

Ebbers, Gabi, *A Comparative Analysis of Regulatory Strategies in Accounting and their Impact on Corporate Compliance*, Verlag Peter Lang, Frankfurt am Main et al. 2001, 263 pp., br., € 45,50.

In her thesis, *Gabi Ebbers* analyzes the extent to which compliance behavior in financial reporting is influenced by differences in regulatory sources and design in nine different European countries, these being Belgium, Denmark, France, Germany, Ireland, Italy, The Netherlands, Spain and the United Kingdom.

The thesis is divided into three parts. Based on the relevant literature, Part 1 deals with the theories and forms of accounting regulation in Europe and provides a review of institutional structures and regulatory design. Part 2 discusses accounting diversity in Europe in three representative areas of accounting policy. In Part 3, a model used for the empirical analysis of compliance behavior is developed, and the results of the analysis are presented in detail.

Chapter 1 of the thesis, the introduction, sets out the objective of the study, as stated above, including its background, i.e. that the issue of compliance is a central one in the debate on the harmonization of accounting regulations in Europe, and that reforms in the various member states relate to both the institutions issuing the regulations and the design of the text.

The discussion of harmonization is also extended to the global level, with reference being made to the role of the SEC and US-GAAP. Following this, a general description of the empirical analysis and results is given. Finally, a summary outline of the thesis is provided.

The principal theories of accounting regulation relevant to the author's study are set out in Chapter 2. The literature on public regulation as opposed to professional self-regulation and on substance versus form in rule formulation is discussed and other comparative international studies on accounting regulation are considered. In addition, a summary is provided of literature on creative compliance in financial reporting, which in this case is restricted to the United Kingdom.

In Chapter 3, the various institutional structures of accounting regulation governing companies in each of the above-mentioned countries are described. The laws, standards and recommendations issued by these institutions are discussed, as are the different approaches to the drafting of rules i.e. whether they are precise or more open-textured. This part of the study establishes that the institutional structures and forms of accounting regulation vary greatly from one European country to another.

The three accounting areas where policies differ not only between countries but also between individual accounting areas in the same country are introduced in Chapter 4. The areas considered are: asset revaluation (examined in Chapter 5), foreign currency translation (Chapter 6) and the definition of a subsidiary for consolidation (Chapter 7).

Chapter 5 finds that 'the regulatory approaches concerning fixed asset revaluation vary considerably among European countries'. The period of hyperinflation following the First World War, for example, gave rise to not one but two alternatives to historic cost accounting in Germany: purchasing power accounting, based on a price index or on the gold standard, and current cost accounting. Similarly, two further waves of inflation, the first following the Second World War and the second in the 1970s, produced a number of different laws concerning fixed asset revaluation in individual countries. Article 33(1) of the Fourth EEC Directive, enacted in 1978, also allowed for various valuation methods to be applied. Only in Germany, which returned to historical cost accounting in the late 1940s, revaluation is not allowed. There are differences, too, in the authoritative sources of revaluation regulations between member states.

The study of foreign currency reporting in Chapter 6 describes the harmonizing effect of IAS 21, which favors the closing rate method. However, this relative uniformity is restricted to consolidated accounts. There is far more diversity in this area in individual accounts.

Chapter 7 discusses the development of national regulations regarding the definition of a subsidiary for consolidation both before and after the implementation of the Seventh Directive, whereby consolidation was made compulsory under legal power of control, and economic control was retained as an option at individual country level. The *de jure* and *de facto* control criteria used in practice to define a

subsidiary are described, and it is found that the interpretation of these criteria varies from country to country.

The binomial linear logistic model which is used to describe the probability of a company complying with accounting regulations as a function of regulatory regressors is developed in Chapter 8. This model adds the regulatory factors to the linear predictor and thus permits an evaluation of the relative influence of alternative regulatory sources and designs on the compliance behavior of the companies in the sample. The aggregate values thus obtained are 38.5% full compliance, 44.8% creative or partial compliance, 6.9% non-compliance and the rest unqualified data.

Chapter 9 presents the research design and the data collected. The sample for the study consisted of 154 companies from nine European countries which were listed on both the domestic stock exchange and another stock exchange elsewhere in the European Union in at least two of the three years covered by the study (1987, 1993 and 1995). Accounting policies were examined for compliance with regulations in the three accounting areas already mentioned using disclosures from the annual reports of these companies from these three years, whereby a distinction is made between full compliance, creative/partial compliance and non-compliance.

A separate statistical analysis of compliance for each area of accounting is presented in Chapter 10, comparing linear logistic models of the factors 'regulatory design' (i.e. formal or anti-formal), 'regulatory source' (i.e. legislation, standard or recommendation) and 'country of incorporation'. It is found that the amount of formalism in accounting regulation is an explanatory factor for compliance only in the area of revaluation. Moreover, regulatory design plays a less important role in compliance behavior than the issuing source. However, when the country of incorporation is taken into account, the influence of regulatory design is much greater.

An interpretation of the results and conclusions drawn from these results are given in Chapter 11. In summary, the thesis demonstrates that superficial differences in compliance at national level are inadequate, since all the above-mentioned factors, alone and in combination with one another, also play a role, not only across countries but also within countries.

As an assessment of the thesis, it should be said that it stands out by virtue of its very-well structured and consistent approach, which should ensure that the aim of the study is achieved. The reader is guided through both the theoretical principles and a discussion of the various systems of an accounting regulation in a way which is easy to understand, without resorting to superficial argumentation. The author thus lays the necessary foundations for the analysis of the various accounting areas under discussion. The actual innovative core of the study for the reader lies in the application of the statistical modelling of compliance with accounting regulation. The study presented by *Gabi Ebbers* is to be recommended to everyone who is interested in the internationalization of accounting, whether from a theoretical or a practical point of view.

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