



The adoption of US GAAP by French firms before the creation of the International Accounting Standard Committee: an institutional explanation

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Abstract

This article is about the emergence of consolidated financial statements in France at the beginning of the 1970s. French firms were already using US GAAP and not the recommendations of French standard-setters as they used to do. The article has two aims: to document the choice of American Generally Accepted Accounting Practices by French firms before 1973 and to use institutional theory in order to explain why US GAAP was adopted. The cases studied are those of Saint-Gobain (adopted GAAP in 1970), Pechiney (adopted GAAP in 1972) and Rhône-Poulenc (adopted GAAP in 1973) using archival materials, annual reports and internal documentation. We also provide a financial statement analysis. Most studies about accounting choice have been conducted under the agency theory. More recently, alternative theories like the new institutionalism in organizational theory have also been used by researchers. We feel it could be productive to explain the phenomena in the lens of institutional theory. We document the decisive role of auditors such as Price Waterhouse in the emergence of accounting practices. We also insist on the use of accounting in the transformation of corporations into conglomerates. In conclusion, our data show that the use of internationally accepted standards is not an innovation, simply an imitation. Furthermore, our cases suggest that the mimesis theory of Rene Girard subsumes institutional theory.

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This article seeks to do two things. First, the objective of the study is to explain the decision to adopt accounting standards accepted on the international scene before the creation of the

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International Accounting Standard Committee (IASC). In France, only statutory accounts were subject to regulation in the 1970s. National standard-setters provided a recommendation for established consolidated accounts in 1968 but these were not compulsory. The biggest companies, which already produced consolidated financial statements at the end of the 1960s, followed the French recommendations. Consolidation refers to the financial statements of the entity considered as a group (parent company and affiliates or subsidiaries). Statutory accounts refer to the corporate entity as defined by Law. Some firms, however, began to use American GAAP as early as 1970. Our first question is therefore: Why do French firms use US GAAP and not the recommendations of French standard-setters as they used to do? Secondly, this article leans on the neo-institutional theory of organizations. Usually, agency theory is the common explanation given by researchers (Watts, 1977; Watts and Zimmerman, 1986). We argue that institutional theory provides an alternative understanding of the adoption of internationally accepted standards. In the 1970s US GAAP were the internationally accepted standards. Indeed, institutional theory can effectively explain the emergence of different accounting forms (Carpenter and Feroz, 1992; Covalessky and Dirsmith, 1988; Fogarty, 1992; Mezas, 1990, 1995). These studies cover the entire domain of accounting: the companies accounting policies, the structuring of professional organizations, and standards setters agendas and due processes. Our second research question is: What are the relative roles of coercion, normative isomorphism and mimesis in adoption?

In the first section, explanatory proposals of adoption deviating from institutional theory are described. It deals with loose coupling, coercion, transmission of norms and imitation. The second part of the paper consists of three cases studies. These cases clarify the relative role of the three types of isomorphism from institutional theory.

In the first part of this paper, we use the neo-institutional theory of organizations to develop the explanations of the adoption of internationally accepted accounting standards. We document the symbolic use of GAAP and analyze isomorphism.

1. Symbolic adoption of accounting standards

According to the new-institutional theory, organizations use formal structures for purposes of legitimization, independently of consequences in terms of efficiency. Generally accepted accounting principles (GAAP) are a kind of formal structure.

The first contribution to the theory lies in taking into account a neglected facet of environments: faith, rules and institutionalized roles (Meyer and Rowan, 1977). Indeed, professionals, the State and public opinion produce rules and frameworks. They are the foundation of complex rules and framework of institutionalized behavior, which are rationalized myths. These frameworks are rationalized because they take the shape of rules, which specify the necessary procedures to reach a given end. They are myths because they are firstly widely shared faiths. Their effects are real.

Here, not in the fact that the individuals believe them but in the fact that they know that others make them, and that ‘practically’, myths are true. (Meyer and Rowan, 1977, p. 75)

Moreover, accounting literature demonstrates that accounting was often used as a symbol of legitimacy (Gambling, 1977). Generally accepted accounting principles are a form

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