANK, 1979; NAIR/FRANK, 1980; BELKAOUI, 1983).

One of the commonly asserted views in the EDT literature is that accounting and financial reporting in a country are a function of inherent national characteristics internal (to the country) environmental factors- (e.g. stage of economic development; legal rules; political system; economic system; level of education; financial press; and cultural variables) and since environments differ across countries, financial reporting and disclosure requirements and practices will also differ around the world. For example, Belkaoui (1983, p. 207) pointed out that "the accounting objectives, standards, policies, and techniques result from the environmental factors in each country, and if these environmental factors differ significantly between countries, then it would be expected that the major accounting concepts and practices in use in various countries also differ". Despite the fact that the influence of internal environmental factors on accounting and disclosure has long been recognised in the literature, there is no general consensus as to what the internal factors are.

On the other hand, the accounting environments of countries extend beyond their boundaries as they interact with other nations in international trade and finance. "Whether industrialised or developing, small or large, ... all countries are experiencing closer international linkages and greater degree of economic interdependence" (CHOI/MUELLER, 1992: 1). As pointed out by

Cooke and Wallace (1990: 90), "in a complex interdependent and highly conflictive world, with a high technology base, there is ever more rapid movement of knowledge, ideology, ideas and human beings across national, cultural and territorial boundaries. These movements include accounting ideas, practices, regulations, practitioners, and educators".

Therefore, it is not possible to claim that inherent national environmental factors are the only ones that influence accounting and disclosure in a country. Indeed, the reported literature also suggests that there are a number of external environmental factors or international forces (e.g. political, economic and colonial ties with other countries; transnational corporations; international movements of accounting firms and professionals; regional and international harmonisation/standardisation efforts, etc.) that have influenced accounting and disclosure in countries, in particular developing countries. For instance, Cooke and Wallace (1990: 102) reported that "...the differences that are discernible in accounting principles and practices between developing countries may not be related directly to differences in their inherent national environment". Their research findings suggest that the level of corporate financial disclosure regulation in many developed countries is likely to be determined more by internal factors whereas that of many developing countries is likely to be determined more by external factors. Cooke and Wallace (1990: 102) further noted that:

"It is probably true that a nation's accounting profile is a function of both internal and external environmental factors It is more likely that a country that is endowed with more resources in the context of capital, technology and professional experience in accounting and financial reporting ... may be better suited to generate its own accounting regulations independently of other countries. Conversely, a country not so endowed and in need of the assistance of enterprises from other countries may be more suited for the adoption of accounting systems of other countries [or standards set up by international organisations]".

As discussed above, accounting system in a country could be influenced by several factor. Factors such as the development of international business on a global scale and internalisation of the capital markets are exerting pressure on countries for the adoption of a more international accounting perspective. According to Adhikari and Tondkar (1992: 76) "nowhere is this trend more manifest than in the effort currently underway to harmonise accounting disclosure and reporting regulation".

Particularly over the last three decades, much effort has been devoted to harmonise corporate financial reporting on a regional and international level. The primary generator of accounting harmonisation within Europe has been the EU (ROBERTS et al., 1996) and the EU has been active in achieving regional

harmonisation of accounting principles through a series of directives. The Fourth and Seventh Directives have been considered as the most important EU directives and these directives are believed to have had significant impact on accounting in not only EU member but also non-EU member European countries which has an aspiration to join the EU (TAY, 1989; VAN HULLE, 1992; ALEXANDER/ARCHER, 1992). The aim of the this paper is to review the previous studies that looked at the impact of the EU directives on accounting in both EU member and non-EU member European countries to assess the validity of the arguments that EU directives have had an impact on EU member and non-EU-member European countries.

This study proceeds by reviewing the EU harmonisation efforts and their impact by focusing on first the theoretical arguments and then the review of the previous studies. The findings is assessed in the last (conclusion) section.

2. The EU harmonisation efforts and their impact

2.1. Theoretical arguments

The EU has been described as "the most powerful source of change towards harmonisation among leading countries in world accounting" (NOBES/PARKER, 1995: 140). The major strength of the EU harmonisation efforts is generally attributed to its enforcement power. According to Iddamalagoda (1986), the power to enforce its pronouncements has enabled the EU to make progress in its harmonisation effort.

As the EU member states are obliged to transpose the provisions of the directives into national laws and the Fourth and Seventh Directives have already been implemented in the national laws of all member states (HOPWOOD, 1994), one would logically expect these directives to have had an impact on, to a certain extent, accounting and financial reporting in member states. Addressing the impact of the Fourth Directive, Tay (1989: 206) noted that "given the diversity of financial reporting practice in the EC member states, different aspects of the requirements of the Directive have affected financial reporting in Member States in different ways". According to Alexander and Archer (1992: 140) "the achievements of the Fourth and Seventh Directives within the EC have been real, but more successful at the presentation level than at the content, valuation and attitudinal level".

Even though EU harmonisation is of major concern for member countries, there are arguments that the EU directives, particularly the Fourth Directive, also have had/will have an impact on the accounting regulations and practices of non-EU member European countries. A number of explanations are proffered as to why and how. First, as pointed out by Tay (1989: 215) "the discussion among member states over alternative methods of financial reporting, and the

solutions chosen and formulated in the adopted directive, will influence the thinking of legislators in other countries". The second explanation is related to the non-EU member European countries' close trade and economic relationship with the EU. In this respect Tay (1989: 215) noted that "the community trades with its European neighbors and invests in their companies, so that eventual harmonisation with them will be as logical as harmonisation within the Community, for the same reasons". Switzerland is one of the non-EU member European countries that has had a close economic and trade relationship with the EU. Raffournier (1995a), who reviewed accounting and its environment in Switzerland pointed out that:

"Switzerland ... largely dependent on the EU because 72% of its imports and 58% of its exports are with the EU member states. In the field of accounting, a consequence of this influence is that more and more companies draw up their financial statements in accordance with the Fourth and Seventh Directives" (1250).

Similarly, Adams and McMillan (1997), who examined accounting in Poland, claimed that there has been a direct influence of the EU directives on the post-communist accounting regulations, demonstrating the influence of political and economic ties.

Another explanation put forward by Wallace (1990: 7) is "the 'bandwagon effect': this refers to those countries that have no historical and economic reason to be led, but decide to follow the lead of a group of countries".¹

The fourth, and probably the most important, explanation is the non-EU member European countries' desire and attempt to join the EU and accordingly such countries' "preparation for eventual membership of the EU" (NOBES /PARKER, 1995: 137). One of the most important signs that supports this argument is the existence of indications regarding the impact of the EU directives, particularly the FD, on accounting in the new EU member states prior to their accession to the EU (TAY, 1989; LUKAS, 1992; NASI, 1992). As of December 1999, 12 countries have applied for full membership. These countries are Turkey (associate member since 1963 and applied for full membership in 1987), Cyprus and Malta (applied in 1990), and former eastern-bloc countries, i.e. Hungary and Poland (applied in 1994), Romania, Slovakia, Latvia, Estonia, Lithuania, and Bulgaria (applied in 1995) and the Czech Republic (applied in 1996)² (Europe, 1998). According to Alexander and Archer (1992, preface), "European countries outside the EC and hoping to join it or to enjoy a number of

1 Wallace (1990: 7) argues that "one such effect is the possibility of the 4th and 7th Directives influencing a change in the financial reporting of non-EEC countries in Europe".

2 Switzerland also applied in 1992 but a referendum rejected Swiss participation in the EU in the same year.

benefits of membership are already aligning changes in their accounting rules with the EC requirements". Indeed there are some indications and arguments regarding the impact of the EU directives on accounting in some of the above-listed countries which can partly be attributed to these countries' desire to join the EU as full members. For instance, in a pilot study, Boross et al., (1995) found the move to EU membership to be the second most important factor to have influenced the shaping of the new Accounting Law in Hungary, enacted in 1991. Studies that looked at the impact of the EU directives on accounting in various countries, including in non-EU member European countries are examined below.

2.2. Review of studies that have analysed the impact of EU directives on accounting in EU member countries

A number of studies were undertaken to assess the impact of the EU directives, in particular, the Fourth and Seventh directives. These studies which have focused mainly on the examination of whether or not implementation of the EU directives resulted in increased harmonisation of accounting within the EU are summarised in Table 1 and reviewed below in chronicle order.

Surveys by Federation des Experts Comptables Europeens (FEE): The FEE carried out two noteworthy surveys as presented in Table 1. The first survey (FEE, 1989), set out to examine whether or not implementation of the FD resulted in increased harmonisation of accounting practices within Member States. Data concerning the accounting practices of companies were gathered from the analysis of published financial reports of 193 companies from nine EU nations in 1987 based on a questionnaire. The main conclusions of the survey are: 1) the FD has contributed towards a high level of harmonisation for those areas covered comprehensively by the Directive and 2) areas only partly covered by the directive show an apparent lack of harmonisation.

The 1991 FEE survey was an update and extension of the previous survey. It was based on the 1989 financial reports of 441 companies from 15 European countries, including 11 member countries³ and four EFTA countries, (Finland, Sweden,⁴ Norway and Switzerland). The main conclusion reached in this survey was the suggestion that the FD is not the only powerful force having a significant influence on accounting in the countries surveyed.

3 Italy and Spain, which were excluded from 1989 survey, were also included in the 1991 survey. The FD was not implemented by these countries when the survey was carried out.

4 These two countries joined to the EU in 1995.

The main limitations of both surveys were that the sample of companies was not selected on a statistical basis and there were inconsistencies in filling out the questionnaire due to the involvement of a large number of people in different countries. Furthermore, as the questionnaires were designed to be dichotomous (i.e. "yes" and "no" answers), they did not take into account whether specified accounting practices are applicable or not. As such, "the surveys cannot provide unambiguous evidence of non-compliance with the Fourth Directive" (FEE, 1991: 7).

Tay (1989): As part of her doctoral study, Tay also attempted to evaluate the impact of the FD on selected member states by seeking an answer to the question as to whether or not the implementation of the FD had improved the degree of comparability and the quality of corporate financial reporting by UK and Dutch Companies. The researcher, having identified disclosure of information and harmony of valuation methods as key variables affecting the comparability of corporate financial reporting, adopted the following research approach:

1. She specified 40 accounting issues and gathered data on selected subjects from 28 British and 28 Dutch companies' published annual reports.
2. She measured the level of disclosure (by employing a weighted index) and the level of harmony (by employing both HN and C indices) both before and after the FD was implemented.
3. She evaluated the significance of changes in the level of disclosure and harmony in both the UK and the Netherlands by using a non-parametric Wilcoxon matched-pairs signed-ranks test, and the significance of differences in the level of disclosure and harmony between the UK and the Netherlands both before and after the implementation of the FD by employing the Mann-Whitney U test.

Her test results did not show significant changes in the extent of disclosure and the level of harmony over the years (before and after the FD was implemented) in either country, indicating that implementation of the FD had no measurable impact on disclosure in the areas included and on national harmony. Furthermore, her comparison of the level of disclosure and harmony between these two countries both before and after the FD was implemented did not show significant differences. On the basis of these findings, she concluded that there is no conclusive evidence to support the hypothesis that "the degree of comparability and the quality of corporate financial reporting is greater within and between the UK and the Netherlands after the imposition of EU regulation" (TAY, 1989: 377). A critical point regarding the part of Tay's comprehensive study is that this study, first, did not cover all the issues addressed by the FD,

and second, there were a number of issues that the FD did not address but were covered in Tay's study (e.g. leasing, fund flow statements, etc.).

Emenyonu and Gray (1992): In this study, the researchers attempted to evaluate whether or not accounting measurement practices in three EU Member States (France, Germany and the UK) were harmonised as at the end of 1989 in the context of EU harmonisation efforts, most notably in the form of the FD. In this attempt, they first selected six accounting measurement issues which were addressed in the FD (i.e. stock valuation, depreciation, goodwill, research and development, valuation bases for fixed assets and treatment of exceptional items), and collected data in respect of each issue from the 1989 annual reports of 26 companies from each country. Then they employed chi-square test to assess whether the patterns of usage of measurement practices by companies in these three countries were significantly different and the I-index (a variant of the Herfindahl index, a measure of concentration used by van der Tas (1988)) to compute the degree of international harmony that exists across the three countries. Based on their findings they concluded that for each of the six issues examined, there are statistically significant differences among the three countries. Furthermore, while certain pairs of countries may agree on a single issue, overall levels of harmony were found to be low. The results of this study, however, provide a limited indication of the impact of the FD on Member States as it covers only six measurement issues and no attempt was made to measure the extent of harmony before the implementation of the FD and the extent to which the situation has improved, deteriorated or remained the same since that time.

Walton (1992): Using groups of British and French accountants in a laboratory study, Walton also looked at harmonisation between (and within) Britain and France in eight accounting areas to evaluate whether or not the EU harmonisation effort was successful in improving the comparability of financial reporting between member states. The approach adopted by Walton to evaluate the degree of harmony was different than that adopted in the two studies by Tay and Emenyonu and Gray. Briefly, Walton prepared a hypothetical set of data; presented it to 15 accountants in each country and asked them to prepare financial statements in accordance with the domestic GAAP which reflected those transactions. Then he analysed these financial statements to determine whether accounting principles were applied relatively uniform in each jurisdiction and compared the statistical mean of key elements of financial statements of each group of responses to determine whether the application of post-harmonisation period GAAP in one jurisdiction led to a financial report which was comparable with that in the other. Based on the results of these analyses, he concluded that "although the European Community's accounting harmonisation programme has focused on improving comparability between

states, the evidence suggests that accounting measurements are not uniform within individual states, let alone throughout the Community" (WALTON, 1992: 198). He further noted that if the EU wishes to achieve high degree of harmonisation it will need to pursue this within each jurisdiction as well as on a Community-wide basis.

Hermann and Thomas (1995): This study was an update and extension of the study by Emenyonu and Gray (1992). Adopting the same methodological approach, Hermann and Thomas looked at the level of harmonisation in accounting measurement practices with respect to eight issues among eight countries.⁵ The results of this study revealed that accounting for foreign currency translation of assets and liabilities, treatment of translation differences and inventory valuation are harmonised, while accounting for fixed assets valuation, depreciation, goodwill, research and development costs, inventory costing, and foreign currency translation of revenues and expenses are not harmonised. An interesting point to note in these results is the relatively high level of harmonisation for foreign currency translation about which both the Fourth and the Seventh Directives provide little guidance. The researchers also found some evidence that there is greater harmonisation among fairness-oriented countries than among legalistic countries.

2.3. Review of studies that looked at the impact of the EU directives on non-EU member European countries

A number of authors pointed out that the EU directives (particularly the FD) have had/will have an effect on the non-EU member European countries for a number of reasons as discussed above.

The experience of the new EU Member States prior to their accession to the EU provides some indications regarding the influences of EU directives on non-EU member European countries. For example, according to Tay (1989, p. 215) Spain and Portugal "had taken into account the provisions of the Directive [FD] when updating their accounting rules, prior to their accession to the EU". Similarly, among the three newest members of the EU, Austria in 1990 (long before it became a member of the EU) enacted an accounting regulation (Rechnungslegungsgesetz) which conforms in principle to EU Directives (LUKAS, 1992); and Finland in its accounting reform in 1990 also took into account the EU's Fourth and Seventh Directives (NASI, 1992). On the other

⁵ The countries covered in this study were Belgium, Denmark, France, Germany, Ireland, the Netherlands, Portugal and the UK and accounting measurement issues were foreign currency translation and inventory costing methods, in addition to those covered in the study by Emenyonu and Gray. Data in this study was collected from 1992-1993 annual reports. Emenyonu and Gray used 1989 reports.

hand, 1991 FEE survey (reviewed above) also provided an overall indication regarding the influence of the FD on accounting practices in the new EU Member States prior to their accession to the EU (i.e. Finland and Sweden) as well as non-EU European countries (i.e. Norway and Switzerland).

As pointed out above, there are several non-EU member European countries that have close economic and political connection with the EU and/or willing to join the EU (i.e. applied for full membership) and therefore might have been influenced by the EU directives. Among these countries, Switzerland is probably most likely to be influenced by EU directives because of its low level of accounting regulation and particularly because of its long-standing close economic and political relation with the EU member countries. Zund (1992: 831), who looked at the recent development in accounting in Switzerland, stated that "the EC's Fourth and Seventh Directives have influenced generally accepted commercial accounting principles in Switzerland". According to Raffournier (1995a; 1995b) the EU impact on Switzerland is more on its accounting practices. As far as the disclosure practices of Swiss companies are concerned, Raffournier (1995a: 1259) pointed out that "the extent of the notes to the financial statements varies considerably among firms. Some companies disclosed notes quite similar to those of competitors within the EU, while others comply with legal requirements". The result of two studies into the disclosure practices of Swiss companies carried out by Raffournier (one is based on 53 companies' published 1990 annual reports, the other on 161 companies' published 1992 annual reports), revealed that Swiss companies' average level of conformity with the disclosure requirements of the EU directives was 43 % in 1990 and 41.8% in 1992 (RAFFOURNIER, 1995a). Given the fact that Switzerland is one of the most regularly cited non-EU member European country which has been influenced by the EU directives, this observed low level of conformity level is rather interesting.

A considerable number of the countries that have applied for full membership are former socialist countries of central and eastern Europe (eastern-bloc European countries). These countries have been in the process of transition from a central planned economy to a market economy and to facilitate such transition most of them have engaged in accounting reforms. Addressing the accounting in these countries, Van Hulle (1992: 170) pointed out that "because these countries are very interested in closer co-operation with the Community and because their basic legal structure is very similar to that of most continental European countries, several of them have decided to base their accounting reform upon the EC Accounting Directives".

In Hungary, major accounting reform began in the early part of this decade. One of the most important recent accounting developments was the introduction of Accountancy Law No. XVII/1991 in 1992. Prior to the 1991 Law,

the Ministry of Finance regulated the bookkeeping systems of all Hungarian firms through a General Compulsory Scheme of Accounts and, in line with the accounting in centrally controlled countries, the emphasis was on aggregation of data from individual enterprises to form a national set of accounts for purpose of state planning and control (ILLES et al., 1996). Law No. XVII/1991, which "provides a framework of accounting concepts and valuation bases, as well as detailed accounting rules, all of which will help to give a more realistic picture of assets and financial strength of a business" (BOROSS et al., 1995: 713), has the following characteristics: 1) it is based on internationally accepted accounting principles; 2) it enables companies to select the appropriate principles on which to establish an accounting information system; 3) it enables companies to prepare two sets of accounts, one for accounting purposes and another for tax purposes (BORDA, 1995; ILLES et al., 1996). Among the authors who reviewed various aspects of the new regulation, Illes et al., (1996: 523) claimed that "the Law was designed to dovetail with the desire to join the European Union, the need to seek foreign partners in joint ventures, the need for a new type of information in privatised business and many other aspects of the move towards a market economy". According to Borda (1995: 1407) the regulation is "based on the Fourth, Seventh and Eighth directives... . It also takes into consideration International Accounting Standards ... and the International Auditing Guide". The results of a pilot study by Boross et al. (1995) conducted to explore (by interview methods) the various influences on the development of the Law revealed that the four most important influences (in descending order) were: fiscal policy and tax collecting; the move to EU membership; the need to attract foreign capital investment; and the presence of experts from international accounting firms. The important implication of this result is that, while the impact of the last three factors (which can be considered as external environmental factors) is visible and important, the impact of state (fiscal policy and tax collection) remained the most important factor.

Poland has also experienced similar accounting reforms in the early 1990s. In 1991 and 1994 authorities in Poland introduced two regulations (i.e. Decree of the Ministry of Finance on the Principles of Accounting of 1991 and the Accounting Act of 1994, respectively) to change the "traditional accounting system in operation under the command style of economy, which was based on the former soviet model" (ADAMS/MCMILLAN, 1997: 140). According to Jaruga and Szychta (1997: 518), the above-mentioned regulations, particularly the Act on Accounting, were aimed at "the adjustment of Polish accounting solutions to the principles adopted in EU countries and those set out in the International Accounting Standards, providing these are compatible with the EC Directives and their application is feasible at the present stage of the Polish economy". In a descriptive study, Jaruga (1995), who examined the 1991 regulation, claimed that those who prepared the regulation took into account

both the IASs and the EU directives. In a similar study Adams and McMillan (1997), who reviewed the recent development of Polish accounting and environmental factors affecting this development, pointed out that the 1994 Act regulating the Principles of Accounting was modeled on the Fourth Directive. In the same study Adams and McMillan, who also examined descriptively the extent to which the Act of 1994 moved more toward harmonisation with the EU and IAS, concluded that "although the influence of IAS on the Accounting Act of 1991 can be described as marginal in comparison to that of the FD... the Accountancy Act of 1994 moved Polish accounting much more in line with EU directives" (p. 147). They also pointed out that "although a number of radical changes have been made, many elements of the former communist accounting system remain" (p.140).

Like Hungary and Poland, the Czech Republic has also experienced dramatic political and economic changes since 1989 and consistent with such changes "the Czech government has implemented a whole raft of legislation in all areas, including accounting" (SUCHER et al., 1996: 547). The Act on Accounting enacted in 1991, which addresses valuation principles, preparation, publication and auditing of financial statements, was described as "a key component of the new accounting system" (SEAL et al., 1995: 671). There are arguments that this Act, which introduced some important changes, is "partly modeled on the Fourth Directive of the European Community" (SEAL et al., 1995: 669). Regarding the said regulation, Sucher et al. (1996: 545) stated that "with the collapse of communism in Czechoslovakia, and the subsequent desire of Czechoslovakia to join the European Union ... Czechoslovakia utilised the Fourth Directive as a 'toolkit' in designing part of its new accounting legislation". It is necessary to point out, however, that the Accountancy Act of 1991 also includes some of the requirements of the pre-1989 legislation, such as the provisions on how businesses should keep their accounting documents, how they should close their accounts and how they should undertake stock counts. Furthermore, there are high penalties for non-compliance with the Act which reflect the influence of pre-1989 legislation (SEAL et al., 1995).

Another three countries that aim to join the EU are the Baltic states, i.e. Estonia, Latvia and Lithuania, which are the only successor states of the USSR not to accede to the Commonwealth of Independent States (CIS). After the declaration of independence in 1990, independent initiatives in accounting reform have been attempted in these Baltic Republics. A new accounting law was adopted by Estonia in 1990 and somewhat similar accounting laws were adopted by Latvia and Lithuania in 1992 (KOVALEV et al., 1995). There exists, however, relatively little information written in English which specifically addresses recent developments and the current state of accounting and factors affecting them in each country separately. Kovalev et al. (1995), who reviewed

accounting in the Former Soviet Union, pointed out that "each of the Baltic States has introduced new accounting legislation, in repudiation of Soviet accounting practices" (p. 1491). The balance sheet and income statement formats required to be used by the enterprises in these countries (KOVALEV et al., 1995: 1525-26) are different than those required by the FD of the EU. The balance sheet format required of Estonian enterprises has "more characteristics of a statistical return than a financial statement" (KOVALEV et al., 1995: 1525). In the limited available information regarding the accounting in these countries, there is no indication that the EU directives have had an impact on the recent development of accounting in these Baltic states.

One of the non-EU member European countries which has a long contractual and economic relationship with the EU and has a desire to become a full member of the EU is Turkey. So far, the EU Directives on accounting have not been officially implemented in Turkey. However, there have been substantial arguments that recently enacted financial reporting regulation in Turkey (i.e. the Capital Market Board (CMB) Communiqué No. XI/1 which was enacted in 1989), was influenced by the Fourth Directive (ARSLAN, 1991; SARAÇ, 1992; BİLGİNOĞLU, 1989; GÖKDENİZ, 1991). For instance, Tekinalp (1992: 893) stated that "there is no doubt that the EU Fourth Directive (78/660/ECC) was taken into consideration in Turkey by the CMB, and that its principles and provisions have had a significant influence on the drafting of the CMB's Communiqué". According to Akdoğan (1991) the CMB enacted the 1989 Communiqué with the aim of complying with the requirements of the EU. Yalkın, (1993) also mentioned that the preparers of the Communiqué considered IASs and the Fourth Directive of the EU. The results of an empirical study by Çürük (1999) provides strong indication that the disclosure provisions of the CMB Communiqué were influenced by the Forth Directive of the EU.

3. Conclusion

There have been substantial efforts to increase regional and global harmonisation. The primary generator of such efforts within Europe has been the EU and this study reviewed the studies that examined the impact of the EU directives on accounting in both the EU member and non-Member EU countries.

As all the EU Member States have already incorporated the provision of the EU directives on accounting into their national laws, there is no doubt that the accounting directives by the EU have had, to a certain extent, an impact on accounting in Member States. However, a review of some of the empirical studies that attempted to assess the impact of the FD on the 'harmonisation of accounting standards and practices' in the Europe do not provide conclusive evidence regarding the effectiveness of the FD. The FEE's 1989 survey, which

indicated a fairly high level of harmonisation in those areas covered by the FD within the EU after the FD was implemented, and the study by Walton (1992) who found a lack of harmonisation in the application of the FD between and within the two EU member states, exemplify the extremes of the mixed results of the reviewed studies. These results are rather interesting as they rise some questions about the success of the EU for harmonising accounting even among member states.

On the other hand, a review of studies that analysed accounting in some of the non-EU member European countries, gives an overall indication that accounting in some of these countries (e.g. Switzerland, Hungary, Poland and the Czech Republic) has been influenced by the EU directives, particularly by the FD. However, there exist indications regarding the impact of a number of other factors, e.g. the impact of fiscal policy and tax collection in Hungary, the impact of the former communist accounting system in Poland and the Czech Republic as well as the IASs. Furthermore, there is no indication regarding the impact of the EU directives on accounting in the Baltic states that also desire to join the EU. An important point to note is that the studies which suggest that accounting in non-EU member European countries have been influenced by the EU directives, have been mainly based on descriptive analysis or personal observation rather than systematic empirical studies and empirical research on this area is missing. Furthermore, the results of two casual studies; 1) the 1991 FEE survey which indicated differences in accounting disclosure between three groups of countries (i.e. EU member countries that implemented the FD, those that did not implement the FD and non-EU member EFTA countries); and 2) study by Raffournier (1990) which revealed that Swiss companies' average level of compliance with the disclosure provisions of the EU directives was just over 40% in 1990 and 1992, cast doubt about the extent of the impact of the EU directives on accounting in non-EU members European countries.

Table 1. Summary of some studies that have attempted to assess the impact of EU Directives

Authors	Objectives	Countries Surveyed	Scope	Data Sources	Methodology	Main Conclusion
FEE (1989)	To examine whether or not implementation of the EU directives resulted in "increased harmonisation of accounting practices within EU Member States (described as an initial attempt to measure the impact of the FD)	Belgium, Denmark, France, Germany, Greece, Ireland, Luxembourg, the Netherlands and the UK (all implemented the FD by 1987)	All significant aspect of the Fourth Directive	Published 1987 accounts of 25 companies from each country except Denmark 21, Greece 15 and Luxembourg 7 company	Results were presented in Tables. No statistical analysis was carried out.	The FD has contributed towards a high level of harmonisation for those areas covered comprehensively by the Directive Areas only partly covered by the directive show an apparent lack of harmonisation
FEE (1991)	An update and extension of the previous survey	Nine EU member states as above, Italy and Spain (EU member not implemented the FD by 1989), Finland, Sweden, Norway and Switzerland (non-EU member countries by 1989)	Selected subject which covers more than requirements of the FD	Published 1989 accounts of 441 companies (30-50 from each EU member countries implemented FD; 30 each from Italy and Spain; 9-11 from no-EU countries)	Results were presented in Tables. No statistical analysis was carried out.	The Fourth Directive is not the only powerful force having a significant influence on accounting in the countries surveyed
Tay (1989)	To examine whether or not the implementation of the EU FD has improved degree of comparability and quality of corporate financial reporting by UK and Dutch Companies	the UK the Netherlands	40 issues in 10 different accounting areas includes issues addressed by the FD as well as those that are not	Published annual reports of 28 companies from each country for two periods (1981-82: before FD was	Changes in the level of disclosure (measured by index) and harmony (measured by both HN and C indices) in both the UK and the Netherlands after the	There is no conclusive evidence to support the hypothesis that the degree of comparability and the quality of corporate financial reporting is greater

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			(considering both disclosure and accounting measurement issues)	implemented and 1986-87: after the FD was implemented)	imposition of FD was tested for significance with 'Wilcoxon matched-pairs signed-ranks test' differences in the level of disclosure and harmony between the UK and the Netherlands both before and after the implementation of FD was tested for significance with 'the Mann-Whitney U test	within and between the UK and the Netherlands after the imposition of EC regulation
Emenyonu and Gray (1992)	To assess the extent to which accounting measurement practices in three EU member states were harmonised in the context of EU harmonisation efforts	France Germany the UK	Stock valuation methods, valuation bases for fixed assets, depreciation methods, treatment of goodwill, research and development, and exceptional items (issues addressed in the FD)	Published 1989 annual reports of 26 large industrial companies from each country (selected randomly)	Chi-square test used to assess whether the pattern of usage of measurement practices by companies in the three countries were significantly different I-index used to measure the degree of international harmony that exists across the three countries	For each of the six issues examined, there are statistically significant differences among the three countries. Low levels of overall harmony across the three countries
Walton (1992)	To evaluate whether or not the EU harmonisation	France the UK	fixed assets-determination of cost and	Financial statements prepared based on	Financial statements were analysed to determine whether	Accounting measurements are not uniform within

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	efforts was successful in improving the comparability of financial reporting between (and within) member states		depreciation, treatment of government grand, stocks, extraordinary items, foreign currency, translation of foreign subsidiary, leased assets and deferred taxation	hypothetical set of data by 15 accountants in each country in accordance with domestic GAAP	accounting principles were applied relatively uniform in each jurisdiction Statistical mean of key elements of financial statements of each group of responses were compared to determine whether the application of post-harmonisation period GAAP in one jurisdiction leads to a financial report which is comparable with that in the other	individual states, let alone throughout the Community
Hermann and Thomas (1995)	To determine the level of accounting harmonisation in the EU	Belgium, Denmark, France, Germany, Ireland, the Netherlands, Portugal and the UK).	Inventory valuation, accounting for fixed assets valuation, depreciation, goodwill, research and development costs, inventory costing, foreign currency translation and treatment of translation differences	Published 1992/93 annual reports of 30 large companies from each Denmark, France, Germany and the UK, 23 from Belgium, 24 from Ireland, and 20 from Portugal (selected randomly)	Chi-square test was used to test for the equality of proportion of accounting measurement methods across countries I-index used to measure the degree of international harmony that exists across the eight countries	Among the accounting measurement issues covered, only accounting for foreign currency translation, treatment of translation differences and inventory valuation are harmonised

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