Trends in research on international accounting harmonization

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Abstract

International harmonization of financial accounting standards has been the goal of many professional and academic accountants during the last 40 years. As of January 1, 2005, international accounting harmonization entered a new and perhaps decisive phase. From that date, all companies domiciled in the European Union with shares listed on securities exchanges are required to prepare their consolidated accounts in accordance with International Financial Reporting Standards (IFRS). This landmark event presents an opportunity for accounting researchers to assess the status of research on international accounting harmonization. In this paper, we review articles published in major English language accounting journals during the period from 1965 through 2004 in order to trace thematic and methodological trends in this line of research and to assess where the research may evolve from here. © 2007 University of Illinois. All rights reserved.

Keywords: Accounting research; International accounting harmonization; International accounting research; Financial accounting standards

1. Introduction

International harmonization of financial accounting standards has been the goal of many professional and academic accountants for many years, but progress has been slow in achieving this goal. There have been impediments to the creation of a uniform set of accounting standards for financial reporting purposes on a worldwide basis, not the least of
which have been cultural, economic, and legal differences among countries. However, the
process of international accounting harmonization has now entered a new phase. From
January 1, 2005, all companies domiciled in the European Union with shares listed on
securities exchanges must prepare their consolidated accounts in accordance with
International Financial Reporting Standards (IFRS) issued by the International Accounting
Standards Board (IASB). This event presents an opportunity for accounting researchers to
analyze trends in research on international accounting harmonization and to assess where
this research may proceed from here.

In this review article we identify over 200 research articles published between 1965 and
2004 that deal with international accounting harmonization. We also identify trends in this
line of research, some of which grew or were reduced in importance during the 40 year
period examined. In general the volume and level of rigor of the research increased, thus
providing evidence of the importance of this line of subject to the accounting research
community. The remainder of this paper proceeds as follows. In Section 2 we situate
international accounting harmonization research within the larger field of international
accounting research, and within the discipline of accounting generally, and we discuss the
significance of this line of research. In Section 3, we present the methodology used to
undertake this review. In Section 4 we identify and discuss trends in research on international
accounting harmonization, noting how these trends have grown or were modified during the
period examined. Section 5 summarizes and concludes the paper.

2. Situating IAH research

The accounting discipline can be divided into a number of sub-disciplines, including:
financial, managerial, auditing, tax, and governmental accounting. Each sub-discipline
follows certain research methodologies and targets a relatively small number of journals as
the primary outlets for its efforts. In contrast, International Accounting Research (IAR) can
involve any of the sub-disciplines of accounting, provided there is an international
being concerned with:

accounting phenomena in one country with lessons or repercussions extending to
other countries...accounting phenomena related to multinational enterprises...global
movements to shape the direction of accounting...and comparative accounting
requirements and practices.

While IAR has been recognized as a sub-discipline of accounting research for many
years,2 Falk (1994) argued that most IAR lacked rigor and an adequate theoretical
underpinning. In recent years, however, there has been an increase in the volume of IAR (see
Prather-Kinsey & Rueschhoff, 2004), and there has also been an increase in the rigor and
level of theory used in undertaking IAR (see for example, Meek & Thomas, 2004). As part
of IAR, international accounting harmonization research has contributed to the increase in
volume and rigor of IAR.

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2 The International Section of the American Accounting Association was created in 1976.
While the subject matter of IAR might involve any of the sub-disciplines of accounting, this review article focuses on research dealing with the international harmonization of financial accounting standards (hereafter IAH). IAH research investigates the arguments for, efforts made towards, and trends in the direction of achieving international harmonization of financial accounting standards. IAH research is a subset of IAR, and it is also a subset of financial accounting research within the overall discipline of accounting. See Fig. 1 for a diagram which graphically situates IAH research within the accounting discipline.

2.1. The importance of IAH research

As with many topics in accounting research, practicing accountants may develop an interest in the topic prior to academic accountants. There was little interest in IAH research on the part of the academic community prior to 1965. Most of the early articles dealing with IAH were written by practicing accountants, and they were published in professional journals, such as the Journal of Accountancy3 (see for example: Brandt, 1962; Englemann, 1962; Enthoven, 1965; Jennings, 1962). For example, the objective of Brandt’s (1962) article in the Journal of Accountancy was to examine “differences in accounting principles and practices in European countries, with a suggested approach to worldwide uniformity” (p. 68). The goal of achieving worldwide uniformity of financial accounting standards continued to be important for practicing accountants throughout the intervening period (see for example: Cairns, 1989; Carey, 1990; Fisher, 1990; Linowes, 1969; Wilson, 1991; Van Hulle, 1989a,b; Wyatt & Yospe, 1993).

The creation of the International Accounting Standards Committee (IASC) in 1973, appears to have prompted an increased interest in IAH research. Wyatt (1989) noted that one of the primary reasons for the creation of the IASC was to advance the international harmonization of financial accounting standards. In response, accounting researchers began to investigate the feasibility of achieving international harmonization and also to investigate the reasons behind the observed diversity of accounting practices. Between 1973 and 1989, progress was slow towards achieving the goal of international harmonization. In a move to

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3 Published by the American Institute of CPAs.
speed up this process the IASC issued a *Framework for the Preparation and Presentation of Financial Statements* in 1989 which set forth the basic concepts underlying international accounting standards (IAS). The purpose of this framework was to promote greater international harmonization by reducing the number of alternative accounting treatments permitted. However, once again, progress was slow towards reaching the goal of international harmonization. In 1995, an agreement was reached between the IASC and the International Organization of Securities Commissions (IOSCO) whereby IASC agreed to develop a core set of accounting standards, and IOSCO in turn agreed to recommend that these standards be allowed for use in global capital markets (IASC, 1995). This agreement between the IASC and IOSCO signaled that one of the primary reasons for international harmonization was to facilitate the operations of worldwide capital markets. This recognition led to an increased interest in IAH research on the part of American accounting researchers who had been investigating relationships between accounting variables and share-price returns for a number of years. Other events which have also been significant in the development of IAH research include the creation of the International Accounting Standards Board (IASB) as the successor to the IASC in 2001, and the European Parliament’s approval in 2002 of the use of IAS/IFRS for listed companies in the EU. Fig. 2 provides a timeline of the important events in international harmonization which have had an impact on the development of IAH research.

The following section describes the methodology we used in this paper to investigate trends in IAH research.

3. Methodology

To explain our methodology, we first discuss the selection of materials pertaining to IAH; second, the selection of academic journals; third, the identification of articles; fourth, the classification of articles.

3.1. Selection of material pertaining to IAH

We initially attempted to identify all of the available literature pertaining to IAH, including: articles in academic journals; articles in non-academic journals; articles in newspapers; directives and other material issued by the European Commission; material.
3.2. Selection of academic journals

In order to place a limit on the scope of the research, a decision was made to concentrate on English language accounting research journals. There were several reasons for this decision. First, we observed that non-English language journals are often intended for a national audience, and they do not publish a great deal of research on IAH. A second factor was that IAH specialists from various countries often publish their work in English language journals. Consequently, we decided to restrict our search to the English language journals shown in Appendix A. This list of journals includes all English language accounting journals with the word “international” in their title, as well as a number of other journals that are generally considered to be of high quality (see Lowe & Locke, 2005; Prather-Kinsey & Rueschhoff, 2004, for examples of previous studies which have looked at journal quality in the international arena).

3.3. Identification of articles

We reviewed all of the accounting research journals listed in Appendix A from the date of their inception. The identification of IAH articles was based on a systematic analysis of tables of contents, abstracts and keywords, focusing on the words: “harmonization” and “international accounting standards”. (Fig. 3) If the title or the keywords did not specifically include the keywords pertaining to our subject, but the abstract contained an idea that caused us to read the article, we read the article completely. Therefore, even if the title, keywords, or abstract did not mention IAH directly, we were able to identify articles pertaining to IAH. This process resulted in the identification of the articles listed in Appendix B. The first article identified was published in The Accounting Review in 1965.

![Trend in Number of IAH Articles](image)

Fig. 3. Trend number of IAH articles.
Consequently, our analysis begins in 1965 and extends through 2004.

4. Trends in IAH research

We identified 202 IAH research articles dealing with IAH published in the 24 accounting research journals listed in Appendix A during the time period 1965 to 2004 (see Table 1). The range of articles published per year was from zero in years 1970, 1971, 1974 and 1977, to a high of 13 articles in 2003. There was an increasing trend in the number of articles published per year (see Fig. 2), with an average of 2.3 articles per year in the period 1965–1973; 2.9 articles per year in the period 1973–1989; and 8.9 articles per year in the period 1990–2004. These time periods were chosen to indicate the relative change in IAH research over the total period examined. The first period corresponds with the time before the creation of the IASC in 1973. The second period extends from the creation of the IASC to the issuance of the IASC Framework in 1989, and the third period extends from the creation of the IASC Framework through 2004 (Fig. 3). Because of the length of time that it takes from the inception of a research project to its eventual publication, this division into three time periods is meant to be indicative of the trends in IAH research rather than implying a causal factor which explains the rate of growth.

4.1. Classification of articles by theme

In order to develop a method of classifying IAH research, previous articles which classified IAR, such as those of Meek and Saudagaran (B: 1990) and Zambon (B: 1996), were examined. Similar classification schemes by Van der Tas (B: 1992), Barniv and Fetyko (B: 1997) and Rahman, Perera and Ganesh (B: 2002) were also examined. In addition, certain themes were identified by studying the articles directly. Through a detailed process of reading and analyzing the IAH articles appearing in Appendix B, we were able to identify certain research themes. The initial themes were Accounting Uniformity, Comparative Studies, and Reflections on the IAH Process. The following section discusses these themes.

4.2. IAH research during the Initial Period: 1965–1973

4.2.1. Accounting uniformity

During the Initial Period, there was a strong interest in accounting uniformity (B: Wilkinson, 1965; B: Morgan, 1967). Wilkinson (B: 1965: 11) defined accounting uniformity as when: “each company presents only one set of accounts for all investors, of whatever nationality”. This interest in accounting uniformity was evident not only in the academic literature, but also in the practicing community. There were topics dealing with accounting uniformity at international congresses on accounting (Jennings, 1962) and, significantly, a compilation of accounting practices in different countries was prepared by the Committee on International Relations of the American Institute of CPAs (AICPA, 1965). This

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4 The letter B before the reference indicates that the reference is found in Appendix B.
publication appears to have signalled the emergence of IAH research. According to Wilkinson (B: 1965: 11), the AICPA publication was “in part a reply to the pleas for uniformity of accounting throughout the world that have been heard at almost every one of the more recently held International Congresses on Accounting.” There was also a belief on the part of both practicing and academic accountants that international harmonization of financial accounting standards would be achieved through a better understanding of differences in accounting practices in different countries (B: Beazley, 1968; B: Alhashim and Garner, 1973). Unfortunately, this belief proved to be ill-founded. Other authors who dealt with the theme of Accounting Uniformity included: Enthoven (B: 1973), Felt (B: 1968), Lowe (B: 1967), and Savoie (B: 1969). The research methodology pursued by most of these authors was descriptive and normative, relying on archival texts in support of the author’s conclusions.

4.2.2. Comparative studies

Even though there was a general focus on achieving accounting uniformity, it became clear that there was also a need to explain differences in financial accounting practices, particularly among advanced industrial nations (B: Kollaritsch, 1965; B: Davidson and Kohlmeier, 1966; B: Hatfield, 1966). Several authors attributed these differences to environmental factors. Among the factors identified were differences in culture and economic systems (B: Choi, 1973a,b; B: Mueller, 1968; B: Clapp, 1967; B: Davidson & Kohlmeier, 1966; B: Tyra, 1969). These authors also primarily used descriptive methodologies.

4.2.3. Reflections on the IAH process

There were also a number of articles which reflect on the impediments to achieving international harmonization during this Initial Period of IAH research (B: Hauworth, 1973; B: Mueller, 1965, 1967, 1970; Seidler, 1967). Among the impediments identified was the linkage between financial accounting standards and tax laws in many countries. These reflections often included recommendations pertaining to the creation of one set of internationally recognized accounting principles as a necessary pre-requisite to achieving international harmonization. See Table 2 for a summary of the IAH research published in the Initial Period.

4.2.4. Research methodologies used during the Initial Period

For the most part, the research methodologies used during the Initial Period were descriptive in nature, relying on subjective analyses of archival textual materials as support for recommendations and conclusions. Of the 21 articles identified during the Initial Period, only three articles (14%) used empirical methodologies where the researcher collected data.

Table 1
Number of IAH articles: 1965–2004

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of articles in period</th>
<th>Average number of articles per year</th>
<th>Number using empirical methods</th>
<th>Percent using empirical methods (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965–1973</td>
<td>21</td>
<td>2.3</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>1974–1989</td>
<td>46</td>
<td>2.8</td>
<td>14</td>
<td>30</td>
</tr>
<tr>
<td>1990–2004</td>
<td>135</td>
<td>8.9</td>
<td>67</td>
<td>50</td>
</tr>
<tr>
<td>Total: 1965–2004</td>
<td>202</td>
<td>5.0</td>
<td>84</td>
<td>42</td>
</tr>
</tbody>
</table>
and tested hypotheses using statistical methods. These three articles were authored by Davidson and Kohlmeier (B: 1966) and Choi (B: 1973a) in the *Journal of Accounting Research*; and Choi (B: 1973b) in *The International Journal of Accounting*. These three articles provide some evidence regarding the emerging influence of the *Journal of Accounting Research* within empirical accounting research and the influence of *The Journal of International Accounting* in international accounting research generally (see Table 2).

### 4.3. IAH research during the Intermediate Period: 1974–1989

After the creation of the IASC in 1973, several new themes emerged in IAH research. These new themes included: a focus on the creation of a *Conceptual Framework* for international accounting standards-setting as a means of fostering greater international harmonization; investigations of *Factors of the Environment* as a way to explain differences in accounting practices; discussions about the IASC as a way of enhancing the IAH process; and studies of the harmonizing effects of the *Accounting Directives* issued by the European Union. Some of these themes, such as the *Conceptual Framework*, reflected similar developments in standards-setting in the United States under the newly created FASB. In Europe, there was a growing interest in studying the effects of the *Accounting Directives* issued by the European Commission.

#### 4.3.1. Continuing theme: Accounting uniformity

The continuing theme of Accounting Uniformity focused on the achievement of greater levels of international harmonization, with the eventual goal of achieving uniformity in accounting practices. Among the authors who addressed this theme were: Bromwich (B: 1980), Fitzgerald (B: 1981), Nair and Frank (B: 1981), Dopunik (B: 1987), Van der Tas (B: 1988). From the standpoint of methodology, Bromwich (B: 1980) used an analytical modeling technique to examine international accounting harmonization. Van der Tas (B: 1988) introduced the use of the Herfindahl index to measure the extent of accounting homogeneity in different countries. However, in the other papers, the research methodologies were primarily descriptive and normative.

#### Table 2

<table>
<thead>
<tr>
<th>Theme</th>
<th>Articles (see Appendix B)</th>
<th>Number of papers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting uniformity</td>
<td>Alhashim and Garner (1973), Beazley (1968),</td>
<td>Descriptive: 8</td>
</tr>
<tr>
<td></td>
<td>Enthoven (1973), Felt (1968), Lowe (1967),</td>
<td>Empirical: 0</td>
</tr>
<tr>
<td></td>
<td>Morgan (1967), Savoie (1969), Wilkinson (1965)</td>
<td>Sub-total: 8</td>
</tr>
<tr>
<td>Comparative studies</td>
<td>Choi (1973a,b), Clapp (1967),</td>
<td>Descriptive: 5</td>
</tr>
<tr>
<td></td>
<td>Davidson and Kohlmeier (1966), Hatfield (1966),</td>
<td>Empirical: 3</td>
</tr>
<tr>
<td></td>
<td>Kollaritsch (1965), Mueller (1968), Tyra (1969)</td>
<td>Sub-total: 8</td>
</tr>
<tr>
<td></td>
<td>Seidler (1967)</td>
<td>Empirical: 0</td>
</tr>
<tr>
<td>Totals</td>
<td>Descriptive: 18</td>
<td>Sub-total: 5</td>
</tr>
<tr>
<td></td>
<td>Empirical: 3</td>
<td>Total: 21</td>
</tr>
</tbody>
</table>
4.3.2. **New theme: Conceptual framework**

The idea of creating a conceptual framework to facilitate accounting harmonization was present in both the practicing and academic accounting literature in the United States for many years, extending to at least the work of Patton and Littleton (1940). The American conceptual framework was established by the Financial Accounting Standards Board (FASB) over a seven-year period between 1978 and 1985. With regard to international harmonization, Peasnell (1982) argued for the creation of a conceptual framework for financial accounting in the United Kingdom, and he felt that this should be extended to the international accounting standards-setting arena as well. Later, DePree (B: 1989) analyzed the structure of the FASB’s conceptual framework and discussed its potential applicability to international accounting standards-setting. Other authors who investigated conceptual framework as a basis for achieving international harmonization included: Previts (B: 1975), Frank (B: 1979), Baxter (B: 1981), Nobes (B: 1981), Choi and Bavishi (B: 1982), Violet (B: 1983), Aitken and Islam (B: 1984), and Taylor (B: 1987). Most of these authors used descriptive and normative techniques in pursuing their research rather than collecting empirical data and testing hypotheses. An exception was DePree (B: 1989) who used an analytical modeling technique to investigate the conceptual framework.

4.3.3. **Continuing theme: Comparative studies**

A number of IAH research articles were published during the Intermediate Period which compared accounting practices in different countries. Similar to the Initial Period, it was believed that accounting uniformity would emerge through a better understanding of differences. For example, Barrett (B: 1976) measured the degree of financial accounting disclosure by 103 companies in seven countries: Germany, the United States, France, Japan, the Netherlands, the United Kingdom and Sweden. He analyzed annual reports from 1963 to 1972 and concluded that the financial disclosure of English and American companies was more complete than in the five other countries. Comparisons between IAS and US GAAP also became common during this period. For example, Rivera (B: 1989) compared IASs and their American equivalents. For Fitzgerald (B: 1981), Choi and Bavishi (B: 1982) and McComb (B: 1979), the reduction of the differences was considered to be essential to the IAH process. Using the C index of conservatism, Gray (B: 1980) estimated the impact of differences in accounting standards on various measures of company performance. The identification of differences in financial performance alerted researchers to the possibility of studying relationships between capital market variables and accounting practices in the international setting. Other researchers who pursued this theme included: Burnett (B: 1975), Benston (B: 1976), Briston (B: 1978), DaCosta, Bourgeois and Lawson (B: 1978), Evans and Taylor (B: 1982), Nobes (B: 1983), Goodrich (B: 1986), Chow and Wong-Boren (B: 1987), Puxty, Willmott, Cooper and Lowe (B: 1987), Wallace (B: 1988), Biddle and Saudagar (B: 1989), Cooke (B: 1989), and Rees and Sutcliffe (B: 1989). Many of these researchers used more rigorous research methodologies than previously, which involve the collection of data and the testing of hypotheses. Examples of these more rigorous studies included: Barrett (B: 1976), Choi and Bavishi (B: 1982), Gray (B: 1980), and Nobes (B: 1983).

4.3.4. **New theme: Factors of the environment**

During this period, two primary factors in the environment were hypothesized to explain differences in accounting practices in different countries: the cultural factor and the
economic factor. The impact of culture was the subject of research by various authors who used the cultural frameworks of Hofstede (1980) and Gray (B: 1988) to analyze differences between countries. Cultural variables also interested Violet (B: 1983) who attributed the relative lack of success of the IASC to cultural factors. Belkaoui (B: 1983) viewed language as a variable and studied the impact of language on accounting practices. Jaggi (B: 1975), Radebaugh (B: 1975), Ndubizu (B: 1984), Schweikart (B: 1985), Talga and Ndubizu (B: 1986), and Nair and Frank (B: 1980) also analyzed the impact of culture on accounting practices in various ways, including both empirical and descriptive methods.

The impact of economic factors on accounting differences was investigated by several authors. Gray (B: 1988) and Perera (B: 1989) concluded that international harmonization of accounting practices depended not only on the level of regulation within an economy, but also on macro-economic factors. Chow and Wong-Boren (B: 1987) analyzed micro-economic factors that impacted on accounting choices and the financial reporting practices of companies. Some researchers went further by proposing a classification scheme for countries according to economic factors in the environment. For example, DaCosta et al. (B: 1980) analyzed a number of economic factors influencing the accounting practices of various countries. They developed a classification scheme to differentiate countries according to these economic factors. From a methodological perspective most of the research within this theme was descriptive, however, there was a notable increase in the use of empirical methods, including the papers by Belkaoui (B:1983), Nair and Frank (B:1980), and Chow and Wong-Boren (B:1987).

4.3.5. New theme: The IASC

There were two primary sub-themes within this new theme addressing the IASC. The first sub-theme focused on histories of the IASC, and the second sub-theme dealt with International Accounting Standards (IAS). Shortly after the creation of the IASC, histories of the IASC began to appear. For example, Lord Benson, who was instrumental in creating the IASC, produced two histories of its founding (Lord Benson, 1976, 1989). Cummings (B: 1975) also discussed the background and origins of the IASC. Baxter (B: 1981) offered an analysis of the history, advantages and disadvantages of IASs. He also explained the international standard-setting process and he expressed concerns about the slowness of the process. Other research following this theme included: McKinnon and Janell (B:1984) and Wyatt (B:1989). From a methodological standpoint all of the research in this area was descriptive and normative.

4.3.6. New theme: Accounting directives

One of the primary reasons for the founding of the European Economic Community (EEC) was to create a free market for goods and services throughout Europe. The EEC also wanted to establish a uniform set of commercial laws to facilitate the creation of a common market. This led to the issuance of Accounting Directives which were intended to produce a uniform set of accounting standards among the member states of the European Union. Initially there was little interest on the part of accounting researchers in studying the Accounting Directives. This may have been because British and American researchers in the 1970s and 1980s did not believe that harmonization of accounting standards in the European Union was achievable, and

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6 Today the European Union.
therefore they did not focus on this subject. Nevertheless, this theme eventually came to be of
great interest to accounting researchers. For example, the 4th Accounting Directive issued in
1978 dealt with valuation rules, financial reporting standards, and annual reporting obligations.
The origins of this Directive, dating from 1971, lay in German corporate law. Valuation rules
were conservative and financial reporting standards were detailed. The entrance of Denmark,
Ireland and the United Kingdom into the European Community led to a modification of the 4th
Directive in 1974 in the direction of greater flexibility. The 4th Directive also introduced the
concept of the “true and fair view” into European accounting standards-setting (B: Nobes,
1993). Burnett (B: 1975) surveyed the extent of harmonization achieved through the
Directives, especially the 4th Directive. Also, Turley (B: 1983) discussed the impact of the 4th
Directive on European corporate law. From a methodological perspective, all of the articles in
this theme used descriptive and normative methods.

4.3.7. Summary of the research themes and research methodologies used during the
Intermediate Period

was characterized by an increase in the volume of research (46 articles versus 21 in the Initial
Period). There were also more research themes. In addition to the recurring themes of
Accounting Uniformity and Comparative Studies there were several new themes, including:
the Conceptual Framework; Factors of the Environment; the IASC; and studies of the
European Accounting Directives. These new themes reflected the growing interest in
empirical research on the part of American accounting researchers. Of the 46 articles
published during the Intermediate Period, 14 (30%) were empirical studies versus 14% in the
Initial Period. However, there were still 32 (70%) articles which used primarily descriptive
or normative approaches to IAH research. The principal journal for the publication of IAH
research during the Intermediate Period was The International Journal of Accounting, which
published 22 (49%) of the 46 papers. The two most important outlets for empirical research
were the Journal of Accounting Research (5 articles) and The Accounting Review (5 articles).
No other journal published more than two articles focusing on IAH research during the
Intermediate Period. See Table 3 for a summary of the research articles in this period by
theme.

The following section will discuss the Mature Period of IAH research (1990–2004).

4.4. IAH research during the Mature Period: 1990–2004

At the end of the Intermediate Period (1974–1989) there was still a lack of harmonization
of accounting practices on an international basis. This prompted IAH researchers to
investigate more thoroughly the factors that caused differences in accounting practices and
to conduct their research in a more rigorous manner. Some authors developed ways to
classify countries empirically according to their accounting practices. Others investigated
correlations between environmental factors, such as economic and cultural variables, and
different practices. A new theme emerged during the Mature Period which involved the
investigation of relationships between differences in accounting practices and share-price
returns in international capital markets. Another new theme measured the extent of IAH
using various economic and statistical indices.
4.4.1. Continuing theme: Accounting uniformity

Using an interview approach involving Sir Bryan Carsberg, the General Secretary of the IASC, Schweikart, Gray, and Salter (B:1996) presented normative arguments in favor of accounting uniformity, which included: the increasingly globalized nature of business activities; the needs of the common market within the European Union; the increasingly globalized nature of capital markets; the privatization of many formerly public enterprises; and the need to reduce the costs of financial reporting. The importance of a conceptual framework in achieving accounting uniformity was investigated by Brown and Tarca (B: 2001), who compared the conceptual frameworks of the American, British, International and European standards-setting bodies. The normative arguments for greater accounting uniformity also led to strategies to increase international harmonization. Goeltz (B: 1991) considered international harmonization to be virtually impossible to achieve, but other authors focused on the importance of preserving the process towards increased harmonization and achieving eventual uniformity. Wallace (B: 1990) analyzed the external

Table 3

<table>
<thead>
<tr>
<th>Continuing themes</th>
<th>New themes</th>
<th>Articles (see Appendix B)</th>
<th>Number of articles</th>
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<td></td>
<td></td>
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<td>Accounting directives</td>
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<td>Continuing themes</td>
<td>New themes</td>
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environment of the IASC in order to propose a survival strategy for that body. Chandler (B: 1992) argued for the acceptance of IASs, while Van Hulle (B: 1993) suggested four possible ways for the EU to proceed with respect to international harmonization: (1) stop harmonization efforts in the EU; (2) allow the IASC to determine the extent of accounting harmonization within the EU; (3) allow the Americans to dominate the IAH process; (4) call on the EU to become a more active player in the process. In retrospect, we can see that the second option was the one that was pursued. From a methodological standpoint, the articles in this theme continued to be primarily descriptive and normative; only one of the 18 articles used an empirical research methodology (see Table 4).

### 4.4.2. Continuing theme: Comparative studies

In the Mature Period, a number of researchers compared IAS/IFRS with U.S. GAAP. For example, Grove and Bazley (B: 1993) compared 20 IASs with their American equivalents. They also recommended certain accounting treatments which they believed would improve the efficiency of global capital markets. In addition, they estimated the costs and benefits of their recommendations. Street and Shaughnessy’s (B: 1998) research described the evolution of accounting standards during the period 1973–1997; they discussed similarities and differences in financial reporting practices of the IASC and the national accounting standards-setting bodies of the United States, England, Canada and Australia. Nobes (B: 1990) examined the effects of IASs on financial reporting of American companies listed in the U.S. capital markets. Because US GAAP is more detailed than IASs; “for a US company that is obeying GAAP, it is very difficult not to comply with IASC standards” (p. 42). Nobes also

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### Table 4 (continued)

<table>
<thead>
<tr>
<th>Continuing themes</th>
<th>New themes</th>
<th>Articles (see Appendix B)</th>
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<tr>
<td><strong>Total</strong></td>
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<td>Descriptive: 68  Empirical: 67  Total: 135</td>
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compared U.S. GAAP and IASs and concluded that that the differences between IASs and U.S. GAAP have little impact on the financial reporting practices of American listed companies. Research in this area also indicated a growing convergence between international standards and American standards. Of the 23 articles included in this theme, eight (35%) were empirical and 15 (65%) continued to be descriptive or normative (see Table 4).

4.4.3. Continuing theme: Factors of the environment

Before 1990, two factors were identified as being the primary explanatory factors for differences in accounting practices: the cultural and economic. After 1989, other factors began to be considered and researchers argued that the diversity of accounting practices was caused by factors beyond the cultural and economic, including: the historical development of a nation’s economy and its capital markets; differences in legal systems; differences in the nature of property rights; the size and complexity of companies within a country; the social climate; the degree of currency stability; the existence of accounting laws; and the educational system. The studies in this theme can be divided into two categories: studies emphasizing a single factor; and studies emphasizing a multitude of factors.

4.4.3.1. Studies emphasizing a single factor. The cultural factor has been one of the most studied variables to explain differences in accounting practices. Many authors have used Hofstede’s (1980) or Gray’s (B: 1988) cultural frameworks. For example, Tay and Parker (B: 1990), Baydoun and Willett (B: 1995) and Hussein (B: 1996) analyzed the accounting practices of industrialized countries based on cultural factors using the Hofstede framework. Riahi-Belkaoui and Picur (B: 1991) also found that cultural factors explained differences in accounting practices. These differences were also observed by Taylor-Zarzeski (B: 1996), who emphasized the importance of cultural variables for differences in financial reporting. In addition, he pointed out that multinational companies tend to present more information than national companies.

4.4.3.2. Studies emphasizing a multitude of factors. While various authors (B: Weetman and Gray, 1990; B: Nobes, 1990) privileged the idea of economic factors as the primary explanatory reason for differences in accounting practices, Wallace and Gernon (B: 1991) criticized these conclusions, arguing that there is no precise way to explain the reasons for differences in accounting practices among countries. The studies of Cooke and Wallace (B: 1990), Doupnik and Salter (B: 1995), Saudagaran and Diga (B: 1997), Salter (B: 1998), Craig and Diga (B: 1996), and Williams (B: 1999) also contributed to the analysis of multiple factors as having an influence on differences in accounting practices.

4.4.3.3. Studies emphasizing political factors. Luther (B: 1996) maintained that political factors were the primary reason for differences in accounting practices among countries. His premise was that conflicts exist between shareholders and other parties regarding the provision of accounting information. Political influences on accounting standards-setting is therefore inevitable. Consequently, accounting standards-setting can be seen as a political process where the point of view of the most powerful often prevails. Research in this area suggests that there has been domination of the IAH process by the major English speaking countries. For example, Chandler (B: 1992) examined the connections between IASC and
IOSCO from a political perspective. Ahadiat and Stewart (B: 1992) looked at the relationships between the SEC, the European Union and the IASC. Most of these studies emphasized the influence of American institutions such as the SEC and the FASB on international accounting standards-setting. Along this line, Hoarau (B: 1995) argued that international accounting harmonization is a pretence to achieve a consensus around the Anglo-American accounting model. In a similar vein, Flower (B: 1997) asserted that “for more than 20 years of the IASC existence, the attitude of the Americans was rather that of patronage.” From a methodological standpoint.

4.4.4. Continuing theme: Accounting directives

Three Accounting Directives were issued during the Intermediate Period of IAH research (1974–1989), but research pertaining to this theme began only to be significant about ten years later. The gap between the issuance of the Accounting Directives and researchers’ interest in studying the Directives suggests that researchers were waiting to see the reaction to the Directives within the European countries. With respect to the 4th Directive, Walton (B: 1992) sought to answer the question of whether the extent of accounting harmonization required by the 4th Directive allowed comparability of accounting information among European countries. Emenyonu and Gray (B: 1992) studied the extent of accounting harmonization in Germany, France and the United Kingdom. They use two indexes (chi-square and I) to analyze the annual reports of 26 companies in these three countries. Their conclusion was that there were significant differences between financial reports issued by companies in these countries, thus, indicating a lack of harmonization. This lack of harmonization was also observed by Theunisse (B: 1994) who found differences in financial reporting practices and discussed the consequences of these differences for financial statement analysis in three different countries (France, Belgium and Germany). She attributed the lack of harmonization to the options available under the 4th Directive, as well as the adaptation of accounting practices to national legislation and the socio-economic environment of each country. Herrmann and Thomas (B: 1995) studied the impact of the 4th Directive by adding Belgium, Denmark, Ireland, the Netherlands and Portugal to Emenyonu and Gray’s (B: 1992) sample. They argued that countries should be divided into two categories: those with a legal influence (Germany, Belgium, France and Portugal) and those with an economic influence (Denmark, Ireland, the Netherlands and the United Kingdom). The second category was considered to have a greater degree of harmonization than the first category. Nobes (B: 1993) also examined the introduction of the true and fair view by the 4th Directive and the effects of this requirement on accounting law and practice in the European Union. Finally, Zeff (B: 1993) analyzed the connotations implied by the true and fair view. With respect to the 7th Accounting Directive, Diggle and Nobes (B: 1994) analyzed the options available under that Directive in order to determine if consolidated accounts lead to harmonization. With respect to the 8th Accounting Directive, Evans and Nobes (B: 1998) focused on the development of rules contained in that Directive and examined the implementation of the Directive in England and Germany. There was also research that dealt with several Directives simultaneously. Thorell and Whittington (B: 1994) discussed the development of harmonization under the 4th and 7th Directives as well as under IASs. Haller (B: 2002) discussed the development of accounting standards in the European Union from the date of the issuance of the 4th Directive through 2002. Also, Combarros (B: 2000)
analyzed the evolution of financial presentation practices in the European Union. From a methodological perspective, research on this theme was about evenly split between empirical research (five studies out of 12) and descriptive/normative research (seven studies out of 12)(see Table 4).

4.4.5. New theme: Impact of harmonized accounting practices on share prices and returns

As capital markets have become increasingly globalized there has been a perceived need for more relevant and reliable accounting information in the international arena. As a result, securities exchanges have begun to require multi-national companies to prepare their financial statements in accordance with a recognized set of accounting standards. For example, companies using IAS/IFRS who want to raise capital in American capital markets have been required to reconcile their financial statements to U.S. GAAP using SEC Form 20-F. This requirement provided the background for Amir et al. (B: 1993), Pope and Rees (B: 1993), Bandyopadhyay et al. (B: 1994), Barth and Clinch (B: 1996) and Rees and Elgers (B: 1997), and others to study the effects of using foreign GAAP on raising capital in the United States. For example, Amir et al. (B: 1993) studied the value relevance of accounting numbers measured in accordance with U.S. and non-U.S. GAAP that were summarized in reconciliations of earnings and shareholders’ equity as required by SEC Form 20-F. The research question was, do the reconciliations of accounting data from foreign GAAP to U.S. GAAP increase the associations between accounting numbers and share prices or returns? The results indicate that the reconciliations of earnings and shareholders’ equity are value-relevant. This finding is important for public policy making and the setting of international accounting standards because it indicates the value of the reconciliations. In another study, Pope and Rees (B:1993) investigated the information content of two alternative accounting earnings measures constructed under U.K. and U.S. GAAP. Their analysis was based on data in the SEC 20-F filings by UK domiciled companies having ADRs listed in the United States. The research design involved testing the association between U.K. stock returns and alternative accounting numbers. The evidence indicated that U.K. GAAP earnings changes have incremental information content after controlling for U.S. GAAP earnings changes, but that earnings levels measured under U.S. GAAP also have independent incremental information content after controlling for U.K. GAAP earnings. The empirical results were consistent with prior research indicating that GAAP earnings adjustments add to the ability of earnings to explain share-price returns. From a methodological standpoint, research in this area is empirical involving data collection and testing of hypotheses, typically using theories based on variations of the capital asset pricing model. Of the 25 articles on this theme, 22 (88%) were empirical (see Table 4).

Other studies on this theme focused on the acceptance of IASs in international capital markets. For example: Schipper (B: 2000) argued in favor of IASs, but Harris and Mueller (1999) considered that the Form 20-F reconciliation requirement was insufficient to determine the degree of compatibility of IAS with U.S. GAAP. As IAH became more prominent as an area of research, there was a general extension of capital markets research into the international arena. One of primary questions studied by this line of research was whether the capital markets could be fooled by the presentation of different accounting numbers because of the application of different accounting methods in different countries. The use of different accounting methods may impact various accounting numbers (e.g.,
earnings, return on assets, return on equity, book value, price–earnings multiple, etc). Using the conservatism index of Gray (B: 1980), Adam, Weetman and Gray (B: 1993) analyzed the effects of using IAS on earnings and shareholders’ returns. Weetman and Gray (B: 1990) and Hellman (B: 1993) demonstrated that variations in the degree of accounting harmonization in different countries can explain differences in the accounting numbers reported by companies (e.g., earnings). Weetman et al. (B: 1998) also investigated differences in the measurement of profits by comparing English, American and international standards. The same kind of diversity was observed by Aisbitt (B: 2001), for whom the harmonization of accounting standards argued in favor of the harmonization of tax systems. Alford et al. (B: 1993) also conducted studies of the relationships between accounting methods in different countries and share prices.

4.4.6. New theme: Measures of the extent of international harmonization

The general objective of the research conducted on this theme has been the measurement of the extent of international harmonization of accounting practices. This theme can also be classified according to the statistical method used to measure the degree of harmonization. Two types of measures were used: indices and statistical methods.

4.4.6.1. Indices. The H index (Herfindahl index) has been used to estimate the degree of harmonization at the national level, and the I index (a variation of the H index) has been used to measure the degree of harmonization at the international level. These indices were originally proposed by Van der Tas (B: 1988). Because the I index has certain limits, Herrmann and Thomas (B: 1995) proposed an alternative — the adjusted I index. However, because these indices do not allow for complete comparability of financial reporting practices, Van der Tas (B: 1988) also created the C index which measures the extent of international harmonization. Van der Tas expanded the C index to take into account the situation where information published in the footnotes allows reprocessing of data that later appear in the accounts. Archer et al. (B: 1995) divided the C index into two sub-indexes: intra-national and international. The C index has been considered to be the most reliable way of measuring the extent of IAH, but criticisms have also been levelled against this method. Krisement (B: 1997) concluded that the number of observations affects the C index. In addition, he criticized of Archer et al.’s. (B: 1995) decomposed index because the sum of the intra-national and the international indices did not equal the global C index. These indices were also criticized by Cañibano and Mora (2000), who noticed the failure to include a significance measure. In their study, Cañibano and Mora used the C index and proposed a bootstrapping test to calculate the significance of a change in the C index value. Another test to measure the extent of IAH was the Wilcoxon test employed by Lainez, Callao and Jarne (B: 1996) and also Aisbitt (B: 2001).

4.4.6.2. Statistical methods. A chi-square test was utilized by Tay and Parker (B: 1990) to investigate the extent of international accounting harmonization. Although the chi-square is easily calculated, it has several limitations because it does not consider the sample size and its value is not significant when the number of observations is low. To measure the extent of

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7 Reviews of the literature on this theme can be found in Morris and Parker (B: 1999) and Cañibano and Mora (B: 2000).
harmonization in Sweden, Cooke (B: 1989) used Cramer’s $V$ test and the coefficient of contingency ($C$) as a supplement to the chi-square test. Krisement (B: 1997) also applied Cramer’s $V$ test to measure the extent of harmonization of accounting practices in nine European countries. Another statistical test used to measure the extent of harmonization involves the generation of linear regression models such as those developed by Archer, Delvaille and McLeay (B: 1996) and McLeay et al. (B: 1999). Taplin (B: 2003) argued that the H and C indexes are not adequate to measure the level of accounting harmonization. This is because there is a significant difference between an index (H or C) calculated for the sample and an index created for a population. He proposed that the standard error should be used. A summary of these different methodological approaches is shown in Table 5. Virtually all of the studies on this theme were empirical (16 out of 17 studies total)(see Table 4).

4.4.7. New theme: Implementation of IAS/IFRS in different countries

With respect to the implementation of IAS/IFRS, Glaum (B: 2000) investigated the evolution of German companies’ attitudes towards financial reporting standards over a period of three years (1994–1997) using an empirical study. The German companies studied were characterized as having a negative attitude toward British and American standards (IASs/US GAAP) at the beginning of the study. Three years later, they changed their attitudes and accepted IASs. The transition to IAS/IFRS has also been investigated in Asian countries such as Japan and China. For example, Kikuya (B: 2001) discussed the participation of Japan in IAS/IFRS after 1990. Other studies of this nature included those of Cooke (B: 1991), Raty (B: 1992), Guenther and Hussein (B: 1995), Street and Bryant (B: 2000), Chen et al. (B: 2002), Abd-Elsalam and Weetman (B: 2003), Larson and Street (B: 2004), and Xiao et al. (B: 2004). From a methodological standpoint, the research in this area was evenly divided between empirical studies (five out of ten studies) and descriptive/normative studies (five out of ten studies)(see Table 4).

4.4.8. Summary of the research themes and research methodologies used during the Mature Period

In comparison with the Initial Period, and the Intermediate Period, the Mature Period (1990–2004) was characterized by an increase in the volume of research (21 articles in the Initial Period, 46 in the Intermediate Period, and 135 in the Mature Period). There were also more research themes. In addition to the recurring themes of Accounting Uniformity, Comparative Studies, Factors of the Environment, and Accounting Directives there were several new themes, including: the Impact on Share Prices and Returns, Measures of the Extent of Harmonization and Implementation of IAS/IFRS. These new themes reflected an even greater increase in the use of empirical research. Of the 135 articles published during the Mature Period, 67 (50%) were empirical studies versus 14% in the Initial Period and 30% in the Intermediate Period. Two new themes in this period, the Impact on Share Prices and Returns and Measures of the Extent of Harmonization relied almost exclusively on empirical research (see Table 4).

The principal journals for the publication of IAH research during the Mature Period were European Accounting Review, which published 26 (19%) of the 135 articles, and The International Journal of Accounting, which published 25 (19%) of the articles. Other important outlets were Abacus (12 articles), Accounting and Business Research (11 articles), Accounting Horizons (11 articles) and Journal of Accounting Research (10 articles). In
comparison with the Initial and Intermediate Periods, a greater range of journals published IAH research during the Mature Period; especially interesting is the increase in the number of articles published by *European Accounting Review*.

5. Summary of the trends in IAH research and conclusion

In this review article we have discussed research on international harmonization of financial accounting standards published in major English language accounting research journals during the period from 1965 to 2004. Our discussion has concentrated on identifying the trends in IAH research and assessing the ways that this research has grown or been modified during the period examined. In summary, it can be seen from Tables 1, 2, 3 and 4 that there was a significant increase in the number of IAH articles published (from 21 in the Initial Period, to 46 in the Intermediate Period, to 135 in the Mature Period), and a significant increase in the use of empirical research methodologies (from 12% in the Initial Period, to 30% in the Intermediate Period, to 50% in the Mature Period). There was also an increase in the number of themes in IAH research, even though some of the themes remained essentially the same throughout the 40-year period. The various themes have been influenced by increasing levels of globalization, leading to demands for greater harmonization of financial accounting standards on an international basis, and by a growing interest in accounting practices in countries outside of the United States, particularly on the part of capital markets researchers. Certain key events in the process of international harmonization, such as the creation of the IASC/IASB and the Accounting Directives of the European Union have also affected researchers’ interests and the themes that they have pursued.

### Table 5

<table>
<thead>
<tr>
<th>Authors (see Appendix B)</th>
<th>Tests used</th>
<th>H</th>
<th>C</th>
<th>C_modified</th>
<th>I</th>
<th>I_modified</th>
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<th>Others</th>
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<td>X</td>
<td>X</td>
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<td>Standard error</td>
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</table>

During the Initial Period of IAH research (from 1965 to 1973), there was a strong concern with accounting uniformity, and also with comparing accounting practices in different countries. There was a belief that by understanding differences in practices, accounting uniformity could be achieved. It was quickly recognized, however, that there were significant impediments to achieving accounting uniformity on a worldwide basis due to a number of factors, including historical, cultural, economic, legal and political factors. The research approaches during this Initial Period primarily involved the use of descriptive compilations of differences in practices, and normative arguments in favor of eliminating differences in order to achieve the goal of accounting uniformity. After the creation of the IASC, in 1973, the interests of researchers began to shift towards an investigation of the reasons for differences in practices as well as advocating for the creation of a conceptual framework that would be able to reduce or eliminate accounting choices. Various attempts were made to increase harmonization of accounting practices among countries, including the creation of the IASC Framework (1979), and the agreement between IOSCO and the IASC that the IASC would establish a core set of accounting standards that could be used in international capital markets. These events marked the beginning of a more Mature Period of IAH research (1990–2004) in which there began to be more rigor in the research, often borrowing methodologies from American empirical research. IAH research during this more Mature Period focused on comparisons between IAS/IFRS and U.S. GAAP, including capital markets effects, and explanations for differences based on cultural, economic and other factors. This led to studies which statistically measured the extent of international harmonization. The changes in the trends in IAH research over the 40-year period examined are summarized in Table 6.

While uniformity of accounting standards has not yet been achieved, there is now a greater degree of accounting harmonization among industrialized countries, especially in countries that follow IAS/IFRS. Future IAH research will most likely focus on questions that can be answered through the use of empirical methodologies like those that have used in the major North American accounting research journals during the last 25 years. Tables 1, 2, 3, and 4 indicate that there has been an increased use of empirical research methodologies over the 40-year period studied. These tables also indicate that, while there has been a divergence in the themes of IAH research, there has also been methodological convergence. Future research will probably focus on attempts to measure the extent of compliance with IFRS in different countries. It is also expected that there will be an increased level of rigor and greater

<table>
<thead>
<tr>
<th>Table 6</th>
<th>Themes in IAH research 1965–2004</th>
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<tr>
<td>Accounting uniformity</td>
<td>Accounting uniformity</td>
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<td>Comparative studies</td>
<td>Conceptual framework</td>
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<tr>
<td>Factors of the environment</td>
<td>Comparative studies</td>
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<td>Comparisons of the value relevance of IAS versus US GAAP</td>
<td>Factors of the environment</td>
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<td>Studies of the accounting directives</td>
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<td>The IASC</td>
<td>Measures of the extent of harmonization</td>
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</table>
use of theory in future research. The themes that were apparent in IAH research during the Mature Period will most likely continue. In conclusion, IAH research appears to have moved beyond Falk’s (1994) criticism that most international accounting research lacked rigor and an adequate theoretical underpinning. Hopefully these trends will continue.

Appendix A. English language accounting journals selected for review

<table>
<thead>
<tr>
<th>Name</th>
<th>Date of inception</th>
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<tbody>
<tr>
<td>Abacus</td>
<td>1965</td>
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<tr>
<td>Accounting and Business Research</td>
<td>1970</td>
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<tr>
<td>Accounting Historians Journal</td>
<td>1977</td>
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<td>Accounting Horizons</td>
<td>1987</td>
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<tr>
<td>Accounting, Auditing and Accountability Journal</td>
<td>1987</td>
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<td>Accounting, Business and Financial History</td>
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<td>Accounting, Organization and Society</td>
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<td>Contemporary Accounting Research</td>
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<td>The Accounting Review</td>
<td>1926</td>
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<td>The British Accounting Review</td>
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<td>The European Accounting Review</td>
<td>1992</td>
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<tr>
<td>The International Journal of Accounting</td>
<td>1965</td>
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Appendix B. List of IAH research articles


Felt, H. M. (1968). The effort and authority of the AICPA in the development of Generally Accepted Accounting Principles. The International Journal of Accounting, 3(2), 11–27.


References


