

Chapter Six

Analysis of Contextual Effects on Reporting Companies

Relating back to the framework presented in Section 1.3, this chapter covers Approach 1, which is the relationship between context and sender (cf. Figure 1.1). In Section 1.3 a specific research issue operationalization is given which applies to this chapter, and it is operationalization number 1. Since this chapter covers senders and context, those two concepts require some discussion.

Senders are publicly listed Swedish companies, as covered in Section 4.1. Context is national environment, and of primary interest here are the stock market and accounting environments. Swedish companies can choose to enter a non-Swedish stock market environment. With such a choice, it follows that companies also enter a non-Swedish accounting environment. It was indicated in Section 4.4 that there are differences between countries both in terms of stock markets and in terms of accounting. The issue then becomes what role international accounting diversity plays in companies' choices on which stock market environments to be present on.

It should be noted here that a non-Swedish stock market environment can be entered in two different ways. The first, and most obvious is through a listing on a non-Swedish stock exchange. The second way includes trying to attract foreign investors to the Stockholm Stock Exchange. This can be done, for instance, through having an active investor relations department which communicates with non-Swedish investors and analysts. However, all companies actually studied in this chapter are listed on at least one non-Swedish stock exchange.

The empirical material used in this chapter is interviews with Swedish company representatives (defined as sender interviews in Section 5.1). The annual reports from the companies where interviewees work were also studied (report studies are discussed in Section 5.2).

In Chapter Seven it is shown that the Swedish accounting system *has* made a noticeable change in the content of Swedish financial statements. In this Chapter Six, the focus is on how individual companies cope with the fact that

they interact with users in different contexts. Unlike Chapter Nine, where the contextual effects make possible a classification of interviewees, the interviewees here are in one, single context. These interviewees are, however, exposed to different contexts.

The analysis in this chapter combines aspects of both the use of pre-defined and the generation of categories. The analysis model used (presented in Section 6.1) is based on both the empirical material itself, and on existing literature. Overall, however, interviewees' statements are taken at face-value in this chapter, and little effort is expended on discovering the underlying thought processes of interviewees. In that respect, the interview analysis in this chapter differs from those in Section 8.2 and Chapter Nine.

The potential results of this chapter are two-fold. First, we get some idea of the relative importance of the various elements in the model, which constitute the bulk of the empirical findings. Second, the usefulness of the model is tested, so we see whether it can be used in future research. Of course, the model involves substantial simplification, but it may still be useful for providing structure and insight into a complex reality.

The development of the analysis model is discussed in Section 6.1. The actual empirical analysis is depicted in Section 6.2, and the chapter ends with a conclusion in Section 6.3.

6.1. Development of the Analysis Model

In this section, an analysis model is developed, which is applied in the empirical analysis in Section 6.2. The model is based both on cursory analysis of the empirical material, and on prior literature (especially Choi and Levich, 1990, pp. 74-78). The model is stated as an objective function (Takayama, 1993, p. 75).

On a general level, companies can be assumed to want to maximize benefits, and minimize costs, and this is likely to apply to the choice of which stock market context to be present on. There are reasons, i.e. benefits, associated with entering non-Swedish stock market contexts. Perhaps the most obvious benefit is cheaper financing (through access to more investors, higher liquidity of shares, etc.). This benefit has been recognized as important in practice for some time (Rydén, 1988). There are also other benefits, as suggested by the interviewees. Such non-financing benefits include better employee relations, and improved international marketing.

There are, of course, also costs associated with being in non-Swedish contexts. The main ones, that we are interested in, are accounting-related costs⁶¹. These include both information preparation costs and competitive costs (Choi and Levich, 1990, p. 77). But there are also other potential costs that are pointed out by interviewees, such as legal costs.

Assuming that we see the choice of entering a non-Swedish stock market context as a project, companies will undertake this project if it is likely that benefits exceed costs. Thus, we get the following model:

$$B_F + B_O \geq C_A + C_O$$

where

B_F = Benefits from Financing

B_O = Benefits, Other

C_A = Costs from Accounting

C_O = Costs, Other

In the model, benefits from financing are broken out as a separate variable, since they are assumed to be the primary benefit. Benefits from financing are simply lower capital costs. Costs from accounting are also separated in the model, because it is the variable of primary interest in this dissertation. Costs from accounting are costs resulting from international accounting diversity.

Since costs from accounting are essential, we can isolate C_A on one side of the inequality:

$$C_A \leq B_F + B_O - C_O$$

As noted, we are primarily interested in C_A , but we can also learn something indirectly about C_A by investigating how important the other three items are. In this study, we cannot quantify the four variables, but we can somewhat gauge their relative importance.

6.2. Analysis of the Empirical Material

The empirical material used is interviews with Swedish company representatives, as well as annual reports from the companies represented in the inter-

⁶¹ Törnqvist (1997, p. 58) indicates that the demands put upon annual reports increase with the globalization of capital markets.

views. The two empirical studies cover the same time period. The interviews were conducted in December of 1993, and the reports were for 1993. Thus, the reports studied were being worked on in the companies at the time of the interviews. In the analysis presented in this chapter, the interviews were analyzed first⁶². As a second step, annual reports were studied, as a means to support or contradict statements made in the interviews.

The coding applied to the interview protocols in this chapter are based on each of the four elements in the model in Section 6.1. For each element there was a search for interviewee statements about what generates these costs and benefits, as well as how important they are. Results relating to accounting costs are reported in Section 6.2.1, while results relating to the other three elements are given in Section 6.2.2. Apart from these four codes, additional coding was used for the general question of the usefulness of international accounting harmonization, for which results are reported in Section 6.2.3.

Stock Market	Co. A	Co. B	Co. C	Co. D	Co. E
London, UK	X	X	X	X	X
Nasdaq, US	(planned)	X	X	X	X
Frankfurt, Germany			X		X
Düsseldorf, Germany			X		X
Hamburg, Germany			X		X
Paris, France		X	X	X	X
Zürich, Switzerland		X	X	X	X
Basel, Switzerland		X	X	X	X
Geneva, Switzerland		X	X	X	X
Oslo, Norway					X
Tokyo, Japan					X
Brussels, Belgium					X
Antwerp, Belgium					X

Source: Companies' 1993 Annual Reports.

	Co. A	Co. B	Co. C	Co. D	Co. E
Percentage of foreign ownership	38%	33%	43%	40%	19%

Source: Companies' 1993 Annual Reports, and Bohlin and Carlsson, 1994.

Before these results are shown, however, some background findings from the report study are given here. Table 6.1 describes where the shares of the com-

⁶² The analysis of the interviews was done using the computer program Nud.Ist, which allows for a coding structure to be applied to the interview protocols.

panies included in the study were listed at the time of the study. Only non-Swedish listings are shown. All companies were also listed on the Stockholm Stock Exchange. As evidenced in Table 6.1, all companies included in the study are listed on at least one non-Swedish exchange. Table 6.2 shows the percentage of foreign ownership for the companies. Additional information on the entire population of public, Swedish companies followed by non-Swedish analysts is included in Section 4.1.

6.2.1. Accounting Issues

This section covers issues that relate to accounting costs, that is the item C_A in the model presented in Section 6.1. Results apply to two separate levels, both to the Swedish accounting system in general, and to specific companies.

Regarding the first level, interview replies cover differences between Swedish accounting and accounting in other countries, and whether there are real differences underlying the accounting diversity. In addition, interviewees' views of what international investors want from Swedish annual reports is covered.

Generally, the interviewees are of the opinion that Swedish accounting does not differ very much from UK, US, or IASC-based accounting. It is pointed out that US GAAP or IAS's involve higher requirements than Swedish accounting. However, since the Swedish accounting system has minimum standards, and it is possible to go beyond these, it is generally possible to follow US GAAP and IAS's without going against Swedish regulation. If US GAAP or IAS's is followed, Swedish accounting requirements are largely met. The reverse is not true, however.

Additional evidence that IAS's and US GAAP can be largely followed within a Swedish regulatory framework is provided by the report study. When it comes to formatting, one company provides summarized parent company financial statements. However, there was some debate in Sweden whether such a presentation is in accordance with good accounting practice in Sweden⁶³. Three other companies show three years of data for their income statement and statement of cash flows (in line with US requirements).

Regarding accounting principles, the report study shows that one company states that the financial statements are essentially in compliance with IAS's. Several companies mention that specific US accounting standards are followed, the most common being SFAS 52, 106, and 109. Thus, it seems to be

⁶³ The background to the debate is that Swedish companies are required to provide parent company financial statements, while no such requirements exist under US GAAP or IAS's.

true that IAS's and US GAAP can be partly followed even when financial statements comply with Swedish regulation.

A few specific items are mentioned where there are differences on a general level between US GAAP/IASC and Swedish accounting, and these are goodwill, deferred tax, and pension liabilities. The last two items are seen as real economic differences, however, and are thus not classifiable as pure accounting diversity. Some interviewees mention that untaxed reserves used to be a very important difference, which is now removed. Findings from the report study on differences reported by companies are shown below among specific items.

Interviewees also answered questions on how they perceive that their annual reports are used by non-Swedish users. Four out of five of the Swedish companies included in the study prepared a US GAAP footnote at the time of the interviews. The general opinion is that investors use the Swedish accounting numbers rather than US GAAP numbers, and that it is the Swedish numbers that affect the stock price. It is mentioned that US GAAP was used more before untaxed reserves were removed from Swedish financial statements.

Regarding questions received by companies from investors and analysts, interviewees do not notice any differences between questions from Swedish and non-Swedish users, at least not relating to accounting diversity. The following quotes⁶⁴ are typical:

Questions that we get about accounting mostly relate to the Swedish tax system, but they are not questions about accounting per se (S7).

There are no differences regarding what questions are asked by Swedish and foreign investors. The only difference is that foreign investors ask some questions about Sweden (S8).

One interviewee notes that US investors tend to put more emphasis on quarterly results, which make quarterly reports more important than they are for Swedish investors. Another respondent points to the fact that some foreign investors are more interested in dividend levels than Swedish investors are. This is said to be caused by the fact that some foreign investors have invest-

⁶⁴ The quotes do not give a word-by-word account of what was said by interviewees. Rather, they are quotes from interview protocols, produced as described in Section 5.1. In addition, the sender interviews were conducted in Swedish, so these quotes represent translations to English. The coding system for interviewee identification is depicted in Section 5.1.

ment restrictions, such as requirements that a minimum level of their return comes from dividends.

As discussed in the beginning of this section, there are also results applicable to a specific company level. On that level, we cover companies' overall harmonization approach, specific issues that arise in accounting harmonization, accounting translation costs, and competitive costs related to accounting harmonization.

All companies say that they are harmonizing their accounting to so called international standards, which is either US GAAP or IAS's. The harmonization permeates the entire accounting systems in these companies, in that information received from subsidiaries is being harmonized. Thus, harmonization is not just achieved through high-level, corporate accounting adjustments, as shown by the following quote:

Internally, accounting directives with instructions for subsidiaries are used ... In these instructions, US GAAP is followed to the extent possible (S3).

A slight distinction is noticed between two separate methods used by Swedish companies to harmonize. In the first method, accounting is produced according to US GAAP or IAS internally, and then adjustments are made to follow Swedish regulatory requirements. In the second method, companies start with Swedish accounting, and then make adjustments to harmonize with US GAAP or IAS. The distinction is indicated by the following quotes:

The annual report is produced according to a manual that is based on US GAAP ... There are no major problems involved in adjusting according to Swedish tax laws (S4).

Internally, Swedish accounting principles are used ... For US GAAP, additional information is received from subsidiaries on a special form (S5).

A few specific accounting issues are mentioned by interviewees as interesting or noticeable in the international harmonization process. Regarding format, all companies have exactly the same information in the English and Swedish versions of their annual report. Another format issue is how much emphasis is put on parent company financial statements in the annual report. One Swedish company only included summarized parent company information, which is also shown in the report study.

There are also some accounting principle issues mentioned which apply to the specific companies studied. Three interviewees mention that foreign currency reporting is a hybrid between Swedish accounting and US GAAP. Other areas where differences are found are capitalization of research and development, goodwill, capitalization of certain fixed assets, and deferred taxes. Many interviewees also mention that their company removed untaxed reserves before it was required by Swedish accounting standards.

Four of the five companies included in the report study present US GAAP information, so it is therefore possible to examine the differences between US GAAP and Swedish accounting in more detail. This is done for the entire population of public, Swedish companies in Section 4.3. When interpreting results for the five companies included here, it is important to remember that these companies have partly harmonized to US GAAP in their Swedish financial statements. Therefore, the differences actually found here are smaller than they might be for companies that have not yet harmonized to the same extent. The effect on net income and owners' equity of adjustments made are shown in Tables 6.3 and 6.4.

Item	Co. B	Co. C	Co. D ²	Co. E ²	Average ³
Total	-36,0%	73,2%	-96,7%	-184,7%	98,0%
Foreign currencies	14,4%		-129,6%	24,3%	42,1%
Income taxes	-21,1%	-17,8%	-43,2%	17,1%	24,8%
Pensions	-3,6%	-0,7%	36,6%		10,2%
Business combinations		-0,5%		-27,4%	7,0%
Development costs		38,0%			9,5%
Fixed assets		1,7%	39,6%	18,1%	14,8%
Capitalized interest		0,4%	3,9%	1,1%	1,4%
Shares and participations				-11,6%	2,9%
Leasing				-1,2%	0,3%
Cumulative effect of changes in accounting principles	-25,7%	52,2%		-202,3%	70,0%
Other			-3,9%	-3,0%	1,7%

1. The numbers provided in the table are calculated as percentages of US GAAP numbers above or below the Swedish income number. The 'Total' line indicates difference between Swedish and US GAAP net income. The other lines indicate size of adjustments relating to specific items in relation to Swedish net income. Company A is not included, since no US GAAP information was included in the 1993 report.
2. The sign of the numbers for Companies D and E are reversed, since the Swedish income was negative in 1993.
3. This is the average of the absolute numbers. All four companies are included, whether or not they adjust for the specific item.

Table 6.4. Balance sheet differences between Swedish accounting and US GAAP¹					
Item	Co. B	Co. C ²	Co. D	Co. E	Average ³
Total	-11,1%	6,8%	-8,4%	6,5%	8,2%
Foreign currencies			0,3%	-9,9%	3,4%
Income taxes	-2,1%		3,4%	7,8%	4,4%
Pensions	-2,1%		-0,7%		0,9%
Business combinations	-7,2%			3,5%	3,6%
Fixed assets	-1,0%		-12,0%	3,7%	5,6%
Capitalized interest			0,6%	0,9%	0,5%
Shares and participations	1,4%			4,0%	1,8%
Leasing				-0,8%	0,3%
Other				-2,7%	0,9%

1. The numbers provided in the table are calculated as percentages of US GAAP numbers above or below the Swedish equity number. The 'Total' line indicates difference between Swedish and US GAAP equity. The other lines indicate size of adjustments relating to specific items in relation to Swedish equity. Company A is not included, since no US GAAP information was included in the 1993 report.

2. Company C does not specify adjustments made to shareholders equity.

3. This is the average of the absolute numbers. All three companies that specify adjustments are included, whether or not they adjust for the specific item.

The tables show that there are substantial differences between US GAAP and Swedish accounting numbers. These differences persist in spite of the fact that the companies studied here partially have adapted their primary financial statements to US GAAP. In addition, the tables show that the items mentioned by interviewees (see above) actually are the most important.

Choi and Mueller (1992, pp. 312-323) define various strategies that companies can follow when adapting their accounting to the demands of foreign users. The companies in this study follow a hybrid between restating their primary financial statements, and presenting additional disclosure (as secondary financial statements). The primary financial statements are restated to the extent it is possible within Swedish regulatory restraints, at least for some companies. However, the Swedish influence is still definitely noticeable, and additional disclosure for foreign readers is presented for example in US GAAP footnotes.

Perhaps the most interesting issue for the purposes of this study is what interviewees say about costs associated with accounting harmonization. Several interviewees mention costs associated with producing US GAAP information. For companies listed on a US stock exchange, there are costs associated with

producing a Form 20-F report⁶⁵. However, respondents point out that pure accounting costs are relatively minor, and that the largest costs associated with Form 20-F are legal costs. A typical statement is:

Regarding costs for harmonization of accounting, the production of 20-F is the largest item. The entire production of this document is expensive, and lawyers are a big share of the cost. However, it is more of a cost of being listed in the US, than a pure accounting cost (S3).

Some interviewees mention that employees have to spend some time translating to US GAAP, which would be a pure accounting cost. One also mentions that consultants are used for some of the US GAAP calculations. Thus, there is a real cost associated with accounting harmonization. The size of the cost is estimated by one interviewee as “a couple of million SEK per year” (S2). It is understandable that such a cost is not seen as very significant for companies with annual sales amounting to tens of billions of SEK.

Some internal benefits resulting from a US GAAP translation are mentioned in the interviews. One benefit is that it raises the knowledge level of the accounting department. In those cases where US GAAP gives a fairer presentation⁶⁶ than Swedish accounting does, using US GAAP may increase subsidiaries’ awareness of actual costs. A third benefit mentioned is that US GAAP has well-defined rules, so that guidelines for accounting treatments are specified for many different situations. These benefits do not, however, appear to be large enough to induce companies to translate to US GAAP had it not been for other benefits from a US listing and/or US GAAP translation.

Interviewees do not see any competitive costs associated with accounting harmonization, as shown by the following quote:

The use of US GAAP is not a competitive disadvantage in terms of competitors obtaining useful information about the company. The annual report is on such an aggregated level that competitors cannot use the numbers to strengthen their position (S4).

6.2.2. Non-Accounting Issues

⁶⁵ Form 20-F is a report that has to be filed by non-US companies listed on a US stock exchange to the Securities and Exchange Commission. In essence a Form 20-F is an annual report, with some additional information provided.

⁶⁶ How to define the concept of ‘fair presentation’ is not a trivial matter. Note that the concept is used here by the interviewees, so that they themselves seem to have some idea of what it means, at least with regards to their own company. No claim is made in this chapter that the researcher has produced a definition of the concept.

As suggested by the model presented in Section 6.1, non-accounting issues studied are benefits from financing, other benefits, and non-accounting costs.

Companies' financing costs decrease when their stock price increases⁶⁷. In practice, this becomes apparent when new shares are issued. However, it can also apply when borrowing is used, as suggested by the following quote:

A high stock price is an advantage when the company needs to borrow money, since the price indicates the existence of hidden assets in the company (S2).

Interviewees mention several ways in which attracting foreign investors can increase the stock price. First, it is done by attracting new investors, that increases price through higher demand. Second, foreign investors increase the liquidity of shares. Third, a wider base of investors leads to less variation in stock price. These last two effects indirectly lead to a higher stock price, through a reduction in risk. Fourth, a larger following by foreign analysts can increase investor interest in a stock. Whether or not these effects are real, they are at least perceived as benefits by interviewees.

It should be noted that none of the interviewees mentions an actual issue of new shares on a non-Swedish stock market. However, in the report study there are some indications that this is happening⁶⁸. One company, who decided to list in the US, stated that the purpose of the listing is to make shares more available to US investors. Another company issued convertible debentures, and these instruments were quoted both in Stockholm and on Nasdaq.

Based on the interviews, the financing benefits noted above only apply to listings in London and on Nasdaq, and not to other non-Swedish markets. Those two markets have benefits beyond Stockholm, because they are larger. Several interviewees mention that the Stockholm Stock Exchange is too small for their companies' needs. The relative importance of different stock markets can be gauged from the report study. Table 6.5 shows percentage of turnover of shares on different exchanges. Interviewees' statements are supported by the table. Stockholm and London are very dominant, Nasdaq is

⁶⁷ Theoretically, assuming a given level of future cash flows from a company, a higher stock price implicitly leads to a lower return (i.e. capital cost) required by investors. Of course, to the extent that a higher stock price is driven by expectations of higher future cash flows, the required return does not change. It is higher stock prices driven by lower return requirements that are of interest in this section.

⁶⁸ As shown by Didner (1993, p. 116), a number of Swedish companies issued shares outside Sweden in the 1981-1990 period.

sometimes beneficial for financing, and other exchanges have no relevance for financing purposes.

Stock exchange	Co. A	Co. B	Co. C	Co. D	Co. E
Stockholm	46.7%	46.5%	26.0%	42.8%	61.8%
London	53.3%	52.1%	31.0%	57.2%	35.4%
Nasdaq	Not listed	1.4%	42.0%	Insignif.	2.7%
Other	Not listed	Insignif.	1.0%	Insignif.	Insignif.

Source: Companies' 1993 Annual Reports.

Even though interviewees in this study focused only on financing benefits resulting from listings on non-Swedish exchanges, benefits could be realized without such a listing. Companies can attract non-Swedish investors to the Stockholm Stock Exchange by adapting their accounting to the requirements of such investors. However, since all companies in this study are listed outside Sweden, it is understandable that interviewees focused on the non-Swedish stock markets.

There are also other benefits than those related to financing that are perceived by companies when they put themselves in non-Swedish contexts. Several respondents point to the marketing⁶⁹ value of a non-Swedish stock listing. A listing in a country leads to more media attention in that country. This, in turn, facilitates local sales, cooperation with local business, and local recruiting. One interviewee mentioned that these benefits are large enough, that foreign listings would be done even if the financing benefits were non-existent. Frankfurt is mentioned as an example of a stock market where listings are made for non-financing reasons. As with financing benefits, other benefits may be realized through adapting accounting to non-Swedish recipients, even if a stock listing is not part of the strategy.

The last issue covered is non-accounting costs. As noted in Section 6.2.1, many interviewees note that legal costs⁷⁰ are significant. This is especially the case for stock listings in the United States, where legal costs exceed accounting-related costs. Another cost mentioned is management time used for communication with foreign investors. One such cost may be that a larger

⁶⁹ Marketing is used here in a general sense, including marketing of companies' products and services, and name recognition. Thus, it is a wider concept than marketing of companies' shares, which is rather included as benefits from financing.

⁷⁰ Legal costs can be seen as accounting costs in a wide sense, since, for listed companies, legal costs are often related to the reliability of accounting numbers. Here, however, a distinction is made between information preparation costs and competitive costs on the one hand, and legal costs on the other.

investor relations department is required when companies try to attract non-Swedish investors.

6.2.3. Desirability of Harmonization

The question of the desirability of harmonization was asked to analysts interviewed (Section 8.1.3), and it was also asked to the Swedish company representatives. In Choi and Levich (1990) responses to a similar question were seen as the essential finding. The responses in the current study fall into two categories, as shown in Table 6.6.

Table 6.6. Is Accounting Harmonization Desirable?	
Response	Number of Interviewees
Yes, it is desirable	7
No, since accounting is not important	1

Table 6.6 shows that almost all interviewees would like to see accounting harmonization. It is also indicated by the following quotes:

Harmonization of accounting would be an advantage. It would decrease uncertainty for investors, and be better for companies (S1).

A harmonization of accounting in the world is desirable to increase the comprehension of annual reports. At least the basic principles should be the same (S2).

Some interviewees are less direct in their responses, but are still classified in the yes category, for example:

Swedish accounting does not give a fairer view of this company than US GAAP does (S3).

The above quote is classified as a yes, since this respondent does not see any obstacle to simply replacing Swedish accounting with US GAAP. In addition, the company where the interviewee works is attempting to harmonize its accounting to US GAAP to the extent possible within the constraints of Swedish law, so in its actions it is clearly positive towards harmonization. The classification of one interviewee into the no category is based on the following quote:

Accounting is not a major issue for investors ... Whether accounting is done according to US GAAP or not is not a big issue for investors (S6).

This quote could indicate that harmonization is possible, since it does not matter which national accounting framework is used. It is interpreted as a no here, however, since the statement that accounting does not matter would seem to indicate that it really does not matter very much whether accounting numbers are harmonized or not.

As shown in several of the interview quotes given in this section, interviewees focus on benefits accounting *users* will or will not derive from accounting harmonization. Company representatives do not see harmonization as necessary for the companies themselves. This is consistent with the view that accounting costs are but a small part of the overall cost for companies when entering different national contexts. Accounting diversity may have a larger impact on users of accounting, as indicated in Chapters Eight and Nine.

6.3. Conclusion

This section is organized in the following way. First, there is a summary of empirical results, as well as implications of these results. Second, there is a note on the usefulness for future research of the model used in this chapter. Third, there is a discussion of reliability, validity, and generalizability of results.

The main empirical issue in the chapter is whether, and to what extent, Swedish companies are affected by international accounting diversity when directing their annual reports to non-Swedish readers. With the model used, this issue is studied both directly and indirectly. First, it is studied directly, through an assessment of accounting costs. Second, it is studied indirectly through estimates of benefits and non-accounting costs.

The direct study shows that there are real accounting costs, but they seem to be of limited importance. Information preparation costs are incurred, which is evidenced by the substantial harmonization process that the companies included in the study are involved in. The potential for incurring such costs exists, since there are real differences between Swedish accounting, and for example US GAAP. However, interviewees are unanimous in stating that these costs are of limited importance. No competitive costs related to accounting harmonization were noted in the study.

In the indirect study, an estimate of accounting costs are derived indirectly as benefits minus non-accounting costs, resulting from being in different national contexts. Many interviewees see non-accounting costs as significant, and the most important by far are legal costs. Such costs are especially incurred when company shares are listed in the United States.

Companies see substantial benefits from entering different national contexts. There are non-financing benefits, such as improved non-Swedish business and employee relations. There are also financing benefits from attracting non-Swedish investors, due to increased demand for company shares, higher liquidity of shares, and a broader investor base. Increased demand lowers financing costs through higher stock prices. High liquidity and a broad investor base reduce the risk level of company stock, which in turn decreases financing costs.

To conclude, interviewees do see substantial benefits from their companies' entering different contexts. These benefits are perceived as real, economic benefits. Thus, companies would be willing to incur accounting costs in order to realize these benefits. However, this willingness is decreased by the fact that there are substantial legal costs, at least with regards to listing on a US exchange. The indirect study points to the potential willingness to incur accounting costs in order to realize benefits, but it is difficult to quantify this potential willingness. Further, as the model presented in Section 6.1 is an inequality, a large potential only puts an upper limit on actual accounting costs, it does not make certain that actual costs are as large as the potential.

As noted in previous sections of this chapter, a company strategy of entering different national contexts can both include and not include a non-Swedish stock listing. In this study, interviewees used non-Swedish stock listings as examples when they discussed non-accounting costs, and benefits. The findings could generally apply to the case of no such listings, however. The main difference would be that the legal (non-accounting) costs would be significantly lower.

An additional empirical finding is that an overwhelming majority of interviewees do see accounting harmonization as desirable. However, they imply that it is needed for the benefits of users, rather for their own companies' benefits. This is consistent with a limited impact on reporting companies of accounting diversity.

So what are the implications of the findings? For one, foreign stock listings can be done both for financing and for other reasons. In the sample studied here, it is interesting to note that only listings in London, and to some extent Nasdaq, are done for financing reasons. Listings on other exchanges are primarily done for improving local business and employee relations.

Another implication is that accounting considerations appear to play only a minor role in Swedish companies' considerations of what foreign exchanges to list on. Legal costs are the main obstacle for a US listing. This is an interesting finding, since there has been a debate in the United States about to what extent non-US companies choose not to list in the US due to the SEC's requirements that US GAAP must be followed (Harris et al, 1994). For Swedish companies, this does not apply. Rather, high legal costs are more worrisome. It should be noted here that Swedish interviewees see a potential problem for German companies in providing US GAAP information. Thus, as in both Chapters Eight and Nine, Germany is seen as a special case in the international accounting arena.

Regarding financial reasons for entering non-Swedish contexts, interviewees assume that stock markets are not perfect markets. For example, in the imperfect real world it may not be possible to obtain large amounts of financing in a small market. Thus, attracting non-Swedish investors leads to lower capital costs. This assumes that investors are unable or unwilling to make investments outside their home market, especially if the company attracts investors through a foreign stock listing. This behavior on the part of investors is consistent with Simon's (1976) concept of bounded rationality. It is, however, inconsistent with the concepts of complete and perfect capital markets.

In addition, interviewees mention an information reason for foreign listings. A listing leads to the local press giving more attention to the company. This assumes imperfect information transfers across national borders in capital markets. This behavior is also consistent with Simon's bounded rationality, but it is inconsistent with the efficient market hypothesis in the semi-strong form. It is unclear at this point what the impact of this is when financial theories are applied to international capital markets.

There is also an implication in this chapter for the analysis done in Chapter Seven. Several interviewees mention that untaxed reserves were an important accounting difference between Sweden and other countries. This is a justification for undertaking the analysis in Chapter Seven. It also supports the findings in that chapter (Section 7.3).

Regarding the model developed in Section 6.1, it is a potential research contribution in itself, since it may be useful for future research in the field. The model, albeit a very simple one, does give some structure to this type of research, and it is shown in this chapter that the model is useful when applied to empirical material. However, if the model is going to be used for quantified measurements of the costs and benefits included, it must be supplemented with substantial methodological development.

Another point on the model is related to the fact that we are primarily interested in accounting costs. It is likely that such costs are mostly related to the magnitude of financing benefits, and to a much smaller extent affected by other benefits. This is because non-financing users are probably not very concerned with the details of accounting. However, the model should not be divided into two separate models, since benefits from financing are related to non-accounting costs, in addition to accounting costs.

After presenting a summary of findings in this chapter, reliability, validity, and generalizability of the findings need to be considered. Regarding reliability, it is possible that a different researcher would interpret interview responses differently than what is done here. An attempt is made, however, to make the interpretation explicit, for example, by using quotes, in order to enable the reader to evaluate the reasonableness of interpretations made.

Potential validity problems arise from the fact that interviewees may not want to provide the answers that they themselves see as most accurate to questions asked. On the other hand, in the absence of obvious incentives to provide 'false' statements, no such general validity problems are assumed. There are some additional, more specific points, however.

Interviewees say their companies have a small cost for translation of accounting. Often, they mean there is an insignificant cost for preparing, for example, a US GAAP footnote. However, companies have gradually harmonized their reporting systems, so the costs are accumulated over time. All these companies have a policy of gradual harmonization, so the cost may not be that apparent. It is likely that the largest costs of harmonization appear at the point in time when systems have to be changed in order to accommodate the harmonization, and that the costs of maintaining the systems is substantially smaller. For this reason, actual accounting costs are likely to be understated in this study.

There is another reason why actual accounting costs could be understated in this study. Only external financial reporting aspects are studied here. International accounting diversity also causes other problems for companies, such as difficulties in consolidation of foreign subsidiaries and international performance evaluation within companies⁷¹. Of course, interviewees from investor relations departments are unlikely to touch upon such issues, and such issues were not the focus of the interviews conducted for this dissertation. Overall, then, it is likely that the actual accounting cost is somewhat higher than that shown in this study.

Generalizability of results is another issue. This study includes five Swedish companies. Generalizability can be attempted, for example, to the population of Swedish companies listed on the Stockholm Stock Exchange. It could also include private companies that issue shares to foreign investors, or that have debt outside Sweden. Alternatively, the population could be all multi-listed companies, on a global level.

In a Swedish context, the companies in the study are not representative or randomly selected. Rather, they were selected based on the fact that they are *more* international than the average Swedish company. They are also substantially larger than the average company. The selection of companies can be expected to have the following effects when compared to the total population of listed Swedish companies:

- International companies have to harmonize more than small ones, and therefore the accounting effect for the entire population is overstated.
- International companies have harmonized anyway (for marketing reasons, to consolidate foreign subsidiaries, etc.), and therefore the accounting effect on the population is understated by the sample selected here.
- Large companies are less affected by accounting costs than small companies, since such costs constitute a small part of sales, total costs, etc. Therefore, the accounting effect is understated.

Thus, we can conclude that further research is necessary in order to assess whether findings in this study apply to the entire population of listed Swedish companies.

In a global context, we can discuss whether the results in this chapter apply to other companies that are in a similar situation to the ones studied here. The five companies included here are relatively large (three of the five companies are among the top 500 in the World (Fortune, 1996)), they have significant

⁷¹ The internal usage of accounting by Swedish multinational companies is discussed, for example, by Törnqvist (1997).

international activities, and are multi-listed. It is likely that the findings would apply to companies with those characteristics, if they are headquartered in a country with an accounting system that is similar to the Swedish one. For the purposes of this study, the two essential characteristics of the Swedish accounting system are:

1. It differs from systems dominant in global financial centers.
2. It gives companies enough leeway to allow for, at least partial, harmonization of primary financial statements.

Countries such as the US and UK violate the first characteristic, since they tend to define those accounting principles towards which companies from other countries harmonize. Germany would be an example of a country that violates the second characteristic⁷². Examples of countries which are similar to Sweden in this respect include the Nordic countries (Denmark, Finland, and Norway), and perhaps France. It is likely that the findings in this chapter are generalizable to multi-listed companies from this last group of countries.

⁷² There are recent signs that Germany is starting to allow its most international companies to harmonize their accounting to international standards, see for example Moberg (1997).