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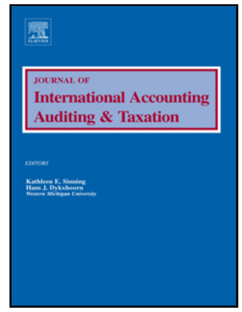

Commentary: Where is International Accounting Research Going? Issues Needing Further Investigation

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Commentary: Where is International Accounting Research Going? Issues Needing Further Investigation

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Synopsis:
A concurrent session at the 2018 American Accounting Association Annual Meeting featured the panel discussion "Where is International Accounting Research Going? Issues Needing Further Investigation." The panelists summarized major contributions from existing research in international accounting and highlighted the factors and areas that are in need of further investigation. This paper summarizes the panelists' prepared remarks.

Keywords: financial accounting research, international accounting, IFRS.

1. Introduction

The 2018 American Accounting Association (AAA) Annual Meeting hosted a panel discussion focused on "Where is International Accounting Research Going? Issues Needing

Further Investigation." Drs. Elizabeth A. Gordon, Giorgio Gotti, Joanna L. Ho, Araceli Mora, and Richard D. Morris presented prepared remarks for the panel, followed by questions and comments from the audience.

The panelists each summarized their views on the major contributions from international accounting research and focused on factors, methods, and areas that could contribute to push the boundaries of international accounting knowledge. In this commentary, we present and somewhat expand upon the remarks of each of the presenters during the panel discussion, with the goal of helping accounting researchers interested in conducting research in an international setting.

1.1 International Accounting Research

Giorgio Gotti

Over the last three decades, researchers working in international accounting have focused on different topics and methods. The early international accounting research in the 1980s focused on international classifications, both deductive and inductive (see further in Section 2). Then, during the 1990s, many studies focused on country by country comparisons, and on the effects of national Generally Accepted Accounting Principles (GAAPs) on some characteristics of accounting information and disclosures. The focus was on the differences and similarities in accounting systems. For instance, one of the early papers published in the *Journal of International Accounting Research* is dedicated to earnings management in Germany vs. US (Glaum et al., 2004). Another group of studies examined factors, other than strictly financial factors, that explain differences and similarities in accounting systems. In this group of studies, for instance, there are papers on the role of cultural factors (Hofstede, 2001), legal systems and enforcement (for instance La Porta et al., 1997, 1998, among many others) on similar characteristics of accounting systems worldwide (accounting quality, disclosures, informativeness, among others).

The environment of international accounting changed with the creation of the International Accounting Standards Board (IASB) as the standard setting body for International Accounting Standards in 2002, the Norwalk agreement between IASB and the US Financial Accounting Standards Board (FASB) also in 2002, and European Union (EU) adoption of International Financial Reporting Standards (IFRS) in 2005. Following these events, a third group of international accounting studies investigate how IFRS change the reporting systems and the quality of financial statements/disclosures (among many, Barth et al., 2008, 2012). More recent research in international accounting focuses on the "soft factors" that make the outcomes of the accounting process (i.e. financial statements) different even when the "surface" – IFRS regulation, for instance – is the same. I will detail more on this emerging area of research in section 6 of the paper.

2. Literature Review. International Accounting Articles Published since 2015 in Top 5 Accounting Journals

Joanna L. Ho

There has been research in international accounting since Mueller's (1967) pioneering work on international classification. The original international classification research was both:

(a) Deductive – whereby relevant envornmental factors were identified and linked to accounting practices (among many, Nobes 1983, 1984; Bloom & Naciri, 1989), and

(b) Inductive – whereby individual accounting practices were empirically analyzed and development patterns identified (Da Costa, Bourgeois, & Lawson, 1978; Frank, 1979).

Given research resources and time constraints, I reviewed articles in the top five accounting journals (Contemporary Accounting Research (CAR), The Accounting Review (TAR), Journal of Accounting and Economics (JAE), Journal of Accounting Research (JAR), and Review of Accounting Studies (RAS))[1] that are most likely to publish international accounting research from 2015 to the March issue of 2018. A total of 65 articles published during the sample period were identified, and the number of papers by research area and by journal are presented in Table 1. Among these 65 articles, the dominant research area is financial accounting (44), followed by auditing (10), debt (3), tax (3), corporate social responsibility (CSR) (2), executive compensation (1), performance evaluation (1), and accounting profession (1). One observation is that during this research period, RAS only published papers studying empirical financial accounting issues.[2] Please see Table 1 for other research areas.

[Insert Table 1 about here]

Table 2 summarizes the number of articles on accounting issues in international settings or multinational corporations that were published by these five journals and by region and country. As seen in Table 2, 40 percent of these papers examined cross-country accounting issues. The countries and regions that received the most attention are the US (15), China (13), Europe (4), and South Korea (2). Other country settings include Canada, Germany, Hong Kong, India, and Taiwan. Out of the five journals, RAS published only cross-country and US studies.

[Insert Table 2 about here]

[1] Accounting, Organizations & Society (AOS) was not included because it generally publishes papers on organizational issues.
[2] In the December issue of 2018, RAS published one article on auditing in a UK setting.

To discuss the research areas, I classified these papers into the following areas: 1) impact of the adoption of IFRS on market reaction, 2) comparing financial reporting quality under IFRS vs. US GAAP, 3) government policies and actions, 4) global market factors, and 5) country-specific factors. I only include some of these studies in this review.

2.1 Impact of adoption of IFRS on market reaction

As in the past, the impact of adoption of IFRS on market reaction was studied. DeFond, Hung, Li, and Li (2015) find that IFRS adoption decreases crash risk (i.e., the frequency of a firm's extreme negative stock returns) for nonfinancial firms. This result is particularly strong for firms in poor information environments and in countries where IFRS adoption causes more substantial and more credible changes from local GAAP. Conversely, IFRS adoption does not affect financial firms' crash risk in general. However, IFRS adoption decreases crash risk if financial firms are less affected by IFRS's fair value provisions or in countries with weak banking regulations.

2.2 Comparing financial reporting quality under IFRS vs. US GAAP

Some studies compare earnings management and tangible long-lived asset impairments under US GAAP and IFRS. For example, Evans, Houston, Peters, and Pratt (2015) study whether earnings management is affected by the reporting regulatory environment. A total of 616 experienced financial officers who use US GAAP or IFRS and are domiciled in the US, Europe, or Asia responded to a survey on earnings management issues, such as the likelihood and dollar amount of earnings management. They report that US firms using US GAAP rely more heavily on real earnings management methods than non-US firms that use either IFRS or US GAAP and US firms using IFRS. Their findings demonstrate both standards (US GAAP versus IFRS) and domicile (the US versus non-US) affect earnings management (real versus accrual). Possible explanations include: US GAAP helps detect earnings management and the US has more effective enforcement.

Gordon and Hsu (2018) investigate the predictive value of tangible long-lived asset impairments for changes in future operating cash flows under US GAAP and IFRS. They report a negative association between impairments reported under IFRS and changes in future operating cash flows. Furthermore, they found impairment losses under IFRS are more predictive in high-enforcement countries. However, there is no such association under US GAAP, on average. They attribute this difference to delayed recognition under US GAAP.

2.3 Government policies and actions

Governments around the globe make and change policies as well as investigate foreign companies operating in their countries. These government initiatives and actions may affect accounting disclosures, firm investment, and market reaction.

New policies

In 2008, the Chinese government required all publicly listed companies to disclose CSR activities (they are not required to spend on CSR). Chen, Hung, and Wang (2018) study the impact of such a mandate on firm performance and externalities. They find the new policy has an adverse impact on firm profitability. Importantly, the disclosure also reduced industrial wastewater and SO_2 emission levels, especially for those cities most affected by the disclosure mandate. This finding should have an important policy implication for developing countries that encounter similar environmental pollution issues as China.

Also, since January 2013, the European Central Bank has required banks to disclose securitization activities if they use their asset- backed securities as collateral for repo financing; in particular, they must report securitized loan characteristics and performance in a standardized format. Ertan, Loumioti, and Wittenberg-Moerman (2017) examine whether this mandate enhances loan quality (e.g., a lower default probability, a lower delinquent amount, fewer days in delinquency, and lower losses upon default). It does, and the finding demonstrates that greater transparency has incentivized banks to improve their credit practices.

Different from enhancing information transparency, starting in 2013, an Indian regulatory agency requires that all companies exceeding certain profitability, net worth, and size thresholds spend at least 2% of their net income on CSR activities. Manchiraju and Rajgopal (2017) examine the impact of this regulatory requirement on shareholder value. They report the mandate causes a 4.1% drop in the stock price. However, companies that spend more on advertising are not negatively affected by the mandatory CSR rule.

Policy changes

In 2007, the Securities and Exchange Commission (SEC) eliminated from Form 20-F the required reconciliation to US GAAP for Foreign Private Issuers (FPIs) filing financial statements prepared in accordance with IFRS as issued by the IASB. While this policy change eliminates costs for preparing and auditing reconciliations, it may cause information loss. Its impact on shareholder wealth effects in the US and home-country markets is unknown. Chen and Khurana (2015) report positive cumulative abnormal returns only for the US cross-listed firms that prepare financial statements under IFRS, but not for cross-listed non-IFRS, US domestic, or home-country firms. Their finding suggests shareholders place more value on the cost savings than on information loss.

Government actions

Antidumping investigations have increased over the years. Do antidumping investigations entice companies to undertake earnings management? Godsell, Welker, and Zhang (2017) show that EU firms engage in income- decreasing earnings management around the initiation of an antidumping investigation. Also, earnings management escalates when accounting data has a direct impact on the magnitude of the tariffs imposed in the trade investigation. Interestingly, earnings management decreases when the number of petitioning firms increases, or the distance between petitioning firms increases.

2.4 Global market factors

Financial reporting quality, market reaction, and accounting issues are affected by global market factors such as national culture, language barriers, economic freedom, regulatory harmonization on accounting standards, and social networks.

The impact of national culture on the capital market has been widely researched. Dou, Truong, and Veeraraghavan (2016) examine whether individualism and uncertainty avoidance, two commonly researched cultural dimensions, can explain the variation in the profitability of earnings momentum strategies in international markets. They report that earnings momentum profits in a country are positively associated with the level of individualism but negatively associated with the level of uncertainty avoidance. Their finding again suggests that cross- country research should consider cultural dimensions that capture innate differences among international investors.

The US stock exchanges list both US and non-US companies. When non-US companies have conference calls for information disclosures, language barriers between speakers and listeners may affect the transparency of disclosure and the capital market reaction to information disclosures. Brochet, Naranjo, and Yu (2016) use transcripts from non-US firms' English-language conference calls and report that when the firm is located in a non-English-speaking country and has more English-speaking analysts participating in the call, there are more negative capital market responses (i.e., lower intraday price movement and trading volume) resulting from non-plain English and erroneous expressions.

Distinct from the effects of Gross Domestic Product (GDP) level and growth, legal origin, law enforcement, investor protection, and quality of accounting standards, Chen, Chen, and Jin (2015) use economic growth, proxied with the Economic Freedom of the World Index from the Fraser Institute study, to study how institutions affect firms' ability to exercise growth and adaptation options. They show convex relations between equity value and both earnings and book value of equity, suggesting that greater economic freedom enhances equity value through more efficient management of investment options.

When the full operation of the EU started in 1995, one of the policy chapters was to allow freedom of movement for workers within the member countries. Bloomfield, Bruggemann, Christensen, and Leuz (2016) examine the labor migration issue in the EU and its initiatives to harmonize accounting and auditing standards. They report that compared with other professionals, international labor migration in the accounting profession increases significantly after regulatory harmonization. These findings illustrate the importance of having harmonization in rules to facilitate cross-border labor migration, because international regulatory harmonization reduces economic mobility barriers and increases cross-border labor migration.

Social networks have also received a lot of attention in the business community. Houston, Lee, and Suntheim (2018) show that social networks facilitate business connections in the global banking system. However, more centralized banks in the network contribute significantly to the global systemic risk. While social networks generate valuable soft information for banks under different accounting and regulatory standards, such valuable information was limited considerably by the recent banking crisis.

2.5 Country-specific factors

Some countries allow foreign companies to access their capital markets through a reverse merger. In the US, Chinese reverse mergers account for around 85 percent of all foreign reverse mergers. While prior studies examine issues concerning reverse mergers, there are still unanswered questions. Lee, Li, and Zhang (2015) examine the financial health and performance of Chinese reverse mergers (CRM) over the past decade. Their results show that, despite negative publicity, CRMs outperformed their matched peers from inception through the end of 2013. Also, those CRMs receiving private investment in public equity (PIPE) financing from sophisticated investors perform very well. On the other hand, Chen, Cheng, Lin, Lin, and Xiaos (2016) report that CRM firms exhibit lower financial reporting quality than US reverse merger firms. They attribute CRM's lower financial reporting quality to the less scrutinized reverse merger process, which allows the Chinese firms with weak bonding incentives and poor governance to access US capital markets.

A country's institutional environment and ownership structure may affect their companies' choice of high-quality auditors as well as the audit quality of Big 4 firms. In some countries, firms have different ownership structures in addition to the regular firm structure. For example, there are chaebols in South Korea and Keiretsu in Japan. In China, there are group-affiliated firms whose complex structure allows controlling shareholders to expropriate minority shareholders' interests. Fang, Pittman, Zhang, and Zhao (2017) show that group firms are more likely to address minority shareholders' concerns over agency costs by appointing Top 10 audit firms, particularly when controlling shareholders have stronger incentives to improve financial reporting quality. Also, controlling shareholders of the group of firms that hire Top 10 auditors are more constrained against meeting earnings benchmarks through intragroup transactions and tapping corporate resources at the expense of minority investors. Compared with western countries, China has a weak institutional environment. Ke, Lennox, and Xin (2015) find that the Big 4 assign their less experienced partners to companies that are listed only in China relative to clients cross-listed in Hong Kong. Further, in China Big 4 firms are less likely to issue modified audit reports, and their clients have larger signed abnormal accruals.

Another unique country-specific characteristic in China is state-owned enterprises (SOEs), which account for around 30 percent of the industrial and service sectors (or $11 trillion). Managers of SOEs work in a closed pyramidal managerial labor market. These managers have career and wealth concerns, and are cautious and risk-averse when managing firms. They can enjoy non-transferable benefits if they choose to stay within this system. The higher their political ranks (i.e., upwards in this labor market hierarchy), the fewer are their outside employment opportunities. Chen, Kim, Li, and Liang (2018) study this job market and report a negative association between managers' political ranks and firms' stock price crash risk, especially when managers are younger and have a shorter tenure. Further, this negative association only exists in regions with weak market forces and when firms have no foreign investors.

In China, all SOEs are evaluated using the same performance evaluation systems. Because of the importance of SOEs to the Chinese economy, the Chinese government aimed to improve the capital efficiency of SOEs. In 2009, the evaluation of SOEs was changed from the use of earnings before taxes and extraordinary items and Return on Equity (ROE) to Economic Value Added (EVA). In this regard, supervisors should shift the weight in subjective adjustment decisions from ROE to EVA. Du, Erkens, Young, and Tang (2018) used the Chinese government's performance evaluation of SOEs to examine whether the switch to EVA affects supervisors' performance evaluation. They find that supervisors' personal preferences motivated them to make lenient subjective adjustments by not penalizing SOEs for performing poorly on EVA when they performed well on ROE. Through field interviews, they attributed supervisors' non-compliance with the EVA measures to supervisors' perceived fairness of the new evaluation procedure, which motivated them to adjust the weight to the favorable old performance measure. Their findings have implications for the effectiveness of performance evaluation systems in evaluating SOEs when other governments change their subjective evaluation systems.

3. The case of Research on Harmonization and Comparability: Post- IFRS adoption era

Araceli Mora

Most of the "international accounting research" in the last two decades has mainly focused on country differences and/or the role of institutional factors on accounting practices, primarily in earnings quality/properties (incentives and consequences) and the relevance of accounting information (primary financial statements) for capital markets. This mainstream line of research in international accounting has mostly focussed on ex post studies, and derived its theoretical foundations from the economic literature about the capital markets and agency theory. It was principally aimed at understanding the impact of accounting information on capital markets, the decision-making of capital providers, and the behaviors of principals and agents. Much of the evidence was provided using mainly quantitative research methods on archival data. It is recognized in academia how this type of research has contributed to understanding the role of accounting information in decision-making and its impact in capital markets.

Concretely in the case of IFRS adoption, after more than ten years of application in the EU (a few less in some other jurisdictions), this empirical research has mostly showed that there were overall benefits to transparency, comparability, the cost of capital, market liquidity, corporate investment efficiency, and international capital flows associated with the mandatory adoption of IFRS. Additionally, evidence demonstrates that national patterns in the use of IFRS continued after the 2005 adoption of IFRS in the EU (Kvaal & Nobes, 2011), and it also clearly shows that the benefits of IFRS adoption were unevenly distributed among different countries due to differences in institutions and incentives. In fact, the influence of IFRS has been quite different in the countries where they have been mandatorily adopted for consolidated accounts of listed companies (Andre, 2017)[3]. This research shows that any change in a standard cannot be considered in isolation from other elements of countries' institutional infrastructure, and so it is important to consider the interaction among different elements within an economy, including regulatory, political, and social aspects along with market forces.

It is my view that a lot can still be done within this line of research, mainly when so many dramatic changes have taken place in IFRS in the last few years, which will be effective in future years, as well as the fact that the convergence project between FASB and IASB seems to be hampered (Hughes et al., 2017) and different sets of standards will coexist. This offers a unique landscape to go on with this empirical research with archival data methodology applied to primary financial statements of listed entities. But it is also my view that other perspectives, topics, and methodologies should be encouraged to make progress in our knowledge of a globalized accounting world. Neither the topics nor the methodologies I

[3] This is the editorial of a special issue published in the journal *Accounting in Europe* (issue 1 and 2, 2017) where the role and status of IFRS in several European countries is analyzed.

propose here are new but, for different reasons, they have not been so popular among financial accounting researchers.

I want to highlight some of these issues which, in my view, might drive at least an important part of future international accounting research. In particular, I will cover the explicit emergence of the "public interest" in the standard setting process, the increasing interest in politics, economics and social responsibility related with accounting, and the role of organizations and other stakeholders in shaping the standards and the accounting practices.

3.1 The emergence of the "public interest". A change in the dominant paradigm?

The thinking of standard setters on the objectives of financial reporting needs to be updated to take into account advances in the economics of information asymmetry (Mora & Walker, 2015). It is also important to consider a potential change in the standard setters' paradigm: From "Accounting to predict" to "Accounting to influence cash flows/behaviors".

It has been always an essential assumption in financial accounting research that in market-based economies accounting information fulfils two main roles, valuation and stewardship (or contracting). But it is important to highlight that the main objective stated in the FASB and IASB frameworks to date has been to provide information for investors to predict future cash flows. The contractual role, even though stewardship is explicitly recognized in the frameworks[4], is more in line with expecting that accounting standards help to achieve specific goals of different parties, which has led to increasing special-interest lobbying for accounting standards with characteristics compatible with the desired outcomes. The question of whether both perspectives are (or should be) aligned is a matter of judgment.

[4] There is a difference in the recognition of the stewardship role in FASB vs. IASB Conceptual Framework, as one of the reviewers correctly points out. This highlights the disagreement as the role and importance of the stewardship in financial reporting in Europe vs. US.

The more general view is that the different missions are in conflict, and particularly in the event of a financial and economic crisis, such conflict results in pressure on standard setters (Zeff, 2012). Similarly, Lambert (2010) draws a distinction between using information either to predict future cash flows or to influence future cash flows. The latter is closely related to the idea of using information to avoid information asymmetry problems.

In spite of the scarce evidence that the pure "public interest theory" fits with the role of accounting standard setters, the notion of 'public interest' pervades the legislation and regulations relating to the standard setting process in the EU and in other jurisdictions, and yet it is a term that has proven difficult to define (Abela & Mora, 2012). Recently, public interest objectives are intended to lie explicitly at the heart of the standard setting process (IFRS Foundation, 2012), and the endorsement process in the EU makes an explicit reference to the closely related concept of the "European public good" (Van Mourick & Walton, 2018). The European Commission (EC) makes an explicit reference to the "European public good" and the European Financial Reporting Advisory Group (EFRAG) 5 states: "Following recommendations in the Maystadt report (2013), EFRAG has also strengthened its assessment on whether new or proposed financial reporting requirements are conducive to the public good. This will include the interaction with financial stability and economic growth." But, what is the public interest? Who says what the interest of the public is? Which public? Is there a European (or international) public interest the IFRS should be dealing with? Is the objective of financial stability compatible with value relevance? Does economic growth depend significantly on the accounting standards? Despite this increasing

[5] www.efrag.org

preeminence of the public interest in accounting, the notion is abstract and can differ among stakeholders and jurisdictions.

Increasing interest in research on cross country institutional and contextual differences might help to explain why "public interest" is so complex to define in a global context. Considering accounting as a political tool (as for example in the financial industry) could open a considerable under-explored field in international accounting with interesting implications to understand the way standards are shaped and how practices of companies evolve in different countries.

3.2 The role of organizations and other stakeholders different to preparers and shareholders

Debt Markets

Most of the research until now has been done considering shareholders as the main investors to whom information about listed companies is addressed. Ball et al. (2008) argued that debt and equity markets have different demands for financial reporting in general, and the growth of debt markets in some jurisdictions should impact financial reporting, and this now offers an interesting field of research at the international level. Although research on debt contracts is quite prolific in the last few years, mainly in relation to accounting conservatism (Mora & Walker, 2015), recognizing the central importance of overcoming moral hazard and adverse selection issues as key drivers for financial reporting is particularly apparent in the financial sector where moral hazard problems loom large. Due to its relation with the global economy, the research on its specific information asymmetry problems in relation to financial reporting offer a wide range of research opportunities in financial accounting and comparability research (Giner & Mora, 2018a)

Other stakeholder's interests on accountability and sustainability

In the last few years, we have been facing the significant growing importance of topics related to corporate social responsibility, accountability, and sustainability which cannot be ignored by researchers in financial reporting in a global context. A wider corporate reporting concept and non-GAAP measures are not yet significant in the standard setters´ agenda (IASB or FASB), but some other influential institutions[6] can shape the standard setting process and national reporting practices. The Management Commentary issued by the IASB as guidelines in 2010 (IASB, 2010) and its most recent initiative to issue a Disclosures Principles Framework seem to be steps for the recognition of the importance of narratives and the willingness to having a role in the development of non-GAAP measures. There is some research on disclosures (Hellman et al, 2018; Elkins & Entwistle, 2018) and this field of research should become a significant goal for accounting researchers in the next few years. Bringing contributions of academic research on integrated, nonfinancial, or sustainability reporting to the standard-setting process should become an important goal of accounting researchers. Also, it is important to focus on mandatory vs. voluntary reporting of non-financial information, with voluntary reporting linked to signaling theory. This deserves further exploration.

Politicians, lobbying, and enforcers

[6] As for example: Accounting for Sustainability (A4S); Climate Disclosure Standards Board (CDSB); CDP (formerly Carbon Disclosure Project); Global Reporting Initiative (GRI); International Integrated Reporting Council (IIRC); Natural Capital Coalition (NCC); Sustainability Accounting Standards Board (SASB); Task Force on Financially-related Climate Disclosures (TCFD); World Business Council for Sustainable Development (WBCSD).

The analysis of lobbying by different stakeholders in a global context beyond the traditional analysis of comment letters on the roles of politicians, national governments, and national enforcers might cast light on the way standards are shaped and help to understand the final outputs as well as country differences in accounting practices through the world.

The loss of sovereignty for national governments in relation to the accounting standard setting process after adoption of IFRS has increased governments' lobbying activity, and sometimes not in a very transparent way. Additionally, governments and politicians may exercise interference in accounting through several additional mechanisms, such as controlling the national enforcers, as well as, in some specific circumstances, interfering in the accounting practices by having a stake (ownership) in firms (Giner & Mora, 2018b; Habib et al., 2018).

Some accounting theories and hypotheses state that the self-interest of politicians/governments in different countries might play a significant role in understanding the future of global accounting and comparability. That enforcement of IFRS is done at national level, and thus is under the control of politicians/governments, is commonly seen as a key aspect to prevent comparability, while it has been also argued that the more rigorous the enforcement mechanism, the more lobbying pressure that will be brought to bear on the IASB (Zeff, 2007). It is not easy to get empirical evidence of the national enforcers' attitudes, but in my view their analysis will help to understand the future of global accounting.

3.3 The role of "country studies"

At least until recently, some academics have been reluctant to consider country studies as "international accounting research". I do not agree and I think country studies are the key to international accounting research in the future. As pointed out by Ramanna (2013), there are unique elements of domestic political economies that are shaping IFRS policies and adoptions at a country level, and "country-level decisions reflect domestic political economies, which are driven in part by the relative preferences of different actors, including politicians." Consequently, "countries as a unit of analysis are useful to studying accounting globalization, and using countries as this unit of analysis might show how the domestic political economies generate country-level responses into intra-national forces" (Ramanna, 2013, page 9). Understanding those national contexts is an interesting research agenda. It might contribute to how the globalization of accounting interacts with the different cultures and individual organizations, and how the standards are shaped and applied.

In particular, research on the so-called emerging economies, referring to countries which might drive the future global economy, opens an extraordinary field for research in international accounting. For example, as pointed out by Ayzer Bilgic et al. (2018), the mainstream literature that posits a uni-directional association between individual firm accounts and price does not always apply in an emerging economy (in their case, Turkey). Here, the association between share price and balance sheet and income statement items is context-specific, changeable, and partly determined by exogenous forces, such as hyperinflation and the global financial crisis.

It is worth highlighting that addressing the impact of IFRS on various jurisdictions and national implementation decisions should take into account other decisions taken at a national level. So for example, in the case of Europe, IFRS are required for consolidated financial statements of listed entities while there is an option for Member States to require, permit, or prohibit the use of IFRS for non-publicly traded firms and/or individual accounts. These choices within the system possibly explain some of the observed non-compliance or different applications in practice and create a research opportunity. In general, opportunities for country studies could involve analysis of factors leading to early adoption of new IASB standards, accounting choices within standards at national level, or IFRS adoption beyond the consolidated financial statements.

Understanding the complexity and cross country differences in organizations and institutions from an internal perspective helps to understand and predict attitudes towards standards and accounting practice. In my view, this is essential to understanding and comparing financial reporting throughout the world and generating debate on the future of IFRS in their potentially successful role as global standards.

3.4 Methodologies

Deeper research in organizations and behavior requires going further than mainstream archival empirical research to using methodologies based on qualitative research. As mentioned, there is an emerging body of research that recognizes the importance of context when analyzing and understanding individual and institutional decisions. When the context and individual behavior are considered to analyze accounting behavior of stakeholders, qualitative research is needed. Contrary to a positive approach, a qualitative approach presupposes subjectivity, which, contrary to other fields in social science (including management accounting), has created skepticism among traditional researchers in financial accounting.

More than ten years ago Zeff (2007) highlighted that "comparability is a very difficult notion to understand even within a country, let alone globally. We have not really had much literature that helps us understand what is meant by comparability" (Zeff, 2007, page 290) and it is his view that a lot has still to be done along the classical lines of research. However, the future of international accounting research should consider giving greater importance to different perspectives and methodologies which will allow us a clear advance in accounting knowledge at a global level.

Also, Schipper (2010) pointed out it was necessary to consider that ex ante analysis of the likely effects of changes in accounting standards is what policy-makers understand, in general terms, as policy-relevant research. However, an apparent 'stigma' has existed for at least a decade that such work is of a 'lower' standing than other forms of research, even though there now seems to be a growing recognition by some authors and editors of the importance of policy-relevant research.

So, for example, many authors have recognized that case and field studies are a valuable tool to understand complex phenomena and to complement other research approaches. Such evidence provides an opportunity to better understand aspects at a micro level (Healy, 2016), and would be helpful in understanding the way regulations are used. These methods have been quite developed in management accounting, but not so much in financial (and international) accounting. Indeed, it is rare to find an international accounting study about management accounting[7]. Yet, just as financial reporting practices, management accounting practices are very likely influenced by cultural differences and legal differences across countries. So here is a potentially fertile international accounting research area, albeit one that requires qualitative field work.

It is my view that we need to override the skepticism towards qualitative methodologies in financial accounting, but it is also true we need specific research skills to

[7] For example, this journal published 11 management accounting studies (out of 223 papers) from its inception in 1992 to 2010 (Adhikari, Tondkar, & Hora, 2002; Dykxhoorn & Sinning, 2010), and none since then. The *Journal of International Accounting Research* appears to have only published one such study, Kajuter and Schroder (2017); and the *Journal of International Financial Management & Accounting* two such studies (Shields, Chow, Kato, & Nakagawa, 1991; Albu & Albu, 2012).

produce high quality papers using these methods. A deep knowledge of theories on social and political behavior (something more than the agency/contracting theory) is required, which is not always the case with financial accounting researchers, as it is not always included in the curriculum of our research students. At the same time, interest in the forces driving accounting extends beyond the accounting literature to the broader field of social and political sciences (Arnold, 2012).

In summary, I want to highlight that there is a lot to be done by financial accounting researchers. There is probably a change needed in the traditional paradigm, at least to complement the existing one with a growing importance of some topics, theories, and methodologies, of which I just mentioned a few here. The future of international accounting research is the future of financial accounting research.

4. Research Useful and Relevant to International Organizations

Elizabeth A. Gordon

In my presentation at the 2018 AAA Annual Meeting, I discussed research opportunities identified in my recent paper titled the "The Role of Accounting and the Accountancy Profession in Economic Development: A Research Agenda" (2018) coauthored with Elmar Venter and Donna Street (Venter et al., 2018). Here, I will briefly summarize the major points and will refer the reader to the paper for more detailed discussion.

The widely-held view that accounting and the accountancy profession play an essential role in economic development motivates the paper and putting forth a research agenda. International organizations such as the International Finance Corporation of the World Bank, the United Nations' Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, and the Association of Chartered

Certified Accountants assert this connection as they promote the development of the accounting profession and professional accounting organizations (PAOs) to further a country's economic development. As another indication of the support for this connection, the International Federation of Accountants and 12 donor organizations signed a Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration (MOSAIC) and released the PAO Global Development Report in 2013 that states: "When professional accountancy organizations function properly, they hold the power to support the production of high-quality financial information, contributing to public and private sector development, economic growth, and the aid effectiveness agenda."

While this view is widely-held, I found limited direct evidence of the association, let alone a causal relationship, between accounting or the accounting profession to economic development in our review of the academic literature. Our literature review provides a background and related theory, offers definitions of terms of interest including economic development, economic growth, and financial development, and discusses research found on financial development, and research on the size of the accounting profession. For the organizations interested in international development, including those comprising the donor community, policymakers, and PAO, continued research could assist in evaluating the outcomes of interventions aimed at building the capacity of PAOs in emerging and developing economies and to inform and direct future interventions.

To gather insights into the type of research that would be relevant and useful to international organizations in directing future interventions to build accounting and PAOs, two roundtable discussions were held by the International Association for Accounting Education and Research (IAAER): one in East London, South Africa and one in London, United Kingdom. The roundtables included participants included from academia, standard setting, practice, and international donor organizations. Here, I summarize three main insights from the roundtable: (1) PAOs and the accountancy profession, (2) economic outcomes, and (3) research challenges.

PAOs can serve various roles in a given justification, such as promoting accountancy education and education standards, certification, regulation, auditing standards, and enforcement. The accounting and the accounting profession extend beyond these roles of a PAO. Roundtable participants agreed that research on both the roles of PAOs and the accountancy profession would be informative.

Roundtable participants discussed the intended meaning and scope of the term "economic development." As the paper notes, research in accounting, finance, and development economics uses this term broadly to subsume such disparate elements as stock (and corporate) market development, small business development, employment rates, foreign direct investment (FDI), and change in GDP. However, the importance of these development measures and their links to the accountancy profession are likely to vary by country or region. So, researchers should consider what economic outcome indicators are most appropriate for assessing the effects of the accounting profession on development in a given setting.

Particularly relevant are the research challenges of data availability and integrity, and identifying an appropriate research setting and research design to determine causality. The paper provides a table of publicly available data sources that researchers can use to help address questions in the area.

Finally, based on the literature review, the roundtables, and activities of international organizations, the paper identifies research opportunities related to the motivating question that asks whether and how the accountancy profession influences economic development. One area to examine are the links between the accounting profession (and PAOs) and economic development depicted in the Theory of Change model diagrammed in the paper. The links include the accounting profession's effects on the quality of financial management, financial reporting, and auditing. The quality of financial management, financial reporting, and auditing, in turn, influences both improved business confidence and greater private sector investment as well as greater transparency, accountability, and more efficient management of public resources.

A second area for research opportunities relates to the five assertions in the PAO Global Development Report (MOSAIC, 2013). The report suggests that a strong accountancy profession and effective PAOs improve the quality of financial management and reporting, which in turn asserts the following five benefits: (1) attracting FDI, (2) promoting growth and development of the SME sector, (3) increasing transparency and accountability in the use of resources in the public sector, (4) improving the design and delivery of vital public services, and (5) enhancing the effectiveness and efficiency of official development assistance. Researchers can provide evidence on each of these five assertions.

The third area is research on accountancy profession development interventions to inform donors regarding the types of interventions that work best within specific institutional environments. As noted, MOSAIC (2013) signatories are supporting interventions to build PAO capacity in Africa, Asia–Pacific, Latin America and the Caribbean, Europe, and Central Asia. Assessing the outcomes of such interventions through case studies or a quantitative analysis of measureable outputs based on the objectives of the interventions could provide evidence to these organizations about the effectiveness of the interventions.

I hope the presentation at the 2018 AAA Annual Meeting and our paper will stimulate accounting researchers to advance this literature.

5 After IFRS, what?

Richard D. Morris

Mark Twain once allegedly said: “Reports of my death are greatly exaggerated”. Also greatly exaggerated are reports of the imminent demise of international accounting research because of the cross-country convergence of accounting standards following IFRS adoption. On the contrary, international accounting research will prosper post IFRS, because institutional and cultural differences between countries continue to result in international differences in accounting practices that are interesting and worth investigating. In a recent commentary, Ball (2016) points out that international accounting research helps us to understand others better, to provide replication opportunities, to exploit institutional differences, to understand underlying issues better, to reduce some limitations of single country studies, and to have more institutional and other changes to investigate. The canvas for international accounting research is large. I discuss below some examples of such research opportunities.

IFRS adoption and usage remain a major research area in international accounting. Over 130 countries in some form have adopted IFRS. Research opportunities that emerged when many countries, especially those in the EU, Australia, Hong Kong, and South Africa, adopted IFRS in 2005 included analyzing the impact of adoption: (i) on the accounting numbers themselves[8]; (ii) on the quality of earnings, for example income smoothing, small loss avoidance, and conditional conservatism; (iii) on market based measures such as value relevance, liquidity, cost of capital, and bid-ask spreads; and (iv) on analyst forecast accuracy. Pope and McLeay (2011), Brown (2011), Bruggeman, Hitz, and Sellhorn (2013),

[8] Side-by-side comparisons of IFRS and local GAAP in the transition year were mandatory in some countries, e.g. Australia.

Institute of Chartered Accountants in England and Wales (ICAEW) (2015), and DeGeorge, Li, and Shivakumar (2017) survey this literature.

Research on these issues could, of course, be repeated as each new country adopts IFRS. However, with over 130 countries already mandatorily adopting IFRS, only a few major countries are still to do so, Japan and India being two important instances; but many other current non-adopting countries have very small capital markets with relatively few listed companies that could adopt. IFRS adoption by the US remains unlikely. Therefore, the aforesaid IFRS research opportunities, so plentiful after 2005, are not so abundant now. However, there are other research opportunities available with IFRS, some of which are now outlined:

First are the so-called "real effects" of IFRS adoption. Research on IFRS adoption initially examined first-order effects, such as IFRS's impacts on the quality of published accounting information and on capital market indicators, such as cost of capital, share returns, and bid-ask spreads. Researchers have now begun looking at secondary impacts – "real effects" - of IFRS adoption, such as those on cross-border investment efficiency (Gao & Sidhu, 2018) and on real earnings management (Doukakis, 2014).

Second, the agenda of the IASB is a fruitful source of research opportunities. A recent example is the IASB's disclosure initiative project aimed at streamlining and reducing the number of required disclosures in IFRS to combat the disclosure overload problem (Hellman et al., 2018). Disclosure reduction is a novel and controversial idea which has gained traction recently through investigations by regulators and standard setters in the US, Europe, and Australasia. The disclosure reduction movement seems to be driven by financial statement preparers and regulators more than by user groups. As yet, there is little research investigating disclosure reduction (Elkins & Entwistle (2018), Hellman et al. (2018), and Saha et al. (2019)

are exceptions). Indeed, the whole issue of disclosure levels under IFRS is comparatively under-researched compared to other aspects of IFRS adoption, due to the costliness of hand-collecting disclosure data (de George et al., 2017, p. 917).

Third are the comparability effects of IFRS adoption. Comparability is an important qualitative characteristic of accounting information in the Conceptual Framework, and whether IFRS adoption improves financial reporting comparability internationally is an interesting question. Barth, Landsman, Lang, and Williams (2012) state that "accounting amounts are comparable if, when two firms face similar economic outcomes, the firms report similar accounting amounts". However, the measurement of comparability is notoriously difficult. De Franco, Kothari, and Verdi (2011) and Barth et al. (2012) measure comparability by reference to how well the relationship between accounting numbers and share market prices for one firm explains the relationship between accounting numbers and share prices for a second, matched firm, perhaps from another country. However, that approach is only viable for companies with quoted share prices. For unlisted private companies, other approaches must be used. One possibility is to use index measures of harmony from the stream of research dating back to van der Tas (1988); for example, the T index measures of comparability (with related statistical inference tests) provided by Taplin (2010, 2011, 2017). Another possibility is to use the mapping of accruals into cash flows, as in Cascino and Gassen (2015).

Fourth is to further explore between-country and within-country differences in compliance with IFRS. It is incorrect to assume that if a country mandates IFRS, then all eligible companies will comply. Compliance with standards is known to vary across countries, dependent on factors such as legal system and enforcement (Brown, Preiato, & Tarca, 2014). Recent research by Pownall and Wieczynska (2018) shows that in the EU the actual rate of IFRS adoption by eligible companies is not 100 percent. Some companies that should have adopted IFRS stayed with domestic GAAP. Firms more likely to comply with regulations and adopt IFRS are larger, have more foreign operations, more analyst following, and are more likely to have issued new debt or equity (Pownall & Wieczynska, 2018). Relatedly, a series of papers by Chris Nobes (e.g. Nobes, 2011, 2013; Kvaal & Nobes, 2012) show that some pre-IFRS practices remain in place after IFRS adoption, if IFRS provides enough flexibility to do so. More work remains to be done here. Can the expected level of non-compliance with IFRS be predicted from what is known about the economics of disclosure and accounting policy choice, and then can it be used to explore non-compliance differences within and between countries? Non-compliance with IFRS will have an impact on comparability (as explored in Cascino and Gassen, 2015). A related issue is what happens if an IFRS adopting country *allows* companies to drop IFRS and revert to domestic GAAP, as happened in Switzerland (Fiechter, Halberkann, & Meyer, 2018). Keep an eye out for what happens in the UK, post Brexit!

Fifth, most research on IFRS adoption focuses on listed public companies. However, private companies are a very important part of most economies and whether IFRS is required or not for private companies varies across countries that mandate IFRS for public listed companies (Kaya & Koch, 2015; Bessimer, 2018). The use of IFRS by unlisted private companies in these settings is still relatively under-researched as generally are the accounting practices of private companies. Private companies do not face the same capital market pressures of public companies, and thus, for example, the properties of their reported earnings differ from those of public companies (Ball & Shivakumar, 2005; Burgstahler, Hail, & Leuz, 2006).

Sixth, there is still research to be done on the standard setters themselves. Camfferman and Zeff (2013) provide an excellent account of the work done by the IASB from 2001 to 2011, and the adoption of IFRS by the EU, Australia, Hong Kong, New Zealand, and South Africa. However, research remains to be done on IFRS adoption by other countries. More generally, what influences the IASB? What are the dynamics of standard setting; what political, theoretical, and economic issues influence standard setters; is the IASB "captured'' as some domestic standard setters were argued to have been in the past (e.g. Walker, 1987)? Studies of the influence of lobbying on standard setters were once reasonably frequent (e.g. Watts & Zimmerman, 1978; Ball & Foster, 1982; Sutton, 1984) and favourably viewed by critics (Holthausen & Leftwich, 1983) but are now relatively infrequent (Larson, 1997, 2008; Georgio, 2004; Stenka and Taylor, 2010 are recent examples) in mainstream journals. This is unfortunate given the profound ongoing importance of the IASB on all countries that have adopted IFRS. Also, what happens to local standard setters once IFRS has been adopted in a country? Do they reinvent themselves, and if so how? Howieson (2017) provides insights into how Australia's standard setter, the Australian Accounting Standards Board (AASB), adapted to new leadership roles in the Asia-Pacific region after Australia adopted IFRS in 2005[9]. Certainly, these research avenues are difficult to pursue because field work is required, and relevant data cannot simply be downloaded from a database, but that does not make them any less interesting.

Seventh, whether IFRS are *interpreted* differently in different countries is something that requires further investigation. Such differences can have impacts on the comparability

[9] Howieson's (2017) paper also illustrates that a single country study, in this case Australia, qualifies as an international accounting study because it covers an issue - the role of a domestic standard setter after IFRS has been adopted – that also applies in other countries that have adopted IFRS.

of financial statements across countries. For instance, Seo and Thomson (2016) examine whether accountants in Korea interpret uncertainty expressions in IFRS such as "probable" and "virtually certain" differently to how accountants in Australia interpret them; and they find that they do[10].

Eighth, exogenous country-level events provide opportunities for international accounting research. Macroeconomic events such as the East Asian Financial Crisis (1997-98) and the Global Financial Crisis (2008-09) were major shocks to economies that yielded opportunities for research about accounting issues during these crises. Examples are the influence of the Asian Financial Crisis of 1997-98 on international accounting standard setting (Arnold, 2012) and whether fair value accounting exacerbated the Global Financial Crisis of 2008-09 (Barth & Landsman, 2010; Laux & Leuz, 2010). Similar research opportunities will arise when financial crises occur again (as history teaches they inevitably will). Whether the use of IFRS during future financial crises leads to better outcomes than in countries still using domestic GAAP will be worth exploring; for example, compared to domestic GAAP, does IFRS lead to lower stock price crash risk and more timely loss recognition, including faster recognition of loan losses (in banks), during a crisis?

Finally, IFRS often makes more use of fair value (FV) accounting than does the domestic GAAP it replaces. That statement needs qualification, of course, because some domestic GAAPs, for example UK GAAP, are closer to IFRS, and thus make more use of FV than others. Nevertheless, IFRS allows further investigation of the long-standing debate whether FV is superior to historical cost. IFRS 13 requires disclosure of the three level

[10] An earlier illustration is research showing that the true and fair view requirement in the EU's Fourth and Seventh Directives was implemented differently in different EU countries (Nobes, 1993; Aisbitt & Nobes, 2001).

hierarchy for FV measures. That hierarchy allows the trade-off between relevance and reliability with FV to be explored. More work needs to be done here; for example, which types of FV (level 1, level 2, or level 3) are more useful/value relevant during times of economic crisis, or during inflationary periods, and if so how high must inflation be for that to be the case; and does the relationship vary across countries?

In short, I believe that international accounting research has a bright future after IFRS, with many exciting opportunities, some of which I have outlined here.

6. "Soft" Factors Research

Giorgio Gotti

There is some emerging research that focuses on "soft" factors that make the outcome of accounting processes – financial statements - different even when the regulatory surface – IFRS – is the same. This is not a new stream of research, but it takes a new role after more than 130 countries wordwide adopted IFRS to report financial statements to firms' stakeholders. An interesting and exhaustive overview of all the variables that current international accounting research explored to explain differences and similiarities of accounting systems around the world is in a working paper by Isidro, Nanda, and Wysocki (2019). The paper reports a long list of financial reporting (appendix 1) and country variables (appendix 2) that previous literature identified in explaining country differences in accounting characteristics, practice, and reporting outcomes. The list of variables is long and exhaustive, and it ranges from abnormal returns as a possible explanatory variable for financial reporting quality to the percentage of institutional holdings from the US. Using factor analyses, Isidro et al. (2019) reduce these variables to one country-level reporting quality factor and four country-level institutional factors which collectively dexplain a large proportion of variation in the underlying variables.

Researchers looking at the adoption, implementation, and quality of firms' codes of ethics around the world focused on the impact that code of ethics adoption and implementation has on earnings management (Chen et al., 2018), on cash holdings (Gotti et al., 2019), and on the cost of equity capital (Duong et al., 2019). Another interesting avenue of research, suggested by a paper published in the *American Economic Review* in 2005, is how a proportional electoral system interacts with the level of investor protection in shaping and influencing the the quality of accounting systems and of the business information received by stakeholders (Pagano & Volpin, 2005). Does a proportional electoral system impact the quality of accounting information in different countries and for different markets? Applying the Isidro et al. (2019) recommended method, it would be feasible for researchers to check if initiatives, such as adopting codes of ethics or proportional electoral systems, have any impact on the accounting information above and beyond the long list of variables already included in the country-level factors presented in their paper.

Among the country level factors that recent literature shed light in explaining financial statement quality differences is the language spoken in a country. K. Chen, with his paper published in the *American Economic Review* (2013), first introduced the idea that language is shaping the mind, and thus the behaviors, of people speaking it. This is an idea starting to gather attention in business and economic research. Since then, some studies have used Chen's (2013) 'weak- vs. strong-Future Time Reference (FTR)' categorization in language to explain other economic variables. For instance, Hübner and Vannoorenberghe (2015) find that FTR predicts inflation rates (which may be sensitive to future-orientation) at the national level in a worldwide sample. Liang et al. (2014) find that national measures of sustainability and corporate responsibility, as well as institutional measures of CSR, are negatively related to obligatory FTR marking ('strong-FTR' languages). Using data from the Swiss Household Panel, Guin (2016) reports that French-speaking ('strong-FTR') Swiss households saved less and overspent more that their German-speaking ('weak-FTR') counterparts. In a broader analysis of effects of long-term-orientation on educational outcomes, Figlio et al. (2016) find home use of 'weak-FTR' languages among first-generation immigrants in Florida predicted positive performance in math, reading, and likelihood of graduation and retention, and fewer disciplinary incidents and absences, which mirrors the effect of long-term orientation more generally. Kim et al. (2017) find that companies from 'strong-FTR' countries engage in more short-term-oriented accounting practices, and Chen et al. (2017) find that companies in 'weak-FTR' countries tend to keep more precautionary cash reserves, indicating that they are making more long-term-oriented decisions.

It is important when bringing into the accounting field an explanatory factor that has been "borrowed" from another field of study, linguistic research in this case, to make sure that the appropriate research methodology and models are used. Languages, because of their historical inter-relationships, are not independent, and this can inflate correlation between variables (Galton's problem), causing wrong inferences. An appropriate modeling that accounts for languages' cultural evolution and controls for linguistic history is necessary to ensure reliable and unbiased empirical results (Fasan et al., 2016).

7. Concluding remarks

The panel provided a useful and lively discussion on the future avenues of international accounting research. Much ground was covered, including the following themes: the recent trends in international accounting research published in the top five accounting journals; adopting methodologies novel to international accounting, such as qualitative cross-country studies in management accounting; adopting a public interest perspective, focusing on international accounting issues from the perspectives of groups other than preparers and shareholders; conducting research relevant to international organizations that can demonstrate the link between accounting or the accounting profession and relevant aspects of development within a country; suggestions for research topics in an era where IFRS has already been widely adopted, such as investigating the real effects of IFRS adoption; and an examination of so-called "soft factors" at country level, such as electoral systems and language differences that may impact on accounting.

Another area of research that the panel did not address but is a potential fruitful area for future research is the technological advancements that business and the accounting profession are experiencing. Areas such as blockchain, cryptocurrencies, and artificial intelligence can change financial reporting, especially in an international context. Importantly, these advances in technology can affect how we conduct research.

We hope the suggestions and avenues for future research highlighted in this commentary will be useful to researchers worldwide as they continue to understand the role of accounting throughout the world.

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Table 1 Number of international accounting articles published in these five top journals by research area from 2015 to 2018

	The Accounting Review	**Journal of Accounting Research**	**Journal of Accounting and Ecnomics**	**Contemporary Accounting Research**	**Review of Accounting Studies**	Total
Financial accounting (including banking)	15	3	5	15	6	44
Auditing	2	1	3	4		10
Debt		2			1	3
Tax			1	2		3
Corporate Social Responsibility		1	1			2
Accounting Profession		1				1
Executive Compensation				1		1
Managerial Accounting	1					1
Total	18	8	10	22	7	65

Note: We are aware that the research areas listed are not mutually exclusive.

Table 2 Number of international accounting articles published in these five top journals by Region and Country for 2015-2018

	The Accounting Review	**Journal of Accounting Research**	**Journal of Accounting and Economics**	**Contemporary Accounting Research**	**Review of Accounting Studies**	Total
Global	7	3	2	10	4	26
USA	4		4	4	3	15
Canada				1		1
Europe	1	3				4
Germany				1		1
China	6	1	4	2		13
Hong Kong				1		1
India		1				1
South Korea				2		2
Taiwan				1		1
Total	18	8	10	22	7	65