Earnings Quality: Ten Years after SOX, LSF and IFRS Adoptions Evidence from French firms (SBF 250) and American firms (Fortune 500)

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Abstract

Historically, the United States and France do not have the same financial and accounting characteristics and have not adopted the same accounting standards. Previous researches classify them as two completely different systems. However, during the last decenary we are witnessing reconciliation between the two countries on many levels. At the regulatory level, LSF French Act (2003) is often called French SOX (by reference to the American Sorbonne Oxley Act of 2002). At the institutional level, the creation of the ANC in 2010 is seen as the "French FASB". Regarding the accounting standards, the reconciliation between US GAAP and IFRS is witnessed since 2002. From such reconciliations, we predict a similarity in accounting disclosures in general and earnings quality in particular. From a sample of 4030 firm–year observations (from 2004 to 2013) we concluded that the seven proxies of earnings quality of American and French firms differ. All reconciliations were not close earnings quality of French and American companies. After the classification of the proxies into three class (accounting, accruals and market proxies), we have found that the earnings quality of French companies is higher than that of US firms in terms of accounting and accruals proxies while Americans companies are better in terms of market proxies.

Keywords: Earnings Quality, proxies, LSF, SOX, Accounting proxies, Predictability, Persistence, Smoothness, Accruals, Value relevance, Timeliness, TLR, TPR, Conservatism, IFRS, US GAAP.

I. Introduction

During the last years, the concept of accounting quality has been discussed widely. Earnings quality, which is a part of accounting quality, refers to how well the reported earnings represent real (economic) company performance. But there is still no agreement about its definition and measurement, making it an elusive concept (Dichev, I. D., and W. Tang, 2009). Earnings are viewed of higher quality, if they accurately characterize the amount by which shareholder value has increased or decreased during the period. Several factors can influence earnings quality of French and American companies. Among these factors, we find law and investor protection.

A variety of complex factors created the conditions and culture in which a series of large corporate frauds occurred between 2000 and 2002. The spectacular, highly publicized frauds at Enron, WorldCom, and Tyco in United States and Credit Lyonnais and Elf in France exposed significant problems with conflicts of interest and incentive compensation practices.

The Sarbanes–Oxley Act of 2002 (Pub.L. 107–204, 116 Stat. 745, enacted July 30, 2002), also known as the "Public Company Accounting Reform and Investor Protection Act" (in the Senate) and "Corporate and Auditing Accountability and Responsibility Act" (in the House) and more commonly called Sarbanes–Oxley or Sarbox or SOX, is a United States federal law that set new or enhanced standards for all U.S. public company boards, management and public accounting firms. There are also a number of provisions of the Act that also apply to privately held companies, for example the willful destruction of evidence to impede a Federal investigation.

The Financial Security Act (no. 2003-706) was passed by the French parliament on 1 August 2003 to address a crisis of investor confidence that first emerged in the USA with the Enron and WorldCom affairs and then spread to France with the likes of Vivendi. The act obliged companies listed in France to abide by financial transparency and risk management rules. It also required them to provide investors with comprehensive information and made their managers more accountable for signing off on the company accounts.

Similar to the American Sarbanes–Oxley Act, the Financial Security Law of France rests mainly on:

- An increased responsibility of leaders.
- A strengthening of internal control.
- A reduction in the sources of conflicts of interest.

Historically, the United States and France do not have the same financial and accounting characteristics and have not adopted the same accounting standards. Previous research classifies them as two completely different systems: Anglo-Saxon model against continental model, investor referral system against state and taxation system, micro-economic model against macroeconomic model, etc.

However, since the 1990s, the United States and France have seen a succession of scandals related to practices that address the qualitative characteristics of accounting information disclosed. In the United States the case of Enron, WorldCom, Tyco and Xerox are just some examples of a multitude of cases of manipulation of accounting figures, oriented financial arrangements and inadequacies in governance mechanisms.

In France, Crédit Lyonnais losses were $ 130 billion. Pechiney manager manipulate 200,000 shares value following a takeover operation. Another dramatic scandal was the one that hit in 1999 the CEO of Elf Aquitaine. While he had failed on the redemption of Total and Elf was absorbed instead by the latter, he enjoyed a severance payment of several million euros. Since then, numerous scandals have punctuated the news and were followed by legislative intervention on several occasions.

Faced with these situations, legislators and regulatory institutions in the two countries have stepped in to oversee accounting practices, strengthen the responsibilities of the auditors (internal and external) and officers limit the abuse of power leaders , strengthen governance mechanisms and restoring confidence in financial markets.

On the legislative front, the US Congress passed the 2002 the SOX law. In France, the "New Economic Regulations -2001 Act" more commonly called NRE Act (2001) attempted to establish a new balance of power within corporations rather deeply modifying the operating rules of the governing organizations. Two years later, Act No. 2003-706 of 1 August 2003 on financial security (known by the abbreviation "LSF") was adopted. This law, often called the French SOX, has the same objectives than US law.

On the normative level, France has since 2005 adopted the international accounting standards (IFRS), while the US GAAP until now remained standards for the United States. These two standards are considered the only ones to take an international dimension. In addition, since 2010 the French authorities set up "the Authority for Standardization Accountant" (ANC) named the French FASB.

This paper discusses the influence of all these circumstances on various Earnings Quality proxies. Specifically, we seek to know which financial reporting framework that produces a better Earnings Quality: US reference (based on US GAAP and US laws) or French standards (based on IFRS and French legislation). In addition, we want to know whether the institutional and normative reconciliation have narrowed the gap between the Earnings Quality proxies of French and US companies.

II. Literature Review and Research Hypothesises

II.1 How to Measure Earning Quality?

The concept of earnings quality is fundamental in accounting and financial analysis. Yet, there are deep disagreements about how to define and measure it. The list of candidate measures is long: earnings persistence, predictability, asymmetric loss recognition, various forms of benchmark beating, smoothness, magnitude of accruals, income-increasing accruals, absolute value of discretionary or abnormal accruals, etc. Complicating the measurement of earnings quality, archival research cannot satisfactorily parse out the portion of managed earnings from the portion resulting from the fundamental earnings process (Dechow, Ge and Schrand 2010).

Earnings predictability is one of the "best" proxies of earning quality (Dichev, I. D., and W. Tang, 2009). Financial statements are designed to provide value-relevant information for investors (and other users). Investors are using accounting information to evaluate the current performance of a particular firm of interest and then to predict its future prospects. Therefore, high earning quality should enable investors and financial analysts to better anticipate a firm's future performance and solvency.

A number of definitions of 'earning quality' are given in the literature. For example, Diamond and Verrecchia (1991) define earning quality as the accuracy of investors' beliefs about stock prices following the earnings disclosure. King (1996) defines it as the degree of self-interested bias in corporate disclosure. Hopkins (1996) consider earnings quality as the extent to which current and potential investors can read and interpret the information easily.

Measuring investors' perception of the firm's earning quality is not an easy task (Healy and Palepu, 2001). They review academic papers that consider different proxies for the quality of corporate disclosures. They categorise these proxies into three groups: management forecasts, subjective ratings and self-constructed indices. Other studies use computer software packages to automate the generation of the disclosure scores for a large sample of firms (Hussainey et al, 2003).

Furthermore, considerable attention has been given to examining the association between disclosure quality and the stock market's ability to anticipate future earnings (e.g. Schleicher and Walker, 1999; Lundholm and Myers, 2002; Gelb and Zarowin, 2002; Hussainey et al., 2003; Schleicher et al., 2007 and Hussainey and Walker, 2009). These researches find that the stock market's ability to anticipate future annual earnings changes is significantly improved when the firm provides higher levels of disclosure (earnings in particular).

From the foregoing, we retain seven proxies of earnings quality. Before any advanced analysis, we should verify that all theses proxies are relevant.

Hypothesis 1: persistence, predictability, accruals quality, smoothness, value relevance, timeliness and conservatism are relevant proxies of earnings quality.

II.2 Which better stimulates Earnings Quality: US GAAP or IFRS?

Sawcen and Hakim (2014) investigated the effect of mandatory adoption of International Financial Reporting Standards (IFRS) on the value relevance of earnings and the book value of equity of seven countries between 2008 and 2012. The results suggested that despite the strength in the overall explanatory power of the model during the two periods, the role of EPS became observable in the post-adoption of IFRS period. By conducting further analysis, the results highlighted that the increase of the value level are positively influenced by a common law legal system, a high level of external economic openness, a strong investor protection, a full protection of minority shareholders and by a sophisticated capital market.

Lionel E. and Reda S. (2008) focus on assessing the value relevance of US-GAAP and IFRS. However, unlike the work of the formers who made their comparison on a single financial market, they study was based on two different institutional models, namely the American market and the French market. Aware of the potential bias due to the characteristics of each of these two markets (Barth and Clinch,1996), their objective was to compare the usefulness of earnings by the association between them and the stock price. Their research question try to find out in what combination [US GAAP American market] or [IFRS, French Market], the association between earnings and stock prices is the more important? They find that earnings and book equity under IFRS more correlate with shares price and return.

Regarding to the previous studies we suppose that French companies, which adopted IFRS, has a better earnings quality than American companies which adopted US GAAP.
Hypothesis 2: All market proxies of earnings quality of French firms are better than those of US companies.

II.3 Earnings Quality after LSF 2003 and SOX 2002

Lobo and Zhou (2006) show that SOX has resulted in lower discretionary accruals and increased conservatism in the post-SOX period. Heflin and Hsu (2008) investigate the use of non general accepted accounting principles (GAAP) earnings forecasts to meet or beat analyst forecasts and find that this use has declined significantly after SOX. Bartov and Cohen (2006) also find that the propensity to meet or beat forecasts has declined post - SOX. Furthermore, they find that the use of abnormal accruals to meet or beat forecasts has also declined in the same period.

Lobo and Zhou (2006) have shown that accruals-based earnings management has decreased after SOX while Cohen et al. (2008) find no change in “real earnings management” using advertising expenses. Hence, we turn to the market to investigate whether its perception of accruals quality has improved after SOX. We use a four factor Fama French model (Fama and French, 1993), which applies the three traditional Fama French factors (market returns, small minus big factor, and high-low book to-market factor) supplemented by a fourth factor. The fourth factor is a measure of the market perception of accruals quality. This measure, also referred to as E-loading, was developed by Ecker et al. (2006). E-loading is similar to the firm's beta and acts as a market-based measure of accruals quality. It measures the sensitivity of the firm's daily abnormal returns to a time-specific return representation based on firm-specific accruals quality. E-loading is based on Francis et al. (2005) who find that the risk premium is higher for firms with poor accruals quality. Therefore, in essence, E-loading is the premium investors set because of the inherent risk in firm earnings due to the confounding effects on accruals quality (the accruals measure is computed using the Dechow and Dichev (2002) measure).

Overall, the market reaction to SOX has been favourable. For example, Chang et al. (2006) document that stock markets reacted favourably during the lead up to the implementation of the Act. Li et al. (2008) conduct an event study around the passing of SOX legislation and find that the stock markets reacted favourably. Further, Jain et al. (2006) find that the stock market liquidity improved after SOX.

SOX have also attracted some criticism. The audit fees for public firms have increased by around 25-100 percent (Coustan et al., 2004). Firms spent, on average, $4.36 million to comply with the various requirements of the Act. Zhang (2007) claims that publicly traded firms lost $1.4 trillion of their market value around the legislative implementation of SOX. In January 2007, Jim Clark, the founder of Netscape, resigned as chair of Shutterfly, an online photo printing service, citing "the constraints imposed by Sarbanes–Oxley on (his) having any significant role on the board (McCarthy, 2007)." A report commissioned by Senator Charles Schumer and Mayor Michael Bloomberg finds that SOX has resulted in foreign firms being driven out of USA stock exchanges (McKinsey and Company, 2007).

Ballester and Livnat (1997), Giner and Rees (1999) and Ely and Waymire (1999) report mixed results with respect to changes in the value-relevance of financial information after regulatory changes. None of these studies, however, incorporated the possible impact of fundamental economic factors on the temporal changes in value-relevance of accounting information, as is done by Collins, Maydew and Weiss (1997) and Lev and Zarowin (1999). In a New Zealand, Owusu-Ansah and Yeoh (2005) investigate the effect of the new Act named "FRA" on mandatory disclosure practices of New Zealand companies. Comparing the disclosure practices of fifty listed companies between the pre- and post-FRA regimes, they find that corporate disclosure levels after the enactment of the FRA are significantly higher than disclosure levels before its enactment. Yeoh (2005) assesses the degree of compliance with annual report mandatory disclosure requirements by New Zealand listed companies from 1996 to 1998 and finds a high degree of compliance with the requirements. However, it is difficult to determine whether this is a regulatory effect, as there is no matching of companies between the pre- and post-FRA regimes.

Ben Slama (2010) conducted her study on two samples, respectively of French firms listed on the SBF 250 and American firms listed on the Fortune 500 over the period (1998-2007). The results confirm a significant impact of new governance regulations on earnings quality proxies. The positive impact of LSF (2003) on the timely recognition of bad news seems to be reversed following the transition to IFRS in 2005 which negatively affects accounting conservatism. The two regulations seem to have a contradictory effect on the earnings perception by the financial market. SOX is followed by an improvement of the association between accounting earnings and stock returns referring to a possible reinforcement of market confidence on the quality of accounting information. This association appears to deteriorate during the post – LSF period.

According to the previous studies, we suppose that no significant differences between French and US companies.
Hypothesis 3: No significant differences between the Earnings Quality of French and American firms.

III. Research Design

III.1 Model specification

Prior studies have examined earnings quality using either a single attribute of earnings or a subset of earnings attributes. In a recent survey on earnings quality, Dechow, Ge and Schrand (2010) argue that there is no superior measure of earnings quality and that alternative measures cannot be treated as substitutes. Moreover, because of the difficulty in measuring earnings quality and to minimize the potential effects of omitted variables, in the present research, we use several measures. This paper employs seven regression models to estimate earnings quality for French and American companies after more than ten years of regulatory reform and IFRS adoption. The seven earnings attributes (proxies) are : persistence (PERS), predictability (PRED), accruals quality (AQ), smoothness (SMOOTH), value relevance (RELEV), timeliness (TIMEL), and conservatism (CONSERV) as in Francis, LaFond, Olsson, and Schipper (2004).

These seven proxies are classified into three groups: accounting proxies (PERS and PRED), accruals proxies (AQ and SMOOTH) and market proxies (RELEV, TIMEL and CONSERV)

Table 1: Proxies of Earnings Quality

Class 1 : Accounting Proxies
Predictability Proxy: R^2 from : $NI\_t1 = \alpha_{i,t} + \beta_1 NI\_t0 + v_{,i,\,t1}$ Persistence Proxy: β_1 *From:* $NI\_t1 = \alpha_{i,t} + \beta_1 NI\_t0 + v_{,i,\,t1}$
Class 2 : Accruals Proxies
Accruals Quality: R^2 *from :* $ACT_{j,t1}/TA_{j,t0} = \alpha_{j,t} + \beta_1 [\Delta VAC_{j,t1}/TA_{j,t0}] + \beta_2 [IMMO_{j,t1}/TA_{j,t0}] + \varepsilon_{j,t1}$ Smoothness : $SMOOTH_{i,t1} = \dfrac{\delta\left(NI\_t1_i / TA_{i,t0}\right)}{\delta\left(CFE_{i,t1} / TA_{i,t0}\right)}$
Class 3 : Market Proxies
Earnings Conservatism R^2 *from :* $NI\_t1 = \alpha_0 + \alpha_1 D_{i,t1} + \beta_1 Ret_{i,t1} + \beta_2 D_{i,t}.Ret_{i,t1} + \varepsilon_{i,t1}$ Value Relevance R^2 *from :* $Ret_{i,t1} = \alpha_0 + \beta_1 NI\_t1_i + \varepsilon_{i,t1}$ Timeliness : $Time\ Profit\ Recognation\ (TPR)$: $\beta_1 from\ Conservatism\ model$ $Time\ Loss\ Recognation\ (TLR)$: $\beta_2 from\ Conservatism\ model$)

NI_t0 : Net Income before extraordenary elements during t0
NI_t1 : Net Income before extraordenary elements during t1.
Ret : Return = (Share Price on t1 – Share Price on t0+ Dividend) /Share Priceon t 0.
V_Rev_V_AR : Variation of Revenu and Account Receivable.
IMMO: Fixed Assets .
USA (FR) : dummy Variable = 1 if the company is an american firm (french firm) and 0 otherwise.
Accruals : NI – Cash Flow.
D: Dummy variable =1 if Ret<0 qnd 0 if Ret >0

III.2 Data

The present study uses a sample of French and American companies collected from EBSCO data base and we supplement missing data from many web sites (Boursarama; NYSE, etc.). After elimination of financial companies and firm which do not have the necessary information during the study period, the final sample was limited to 142 listed companies issued from France and 261 listed companies issued from USA. The number of usable observations used in the present study is 4030 firm-years for the period 2004-2013. The sample is divided into four sectors (Energy, Technology, Services, and Factory).

Table 2: Descriptive Statistics

Variables	Firm Years Observation	Mean	Std Dev.	Min	Max
NI_t0	4030	0.0390714	0.1893814	-1.98568	2.331818
NI_t1	4030	0.0512012	0.3534986	-1.94425	2.894976
Ret	4030	0.1091376	0.5924691	-1.73239	4.818444
V_Rev_V_AR	4030	0.0306739	0.419318	2.320233	3.709833
IMMO	4030	0.1978769	0.3339695	.000204	6.489209
Accruals	4030	0.0105871	0.1615944	-1.63253	1.90335

Table 3: Sample Per Sector & Country

Sector	France		USA		Total	
Energy	6	4,20%	56	21,45%	62	15,36%
Technology	49	34,50%	46	17,63%	95	23,56%
Services	43	30,30%	110	42,15%	153	38,00%
Factory	44	31,00%	49	18,77%	93	23,08%
Total	142	100%	261	100%	403	100%

Table 4: Correlation Matrix

	NI_t0	NI_t1	Ret	Var_Rev_AR	IMMO	Accruals
NI_t0	1					
NI_t1	**0.2134** **(0.0000)*** **	1				
Ret	**-0.036** **(0.0218)** **	**0.5759** **(0.0000)*** **	1			
Var_Rev_AR	**-0.0836** **(0.0000)*** **	0.0161 -0.3104	0.0132 -0.4077	1		
IMMO	**0.1122** **(0.0000)*** **	**0.0928** **(0.0000)*** **	**0.0365** **(0.0268)** **	-0.0153 -0.3373	1	
Accruals	**-0.0571** **(0.0002)*** **	**-0.019** **(0.0067)*** **	0.0223 -0.163	**0.3001** **(0.0000)*** **	**0.3147** **(0.0000)*** **	1

*** , ** and * denote statistical significance at 1% , 5% and 10% levels, respectively.

Table 5 : Test of Proxy Relevance

Proxy	Specification	Test of Proxy Relevance	R^2	Coef. of Independent Variables
Accounting Proxies				
Predictability	Fixed Effect	Wald chi2(1) = 169.35 **Prob > chi2 = 0.0000**	18,29%	NI_t0 = 0,392 ***
Persistence	Random Effect	Wald chi2(1) = 169.35 Prob > chi2 = 0.0000	18,29%	NI_t0 = 0,392***

Accruals Proxies				
Accruals	Fixed Effect	chi2(2) = 10.29 **Prob>chi2 = 0.0058**	22,27 %	V_Rev 0,109*** IMMO : 0,191***
Market Proxies				
Conservatism	Fixed Effect	F(3,3615) = 56.54 **Prob > F = 0.0000**	40 %	D : -0,185*** Ret : 0,312*** D_Ret : -0,240***
Timeliness	Fixed Effect	F(3,3615) = 56.54 **Prob > F = 0.0000**	40 %	D : -0,185*** Ret : 0,312*** D_Ret : -0,240***
Value Relevance	Fixed Effect	F(1,3626) = 21.273 **Prob > F = 0.0000**	37%	NI_t1 : 0,899***

Table 6: Difference Between the EQ of French and US Firms

Proxy	France	USA	Diff. (Test Chow)
Accounting Proxies			
Predictability Persistence	R² = 42% Coef. BN_t0=(0.697)*** (t-stat. = 32.07)	R²= 6% Coef. BN_t0=(0.326)*** (t-stat. = 8.29)	chi2(1)= (13.20)*** Prob>chi2= 0.0003
Accruals Proxies			
Accruals Quality	R² = 39% Coef. V_Rev_V_AR=(0. 126)*** (t-stat. = 27.41) Coef. IMMO=(0.206)*** (t-stat. = 7.72)	R² = 20,63% Coef. V_Rev_V_AR=(0. 101)*** (t-stat. = 14.99) Coef. IMMO=(0.177)*** (t-stat. = 19.86)	F = (21.61)*** Prob> F = 0.0000
Smoothness	1,592	1,269	F = 2.46 Prob> F = 0.1178
Market Proxies			
Conservatism	R² = 25% Coef. D= - 0.06***(t-stat. = -6.49) Coef. Ret= 0.026 (t-stat. = 0.7) Coef. D_Ret= 0.79**(t-stat. = 1.96)	R² = 42% Coef. D= - 0.248***(t-stat. = -12.08) Coef. Ret=0.291***(t-stat. = 23.77) Coef. D_Ret= - 0. 266** (t-stat. = -5.10)	chi2(1) = (6.59)*** Prob>chi2= 0.01
Value Relevance	R² = 11,22% Coef. NI_t1= 0.438*** (t-stat. = 10.21)	R² = 38,22% Coef. NI_t1= 0.938*** (t-stat. = 38.3)	F= (4.98)*** Prob> F = 0.00
Timeliness-TPR	Coef. Ret=0.026 (t-stat. = 0.7)	Coef. Ret=0.291*** (t-stat. = 23.77)	chi2(2) = (6.48)*** Prob> F = 0.00
Timeliness-TLR	Coef. D_Ret=0.79** (t-stat. = 1.96)	Coef. D_Ret= - 0. 266** (t-stat. = -5.10)	chi2(2) = (6.48)*** Prob> F = 0.00

*** , ** and * denote statistical significance at 1% , 5% and 10% levels, respectively.

IV. Results and Discussion

IV.1 All proxies of Earnings Quality are relevant and all are discriminating except "Smoothness."

Table 5 shows that all proxies are relevant at the level of 1%. Consequently, we accept the hypothesis 1 (persistence, predictability, accruals quality, smoothness, value relevance, timeliness and conservatism are a relevant proxies of earnings quality)

However, table 6 shows that among the seven surveyed proxies, smoothness are not disclose a significant segregation between US companies and French companies (the two samples of

firms are statistically identical). However, this proxy exceeds unit for both sample this justifies the absence of the smoothing phenomenon.

We explain the absence of smoothing phenomenon by the role of the provisions of SOX and LSF 2003 laws in 2002 that empower more leaders and strengthen governance mechanisms. Moreover, the leaders pulled the lesson management results that were originally scandals experienced in the 2000s.

IV.2 A higher level of conservatism with superiority to US companies

Faithful to its accounting and financial traditions, the United States are an Anglo-Saxon countries, with a financial market orientation, characterized by a high level of conservatism. Conservatism is the equivalent of caution, reflecting the preference for a rather pessimistic approach to uncertain future events.

Indeed, our results show that the conservatism level measured by the R^2 of Basu model (1997) is 24.86% for French companies against 42% for US companies. Ben Slama (2010) reports that SOX (2002) was more effective in terms of conservatism that was more pronounced in the United - States after period of financial scandals harder for American companies compared to French companies.

In France, when the SOX in the US was met with a strong positive response from financial investors (Rezaee and Jain, 2006), the stock market has been quite timid reaction to LSF law (Ben Slama, 2010). The same author showed that the LSF Act 2003 improved the conservatism of French companies for two years (2003 and 2005) and its impact was mitigated by the adoption of IFRS that have significantly reduced it.

IV.3 All groups of Earnings Quality proxies (accounting, accruals and market proxies) are relevant and discriminating

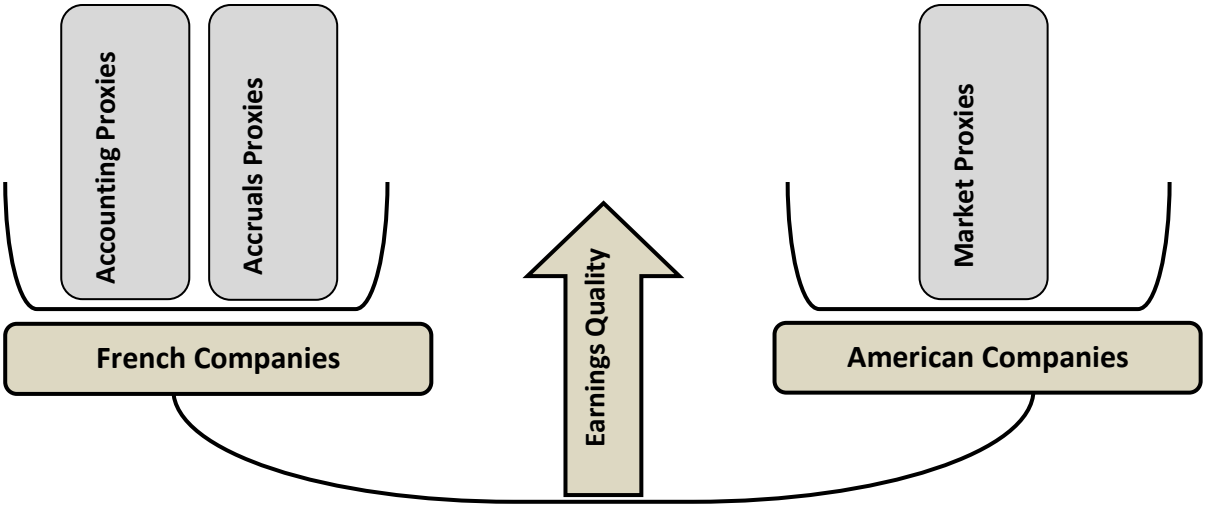
The classification of proxies in three classes (accounting, accruals, and market proxies) is particularly appropriate. In other words, in the same class of proxies, we do not find any proxy that favors a country and another proxy favors another country. In this sense, all the proxies of the same class favor either US or French companies. This proves the right choice of proxies, the right classification and the relevance of all proxies retained.

For the first class (accounting proxies), it shows a large difference between the French and American companies in terms of persistence and predictability of earnings. Both proxies justify supremacy of French companies. The last class (market proxies) promotes American enterprises. The level of conservatism, the information content and timeliness of US corporate earnings are largely better than those of French companies.

In conclusion, comparing the Earnings Quality of French companies and the US companies brings up supremacy of French companies in terms of accounting and accruals (class 1 and 2). However, market proxies of Earnings Quality of US companies are much higher than those of French companies.

The figure below shows the earnings quality as a balance which measures the qualitative differences of the information disclosed by French and American companies according to different class of proxies.

Earnings Quality Proxies: French Companies Vs American Companies



Despite four proxies (from seven) and two-thirds of the class of earnings quality in favor of French companies, this does not mean that earnings quality of French companies is better than US companies. In this sense, the earnings quality is a multidimensional concept whose appraisal sometimes depends on the user of accounting information. An investor can choose companies with a higher earnings quality in market terms (American company). In this case, he chose companies whose accounting information are strongly associated with stock returns. This allows him to predict share price and stock performance accurately. Unlike, a lender is looking to grow its resources in companies that generate a regular earnings (persistence) and predictable (predictability). Obviously, persistence and predictability of earnings must be natural and not due to a smoothing practices. Therefore, it backer refers to accounting and accruals proxies to assess the earnings quality of the concerned company. In our case, the user of accounting information may choose French companies.

V. Conclusion

To measure the earnings quality we have identified seven proxies divided into three class: accounting, market and accruals proxies. This classification has proved relevant since each class was discriminatory and allowed to emphasize either the American or French companies.

The inter - country study allowed us to highlight the fact that we cannot judge the superiority of accounting standards or regulations system in relation to another because each was more effective on the specific features of earnings quality. Despite the reconciliation between France and the US in the regulatory and normative level, French and US accounting systems do not produce the same earnings quality.

All proxies and all classes of earnings quality offered information on a significant difference between French and American companies. Indeed, in terms of accounting accruals proxies and the earnings quality of French companies is more flourishing than US companies. However, American companies take over in terms of financial proxies.

Several reasons are behind these results. For accounting proxies, US GAAP (United States) is based on rules, offering fewer choices and demanding more details as opposed to IFRS that are based on concepts, offering more choice and recommend less detail. On the stock market, the United States is a country with market orientation where companies are looking to

transmit a signal that attracts more investor (privileged user). Finally, the cultural factor (mainly through individualism and professionalism) can also be the source of his differences.

These results show that the notion of earnings quality is a contingent concept intimately linked to accounting dissimilarities, specificity of financial market of each country, culture, regulation, etc.

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