

# The Impact of Anglo-American Accounting Model and the Continental Model on Potential Harmonization

Ihejirika, Emmanuel, MBA, DBA

Associate Professor of Accounting and Chair of MBA Programs

Lincoln University, Pennsylvania, United States, America

DOI: <https://doi.org/10.5281/zenodo.15813099>

Published Date: 05-July-2025

---

**Abstract:** This study examines the comparative impact of the Anglo-American and Continental European accounting models on the process of international accounting harmonization. Rooted in contrasting economic ideologies, with the Anglo-American model reflecting market-driven capitalism (Smith, 1776) and the Continental model reflecting state-oriented structures (Marx, 1867), these frameworks shape divergent approaches to financial reporting, regulation, and disclosure. Using a structured literature review and comparative analysis, the study explores key differences across legal systems, cultural influences, financing structures, and disclosure practices that affect the adoption and implementation of International Financial Reporting Standards (IFRS). The Anglo-American model, characterized by transparency, flexibility, and strong professional independence, aligns closely with IFRS principles, facilitating smoother convergence (Alexander et al., 2003; PricewaterhouseCoopers, 2007). In contrast, the Continental model emphasizes conservatism, creditor protection, and statutory control, posing challenges to uniform IFRS adoption (Gray, 1988; Nobes & Parker, 1998). A simplified statistical analysis using ordinal scoring highlights consistent differences but reveals that quantitative disparities alone may not fully capture the complexities influencing harmonization. The findings suggest that while significant structural and cultural differences remain, targeted adaptation and institutional cooperation can enhance global harmonization efforts. This study contributes to the discourse on accounting convergence by clarifying how foundational systemic differences influence harmonization feasibility, providing insights for policymakers, multinational corporations, and educators navigating the evolving landscape of international financial reporting.

**Keywords:** international accounting, differences in accounting, accounting environment, harmonization, IFRS Convergence.

---

## I. INTRODUCTION

The globalization of capital markets has intensified the need for harmonized accounting standards to ensure comparability, transparency, and reliability of financial reporting across borders. However, significant national differences rooted in economic systems, legal traditions, and cultural values have posed challenges to global harmonization efforts (Nobes & Parker, 1998; Walton & Haller, 1998). This research investigates the potential correlation between the Anglo-American accounting model and the Continental European model and their respective impacts on the progress of accounting harmonization.

The Anglo-American model, prevalent in countries like the United States and the United Kingdom, emphasizes investor-oriented reporting, market-driven capital raising, and the strong presence of a professional accounting body that operates under principles-based standards (Alexander et al., 2003). In contrast, the Continental European model, observed in countries such as Germany, France, and Belgium, prioritizes creditor protection, debt financing through banks, and government-led, rules-based regulation of accounting practices (Nobes & Parker, 1998). These structural differences often

stem from the primary sources of financing within these countries, with equity financing and dispersed ownership driving transparency in Anglo-American systems, while debt financing and concentrated ownership structures foster conservative reporting in Continental systems (Nobes & Parker, 1998; Walker, 1976).

Cultural factors further compound these differences. Gray (1988) identifies key cultural dimensions influencing accounting systems globally, including professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism, and secrecy versus transparency. Anglo-American countries tend to value professional judgment, flexibility, optimism, and transparency, aligning with the principles-based nature of IFRS and market-driven reporting needs. In contrast, Continental European countries exhibit statutory control, uniformity, conservatism, and secrecy, reflecting cautious reporting aligned with creditor and tax authority requirements (Gray, 1988).

Given these complexities, prior studies have shown mixed results regarding the benefits and limitations of the Anglo-American model relative to the Continental model in facilitating harmonization. While IFRS convergence initiatives have made strides globally, the deep-seated differences in cultural, economic, and legal systems continue to influence the degree to which harmonization can be effectively achieved (PricewaterhouseCoopers, 2007; Douppnik, 2005).

This research, therefore, aims to conduct a comparative analysis of the Anglo-American and Continental accounting models to evaluate their impact on potential harmonization processes. It explores whether these systemic differences can be reconciled within the global push for accounting convergence and whether their ideological and structural foundations enable or impede the realization of truly harmonized international accounting standards.

Globalization has intensified the demand for comparable financial information across borders, driving the harmonization of accounting standards. However, differences rooted in economic systems, legal traditions, and cultural factors remain central obstacles. The Anglo-American model, emphasizing transparency, investor protection, and capital market efficiency, contrasts with the Continental European model, which prioritizes creditor protection, taxation alignment, and conservative reporting. Understanding these distinctions and their impacts on harmonization efforts is essential for stakeholders, including regulators, investors, and multinational corporations, seeking to navigate the complexities of international financial reporting.

## II. PURPOSE OF RESEARCH

The purpose of this research is to examine the impact of the Anglo-American accounting model and the Continental European model on the prospects of international accounting harmonization, particularly under IFRS convergence initiatives. The study aims to identify how these models' legal, cultural, and financial system differences influence the harmonization process and to evaluate whether these differences can be reconciled to achieve meaningful comparability in global financial reporting. Despite increasing globalization, international accounting harmonization remains uneven due to national differences in accounting models. The Anglo-American (Common Law, principles-based) and Continental (Code Law, rules-based) models significantly differ in regulation, stakeholder orientation, and disclosure practices. Critics argue these differences hinder harmonization, while proponents believe convergence under IFRS is possible. This study seeks to analyze whether these foundational accounting models impede or support potential harmonization efforts in global financial reporting.

**Table 1: Comparison of Anglo-American and Continental European Accounting Models**

Aspect	Anglo-American Model (Market-Oriented)	Continental European Model (State-Oriented)	Citation
<b>Economic Ideology</b>	Capitalism; market-driven resource allocation, minimal government intervention	Socialism/State-capitalism; government-controlled planning and regulation	Smith (1776); Marx (1867); Alexander et al. (2003)
<b>Legal System</b>	Common Law; case law, professional self-regulation	Code Law; statutory regulation, government involvement	Nobes & Parker (1998); Walker (1976)
<b>Accounting Orientation</b>	Investor-focused, transparency, relevance, fair value measurement	Creditor and tax authority-focused, conservatism, legal form over substance	Gray (1988); Walton & Haller (1998)
<b>Role of Accounting Profession</b>	Strong, independent, principles-based standard setting	Weaker, state-controlled, rules-based standard setting	Alexander et al. (2003)

Aspect	Anglo-American Model (Market-Oriented)	Continental European Model (State-Oriented)	Citation
Source of Financing	Equity markets; dispersed ownership structures	Debt financing; bank-dominated systems, concentrated ownership	Nobes & Parker (1998); Walker (1976)
Disclosure Practices	Extensive public disclosure to satisfy investors	Limited disclosure prioritizing creditors and tax authorities	Bushman & Smith (2003); Gray (1988)
Regulatory Environment	Private sector-led (e.g., FASB, ASB)	Government-led, legalistic, codified accounting laws	Walton & Haller (1998); Alexander et al. (2003)
Cultural Values (Gray's Framework)	Professionalism, flexibility, optimism, transparency	Statutory control, uniformity, conservatism, secrecy	Gray (1988)
IFRS Convergence Compatibility	High; aligns with principles-based IFRS approach, facilitating adoption	Lower; requires adjustments due to statutory and tax-linked practices	PricewaterhouseCoopers (2007); Douppnik (2005)
Measurement Focus	Emphasis on fair value and economic substance	Historical cost, conservative asset valuations	Nobes & Parker (1998); Walker (1976)
Investor vs. Creditor Orientation	Primarily investor-focused, prioritizing decision-usefulness of financial statements	Primarily creditor and tax authority-focused, emphasizing prudence and compliance	Alexander e

### III. RESERCH QUESTIONS

**RQ1.** How do the Anglo-American and Continental accounting models differ in principles, practices, and stakeholder focus?

**RQ3.** What is the impact of these differences on accounting harmonization under IFRS convergence efforts?

**RQ3.** To what extent can these differences be reconciled to support global financial reporting comparability?

### IV. HYPOTHESES

**H1:** There is a significant relationship between the foundational accounting models (Anglo-American and Continental) and the pace and quality of accounting harmonization.

**H2:** The Anglo-American model facilitates harmonization more effectively than the Continental model due to its investor-oriented disclosure practices.

**H3:** Despite systemic differences, convergence initiatives under IFRS can mitigate disparities between these models, supporting global harmonization.

### V. LITERATURE REVIEW

This study investigates whether the structural and cultural differences between the Anglo-American and Continental European accounting models impact the progress and feasibility of international accounting harmonization, analysing these impacts in the context of IFRS convergence, stakeholder interests, and global capital market integration.

#### *Economic Ideologies and Accounting Frameworks*

Capitalism and socialism provide the ideological foundations for the Anglo-American and Continental European accounting models, respectively. Capitalism emphasizes market-driven decisions with minimal government interference, enabling transparency and investor-oriented reporting aligned with Adam Smith's "invisible hand" (Smith, 1776). In contrast, socialism, rooted in Marxist thought, underscores state control, central planning, and wealth redistribution (Marx, 1867), which aligns with the government-driven accounting structures of the Continental model.

#### *These ideological underpinnings shape accounting practices*

Anglo-American systems, reflecting capitalist ideologies, emphasize transparency, investor focus, and market efficiency (Alexander et al., 2003; Walton & Haller, 1998).

Continental systems, rooted in state-centric governance, focus on creditor protection, tax conformity, and conservative financial reporting (Nobes & Parker, 1998; Gray, 1988).

**Table 2: Ideological Foundations**

Dimension	Anglo-American Model	Continental European Model
Economic Ideology	Capitalism (Smith, 1776)	Socialism/State Influence (Marx, 1867)
Key Economist	Adam Smith	Karl Marx
Market Orientation	Market-driven allocation	State-directed allocation
Government Role	Limited government intervention	Extensive government control

**Citations:** Smith (1776); Marx (1867); Alexander et al. (2003); Walton & Haller (1998).

**Legal Systems and Regulatory Environments**

Common law systems (Anglo-American) develop through case law, emphasizing professional judgment and flexible application of principles (Walker, 1976; Nobes & Parker, 1998).

Code law systems (Continental) enforce detailed statutory regulation, often limiting professional discretion in favor of uniformity and state control (Alexander et al., 2003).

**Table 3: Legal Systems and Regulatory Environments**

Aspect	Anglo-American Model	Continental European Model
Legal System	Common Law (case law evolution)	Code Law (statutory regulations)
Standard Setting	Private bodies (FASB, ASB)	State-driven legislative frameworks
Flexibility	High, principles-based standards	Low, rules-based standards

**Citations:** Walker (1976); Nobes & Parker (1998); Alexander et al. (2003).

**Disclosure Practices and Measurement Focus**

**The Anglo-American model promotes:**

Extensive disclosure to meet investor needs.

Fair-value measurement emphasizing economic substance.

Principles-based standards conducive to IFRS alignment (PricewaterhouseCoopers, 2007; Bushman & Smith, 2003).

**The Continental model prioritizes:**

Limited disclosure aligned with creditor protection.

Conservative, historical cost measurement.

Rules-based standards that challenge IFRS convergence (Gray, 1988; Nobes & Parker, 1998).

**Table 4: Disclosure and Measurement Practices**

Aspect	Anglo-American Model	Continental European Model
Disclosure Level	Extensive public disclosure	Limited disclosure, creditor-focused
Measurement Focus	Fair value, economic substance	Historical cost, conservative
IFRS Alignment	High compatibility with IFRS	Lower compatibility, challenging convergence

**Citations:** PricewaterhouseCoopers (2007); Bushman & Smith (2003); Gray (1988); Nobes & Parker (1998).

**Cultural Influences**

Using Gray’s (1988) and Hofstede’s (1980) frameworks:

Anglo-American cultures value optimism, transparency, and flexibility.

Continental cultures exhibit conservatism, secrecy, and uniformity, impacting financial reporting and comparability.

**Table 5: Cultural Influences (Gray & Hofstede Frameworks)**

Cultural Dimension	Anglo-American Model	Continental European Model
Transparency	High	Low
Conservatism	Low	High
Flexibility	High	Low
Secrecy	Low	High

**Citations:** Gray (1988); Hofstede (1980).

### ***IFRS Convergence***

The Norwalk Agreement (2002) and EU’s IFRS adoption (2005) advanced convergence, yet systemic differences between these models create challenges:

Anglo-American systems adapt more readily due to their principles-based, market-driven frameworks.

Continental systems face obstacles due to legalistic, tax-oriented structures (Doupnik, 2005; PricewaterhouseCoopers, 2007).

**Table 6: IFRS Convergence Adaptation**

Aspect	Anglo-American Model	Continental European Model
IFRS Adoption	Early, smooth adoption	Slower, selective adoption
Convergence Challenges	Few; principles-based alignment	Significant; rules-based barriers
Framework Alignment	Market-oriented, investor-focused	State-oriented, creditor-focused

**Citations:** Doupnik (2005); PricewaterhouseCoopers (2007); Walker (1976).

### ***Capitalism vs. Socialism: Ideological Foundations***

Capitalism, rooted in Adam Smith’s concept of the invisible hand (*Smith, 1776*), promotes market-driven allocation of resources, limited government intervention, and private investment-driven growth. In contrast, socialism, advanced by Karl Marx, emphasizes government ownership and central planning (*Marx, 1867*).

These ideologies underpin the Anglo-American and Continental accounting models:

The Anglo-American model aligns with capitalist ideals, emphasizing investor protection, strong professional judgment, and transparent disclosures driven by capital market needs (*Alexander et al., 2003; Walton & Haller, 1998*).

The Continental model reflects state-influenced systems, prioritizing creditor protection, taxation alignment, and legal compliance over market-driven disclosures (*Nobes & Parker, 1998; Gray, 1988*).

### ***Accounting Models and Harmonization Challenges***

Gray (1988) highlights cultural dimensions influencing accounting systems, noting Anglo-Saxon countries’ preference for transparency and optimism, while Continental countries exhibit conservatism and secrecy. Hofstede (1980) similarly links high uncertainty avoidance in Continental Europe to conservative accounting practices.

Nobes and Parker (1998) argue that the source of financing (equity vs. debt) significantly impacts accounting systems: equity-financed systems (Anglo-American) encourage transparent, fair-value-based reporting, while debt-financed systems (Continental) emphasize conservative, tax-aligned reporting.

### ***IFRS Convergence and Institutional Frameworks***

The IASB and FASB’s Norwalk Agreement (2002) initiated IFRS convergence efforts, with the EU mandating IFRS adoption in 2005 and the SEC exploring convergence strategies (*PricewaterhouseCoopers, 2007; Doupnik, 2005*). However, differences in legal systems—common law (Anglo-American) vs. code law (Continental)—create friction in uniform adoption (*Walker, 1976*).

### ***The Role of Institutional Stakeholders***

Governments, accounting bodies, investors, and financial institutions shape harmonization outcomes:

Anglo-American systems leverage private accounting bodies (e.g., FASB, ASB) for standard setting.

Continental systems employ state-driven legislation for accounting regulations.

Investors demand comparability and transparency, pushing for harmonization despite systemic differences (*Bushman & Smith, 2003*).

### **Cost-Benefit Considerations in Harmonization**

While IFRS aims to lower the cost of capital and facilitate cross-border investment, critics argue that implementation costs and complexity may outweigh benefits, particularly for SMEs (*Evans et al., 2005*). Differences in conservatism, measurement practices, and disclosure create challenges in achieving substantial equivalence between national GAAP and IFRS (*Walker, 1976; Litan, 2002*).

### **Limitations**

The study uses secondary data, which may not fully capture recent country-specific reforms.

The scope is limited to publicly listed companies in Anglo-Saxon and Continental European countries.

It does not analyse in-depth the implementation challenges in developing economies or specific industry effects.

## **VI. METHODOLOGY**

This study utilizes a comparative qualitative methodology supported by structured descriptive statistics. The approach integrates: Extensive Literature Review: Drawing from seminal works (Gray, 1988; Hofstede, 1980; Nobes & Parker, 1998; Walker, 1976) to identify cultural, legal, and institutional factors influencing accounting systems.

### **Data Collection and Structuring:**

- Literature-derived qualitative attributes are systematically converted into ordinal numerical scores to facilitate comparative analysis between Anglo-American and Continental European models.
- Document analysis includes IFRS convergence progress (EU Directives, SEC roadmaps, FASB-IASB Memorandum of Understanding).
- Thematic categorization of accounting attributes (e.g., conservatism vs. transparency, flexibility vs. statutory rigidity) to map systemic differences.

Table-Based Comparative Frameworks were used to:

- Analyze and visualize key differences between the models.
- Examine their impacts on harmonization under IFRS.
- Assess the alignment of each model with IFRS principles through structured scoring.

**Table 7: Literature Data Structuring for Testing**

Using literature-derived data from Walker (1976), Gray (1988), Nobes & Parker (1998), PricewaterhouseCoopers (2007), and others, we can convert qualitative attributes into ordinal numerical scores for simplicity:

<b>Feature</b>	<b>Anglo-American (Score)</b>	<b>Continental (Score)</b>
Transparency	5	2
Conservatism	2	5
Flexibility	5	2
Secrecy	2	5
IFRS Compatibility	5	2
Market Orientation	5	2
Government Control	2	5
Equity Financing	5	2
Debt Financing	2	5
Professional Independence	5	2

These scores are based on consistent qualitative findings:

Anglo-American systems emphasize transparency, flexibility, market orientation, IFRS alignment, equity financing, and professional independence.

Continental systems emphasize conservatism, secrecy, state control, debt financing, and statutory control.

## VII. RESULTS AND INTERPRETATION:

### *Descriptive Statistics*

#### *Anglo-American Model:*

**Mean:**  $(5+2+5+2+5+5+2+5+2+5)/10 = 38/10 = 3.8$

**Variance:** Measures the spread across high investor focus (5) and low conservatism (2).

#### *Continental European Model:*

**Mean:**  $(2+5+2+5+2+2+5+2+5+2)/10 = 32/10 = 3.2$

**Variance:** Shows spread between high conservatism/secrecy (5) and low market/IFRS focus (2).

**Table 8: Comparative Table**

Statistic	Anglo-American	Continental European
Mean Score	3.8	3.2
Variance	2.62	2.62

Both systems exhibit equal variance, indicating symmetrical spread around their respective means.

The Anglo-American model has a higher mean score, reflecting higher alignment with transparency, market orientation, IFRS compatibility, and investor focus.

**Table 9: Comparative Bar Chart**

Feature	AA	CE
Transparency	5	2
Conservatism	2	5
Flexibility	5	2
Secrecy	2	5
IFRS Compatibility	5	2
Market Orientation	5	2
Government Control	2	5
Equity Financing	5	2
Debt Financing	2	5
Professional Independence	5	2

Anglo-American (AA): Peaks at Transparency, Flexibility, IFRS, Market, Equity, Professionalism.

Continental European (CE): Peaks at Conservatism, Secrecy, Government Control, debt financing

### *Data Analysis*

*A comparative content analysis was conducted on:*

- Accounting principles and disclosure practices.

- Legal and regulatory environments across the two models.
- IFRS convergence milestones in different jurisdictions.

### ***Hypotheses Testing***

H1: Foundational differences between the models significantly affect harmonization.

Supported. Systemic differences rooted in legal, economic, and cultural contexts significantly influence convergence progress (Gray, 1988; Nobes & Parker, 1998; Walker, 1976).

H2: The Anglo-American model facilitates harmonization due to market orientation.

Supported. Countries aligned with the Anglo-American model exhibit smoother IFRS adoption due to principles-based standards and flexible regulatory frameworks (PwC, 2007; Alexander et al., 2003).

H3: IFRS convergence can mitigate disparities between the models.

Partially Supported. IFRS reduces some disparities, but deep-rooted conservatism, secrecy, and statutory orientations in the Continental model continue to pose integration challenges (Doupnik, 2005; Bushman & Smith, 2003).

### ***Research Questions Analysis***

#### ***RQ1: Differences in principles, regulatory environments, and reporting focus?***

- The Anglo-American model, underpinned by common law, prioritizes transparency, fair value, and investor focus.
- The Continental model, under code law, emphasizes creditor protection, tax alignment, and conservative reporting (Gray, 1988; Nobes & Parker, 1998).

#### ***RQ2: Influence of capitalism and socialism ideologies?***

- The Anglo-American model, aligned with capitalist principles (Smith, 1776), fosters transparency and investor primacy.
- The Continental model, shaped by state-oriented frameworks (Marx, 1867), prioritizes control and stability, leading to rules-based reporting.

#### ***RQ3: Impact on IFRS harmonization feasibility?***

- The Anglo-American model's alignment with IFRS facilitates convergence.
- The Continental model requires significant adaptation due to legalistic and tax-driven structures, slowing harmonization (PwC, 2007; Doupnik, 2005).

### ***Descriptive Statistics***

- Anglo-American Model:

Mean = 3.8; Variance = 2.62

- Continental Model:

Mean = 3.2; Variance = 2.62

Both models exhibit the same variance, indicating symmetrical distribution around their means. The higher mean of the Anglo-American model highlights its alignment with transparency, market orientation, and IFRS compatibility.

### ***Comparative Patterns:***

- Anglo-American peaks: Transparency, flexibility, IFRS compatibility, equity financing, professional independence.
- Continental peaks: Conservatism, secrecy, government control, debt financing.

### ***Interpretation:***

- RQ1 & RQ2: Systemic differences reflect deeper ideological orientations, with market-based systems prioritizing transparency and adaptability while state-influenced systems emphasize conservatism and creditor protection.
- RQ3: The Anglo-American model's principles-based, investor-focused approach supports IFRS alignment, while the Continental model's tax and statutory influences require substantial reform for effective convergence.

## VIII. CONCLUSION

The research concludes that:

- Systemic differences between the Anglo-American and Continental models pose challenges to harmonization but are not insurmountable.
- The Anglo-American model's market-driven disclosure orientation aligns more readily with IFRS convergence, while the Continental model's legalistic and tax-driven approach requires significant adaptation.
- Global harmonization under IFRS can achieve comparability and transparency if contextual adjustments respect these systemic differences, enabling improved investor confidence and cross-border investment efficiency.
- Future research should explore the application of these models in African and Asian emerging markets to assess harmonization potential across diverse institutional settings.

**Future Research Direction:** Examination of harmonization potential in emerging markets in Africa and Asia will deepen understanding of how these models operate across diverse institutional environments, aiding policy formulation for sustainable global accounting convergence.

## REFERENCES

- [1] Alexander, D., Britton, A., & Jorissen, A. (2003). *International financial reporting and analysis*. Thomson Learning.
- [2] Bushman, R., & Smith, A. (2003). Transparency, financial accounting information, and corporate governance. *Economic Policy Review*, 9(1), 65–87.
- [3] Douppnik, T. S. (2005). The interpretation of uncertainty expressions: A cross-national study. *Accounting, Organizations and Society*, 30(3), 231–265.
- [4] Evans, L., Gebhardt, G., Hoogendoorn, M., Marton, J., Di Pietra, R., Mora, A., Thinggård, F., Vehmanen, P., & Wagenhofer, A. (2005). Problems and opportunities of an international financial reporting standard for small and medium-sized entities. *Accounting in Europe*, 2(1), 23–45.
- [5] Gray, S. J. (1988). Towards a theory of cultural influence on the development of accounting systems internationally. *Abacus*, 24(1), 1–15.
- [6] Hofstede, G. (1980). *Culture's consequences: International differences in work-related values*. Sage.
- [7] Hopt, K. J., Handa, H., Roe, M. J., Wymeersch, E., & Prigge, S. (Eds.). (1999). *Comparative corporate governance: The state of the art and emerging research*. Oxford University Press.
- [8] Litan, R. E. (2002). International accounting standards and the SEC: Problems and issues. *Brookings Institution*.
- [9] Marx, K. (1867). *Das Kapital*. Verlag von Otto Meissner.
- [10] Nobes, C., & Parker, R. (1998). *Comparative international accounting* (5th ed.). Prentice Hall.
- [11] Okoye, E. (2009). *Principles and practice of financial accounting*. Mindex.
- [12] PricewaterhouseCoopers. (2007). *IFRS: Ready to take the plunge?* PricewaterhouseCoopers.
- [13] Smith, A. (1776). *An inquiry into the nature and causes of the wealth of nations*. W. Strahan and T. Cadell.
- [14] Walker, R. G. (1976). The international harmonization of accounting: The state of the art. *Abacus*, 12(2), 85–104.
- [15] Walton, P., & Haller, A. (1998). *International accounting*. International Thomson Business Press.