# Chapter Nine

# Analysis of the Contextual Effects on Users of Accounting Information

In this chapter, issues involved in the relationship between receivers and context (see Figure 1.1) are analyzed. Receivers are the analysts interviewed in the primary receiver study (Section 5.1), while context is national context (Section 4.4).

In this chapter, the research issue is operationalized as effects of national context on analysts, as indicated by research issue number 4 in Section 1.3. Thus, the focus is on differences in approach to company analysis and views on accounting, and whether such differences are related to the country analysts operate in. In the Figure 1.1 framework, it is assumed that receivers are affected by their national context. Therefore, how receivers turn data into information will depend on in which country they operate.

Apart from interviews, analysts' reports (Section 5.2) are used to the extent possible in this chapter. Relating to the classification of research methodologies in Section 3.1.1, this chapter only involves analysis where categories are generated.

The overall analysis approach used here is similar to the one in Section 8.2. Thus, the analysis is inspired by both grounded theory, the hermeneutic circle (Alvesson and Sköldberg, 1994, p. 116) and Potter and Wetherell's (1987) framework. This approach determines the outline of the chapter. Section 9.1 includes a discussion of initial analysis structures. In Section 9.2 the major part of the empirical analysis is depicted. Section 9.3 sums up the findings of the chapter and has a discussion of implications for the research issues.

## 9.1. Initial Structures

The background to including this analysis approach in the dissertation is an initial observation that was done during the interview process. Interviews were conducted first in New York and London, and last in Frankfurt. During the Frankfurt interviews, there were initially very strong indications that there was a fundamental difference in the view of accounting between German and US/UK analysts. This difference in view seemed to carry on to differences in

company analysis approaches by the two groups of analysts. The distinction between the two groups of analysts was pronounced enough that a more systematic study was warranted. Thus, this chapter provides such a study.

First, categories are developed as initial analysis structures. These categories are based on initial and overall observations of analysts' views on the role of accounting in company analysis. Second, the categories are applied to the empirical material. This involves both classifying analysts into categories, and testing the usefulness of the categories for classification. Third, the classification is compared to the country of origin of analysts to see if there is a difference between countries.

The main focus in this chapter is on the categorization of analysts. There are, however, additional country-related differences that are noticeable. They are discussed further below, as other initial structures.

As noted in Section 3.3.2, the hermeneutic circle can be applied in three dimensions, namely as interaction between the parts and the whole, between the empirical material and the researcher's interpretation, and between the manifest and the latent. In this chapter, the whole is described by the categories presented in this section. Also, the categories form a tool for the researcher's interpretation, and the categories are latent. Then, support for the categories is looked for in the empirical material in Section 9.2. There, the whole is used to study the parts, and the parts are used to support the whole. The empirical material is also manifest, which is used to support the latent categories.

Potter and Wetherell (1987) is also used in this chapter. They see the analysis of empirical research material as a two-step process (ibid., p. 168). First, one looks for patterns in the data, and then one studies the functions of these patterns. Here, the search for patterns more or less corresponds to the creation of initial structures (categories), which is done in Section 9.1. The function of the structures is then focused more in Section 9.2. Potter and Wetherell also say that in such an analysis there can be a focus on either differences or similarities in interview accounts. If we compare this chapter to Section 8.2, this chapter is more focused on variation, whereas Section 8.2 centered more on similarities.

Section 8.2 also included a categorization of interviewees. However, unlike the categories developed in that section, the ones used here are broader, and encompass more aspects of the analysis process. The reasons behind the differences are discussed in Section 8.2.3.

Three categories, which can be used to classify interviewees, are developed as an initial structure. We call these 'hard data', 'soft data', and 'corporate governance'. The three names are explained below.

The hard data category was the first one developed, and it was inspired by the interviews done in Germany. Analysts in this category see the accounting process as a highly structured endeavor. Implicitly, they seem to perceive a clearly definable process spanning from individual transactions to financial statements. It is possible to define, and evaluate, the financial statement effect of using a specific accounting principle. Thus, the ideal situation for financial statement users (such as analysts) is when all companies follow exactly the same accounting principles, since this maximizes comparability.

The reason for using the term hard data[110] for this category, is that hard data is perceived to be important in this group. To begin with, financial statements are seen as an essential input into any company analysis. The hard data approach is not only used in the input phase of the analysis, however. This category tends to use analysis methods with quantitative aspects. For example, the initial screening of companies can be done through computerized ratio analysis, based on large database material. Often, explicit and quantitative adjustments are made to reported financial statement figures by analysts. In addition, accounting numbers are seen as 'hard' in this category, in the sense of being objectively definable. A typical statement that led to the idea for this category is the following[111]:

> *The ideal situation for analysts is when companies have no accounting options or choices. Standard setters should try to eliminate the existing options and choices* (R4).

If there is a hard data category, the opposite is a soft data category. The latter category was initially developed based on the main apparent analysis approach among US and UK analysts. In the soft data category, the view of the accounting process is that it is pragmatic rather than systematic. Accounting is perceived to be an imperfect endeavor, in which it is impossible to define exactly how financial statements should be produced. Even if detailed ac-

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[110]Ijiri (1975, pp. 36-37) defines the level of hardness in accounting measures as the level of consensus about how the measures should be calculated. A hard measure is then one which is based on verifiable facts, a well-specified measurement process, and for which the number of available choices is restricted. Ijiri's definition of hardness is consistent with the usage of the term 'hard' to denote a category in this chapter.

[111] As noted in Section 8.1.1, statements provided here are not actual interview quotes, but rather excerpts from the interview protocol.

counting principles are prescribed by a regulatory system, companies will still have to make accounting choices.

The term soft data refers to the fact that analysts in this category tend to perceive soft data as more important than financial statements. Examples of such soft data is management discussion, general data on product markets, i.e. the text parts of the annual report. The usage of non-financial statement information is directly related to the view of accounting as imperfect. Note, however, that financial statements are generally not seen as unimportant. Rather, they are useful in *conjunction with* other information.

Analysts in the soft data category are also judgmental in their use of data obtained. For example, adjustments made to reported figures tend to be more judgmental than quantitative. In addition, database analysis of financial ratios is not seen as relevant, since the underlying financial statements may not be directly comparable. One reason for this is that accounting data is seen as 'soft', i.e. not objectively definable. A typical interview quote for this category is the following:

> *In summary, it is an imperfect world. To get around this fact, people try to use as many sources as possible, and obtain as much information as possible* (R9).

The initial impetus behind developing a third category was provided by some UK interviewees. The term used for this category is corporate governance. The term refers to the apparent focus by analysts in this category on the relative power situation of management, shareholders, and employees. In terms of assumptions about human behavior, the framework applied by analysts is similar to the assumed framework used, for example, in non-cooperative game theory (Kreps, 1990).

In the corporate governance category, analysts are not very concerned with the regulatory framework of accounting. Rather, annual reports are used to evaluate the intentions of management. For example, annual reports may provide guidance whether management tries to protect itself, if it is focused on shareholders, or if the focus is on employees. Thus, accounting usage in the traditional sense, i.e. to forecast returns or evaluate risk, is not relevant. The category was inspired by statements such as the following:

> *In the US and UK companies have a shareholder focus. In continental Europe (including Sweden) employees are more important. Therefore, annual reports are used to see how shareholder friendly companies are* (R3).

Other initial structures include country-related differences that are not included in the main categorization. These structures are developed from findings obtained during the Chapter Eight analysis. The main such structure is that analysts are affected by the current debate in their respective home countries. Other potential differences are discussed in conjunction with the empirical analysis, in Section 9.2.3.

# 9.2. Analysis of the Empirical Material

The actual empirical analysis is done by the setting up of initial analysis codes, which is done based on the initial structures presented in Section 9.1. One code for each of the three categories is used, that is hard data, soft data, and corporate governance.

During the analysis, attempts are made at classifying each interviewee into one of the three categories. At the same time, the categories are tested and further developed through the empirical material, in line with the hermeneutic circle. We begin with a discussion of the categories per se (Section 9.2.1), and continue with the classification of analysts into categories (Section 9.2.2).

## 9.2.1. Categories

To start with the hard data category, some analysts do clearly espouse the view that comparability is essential for analysts, and that comparability can be achieved through companies using a standardized set of accounting rules. This view is implied for one of the US analysts, who restates the financial statements of the Swedish company analyzed into US GAAP. This analyst looks for higher comparability with US companies through the restatement into one single accounting framework.

Several other interviewees are more explicit, indicated for example by the quote for the hard data category given in Section 9.1. In addition to wanting to limit choices for companies, many of these analysts have the view that it does not matter *which* accounting rules are used, as long as the same rules are used by all companies. A typical quote for that view is:

> *It would be advantageous if more European companies used US GAAP ... This is not because US GAAP is more informative. Any standard would do as long as it is the same standard* (R4).

The argument that accounting diversity can be advantageous since companies are in different economic environments is not seen as relevant, at least not for companies competing globally (such as the Swedish companies included in this dissertation). Nor is flexibility within countries seen as advantageous, as shown by the following quote:

> *The British approach with their use of true and fair does not improve things. You do not get more true and fair financial statements by increasing choices available to management* (R4).

At the same time as national and international standardization is seen as a positive development, the accounting harmonization achieved to date is criticized as insufficient. For example, the harmonization effort by the European Union is considered inadequate. In summary, these interviewees see substantial difficulties with obtaining standardization or harmonization.

When it comes to usage of financial statements in company analysis, many interviewees say that they are important. In order to distinguish between the hard data and the soft data categories, it is necessary to focus on degrees of importance. Whereas the soft data category sees financial statements as important in conjunction with other information, the hard data category sees financial statements as essential in their own right for company analysis. Typical quotes include:

> *The annual report is the basic information source ... Nobody would issue a recommendation without first consulting the annual report* (R4).

> *Financial statements are very important in the analysis* (R8).

> *Financial statements are the most important source of information for analysts. More than 50% of the information used comes from there* (R15).

In some cases the importance of the financial statements is implicit, in the sense that significant effort is spent at analyzing and adjusting financial statement numbers. This takes us into the next aspect of the hard data category, namely how financial statements are used. Some analysts do use database ratio analysis, at least for an initial screening of companies. In addition, explicit and quantitative adjustments are done to reported financial statements. A US analyst adjusts from Swedish numbers to US GAAP. All German interviewees use DVFA-adjusted numbers in their analysis of German companies. In addition, some analysts from all three countries mention that explicit adjustments are made for the treatment of goodwill.

A further indication of the importance of financial statements is how many of the statements are considered useful. Many analysts focus mostly on the income statement. However, there are some that see the balance sheet as equally important. It could be argued that the hard data category is partially defined through the use of the balance sheet. This is juxtaposed against the soft data view of focusing on concepts such as earnings momentum, which are gauged solely through the income statement. Implicit in earnings momentum is that it is a theoretical concept, about which we cannot obtain precise information. An example of a hard data category view of the balance sheet is the following:

> *Notice that the income statement and the balance sheet are really only two sides of the same thing in double entry bookkeeping* (R4).

In the soft data category, the accounting process is seen as less definable. This is evidenced by the quote in Section 9.1. Additional quotes pointing to this view include:

> *... both IAS and US GAAP allow tremendous latitude within the standards* (R1).

> *It is difficult to say which type of accounting - of German, US GAAP, or IASC - is more useful for analysis. It is a question of philosophy* (R15).

Apart from these explicit statements about the relativity of the accounting process, there are also implicit indications of this view. Some interviewees point out that companies have different treatments of specific items, even though they use US GAAP, for example. In other words, not only is there diversity between national accounting systems, there is also diversity within these systems. In addition, the use of unadjusted numbers when analyzing companies from different countries (where different accounting principles are used), suggests that accounting numbers are not seen as very precise. This is because accounting diversity (which may affect the numbers) is ignored.

In line with the perceived lack of precision of the accounting process, analysts in this category want multiple information sources. This is shown in the quote in Section 9.1, as well as in the following quotes:

> *A problem with this Swedish company is that they do not come to Wall Street on a regular basis. Whenever they release earnings information*

> *(which is done twice a year), they should come to the Street and make a presentation* (R2).

> *Other sources of information are used to make forecasts* (R5).

> *In accounting information, valuation principles used by companies are important to understand. However, in general investors look at market conditions* (R13).

Here, it should be noted that responses in this category do not suggest that financial statements are unimportant, only that additional information is essential in the analysis.

Quantitative analysis methods, such as database ratio analysis, are not used in the soft data category. Rather, a judgmental approach is taken to company analysis. This is shown by the following interview quotes:

> *It is hard to make global statements about how companies are analyzed ..., since it varies by company* (R7).

> *Investors usually have some idea of the differences in accounting, and how they affect various items. They have no scientific way of comparison, however* (R9).

The third category we call the corporate governance category. The term applies to the focus by interviewees on aspects of what groups have power inside companies analyzed. One assumption is that each individual and organization is self-interested, and tries to maximize its (monetary) utility. For our purposes, the relevant dimension is how financial statements (and annual reports) are used by interviewees to gauge incentives for management, and how this affects the company analysis.

One quote indicating that the annual report is used in such a way is given in Section 8.2.1. In addition, the following quote relates to information obtained from the annual report:

> *One problem is that management does not own enough stock. It does not give them enough incentive to emphasize the interests of shareholders* (R2).

The following quote also suggests a similar line of thinking by the interviewee:

*It is easy for companies to smooth earnings. What is interesting is to see how accounting changes or unusual accounting is explained. If accounting is done to minimize tax, then that is good for shareholders. It is also important to note whether management is affected by the share price. It is good for shareholders if management pay is tied to the share price* (R3).

Some analysts do perceive that company management will act in its own self-interest in the relationship between companies and analysts/investors, as suggested by the following quotes:

*A force against harmonization, that makes it necessary to put into law, is that for companies it is not always perceived as advantageous to be internationally comparable. For analysts it is always an advantage, but not necessarily for the companies* (R4).

*Swedish companies need international capital. This drives disclosure to some extent. There is a close correlation between accounting disclosure and the need for capital* (R9).

From the empirical material presented so far, we can conclude that the individual aspects of the categories are supported. We can also summarize the main characteristics of each of the three categories, which is done in Table 9.1.

| Table 9.1. Main characteristics of categories of analysts | | | |
|---|---|---|---|
| Dimension | Hard data | Soft data | Corporate governance |
| View on accounting regulatory system | All companies should follow exactly the same accounting rules. | No accounting system is perfect, and it is not possible to force all companies to use the same accounting rules. | Accounting regulation is not very relevant. It is more important what individual companies do. |
| Usage of financial statements in company analysis | Financial statements are essential in the analysis. Quantitative methods may be used. | Financial statements are important together with non-financial information. Methods may vary by company. | Financial statements are used to gauge in whose interest company management acts. |

In both the hard data and soft data categories, financial statements are used (to varying degrees) to forecast financial measures. The main distinguishing feature of the corporate governance category is that the financial statements are used to evaluate management incentives rather than to estimate financial measures.

## 9.2.2. Classification

It was shown in Section 9.2.1 that support for each individual aspect of the categories can be found in the empirical material. However, the real test of the usefulness of the categories comes when they are used to classify interviewees. The issue then becomes whether all aspects of each category tend to be found in one single interviewee. In addition, there is the issue of how distinctly analysts fall into categories, and whether there are many borderline cases.

Categorization of interviewees is essentially made on a holistic basis, that is interviews are seen in their entirety. With this method, interviewees were classified in the following way:

- Five analysts were classified into the hard data category
- Nine interviewees were classified as belonging to the soft data category
- One analyst belongs to the corporate governance category

There are at least two criteria for the usefulness of research categories (cf. Nobes, 1992, pp. 32-33). First, categories should be exclusive in that it should not be possible to classify one subject into several categories. Second, they should be narrow, so that subjects in one category actually do have something in common.

Regarding the first criteria, there is some variation in how easily classifiable interviewees are. Some are very easily classifiable into a certain category. Those are the analysts that were used in defining the categories to begin with. Other interviewees are more difficult to classify. However, overall it is difficult to see how any of the interviewees could be classified into a different category than what was done. Therefore, the criteria of exclusiveness appears to be met.

The fact that the second criteria is met was shown in Section 9.2.1 on an atomistic basis. In addition, the criteria is met here on a holistic basis. Thus, both criteria are met, and the categories do seem to be useful for classifying interviewees.

As mentioned at the start of Section 9.2, analysis codes were used to analyze interview protocols. In the coding process, text units (paragraphs in the text analyzed here) were assigned to each of the three categories. Thereafter a count of the number of text units in each interview that were assigned to each category was performed. The results are shown in Table 9.2.

| Table 9.2. Coding and classification of interviewees | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Interview | R1 | R2 | R3 | R4 | R5 | R6 | R7 | R8 | R9 | R10 | R11 | R12 | R13 | R14 | R15 |
| Hard data text units (H) | 0 | 5 | 0 | 21 | 4 | 5 | 0 | 1 | 0 | 0 | 1 | 0 | 0 | 1 | 6 |

| Soft data text units (S) | 4 | 2 | 0 | 1 | 1 | 1 | 2 | 4 | 2 | 2 | 2 | 4 | 5 | 3 | 3 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Corporate governance text units (G) | 1 | 1 | 6 | 2 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 0 | 0 | 0 | 0 |
| Researcher's classification | S | H | G | H | H | H | S | S | S | S | S | S | S | S | H |

Table 9.2 may be useful for a reader evaluation of the reasonableness of the researcher's classification. For all interviewees, the classification agrees with the category with the highest number of text units. One can also note some overlap of categories within interviewees, such that one interviewee has text units classified into more than one category. Notice, that the numbers in the table give a *quantification* of text units, while they say nothing about the *importance* of each individual unit. Overall, however, the table strengthens the conclusion that the categories are a useful tool for classifying analysts.

Some additional evidence is provided by the report study. Out of the ten reports studied, two are written by analysts classified in the hard data category, and the remaining eight reports are applicable to the soft data category. No report by the analyst in the corporate governance category is included in the report study[112].

Both hard data reports include quantitative adjustments of the primary figures reported by companies. In one of them the adjustment is from Swedish figures to US GAAP, in the other it is an adjustment to US GAAP figures. None of the soft data reports contains such comprehensive adjustment of earnings figures. Rather, in some of the soft data reports, adjustments are made for specific items, such as taxes, reserves, goodwill, etc. Regarding the use of the three financial statements (income statement, balance sheet, or statement of cash flows) there is no noticeable difference between the hard data and soft data reports.

One hard data report has a comparison of ratios for the company analyzed as well as 22 of its competitors in the industry. Thus, this resembles a database type of analysis. One of the soft data reports discusses why Swedish accounting differs from US GAAP, which indicates support for the view of relativity in accounting. In addition, many of the soft data reports include substantial market, product, and/or research and development information, indicating the importance of non-financial data in the company analysis.

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[112]The way reports were selected for the report study is described in Section 5.2. The selection criteria show that no conscious choice was made regarding the inclusion or exclusion of reports classifiable in any of the three categories. Thus, the lack of reports classifiable into the corporate governance category is likely to be a reflection of a low incidence of reports in this category in the population.

Even though no report is classified in the corporate governance category, there are some statements in the reports that are related to that category. Management's dividend policy is discussed in one of the reports. Three reports include a discussion of the shareholder ownership structure of the company analyzed, and the resulting impact on the protection and influence of the minority shareholders.

To summarize findings from the reports, the categories are supported to some extent. However, interviews are necessary to develop categories. The reports are only useful as supporting evidence for the findings in the interview study. This is further discussed in Section 9.3.

The main objective with this chapter, is to see whether there are noticeable differences between analysts from different countries. In order to study this, the categories are related to what country the interviewee operates in. The results are shown in Table 9.3.

| Table 9.3. Classification of interviewees by country (number of analysts) | | | |
|---|---|---|---|
| Category | Germany | United Kingdom | United States |
| Hard data | 4 | 0 | 1 |
| Soft data | 0 | 5 | 4 |
| Corporate govern-ance | 0 | 1 | 0 |
| Total | 4 | 6 | 5 |

Table 9.3 shows how many interviewees based in each country are classifiable into each of the categories. The results are very clear. German interviewees are classified into the hard data category, whereas US and UK interviewees are in the soft data category. The corporate governance category is of marginal importance overall.

There are only small differences between the US and the UK. It should be noted that many banks operate in both countries, and personnel is often transferred between the two countries. Therefore, the real distinction is between Germany on the one hand, and the US and UK on the other. Thus, there are strong indications that there are real noticeable differences between analysts based in these two different groups of countries.

A problem with drawing conclusions from the sample used here is that it is relatively small, especially with regards to German analysts. In order to evaluate the reasonableness of the conclusion, a chi-square test (Conover,

1980, pp. 144-148) is used. By making the variables dichotomous, a 2 x 2 contingency table is created as follows:

|  | Classified in hard data category | Not classified in hard data category |
|---|---|---|
| Analysts from Germany | 4 | 0 |
| Analysts from the US and UK | 1 | 10 |

The difference between the two groups of analysts is significant at the 0.1% level. In other words, the probability that a German analyst is in the hard data category is significantly different from the probability that an analyst from the US or UK is in that category. This test is interesting in that it indicates that differences can be significant, even when a small sample is used. When interpreting the chi-square test results, however, one must remember that it is based on certain assumptions, such as a random selection of analysts[113]. Further, one can note that the reliability of the chi-square test will not exceed the reliability of the underlying classification of analysts.

It may seem unusual to use counting in Table 9.3, as well as statistical methods, even though this chapter is based on analysis where categories are generated (a mostly qualitative analysis). However, as pointed out by Silverman (1993, pp. 162-165), quantitative measures can also be a useful tool in qualitative research.

## 9.2.3. Other National Differences

This section summarizes national differences between analysts that are not covered by the categorization in Sections 9.2.1 and 9.2.2. There are two types of differences noted in the interviews. First, there are explicit statements made by interviewees about national differences. Second, there are differences in the interview accounts that are noted by the researcher.
Some German interviewees mentioned that there are differences in how financial analysis is done in Germany compared to the US and UK. None of the US or UK interviewees mentioned any such differences. This is probably because the US and UK are seen as constituting the standard or benchmark in global company analysis (cf. Section 4.4). Thus, it is natural for German analysts to compare themselves to those two countries.

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[113]As noted in Sections 3.2.1 and 5.1 the sample is not randomly selected, but neither are any biases apparent in the sample.

The country differences noted by German analysts when comparing them-selves to US and U.K analysts are the following:

- German analysts have more of a long-term orientation.
- Stock recommendations are more stable in Germany.
- German analysts receive more information directly from companies.

The explanation behind the first two points is that sell-side analysts in the US and UK are paid partly based on how much revenue they directly generate for their employers. Revenue is generated through customer stock trading, which in turn is increased with more frequent changes in recommendation. The third point indicated above leads to German analysts focusing more on ana-lyzing individual companies, while US and UK analysts are forced to put more emphasis on industry analysis (due to the receipt of less company-specific information).

These statements made by German analysts are not directly verified in this study. However, it is still interesting to note that analysts do perceive these differences between countries. Whether they are related to real differences or not, they are at least interesting as stories, which analysts apparently do be-lieve in.

Another difference mentioned by analysts from both the UK and Germany, is that US GAAP is used more by US investors, whereas European investors tend to use financial statements according to local standards, even when US GAAP figures are available. In this study, this is corroborated insofar as Ger-man interviewees do not use US GAAP to the same extent as US and UK interviewees. The finding is also supported in the report study. The German report does not include any mention of US GAAP, whereas several of the US and UK reports do. However, only one German report was included in the report study sample. Why this difference exists may be explained by how far US GAAP is removed from the national accounting system that analysts are used to[114].

There are also differences in interview accounts that are noted by the re-searcher (this is also discussed in Section 8.2.2). These differences seem to be related to local debates or accounting peculiarities. For example, a number of UK analysts point out that goodwill is adjusted for in the analysis. This is probably due to the unique treatment of goodwill by many UK companies, making this especially an issue for UK analysts.

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[114]In other words, US GAAP is closer to UK accounting than it is to German accounting.

German analysts talk more about the balance sheet than analysts from other countries. This is related to the hard data category[115]. German analysts also mention DVFA adjustments, and the necessity of adjusting for companies' use of discretionary reserves. The latter point is directly related to the ability of German companies to use hidden reserves in the accounting. The focus on the balance sheet by German analysts is discussed further in Section 9.3.

The only analyst classified in the corporate governance category is from the UK. In addition, there is a slight tendency for UK analysts to have more text units classified in this category. In addition, in the report study, it was noted that all UK reports included discussions classifiable as corporate governance, whereas only 17% of the US and German reports contained such discussions. This may be an indication that UK analysts are more suspicious of management motives and willingness to report relevant information to analysts. This, in turn, can be related to what happened in the UK in the years preceding the interviews. There were several highly publicized bankruptcies of large companies, where inadequate accounting played a role (Smith, 1992, pp. 7-12). This resulted in a debate about UK accounting (ibid.).

Based on Section 9.2.2 we can conclude that there are fundamental differences in how analysts from different countries view accounting. In this Section 9.2.3, two things are shown. First, analysts have definable stories (interpretative repertoires in Potter and Wetherell's (1987, pp. 146-155) terminology) about differences in analysis approach between countries. Second, there are superficial differences between analysts from different countries, apparently caused by current debates and accounting diversity. Whether superficial differences reflect more fundamental differences is further discussed in Section 9.3.

## 9.3. Conclusion

This section includes a summary of findings from the previous sections of Chapter Nine. In addition, there is a discussion of possible reasons behind the findings. The section concludes with a discussion of the validity and reliability of the findings.

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[115]A focus on the balance sheet is related to the hard data category in the sense that it is consistent with a focus on technical accounting procedures. The balance sheet is seen as the mirror image of the income statement, which is true when one discusses the double-entry accounting system. Thus, the income statement and the balance sheet are equally important. In the soft-data category, on the other hand, the focus is more on abstract concepts such as earnings momentum or value creation, which cannot be defined in terms of the technique of accounting. In this latter category, the focus is on the income statement, and the balance sheet is often ignored.

This chapter does show that analysts are affected by their national context, and that the effect is related to the national accounting environment. If the assumption that analysts constitute a proxy for the general market holds (see Section 3.2.1), the conclusion also applies to investors. Thus, for the operationalization of the research issue done in this chapter, there are strong indications that capital market actors are affected by international accounting diversity.

When we say that analysts are affected by their national context, what is really meant is that analysts differ in some respect, and that the differences are correlated with national contexts. The first question then becomes *how* analysts differ. Four main areas of difference were noted in Section 9.2. Differences are noted in terms of:
1. Interviewees' views on how accounting regulation could and should be done.
2. Fundamental differences in how financial statements are used in the company analysis process.
3. Analysts' own perceptions of national differences.
4. Differences apparently caused by current, national debates.

Points 1 and 2 are described by the categories in Section 9.2.1. They showed fundamental and deep differences in views of accounting, and in approaches to company analysis. Points 3 and 4 are covered in Section 9.2.3, and they are more superficial. Their superficial nature in this study does not mean that there are no deeper differences underlying them, only that those deeper differences are not covered here.

Once the question of how analysts differ is answered, the next question is *why* they differ. This study does not really provide conclusive answers to that question, but one can still see some possible answers. The classification based on categories (Table 9.3) is closely related to the classification of accounting systems by Nobes (1992, pp. 96 and 101; see also Section 4.4). In both classifications, the US and UK are in one main group, while Germany is in another. Thus, it appears that differences in accounting systems are also noticeable as differences in the users of accounting.

Some aspects of the hard data category can be related to the German accounting system. The belief in the systematic approach, with one set of well-defined rules for all companies, is similar to the approach taken in German legislation (at least when compared to a UK approach (with the true and fair view)). The balance sheet focus, as well as the view that the balance sheet and the income statement are just two sides of the same thing, can be related to German accounting theories (which are mentioned in Section 4.4). In ad-

dition, German practice seems to reflect this view, in that German companies present the balance sheet before the income statement.

On the other hand, the desire for standardization expressed by German analysts may be related to the discretion that German companies have. German analysts are aware of this discretion, since they use DVFA adjustments to overcome problems associated with the discretion. Thus, the explanation for why German analysts are in the hard data category, may be the opposite to the one given in the previous paragraph. The main factor in the German system that influences analysts may be the fact that companies do have significant discretion and choices, and analysts do not like this. This may also explain the fact that German analysts tend to make explicit and quantitative adjustments to reported figures. They are accustomed to using DVFA adjusted numbers in their analysis.

The soft data category can be related to the UK and US regulatory systems. Since the prevalent view in this category is that accounting is imperfect, the regulatory system needs several alternative checking points. It is not enough to make a rule, and then expect companies to follow it, thereby achieving comparability. Rather, we need institutions such as a strong auditing profession to control the accounting process. In the UK, there is the concept of the true and fair view, which can be used as an override where stated rules are not enough.

The concepts of reliability, validity, and generalization as applied to this chapter are similar to how they are used in the analysis in Section 8.2. Therefore, much of the concluding discussion in Section 8.3 is also useful here.

As noted in Section 9.2.2 the low number of analysts included in the study may lead to validity problems. Especially, conclusions about German analysts in general are drawn based on only four German analysts interviewed. This may not be a large problem, however, as indicated by the chi-square test conducted using the 2 x 2 contingency table.

To the extent that we are satisfied with understanding only the interviewees included in this study, without necessarily trying to generalize to some population, other criteria for validity apply. As noted in Section 3.3.2 such criteria may be that findings are reasonable, internally consistent, and do provide an understanding of studied subjects[116]. Potter and Wetherell (1987, pp. 169-172) suggest that validity is achieved when results are logically coherent, lead

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[116]These criteria are obtained from hermeneutics, see Alvesson and Sköldberg (1994, pp. 171-175).

to new questions, and are fruitful in providing an understanding of something. Arguably, these criteria are met in this chapter[117], which supports the validity of the categories per se. In addition, the classification of the interviewees included in the study is supported, even though the relationship between categories and countries on a general level may not be supported by the validity criteria suggested in this paragraph.

Potter and Wetherell (ibid., pp. 39-43, 67) warn against excessive suppression of account variability when interview accounts are analyzed. Since the focus in this chapter is on discovering variability among interviewees, suppression should not be a problem[118].

An advantage with the interview sample used in this chapter is that it is relatively homogenous. We are more likely to capture effects of accounting diversity on the view of accounting and on the approach to company analysis, since many other potential factors are controlled for. The interviewees all have the same occupation (they are financial analysts). Thus, they have a similar frame of reference, and are subject to somewhat similar incentives. In addition, all interviewees are involved in the analysis of international companies. In addition, almost all interviewees are involved in the analysis of a limited number of Swedish companies.

As discussed in Section 8.3 with reference to Govindarajan (1980), analysts' reports are useful when studying analysts. Regarding the analysis in this chapter, however, reports are limited in the sense that they only show the outcome of a process. Here, we are more interested in the process itself, and in underlying assumptions, than in the outcome. However, insofar as reports mirror the process, they are useful. As the results in Section 9.2 show, the reports have some, but limited, usefulness. They add to the findings, but the analysis in this chapter could not have been done based only on the report study.

With the methods used here it is unclear whether we can generalize results, and claim that there are actual differences between the general population of German and US/UK analysts. The ability to generalize from analysis where categories are generated is discussed in Section 8.3, and references are provided in that section. A similar line of reasoning applies here. The categories developed here are possible interpretations of differences among analysts. Other interpretations are possible, and could be equally valid. However, the categories may be applicable to analysts not included in this study, since they

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[117]The ultimate evaluator of the reasonableness of the findings is the reader of this text. What is stated above is the author's judgement on the issue.

[118]Although dimensions of variability not covered in the categories may be suppressed.

can be seen as constituting objectifiable social structures that go beyond the individual subjects studied here. Thus, the categories are generalizable, although generalizability of results regarding categories and countries is less certain, as noted previously. One can note the distinction here between generalizability of a category, and generalizability of the percentage of a population that belongs to that category.

This leads in to other results obtained in this chapter. The main result is, as noted above, that analysts are affected by their national context. The categories, however, can be seen as a result in themselves. Due to their objectifiable nature, they are potentially useful in other types of research done on users of accounting. It should be noted here that the existence of the categories are partly supported by empirical material discussed in Section 8.1 (for example Tables 8.1, 8.3, 8.5, and 8.6).

There is also a methodological conclusion from this chapter, based on a difference between interview accounts and reports that was noted in the analysis. Overall, analysts do give the impression in the reports that they do believe in accounting. Thus, the skeptical view of accounting that is taken in the soft data and corporate governance categories, is not reflected in the reports, and there is thus a difference in the view of accounting that is reflected in the interviews compared to the reports. One explanation for this may be, as noted above, that interviews reflect a process, and reports reflect the outcome. Also, the incentives affecting analysts may suggest that they should show a traditionally rational reasoning in the reports, because clients expect and want that. The somewhat critical approach reflected in the soft data and corporate governance categories may not be appreciated. Therefore, a possible methodological conclusion from this chapter is that interviews are better suited for a deep-level classification than reports are.

The approach taken in this chapter, as well as the results obtained, differ from previous research in international accounting (see also Section 2.3). One strain of research has focused on how accounting systems differ (Nobes, 1992; Weetman and Gray, 1991; Puxty et al, 1987). In those studies, the focus is on producers and regulators of accounting. This is covered in Section 4.3 in this dissertation. Another strain of research is focused on how accounting diversity creates problems for accounting users (Choi and Levich, 1990). In Choi and Levich, there is an implicit assumption that users are similar across the globe. This is also studied in Chapter Eight of this dissertation. This Chapter Nine, on the other hand, represents one of the first studies that correlates differences in accounting users to differences in accounting systems.

The results in this chapter have some implications for accounting practice. For example, companies that obtain capital globally should at the very least notice that investors and analysts may differ depending on what country they operate from. The chapter also provides some guidance as to what the differences may be.