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International Determinants of Comprehensive Income Reporting by Groups – An Analytical and Comparative Study of Poland and Germany

Jakub Kwaśny https://orcid.org/0000-0002-0786-304X
Ph.D., Associate Professor, Cracow University of Economics
Department of International Economic Relations, Cracow, Poland
e-mail: kwasnyj@uek.krakow.pl

Artur Sajnóg https://orcid.org/0000-0001-9475-8848
Ph.D., Associate Professor, University of Lodz
Department of International Finance and Investments, Lodz, Poland
e-mail: artur.sajnog@uni.lodz.pl

Abstract

The mainstream theoretical and empirical research presented in the study is a comparative analysis of comprehensive income reporting by groups listed in the Polish and German capital markets. The theoretical part of the article is dedicated to a scientific discussion on the determinants of the capital market and corporate governance in continental Europe and the so-called 'new governance', related to the convergence of financial reporting standards, including IFRSs, that oblige groups of entities to prepare consolidated statements of comprehensive income. It also assesses the relevance of comprehensive income to capital market players. The empirical part contains the results of comparative research on the format and structure of consolidated statements and the nomenclature of their components, as well as the findings from studies of the value relevance of comprehensive income for the WIG30 and DAX groups in 2009–2019.

Keywords: corporate governance, accounting standards, financial reporting, comprehensive income, Polish and German markets

JEL: G15, G38, M41, M52

Introduction

Research on the financial reporting of groups of entities in the international financial market is determined by the existing differences between countries, not only in accounting, but also in the established capital market and corporate governance models – either the continental or Anglo-Saxon one. In the former model, which developed in continental Europe, mostly in Germany but also in Poland, the level of disclosure is limited, with financial reporting more conservative, oriented towards meeting information needs, mainly of banks and tax authorities (Shleifer and Vishny 1997; Enriques and Volpin 2007). As regards the Anglo-Saxon model, primarily formed in the United Kingdom, the United States and Canada, it is characterised by strong subordination of disclosures to the needs of the capital market and shareholders (La Porta et al. 1999; Jacoby 2001). The specific characteristics of the capital market model and the adopted corporate governance model may determine the quality and usefulness of information reported by groups of entities.

The ongoing discussion on the necessary convergence of reporting standards, developed to ensure a high level of transparency and comparability of financial statements, may contribute to the increased efficiency of the Community capital market (Nestor and Thompson 2000; Chhillar and Lellapalli 2015). The convergence process takes place both on a European scale (the European Commission regulations) and at the international level, as tangibly reflected in the International Financial Reporting Standards (IFRSs) (IFRSs 2011). The implementation of IFRSs, including the category of comprehensive income, is believed to have quite significantly influenced investor expectations regarding the quality of financial reporting (Soderstrom and Sun 2007; Jermakowicz et al. 2007; Armstrong et al. 2010). As argued by opponents of international regulations, they have indeed increased the information quality of statements of comprehensive income for investors, but they have not considerably improved the cross-border comparability of data or their usefulness for capital markets (Barth et al. 2008; Devalle et al. 2010).

The article aims to undertake comparative theoretical and empirical research on the German and Polish capital markets in terms of the practices of reporting comprehensive income by groups of entities, with a special focus on the established capital market and corporate governance models, as well as on information policy regulations. The selection of the study sample comprising groups from the German and Polish capital markets was because both countries have similar corporate governance models and – importantly – the same international accounting regulations apply.

The objective of the paper is achieved by verifying two research hypotheses. One hypothesis is that disclosures relating to group statements of comprehensive income are much more extensive in the German capital market than in Poland. Similarly, the strategies pursued by German groups, in contrast to those of Polish corporations, are highly disciplined in terms of the uniform application of the format, structure and nomenclature of the consolidated statement of comprehensive income and its components. The other hypothesis assumes that the German capital market is characterised by greater positive effects of the value relevance of presented comprehensive income for groups of entities in comparison with the Polish capital market. Therefore, it is assumed that the strategies of German groups reflect the high quality of the information policy pursued in connection with the application of corporate governance rules. As a result, the information contents of group statements of comprehensive income, while not excessive, should create satisfactory conditions for German capital market players to make investment decisions and contribute to increasing the market capitalisation of companies.

The research objective and adopted presumptions were verified on the basis of annual consolidated financial statements of selected groups listed on the stock exchanges in Frankfurt and Warsaw in 2009–2019 (the DAX and WIG30 indices, respectively). The empirical data for the study were retrieved from the Refinitiv (Thomson Reuters) database and from the websites of the corporations under analysis. The eleven-year period was selected as, in line with European Union legislation, starting from 1 January 2009, public companies in Germany and Poland became obliged to present their consolidated statements of comprehensive income in conformity with the IFRSs.

The capital market and corporate governance models in continental Europe

Basically, the literature distinguishes between two main capital market and corporate governance models: Anglo-Saxon and continental. In construction, they refer to two extreme concepts: the shareholder concept, based on external control by owners of enterprises, and the stakeholder concept, relying on control by various interest groups – creditors, banks, personnel, counterparties, society, etc. The Anglo-Saxon model, dominated by the idea of shareholder value maximisation (the shareholder model), also referred to as the capital market model (Jeffers 2005), mostly formed in the United Kingdom, the United States, Canada, Australia and New Zealand. As regards the continental model (the stakeholder model), accentuating the creation of value for all the stakeholders of an enterprise, it developed in continental Europe, especially in Germany, Austria, France, Belgium, Spain, Italy, Central European countries (also in Poland), even in Japan. In geographic terms, the Anglo-Saxon model is also called the Anglo-American one, whereas the continental model is called the German, continental-Japanese, or German-Japanese one (Shleifer and Vishny 1997; Enriques and Volpin 2007; Jerzemowska and Golec 2013).

Whereas the Anglo-Saxon concept is dominated by a liberal capital market model, significantly dispersed share ownership, and the shareholder's perspective (La Porta et al. 1999), in continental Europe, greater importance is attached to the institutional environment and capital interrelationships (Chhillar and Lellapalli 2015), with a prevalent corporate social responsibility orientation (Camilleri 2017). Continental Europe applies a fundamentally different concept of business relationships, and the interest of owners (shareholders) is not the most important consideration (the institutional approach), in contrast to the Anglo-Saxon model. The model is largely based on European Union directives, but also with a strong influence of national laws (Jerzemowska 2019). Other differences concern the level of ownership concentration and the significance of the stock exchange. The German model is characterised by the lesser importance of the capital market (the stock exchange) and a higher degree of share ownership concentration than in the Anglo-Saxon model (Allen and Gale 2000). The dominant role is played by banks, as capital suppliers, by insurance companies, and – importantly – by groups of undertakings (Chhillar and Lellapalli 2015). An additional distinguishing feature of the German model is that an average of one-fourth of listed companies have a dominant shareholder (Mallin 2004).

Governance and management are also essentially different – based on a two-tier system where the shareholders, through a supervisory board or internal committees, have a significant influence on executive decision-making. A vital element of the German model is the strong position of employees and trade unions in supervisory bodies (Aguilera and Jackson 2010). With specific regulations in place, in companies that employ more than 2,000 people, as many as half of the seats must be occupied by employee representatives. As a result, the German model relies on co-decision (in German: *Mitbestimmung*) (Bühner 2001). Therefore, executives are accountable to a wider circle of stakeholders than only those oriented towards maximising shareholder value and, in extreme cases, the firm cannot carry out a merger or restructuring without the employees' approval.

As regards Poland, there are a number of similarities to the German model that result from Poland's socio-political transition, privatisations, and the country's integration into the European Union and implementation of the relevant directives. The above-mentioned similarities concern aspects such as the dominant role of majority shareholders (privatisation), the strong position of banks and pension institutions, employees' influence on business management (employee representation in bodies of state-owned companies) and the importance of groups of entities. It makes the Polish corporate governance system, modelled after French solutions, consistent with the continental version (Jerzemowska and Golec 2013).

Due to the existing country-specific differences, in both the legal order and institutional conditions, the convergence of corporate governance systems has been relatively slow despite the ongoing globalisation (Jacoby 2001; Nestor and Thompson 2000). Even the dominance of US corporations in globalisation has not contributed to the US style of corporate governance being adapted (Khana and Palepu 2004). Taking account of particular corporate governance characteristics determined locally (Weiner and Pepe 1999), it must be pointed out that they are largely different not only in concept but also in business organisation, the importance of the share market, the ownership structure and legal regulations (Aguilera and Jackson 2010).

Andrzejewski and Grabiński (2016) argue that the quality of corporate governance is a multidimensional issue and is difficult to estimate. The one aspect all the models have in common is the purpose to be fulfilled. First and foremost, a quality corporate governance system must counteract the adverse effects of the information asymmetry in the financial market (Grossman and Stiglitz 1980), e.g. by ensuring investors' access to cyclical company information that is as exhaustive as possible. Therefore, the quality of corporate governance concerns not only the independence and competence of supervisory board members but also the linkages between corporate governance tools and the financial reporting system (Cohen and Hanno 2000). The current debate on the quality of the corporate governance model has been about its suitability for corporate social responsibility (Camilleri 2017), more similar to the stakeholder rather than shareholder concept, but also about unifying good practices (Aluchna and Tomczyk 2018) and the convergence of reporting standards, which have been recommended for years (Aguilera and Jackson 2010). In particular, developing and promoting the application of uniform accounting standards should be the subject of projects implemented by specific countries and incorporated into international treaties.

The implementation of international regulations in Polish and German financial reporting

At the international level, 'new governance' is exemplified by the IFRSs (Aguilera and Jackson 2010), which, essentially, are supposed to not only replace national accounting standards, but also to take over the US GAAP. The impact of this 'new governance' is not trivial as, at present, more than 100 countries require or permit IFRS-based reporting, including Poland and Germany.

As regards legislative solutions, in Poland, the Accounting Act[1] should be applied first, while international regulations may be followed in the absence of specific provisions. In 2004, the Polish balance-sheet law was adapted to the EU Regulation on the application of IFRSs.[2] The Regulation in question authorised the Member States to specify entities permitted or required to apply the IFRS provisions in preparing their financial statements.

In Poland, the application of IFRSs in financial reporting is only mandatory for public limited liability companies whose securities are admitted to trading in a regulated market of any EU Member State and for banks whose securities are not traded in such a market (see Table 1). Furthermore, the obligation only applies to consolidated statements (i.e. to statements prepared by groups of entities).

1 The Accounting Act of 29 September 1994 (Journal of Laws 121, 591, as amended).

2 Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ L 243, 11.09.2002).

Table 1. IFRS application in terms of consolidated and separate financial statements in Poland (PL) and Germany (DE)

Type of companies	Consolidated financial statements				Separate financial statements			
	Required		Permitted		Required		Permitted	
	PL	DE	PL	DE	PL	DE	PL	DE
Listed companies whose securities are traded in a regulated market	X	X	–	–	–	–	X	–
Listed companies in the process of becoming listed in a regulated market	–	X	X	–	–	–	X	–
Listed companies that have filed for admission to public trading	–	–	X	X	–	–	X	–
Listed companies whose securities are traded in a non-regulated market	–	–	–	X	–	–	–	–
Banks whose securities are not traded in a regulated market	X	–	–	X	–	–	X	–
Unlisted companies	–	–	–	X	–	–	–	–
Subsidiaries of a group in which the parent or higher-level parent prepares consolidated statements in conformity with the IFRSs	–	–	X	–	–	–	X	–

Source: prepared by the authors based on the Accounting Act and Handelsgesetzbuch.

In Poland, IFRS-based consolidated financial statements may also be prepared by issuers who have or who intend to apply for admission to trading in a regulated market, as well as entities from groups where the parent company prepares consolidated statements in conformity with the IFRSs. Importantly, the Polish legislation permits the preparation of separate financial statements in accordance with international regulations, but it is a right rather than an obligation.

The main statutory act governing the functioning of enterprises and the principles of accounting in Germany is *Handelsgesetzbuch* (HGB),[3] amended – as in Poland – in 2004, for the purpose of harmonisation and standardisation in line with the IFRSs. In Germany, as in Poland, groups of entities must prepare consolidated financial statements based on the IFRSs and in compliance with the obligatory disclosures required under HGB at the same time. However, the requirement solely applies to groups listed in a regulated market.[4] In Germany, in contrast to Poland, the IFRS application is an option in non-regulated public securities markets. Moreover, the requirement to prepare group statements in conformity with the IFRSs additionally concerns issuers that have applied for admission to trading in a regulated market. However, there

3 Handelsgesetzbuch vom 10. Mai 1994, (BGBl. I S. 2565, 2567, as amended).

4 Regulated markets in Germany are as follows: Börse Berlin, Börse Berlin Second Regulated Market, Düsseldorfer Börse, Düsseldorfer Börse Quotrix, Börse Berlin Equiduct Trading, Börse Berlin Equiduct Trading Second Regulated Market, Frankfurter Wertpapierbörse, Hanseatische Wertpapierbörse Hamburg, Niedersächsische Börse Zu Hannover, Börse München, Börse München – Market Maker Munich, Baden-Württembergische Wertpapierbörse, European Energy Exchange, Frankfurter Wertpapierbörse Xetra, Eurex Deutschland, Tradegate Exchange.

are no special IFRS application requirements for certain groups, e.g. banks. As a rule, in Germany, the preparation of IFRS-based separate financial statements is prohibited, whether for listed or unlisted companies. It is only possible as an addition to financial statements prepared in accordance with HGB.

For years, both in Poland and Germany, financial statements prepared under national laws have been characterised by disclosures and layouts different from those contained in international regulations. For example, under the Accounting Act, micro- or small entities are allowed not to prepare a cash flow statement or a statement of changes in equity. But the requirement applies to groups, public limited liability companies, banks, investment funds, insurance undertakings, etc. Similarly, even though the German HGB is consistent with the IFRSs, in the case of separate statements, a cash flow statement and a statement of changes in equity are not required. However, the requirement does concern groups that prepare consolidated financial statements.

With regard to the profit and loss account (income statement), the provisions of HGB and the Accounting Act are similar to the IFRSs. However, they evidently lack a 'statement of comprehensive income', introduced by the EU Member States as a mandatory statement on 1 January 2009.[5] Therefore, the obligatory incorporation of this statement into the rules of preparing consolidated financial reports by groups of entities contributed to the inclusion of comprehensive income as an important economic and financial category to be evaluated by users of financial statements.

'Comprehensive income' (sometimes also referred to as 'all-inclusive income') was first formally defined in 1980 in a document published by the US Financial Accounting Standards Board (FASB 1980). According to those regulations, it was described as the change in equity (net assets) of an entity during a period from transactions and other events and circumstances from non-owner sources (Yen et al. 2007). In addition to net income, comprehensive income comprises other comprehensive income, including (MSSF 2011): (i) changes in revaluation surplus; (ii) actuarial gains and losses on defined employee benefit plans; (iii) the effective portion of gains and losses on hedging instruments in a cash flow hedge; (iv) gains and losses on remeasuring available-for-sale financial assets; (v) gains and losses arising from translating the financial statements of a foreign operation.

With regard to the statement of comprehensive income, the IFRS prescribes no recommended model layout. It only indicates several line items which must be included as a minimum for the reporting period. It is also non-specific about the format or internal structure of the statement of comprehensive income. Entities are mostly free to choose the terminology used, the method of presenting other comprehensive in-

5 In the EU, the international accounting standards were implemented on 18 December 2008. As a result, since 2009, entities preparing their financial statements in conformity with the IFRSs have been obliged to present a 'statement of profit or loss and other comprehensive income for the period'. Cf.: Commission Regulation (EC) No. 1274/2008 of 17 December 2008 amending Regulation (EC) No. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 1 (OJ L 339, 18.12.2008).

come, recognising expenses and showing income tax on other comprehensive income. Entities that apply IFRSs may decide whether their expense and income items should be presented in a single statement of comprehensive income or in two statements: (i) a statement displaying components of profit or loss (separate income statement) and (ii) a second statement beginning with profit or loss and displaying components of other comprehensive income.

Therefore, it may be assumed that the format and structure of the statement of comprehensive income may vary widely between countries or even between groups of entities listed in the same capital market. But the comparison of the Polish and German markets seems to show that German corporations are characterised by greater discipline in applying the uniform format, structure and nomenclature of the statement of comprehensive income and its components, as submitted in our first research hypothesis.

Discussion on the relevance of comprehensive income to capital market players

Irrespective of the international and national requirements, recommendations and regulations concerning the format and structure of reporting comprehensive income, decades of discussion have taken place on its relevance to users of financial statements. The discourse on the substance of comprehensive income, particularly in comparison with net income, has been conducted by various authors for years; so far, however, it has not been unambiguously determined which of those categories is more value relevant. There is certainly agreement that the relationships between financial performance and market measures are more evident in advanced economies with the Anglo-Saxon rather than continental corporate governance model (Land and Lang 2002; Bhattacharya et al. 2003), i.e. the one used in Germany and Poland. However, there is no consensus about any specific financial performance category being a more accurate explanation of share prices and market trends, which may affect investors' assessments of the usefulness of reporting information in making investment decisions in the capital market.

One key argument against the usefulness of comprehensive income in investment decision-making is that it varies significantly, even the lack of stability in time (Sajnóg 2017). Furthermore, considering the research orientation towards verifying the hypothesis of the superiority of comprehensive income over net income in terms of value relevance for listed companies, as early as 1999, operating income was proven to have the strongest relationship with the rate of return on shares (equity return), followed by net income (profit or loss for the period). In contrast, the disclosure of comprehensive income had no significant information content (Cheng et al. 1993).

Table 2. Arguments of proponents of comprehensive income in selected capital markets

Authors	Capital market	Observations
Barth et al. (1996)	US	Some of the disclosed items of other comprehensive income are related to share prices.
Dhaliwal et al. (1999)	US	Gains (losses) on the measurement of short-term securities are value relevant.
Cahan et al. (2000)	New Zealand	Comprehensive income is more value relevant than net income.
Bloomfield (2002)	US	There is an interrelation between changes in gains (losses) on AFS securities and the volatility of share prices in the market.
Louis (2003)	US	Foreign translation adjustments are positively associated with market value.
Biddle and Choi (2006)	US	Comprehensive income is the most strongly related to equity returns, but net income is more relevant to executive compensation contracting.
Hodder et al. (2006)	US	Asset measurement at fair value is characterised by strong value relevance.
Kubota et al. (2006)	Japan	Comprehensive income is a better key indicator of company value relevance.
Chambers et al. (2007)	US	Components of OCI are value relevant for listed companies.
Kanagaretnam et al. (2009)	Canada	Comprehensive income is more strongly related to share prices and equity returns for listed companies than net income.
Nejad et al. (2014)	Malaysia	Particular components of other comprehensive income are closely associated with the share prices of listed firms.
Mironiuc et al. (2016)	Romania	There are significant relationships, of similar strength, between both indicators of financial performance (net income and comprehensive income) and share market pricing.

Source: prepared by the authors.

So far, the most extensive studies of the usefulness of comprehensive income for the capital market have been conducted in the United States. However, the study results have produced various arguments for both opponents and proponents of reporting comprehensive income in investment decision-making (see Tables 2 and 3).

Table 3. Arguments of opponents of comprehensive income in selected capital markets

Authors	Capital market	Observations
Cheng et al. (1993)	US	The disclosure of comprehensive income has no information content relevant to investors.
Smith and Tse (1998)	US	Net income is more associated with share prices than comprehensive income.
Dhaliwal et al. (1999)	US	Net income is more strongly related to market capitalisation than comprehensive income.

Authors	Capital market	Observations
O'Hanlon and Pope (1999)	United Kingdom	In contrast to comprehensive income, net income is more related to equity returns.
Brimble and Hodgson (2007)	Australia	Comprehensive income is characterised by a much weaker correlation with market capitalisation than net income.
Ernstberger (2008)	Germany	Comprehensive income provides investors with no significant information in explaining equity returns.
Dastgir et al. (2008)	Tehran	Comprehensive income is less strongly associated with the market capitalisation of listed companies than net income.
Păşcan (2014)	Romania	There is no significant value relevance of comprehensive income.

Source: prepared by the authors.

Studies conducted in other capital markets, e.g. in Canada (Kanagaretnam et al. 2009), the United Kingdom (O'Hanlon and Pope 1999), Germany (Ernstberger 2008), New Zealand (Cahan et al. 2000), Australia (Brimble and Hodgson 2007), Japan (Kubota et al. 2006), Tehran (Dastgir et al. 2008), Malaysia (Nejad et al. 2014) or Romania (Păşcan 2014) have produced equally ambiguous conclusions. On the one hand, comprehensive income does not provide investors with any information useful in explaining equity returns other than that recognised in profit or loss (net income); on the other hand, its components included in the structure of other comprehensive income show a significant relationship with share prices.

A global cross-sectional analysis was performed by Barton et al. (2010), who examined the value relevance of several types of accounting measures for nearly 20,000 companies from 46 countries in 1996–2005.[6] As determined by the authors, operating income was characterised by the greatest value relevance for the companies covered, whereas correlations with bottom line items reported in the income statement (net income or comprehensive income) were distinctly the weakest.

In this context, it becomes important to ascertain whether within the same continental corporate governance model, which functions in Germany and Poland, there are differences in the value relevance of comprehensive income for groups. We assume that strategies of German groups reflect higher information policy quality and – as a result – the German capital market shows greater value relevance of presented comprehensive income for groups compared to the Polish capital market. The above assumption is the substance of our second research hypothesis.

6 The largest number of observations concerned Japan (38,731 cases) and the United States (37,330 cases).

Methodology

For the purpose of verifying the first research hypothesis, the analysis covered consolidated statements of comprehensive income of listed companies included in the WIG30 and DAX indices[7] for 2009–2019. The research process comprised verifying the uniform application of the reporting version in terms of format and principles of presenting the consolidated statement of comprehensive income. Furthermore, in order to assess the relevance and usefulness of those categories for Polish and German capital market players, the nomenclature of both the statement and its components was examined for uniform application.

The usefulness of financial performance for the capital market was treated as the value relevance of the information contained in the financial statements (Ohlson, 1999). In accordance with the approach, a comparative analysis of such relationships was performed for groups included in the WIG30 and DAX indices. The study was oriented towards verifying the second research hypothesis.

The examination relied on the approach presented in the literature by authors such as Graham et al. (2005), Kanagaretnam et al. (2009) and Dechow et al. (2010), according to which the market value of an enterprise should be the function of its book value and financial performance (in this case, comprehensive income). The market value of an enterprise was usually adopted by the authors as the market capitalisation reflecting the market value of equity – MVE. Therefore, adequately, in our opinion, the book value of a company should be assumed to be the book value of equity – BVE.

To exclude any possible effects of the scale of business operations on a group's financial performance, comprehensive income was scaled according to total assets. That aspect tends to be pointed out in comparative analyses of companies (Bratten et al. 2016). As a consequence, the examination relied on returns on assets RoA(CI), calculated using comprehensive income.

Based on an analysis of the literature on the value relevance of various financial performance indicators (Dhaliwal et al. 1999; Bradshaw 2002; Asquith 2005; Yen et al. 2007; Barth et al. 2008), two additional control variables were used:

- DR – the debt ratio, calculated as the ratio of debt to equity, reflecting the problem of the capital structure of the companies covered,
- DIV – the dividend ratio, calculated as the ratio of dividend per share to the market share price, which may be related to a positive or negative capital market response to the dividend payout and thus contribute to increasing or decreasing the market capitalisation.

Taking into account the presented methodological approach, the authors formulated the following economic model version with one explained variable and four explanatory variables:

$$lnMVE_t = \propto_0 + \propto_1 \times lnBVE_t + \propto_2 \times RoA\left(CI\right)_t + \propto_3 \times DR_t + \propto_4 \times DIV_t + \mu_t$$

7 The selection of the two indices was due to the equal numbers of companies covered.

Since the applied research procedure involved the simultaneous use of different types of indicators, both relative values and absolute values of the variables under analysis, i.e. the market value of equity (MVE) and the book value of equity (BVE), the model included the natural logarithms of the two variables: lnMVE and lnBVE.[8] It is a frequently used method in empirical studies, including those that examine comprehensive income (Bratten et al. 2016).

The research procedure for analysing the value relevance of comprehensive income for groups included in the WIG30 and DAX indices comprised three stages. The first step involved calculating the main descriptive statistical measures for the variables under examination. Next, the authors examined the strength and nature of correlations between them; lastly, the leading research dimension was regression analysis. The data for the study were retrieved from the Refinitiv (Thomson Reuters) database and from the websites of the corporations under examination. The websites mostly served to obtain consolidated statements of comprehensive income.[9]

Research results

Analysis of the format and structure of presenting the statement of comprehensive income

As demonstrated by the analysis of 619 financial reports of groups obtained by the authors,[10] no uniform approach to presenting the consolidated statement of comprehensive income has been developed in Poland. The study identified versions of both single and two-document statements, with a marked prevalence of the latter type (see Table 4). Furthermore, not all entities used uniform versions of statements throughout the eleven-year period. In contrast, groups of entities in Germany were consistent in using the form of two statements published.

8 Such an approach should also be considered valid due to the fact of positive values of the variables MVE and BVE for which natural logarithms could be calculated.

9 Among the three databases available to us, i.e. those of Thomson Reuters, Notoria Serwis and Bloomberg, only the last one contained detailed information on statements of comprehensive income. However, serious data deficiencies and frequent errors forced the authors to manually gather numerical data.

10 To evaluate 30 DAX corporations and 30 WIG30 companies over the eleven-year period covered (2009–2019), 619 financial reports were obtained (for DAX – 303; for WIG30 – 316) out of the 660 possible statements. This was because some companies were newly established or became listed during the period in question; therefore, as non-public companies, they did not publish their financial statements on their websites for the whole period. That was the case for five DAX groups (COVESTRO, FRESENIUS MEDICAL CARE, LINDE, MERCK, RWE) and five WIG30 groups (DINO-PL, ENERGA, JSW, KRUK, PLAY).

Table 4. Discrepancy in the form and presentation of consolidated statements of comprehensive income

Characteristics		WIG30		DAX	
		Number of companies	Share	Number of companies	Share
Form of statement	Single statement	10	34%	0	0%
	Two statements	19	63%	30	100%
	Both forms	1	3%	0	0%
Presentation of tax	Information about the tax	23	77%	22	73%
	No information about the tax	7	23%	8	27%

Source: prepared by the authors.

An important aspect that differentiates the reporting practices of groups was the recognition of income tax. The majority of the groups in Poland presented information on 'income tax', but using two different terms: 'deferred tax' or 'income tax'. In Germany, not all groups of entities reported line items in a uniform manner, before or after tax (presenting no information on the tax). In addition, they used discrepant terms regarding the tax, namely 'deferred tax', 'income tax', 'tax effect', 'income tax effect', 'taxes on unrealised gains/losses'.

As demonstrated by the review of annual consolidated financial statements of the WIG30 and DAX groups, they tended to use the term 'consolidated statement of comprehensive income'. However, in all the cases of the Polish and German groups of entities, there were numerous non-uniform terms (see Table 5). The dominant term for the Polish groups was the 'Consolidated statement of profit or loss and other comprehensive income', whereas the German groups tended to use the title 'Consolidated statements of recognised income and expense'.

Table 5. Discrepancy in the nomenclature of consolidated statements of comprehensive income

Nomenclature	WIG30		DAX	
	Number of companies	Share	Number of companies	Share
Consolidated statement of comprehensive income	25	65.9%	26	66.5%
Consolidated statement of profit or loss and other comprehensive income	6	15.8%	–	–
Consolidated statement of other comprehensive income	2	5.3%	–	–
Statement of financial result and other comprehensive income	1	2.6%	–	–
Statement of the results and other total revenue	1	2.6%	–	–
Consolidated income statement	1	2.6%	–	–
Consolidated comprehensive income statement	1	2.6%	–	–
Consolidated statement of total comprehensive income	1	2.6%	–	–
Consolidated statements of recognised income and expense	–	–	6	15.3%

Nomenclature	WIG30		DAX	
	Number of companies	Share	Number of companies	Share
Consolidated statement of comprehensive income and expense	–	–	1	2.6%
Consolidated statements of income and comprehensive income	–	–	1	2.6%
Consolidated statements of income and expense recognised in equity	–	–	1	2.6%
Group statement of comprehensive income	–	–	1	2.6%
Statement of income and accumulated earnings	–	–	1	2.6%
Statement of comprehensive income of the … Group	–	–	1	2.6%
Statement of comprehensive income for the group	–	–	1	2.6%

Source: prepared by the authors.

Surprisingly, the analysed groups did not maintain uniform versions of the titles of comprehensive income and its components. Whereas the WIG30 groups referred to comprehensive income as 'Total comprehensive income' and 'Comprehensive income', the German groups proved to vary more widely in that regard (see Table 6).

Table 6. Discrepancy in the nomenclature of comprehensive income and other comprehensive income

Characteristics	WIG30		DAX	
	Number of companies	Share	Number of companies	Share
Nomenclature of comprehensive income				
Total comprehensive income	26	86.7%	25	73.6%
Comprehensive income	4	13.3%	4	11.8%
Total income and expense	–	–	3	8.8%
Profit or loss	–	–	1	2.9%
Total income and expense recognised in equity	–	–	1	2.9%
Nomenclature of other comprehensive income				
Other comprehensive income	29	96.7%	26	78.9%
Total other comprehensive income	1	3.3%	1	3.0%
Income and expense recognised directly in equity	–	–	3	9.1%
Income recognised directly in equity	–	–	1	3.0%
Gains/losses recognised immediately in equity	–	–	1	3.0%
Other profit	–	–	1	3.0%

Source: prepared by the authors.

A similar situation was found in the nomenclature of other comprehensive income. The WIG30 groups used roughly the same terms ('Other comprehensive income' or 'Total other comprehensive income'), whereas certain groups included in the German index applied more individualised nomenclature: 'Income and expense recognised directly in equity' or – enigmatically – 'Other profit'.

Usefulness of comprehensive income for the Polish and German capital markets

As shown by the empirical research results presented in Table 7, in the period under analysis, i.e. 2009–2019, the mean lnMVE values were 7.6 for the WIG30 and 10.07 for the DAX, with the respective median at 7.71 and 10.20. However, no significant differences in the variable were found between the Polish and German capital markets, as reflected in the minimum, maximum and standard deviation values. Similar conclusions can be drawn from analysing the lnBVE or DIV variables, although the dividend ratio was more differentiated among the WIG30 groups than those in the DAX index. At the same time, the analysis of the RoA(CI) and DR variables demonstrated significant differences. The return on assets varied more widely in time for the WIG30 groups than in the case of the DAX, as confirmed by the standard deviation values calculated. The debt ratio was found to be distinctly differentiated in Germany.

Table 7. Descriptive statistics

Statistic	Index	Variable				
		lnMVE	lnBVE	RoA(CI)	DR	DIV
Mean	WIG30	7.69	7.24	18.27	58.85	2.09
	DAX	10.07	9.41	3.92	112.72	2.73
Median	WIG30	7.71	7.60	13.82	41.90	1.24
	DAX	10.20	9.46	3.67	73.96	2.19
Maximum	WIG30	9.53	9.30	222.36	462.24	31.85
	DAX	11.87	11.71	18.59	693.60	8.90
Minimum	WIG30	2.19	–0.12	–119.07	0.00	0.00
	DAX	6.29	5.50	–12.37	0.00	0.00
Std. Dev.	WIG30	1.09	1.45	29.75	62.26	2.98
	DAX	0.98	1.18	4.00	114.03	1.71

Source: calculated by the authors.

Table 8. Correlation matrix

Variable	Index	Variable				
		lnMVE	lnBVE	RoA(CI)	DR	DIV
lnMVE	WIG30 DAX	1.000				
lnBVE	WIG30 DAX	0.798* 0.837*	1.000			
RoA(CI)	WIG30 DAX	–0.020 0.005	–0.249* –0.181*	1.000		
DR	WIG30 DAX	–0.191* 0.013	–0.262* 0.171*	–0.200* –0.418*	1.000	
DIV	WIG30 DAX	0.308* 0.294*	0.275* 0.431*	0.259* –0.226*	–0.216* 0.065	1.000

* represents statistical significance at the 0.05 level.
Source: calculated by the authors.

The matrix of correlation between the analysed variables, presented in Table 8, points to a positive and statistically significant relationship between the market value and the book value of equity in groups of entities listed in both Poland and Germany. A positive correlation was also found between the market value and the dividend ratio. A statistically significant – although negative – relationship was observed for the debt ratio, but only for the groups in Poland. Simultaneously, it was not possible to find a statistically significant relationship between comprehensive income (calibrated by the amount of group assets) and the market value. However, the return on assets, RoA(CI), proved to be negatively correlated with the book value of equity and the debt ratio. In the case of the dividend ratio, the examination produced different results for the WIG30 and DAX groups.

At the same time, with regard to the regression analysis of the market capitalisation, special emphasis must be placed on the directions of the influence of the two main variables, i.e. lnBVE and RoA(CI), on the lnMVE variable (see Table 9).

Table 9. Results of Panel Least Squares regression

Index	Dependent variable	Independent variable	Coefficient	t-Statistic	*p-value*	Adjusted R-squared
WIG30	lnMVE	lnBVE	0.643*	21.574	0.000	0.67
		RoA(CI)	0.007*	5.099	0.000	
		DR	0.001*	2.189	0.030	
		DIV	0.014	1.006	0.316	
DAX		lnBVE	0.745*	27.351	0.000	0.73
		RoA(CI)	0.029*	3.559	0.000	
		DR	−0.001*	−2.695	0.007	
		DIV	−0.035**	−1.862	0.064	

* and ** represent statistical significance at the 5% and 1% levels.
Source: calculated by the authors.

Both comprehensive income and the book value of equity had unambiguously positive effects on market capitalisation. But those effects, in both cases, appeared to be somewhat stronger for the DAX groups than for those included in the WIG30 index. The parameters for the variables concerned were statistically significant at the significance level of 0.05.

The independent variable with positive and statistically significant influence on the market value of the groups in Poland was the debt ratio, DR. In contrast, for the groups in Germany, a negative correlation of this variable was found, as in the case of the dividend ratio, DIV.

Summary

The study examined the practices of reporting comprehensive income by groups listed in the Polish and German capital markets. The results suggest that the strategies of German groups, in contrast to those of Polish corporations, are highly disciplined in terms of the uniform application of the format and structure of the statement of comprehensive income. The groups of entities in Poland used both single-statement and two-statement versions. On the other hand, the first research hypothesis cannot be considered valid as the DAX groups showed greater differentiation of the nomenclature applied to refer to the statement of comprehensive income and its components than those included in the WIG30 index. The results are consistent with the findings from prior analyses of the quality of presenting the statement of comprehensive income. Discrepancies and shortcomings can be observed in a number of markets (Thinggaard et al. 2006; Cimini 2013). Interestingly, executives of various entities present no components of other comprehensive income at all, mostly due to different business models; if they do, they tend to choose presentation formats which may or may not affect the entity's perception and market capitalisation (Bamber et al. 2010).

As suggested by the study, the comprehensive income reported has a positive effect on market capitalisation in both Poland and Germany, as it is value relevant. For the groups listed in Germany, whose reporting format is largely uniform (comprising two statements), the influence was more evident, which confirmed the second research hypothesis. Undoubtedly, however, the book value of equity must be considered the main determinant of the market value. The literature provides various dissimilar results in that regard (Turktas et al. 2003).

Overall, our findings suggest that listed companies should appreciate corporate governance standards and follow best practice codes and international recommendations, emphasizing the need to tie comprehensive income reporting to market expectations. Additionally, our study provides evidence that comprehensive income shows shareholders' wealth, and it is one of the key accounting and market-based performances which influence market value.

To recapitulate, it is possible to share the opinion expressed by Chambers et al. (2007): in practice, executives are required to ensure the transparency of companies' financial statements to influence their market pricing. Perhaps, as the information transparency of the statement of comprehensive income increases, one may expect, in time, the development of improved report formats, not so much on account of international regulations or national legislative measures, but as a result of a more professional executive approach to the disclosure policies of groups of entities.

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Międzynarodowe uwarunkowania raportowania wyników całkowitych grup kapitałowych – polsko-niemieckie studium analityczno-porównawcze

Wiodącym nurtem badań teoretyczno-empirycznych zaprezentowanych w opracowaniu stanowi porównawcza analiza raportowania wyników całkowitych grup kapitałowych notowanych na polskim i niemieckim rynku kapitałowym. Część teoretyczną artykułu poświęcono dyskusji naukowej wokół uwarunkowań rynku kapitałowego i nadzoru korporacyjnego w Europie kontynentalnej oraz tzw. „nowego ładu korporacyjnego" związanego z konwergencją standardów sprawozdawczości finansowej, w tym MSSF, które obligują grupy kapitałowe do sporządzania skonsolidowanego sprawozdania z wyniku całkowitego. Dokonano również oceny znaczenia wyniku całkowitego dla podmiotów rynku kapitałowego. W części empirycznej znajdują się wyniki komparatywnych badań nad formą i strukturą skonsolidowanego sprawozdania z wyniku całkowitego oraz nomenklaturą jego komponentów, a także badań wpływu wyniku całkowitego na wartość rynkową grup kapitałowych z indeksu WIG30 oraz DAX w latach 2009–2019.

Słowa kluczowe: nadzór korporacyjny, standardy rachunkowości, raportowanie finansowe, wynik całkowity, polski i niemiecki rynek

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