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of the



American
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Association

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Editor: Gia Chevis

Baylor University



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Association
International
Accounting

President's Letter

Spring greetings from El Paso (fall in the Southern Hemisphere). After a mild winter, we are entering our relatively short spring. Jennie and my rose bushes are starting to put out new growth and we are adding new soil to the beds. For those of you still suffering with winter please accept my sympathies.

This President's letter focuses on successes and challenges.

First successes: Our Mid-Year meeting in Savannah organized by Hong Xie and Chris Skoussen had an excellent program kicked off by a Doctoral Seminar led by Ole-Kristian Hope. Thanks folks and thanks to all of you who attended. I was particularly pleased to have Lee Radebaugh present the Notable Achievement Award and attend the plenaries by Chris Chapman and our group of eminent practitioners led by Jon Guthart from KPMG.

Now for some challenges: The section, like most AAA sections, is slowly losing members and faces the need to provide ongoing value through improving services and governance. I believe each of the items in the table below can add value to our section. To do this effectively, I have the help of my officers and committee chairs but need the help of all members. Please read the table and take action (si se puede/ oui vous pouvez/ 是的，你可以)!!



IAS President Stephen Salter

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President's Letter (continued from page 1)

Objective and Action from the President and Executive	Actions Requested from Members
Have the section committees, particularly the strategic committee led by Wolfgang Schultze, complete a new value proposition to increase and retain members.	I encourage all members and ex members to contact Wolfgang at wolfgang.schultze@wiwi.uni-augsburg.de
The budget and finances are sound, but we do need to increase the number of members renewing. I have asked Chris Skousen to follow up on this.	If you have not renewed your section membership, please do so <u>now</u> . If you know someone who has not renewed their membership, please encourage them to do so or tell Chris Skousen why at chris.skousen@usu.edu .
Mike Welker's term as Editor of JIAR ends in June, 2014. Mike has done an excellent job, but we need a new Editor by August 2013.	This is the purview of Robert Knechel, Chair of the publications committee. Please send nominations to w.knechel@warrington.ufl.edu .
Most journal rankings require three issues to be considered a journal for excellent rankings.	Submit your papers to Mike Welker, the current editor, to start a pipeline so the new editor can quickly move to three issues.
The business meeting at the annual meeting will be held in conjunction with the section luncheon.	When you register for the AAA, please register for our lunch on Monday, August 5, 12:00pm - 1:45pm.
Midyear committee reports will be available on the section's website.	Look for these on our website.
I believe the section should move to on-line voting for officers and by-law changes.	I will report further in the next newsletter. Look for the ballot in 2014 and please vote.

I look forward to hearing from you. You are the only reason I serve. Saludos y felicidades, Stephen.





Call for Volunteers!!

Dear Members,

We are seeking volunteers for the following committees and positions for the 2013-2014 academic year. If you are interested in volunteering or would like to find out more about the volunteer opportunities, please contact Betsy Gordon, President-elect at egordon@temple.edu

Continuing Professional Education (CPE) Committee
Information Technology
International Relations Committee
Membership Committee
Outstanding Dissertation Award Committee
Outstanding Educator Award Committee
Outstanding Section Service Award Committee
Practice Issues Committee
Research Committee
Strategic Planning Committee
Teaching and Learning Committee
Regional Coordinators
International Coordinators





2013 MIDYEAR MEETING AWARDS & RECOGNITIONS



Above: Teri Yohn receives the Best Paper Award on behalf of co-authors Michael Erkens, Thomas Jean-jean, and Herve Stolowy. Below: Bowe Hansen receives the Best Paper Review Award.





2013 MIDYEAR MEETING AWARDS & RECOGNITIONS



The Lee H. Radebaugh Notable Contribution to International Research Award recognizes significant papers published in the *Journal of International Accounting Research*. Two inaugural awards were made this year. Above, Tony Kang and Ole-Kristian Hope receive the award from Lee Radebaugh himself for their paper, co-authored with Justin Jin and published in the January 2006 issue, “Empirical Evidence on Jurisdictions that Adopt IFRS”.

Lars Hassel and Gary Cunningham also won the award for their January 2004 paper “Psychic Distance and Budget Control of Foreign Subsidiaries.” Unfortunately, they were unable to attend the meeting.

Be sure to watch for the next call for nominations!



Congratulations!



Co-Chairs Chris Skousen, Utah State University (left) and Hong Xie, University of Kentucky (center). Doctoral Consortium Chair Ole-Kristian Hope, University of Toronto (right).



Clockwise from above: Panelists John Hepp (Grant Thornton), Jonathan Guthart (KPMG), and David Schmid (PwC). Speaker Grace Pownall (Emory). Speaker Gregory Waymire (Emory).





Christopher Chapman (Imperial College London), Editor of *Accounting, Organizations, and Society* headlined the opening plenary session at the midyear meeting.



You Must Try This

For this issue's section, we're going to hear from a distinctly non-accounting voice. With the permission of the author, I've added some (accounting) thoughts of my own. ~GC

Five Things You Don't Realize You are Teaching By Deanna Toten-Beard, Baylor University

At some point in our teaching lives we become aware of the unintended consequences of our pedagogy, those outcomes which are not the result of our purposeful course planning (though they are the result of our actions!). I call these "the things you don't realize you are teaching," and while I could list over a dozen, I will share five. My list starts and ends with positive realizations—things that I have done which unintentionally created good results. In between I will share three examples from my course plan and grading methods that I believe were unintentionally teaching my students unwelcome lessons.

#1. By using the first person plural pronoun, "we," when speaking to the class about my field, I am teaching students to imagine themselves as co-workers in the discipline for the duration of the course.

Years ago I developed a habit of referring to my students in theatre history as if they were all theatre historians, and I later realized that this was having an interesting effect on classes. It is important for my reader to recognize that virtually no freshman heads to college with dreams of growing up to become a theatre historian; they want to be actors and designers. I have always chosen to ignore this reality and speak to the whole class as theatre historians. The unintended consequence is that I get more buy-in to the work of the class. I have discovered that the little word "we" has the power to reduce the distance between the self-identity of my students and the material as everyone "tries on" the role of theatre historian and investigates the topic together.

Comment: This seems especially true to me for introductory classes, full of students who do not anticipate being accounting majors or accountants. But I think it is also true for many upper level classes: audit (I'm going into tax!), tax (I'm going into audit!), cost (I'm going to work in public accounting!), etc.

#2. My efforts to be efficient in the use of literary texts in class is teaching students that knowing about a text is the same thing as actually reading it.

To make the most of class time and to offer students exposure to a larger number of dramatic literature, I have been known to assign either 1) part of a text only or 2) a whole text but spend little class time on it in order to stay on schedule. But I realized that these solutions were unintentionally teaching my students that reading part of a text or skimming it is as good as experiencing the whole. I fundamentally believe that knowing "about" a text is not the same thing as having really encountered it, yet my efficient course plan was not teaching that. So I have radically reorganized the syllabus to allow each student the luxury of spending focused time on a whole text. I use class time to hold seminar-style meetings with a small number of students who have prepared for that day of class by closely reading one dramatic text in its entirety. The revised course plan is, I think, teaching students the pleasure that can be found in thorough preparation, close reading, and lively discussion of a great text.

Comment: Do we encourage our students to spend quality time with the source material compared to the amount of time they spend with a textbook where this content is pre-digested? Even in introductory courses, shouldn't we do this? Would that help them see accounting as more than a single, formulaic process to get "The Right Answer"?

#3. By commenting on written work without asking for the work to be revised, I am teaching that writing is something you're supposed to do, get right or wrong, and then move past.

Like many of you, I spend a lot of time marking essays and research papers. However, I realized many years ago that when I returned marked papers and moved on, I was unintentionally teaching students that my comments did not matter. The grade mattered, of course, but my comments were mere justification for the grade. So I began requiring students to rewrite each graded essay and research paper. It is more work for them and for me, but if the point of writing assignments is to strengthen writing, then this is the only thing I see fit to do.

Comment: If we are using writing assignments to elicit deeper thoughts, shouldn't we be especially vigilant about rewriting? Otherwise we may reinforce what is already a tendency toward a "right answer" orientation. When I think of how many times I rewrite in my own writing—why would I not do the same with my students?

#4. By marking grades on tests with points off rather than points earned I am teaching students that they start with a state of perfection which is then ruined by the testing situation.

I can show a score on a test, quiz, or project in terms of the points earned on a question (+6) or as points lost (-4). I have realized that there is a philosophical distinction in this simple choice. When I show scores as points earned, it teaches my students that I am grading them on the level of mastery they are showing rather than on what they are getting wrong. This is not an issue of self-esteem building; I am not trying to make my students feel better about themselves. I am trying to teach them what I think is really happening in the learning environment. I want to teach my students to see their knowledge and understanding as something that they are growing and building through coursework.

Comment: I have begun using this in my introductory course, and it does seem to change the nature of the discussion when students come in to review their exams. The questions are more often along the lines of "How could I have made my answer better?" rather than "Why did you take points off for this?" It's made for more fruitful discussions with many of my students. I confess that I didn't expect it to make that much of a difference, but it's enough that I've noticed.

#5. When I unselfconsciously demonstrate my sincere passion for the scholarly work I do, I am teaching students to be better members of society.

I am convinced that the greatest teaching happens when you and I express our personal (and frequently geeky) passion for the narrow and specific topics in which we specialize. My own shameless enthusiasm for theatre history teaches my students that there are people who dedicate their lives to this discipline, and sharing my current research work in World War I military theatre teaches that my field has nuances that they never dreamed of. The recognition that others can be passionate about things you do not have an interest in (and vice-versa) is at the heart of healthy citizenship, preventing the easy dismissal of people with unfamiliar interests, jobs, and passions. We have the power to teach intellectual and social compassion through the simple act of sharing our professional enthusiasm in the classroom. That may be the best thing we could possibly teach.



ANAHEIM 2013

BRILLIANTLY DISGUISED OPPORTUNITIES

American Accounting Association Annual Meeting
and Conference on Teaching and Learning in Accounting

Plenary with Jeffrey Selingo
The Future of Higher Education



Plenary with Adrian Sannier
The Future of Accounting
Teaching/Learning



Panel with Gregg Gordon, Michael Jensen, and Judy Luther
The Future of Academic Research



Registration is now open! [Visit the conference webpage](#) to reserve your spot.

International Section Luncheon: Monday, August 5

Thanks to Hsihui Chang (Drexel University) and Helen Kang (University of New South Wales), Annual Meeting Co-Chairs, for all their work!



CALLS FOR PAPERS & OTHER FUN STUFF

World Congress of Accountants 2014

2020 Vision: Learning from the Past, Building the Future

[Abstract Deadline: May 31](#)

IMA Case Writing Competition [Submission Deadline: May 31](#)

3rd Annual Conference, African Accounting and Finance Association [Deadline May 31](#)

China Accounting and Finance Review Special Issue Conference [Deadline May 31](#)

2013 Midwest Region Meeting [Submission Deadline June 7](#)

Chulalongkorn Accounting and Finance Symposium [Submission Deadline July 1](#)

Center for Corporate Reporting & Governance Conference [Submission Deadline July 5](#)

2nd Macao International Symposium on Accounting and Finance 2013 [Deadline July 18](#)

4th International Conference of the Japanese Accounting Review [Deadline August 9](#)

7th Indian School of Business Accounting Research Conference 2013 [Deadline August 15](#)

IFRS Education Initiative: Academic Fellow The Education team is seeking an Academic Fellow to fill a one-year term, with eligibility for renewal for a further year. The position will start from January 2015 for a duration of 12 months. Closing deadline Feb. 28, 2014. [Full details here](#)

Journal of International Accounting Research Support your section journal by submitting your research! The *Journal of International Accounting Research* publishes articles that increase our understanding of the development and use of international accounting and reporting practices or attempt to improve extant practices.

International Accounting Section *Forum* Deadlines Summer 2013 Issue—May 31, 2013 Fall/Winter 2013 Issue — September 30, 2013

Please submit any memorials, calls for papers, articles, suggestions, etc. by the above dates for inclusion in future editions of the Forum to

HAVE YOU SEEN?

Kamala Raghavan
Texas Southern University



Bowe Hansen
Virginia Tech



Editorial Note: If you have an abstract or know of an abstract that would be of interest to the members of the AAA International Accounting Section, please email the reference information and abstract to Kamala Raghavan at raghavank@tsu.edu or Bowe Hansen at bhansen1@vt.edu.

Behn, B., G. Gotti, D. Herrmann, and T. Kang. 2013. Classification shifting in an international setting: Investor protection and financial analyst monitoring. *Journal of International Accounting Research*, Forthcoming.

Prior research on publicly traded U.S. firms provides evidence that managers engage in classification shifting to opportunistically manage 'core' earnings. We extend this line of research in a broader international setting, by examining (1) whether the level of investor protection affects managers' decisions to engage in classification shifting behavior and (2) whether coverage by financial analysts mitigates this behavior. Based on an international sample of firms from 40 countries, we observe evidence consistent with classification shifting in both strong and weak investor protection countries using four separate measures of investor protection. We then explore the potential monitoring role of financial analysts in mitigating classification shifting. We provide evidence that higher financial analyst following mitigates classification shifting, primarily in weak investor protection countries. Overall, our results provide evidence of classification shifting in a broad international setting and evidence of financial analysts influence in reducing this form of earnings management.

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Have you Seen *(continued from page 12)*

Bondy, K., J. Moon, and D. Matten. 2012. An Institution of Corporate Social Responsibility (CSR) in Multi-National Corporations (MNCs): Form and Implications, *Journal of Business Ethics*, (Volume 111):281–299

This article investigates corporate social responsibility (CSR) as an institution within UK multinational corporations (MNCs). In the context of the literature on the institutionalization of CSR and on critical CSR, it presents two main findings. First, it contributes to the CSR mainstream literature by confirming that CSR has not only become institutionalized in society but that a form of this institution is also present within MNCs. Secondly, it contributes to the critical CSR literature by suggesting that unlike broader notions of CSR shared between multiple stakeholders, MNCs practice a form of CSR that undermines the broader stakeholder concept. By increasingly focusing on strategic forms of CSR activity, MNCs are moving away from a societal understanding of CSR that focuses on redressing the impacts of their operations through stakeholder concerns, back to any activity that supports traditional business imperatives. The implications of this shift are considered using institutional theory to evaluate macro-institutional pressures for CSR activity and the agency of powerful incumbents in the contested field of CSR.

Chi, W., E B. Douthett, Jr , Ling Lei Lisic. 2012. Client importance and audit partner independence, *Journal of Accounting and Public Policy*, (Volume 31, Issue 3): 320-336.

We use data from Taiwan where audit partners are required to sign audit reports to examine whether audit partners compromise their independence for economically important clients. Uniquely, we include both listed and unlisted clients in audit partners' client portfolios and separately study these clients for Big N and non-Big N auditors. We employ multiple proxies for auditor independence, including various abnormal accruals measures, the propensity of audit partners to issue modified audit opinions, and the probability that clients meet or just beat earnings targets. We fail to find evidence that Big N audit partners compromise their independence for economically important clients; however, we find such evidence for non-Big N auditors. Our results are robust to a battery of sensitivity analyses. While our inferences are limited to the Taiwanese capital market, our study may be of interest to market participants and regulators in other well developed capital markets.

De Cesari, A. 2012. Expropriation of minority shareholders and payout policy, *The British Accounting Review*, (Volume 44, Issue 4): 207-220.

This paper studies the payout policy of Italian firms controlled by large majority shareholders (controlled firms). The paper reports that a firm's share of dividends in total payout (dividends plus repurchases) is negatively related to the size of the cash flow stake of the firm's controlling shareholder and positively associated with the wedge between the controlling shareholder's control rights and cash flow rights. These findings are consistent with the substitute model of payout. One of the implications of this model is that controlled firms

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Have you Seen *(continued from page 13)*

with weak corporate governance set-ups, in which controlling shareholders have strong incentives to expropriate minority shareholders, tend to prefer dividends over repurchases when disgorging cash.

DeFond, M., X. Hu, M. Hung, and S. Li. 2012. Has the widespread adoption of IFRS reduced U.S. firms' attractiveness to foreign investors? *Journal of International Accounting Research*, Fall, Vol. 11, No. 2, 27 – 55.

Widespread adoption of IFRS has fueled debate about whether its dominance puts U.S. firms at a competitive disadvantage in attracting global investors. We examine this issue by looking at the change in foreign mutual fund investment in U.S. companies after 2005, the year in which IFRS surpassed U.S. GAAP as the world's most commonly used accounting standard. We find that while foreign investment in U.S. companies is essentially flat over our sample period, it declines relative to foreign investment in EU IFRS adopters. Foreign investment also declines in U.S. companies that experience large increases in IFRS industry peers relative to U.S. companies that experience small increases. In addition, the relative decline is concentrated among mutual funds that do not specialize in U.S. stocks, and is greater for smaller U.S. firms. Overall, our results suggest that the worldwide adoption of IFRS reduces U.S. firms' relative attractiveness to foreign investors.

De George, E., C. Ferguson, and N. Spear. 2013. How much does IFRS cost? IFRS adoption and audit fees. *The Accounting Review*, March 2013, Vol. 88, Issue 2, 429 – 462.

This study provides evidence of a directly observable and significant cost of International Financial Reporting Standards (IFRS) adoption, by examining the fees incurred by firms for the statutory audit of their financial statements at the time of transition. Using a comprehensive dataset of all publicly traded Australian companies, we quantify an economy-wide increase in the mean level of audit costs of 23 percent in the year of IFRS transition. We estimate an abnormal IFRS-related increase in audit costs in excess of 8 percent, beyond the normal yearly fee increases in the pre-IFRS period. Further analysis provides evidence that small firms incur disproportionately higher IFRS-related audit fees. We then survey auditors to construct a firm-specific measure of IFRS audit complexity. Empirical findings suggest that firms with greater exposure to audit complexity exhibit greater increases in compliance costs for the transition to IFRS. Given the renewed debate about whether the Securities and Exchange Commission (SEC) should mandate IFRS for U.S. firms, our results are of timely importance.

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Have you Seen *(continued from page 14)*

DeGrassi, S. W, W.B. Morgan, S.S. Walker, Y. Wang, I. Sabat. 2012. Ethical Decision-Making: Group Diversity Holds the Key, *Journal of Leadership, Accountability and Ethics*, (Volume 9, Issue 6) : 51-65.

Both researchers and practitioners have a growing interest in ethical decision-making in the workplace. While ethics has been explored at the individual (e.g., cognitive moral development, moral identity) and organizational level (e.g., ethical culture, corporate social responsibility) few studies have examined ethical decision-making at the group level. The current study examined the extent to which ethical group decision-making varied as a function of racial diversity and time. Using experimental methods, results reveal that heterogeneous groups were more likely to make ethical decisions than homogenous groups. Practical implications and future research directions are discussed.

Dey, R. Mithu, and A. Robin. 2012 The Post-SOX Evolution of the Client Portfolio of the Second Tier: A Focus on Restatement and Internal Control Risk. *International Journal of Auditing*, (Volume 16, Issue 3): 308–334.

The Post-SOX era coincides with the rise of the Second Tier auditing firms. Our study tests risk characteristics of new (and departing) clients versus continuing clients of the Second Tier to judge overall risks faced by this auditing tier. We add to the prior literature by focusing on prevalence and severity of restatement and internal control weaknesses (ICW). We show that the new clients of the Second Tier indeed have higher prevalence and severity of restatements and ICW. Departing clients also show a high risk profile compared to continuing clients, but the difference is perhaps not as strong as that indicated in the new versus continuing comparison. We confirm the widely held belief that the Second Tier is gaining market share, but this gain appears to be achieved in a somewhat controlled manner.

Detzen, D., and H. Zülch. 2012. Executive compensation and goodwill recognition under IFRS: Evidence from European mergers, *Journal of International Accounting, Auditing, and Taxation*, (Volume 21, Issue 2): 106-126.

Based on principal agent theory we posit that managers account for a business combination opportunistically by recognizing goodwill in excess of its economic determinants. We examine the relationship between CEOs' short-term cash bonuses and the amount of goodwill recognized in IFRS acquisitions. We find that with increasing cash bonus intensity managers recognize more goodwill. More detailed analysis indicates that this relationship is not a linear one. Instead, there seems to be a corridor in which CEOs are susceptible to the incentive given by bonus payments. In particular, the relationship seems to be fulfilled only for CEOs whose cash bonus is between 150% and 200% of their base salary prior to the acquisition. Our findings have an implication for companies that bonus caps should be introduced to limit CEOs' bonuses to a given percentage of their

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Have you Seen *(continued from page 15)*

base salary. By doing so, they may re-align shareholders' and managers' interests and avoid an increased impairment risk in the future.

Elsakit, O. and A. Worthington. 2012. The Attitudes of Managers and Stakeholders towards Corporate Social and Environmental Disclosure. *International Journal of Economics and Finance* (Volume 4, Issue 12) : 240-251.

Many studies have been conducted in order to investigate the reasons behind the differences in corporate social and environmental disclosure (CSED) practices throughout the world. Firm's characteristics, corporate governance, and contextual factors are provided as influential determinants of the level and quality of CSED. The impact of these determinants can be seen in the attitudes and behaviours of the two main parties in the issue of CSED; information preparers and information users. The level and the quality of CSED made by companies can be justified by investigating and understanding what motivates their managers and stakeholders to involve in social and environmental issues. This paper presents the possible reasons which might be better looked at and investigated by researchers, in order to understand the current practices of CSED and to predict the future trend of such practices.

Gullkvist, B., and A. Jokipii. 2013. Perceived importance of red flags across fraud types, *Critical Perspectives on Accounting*, (Volume 24, Issue 1): 44-61.

The purpose of this study is to examine whether internal auditors, external auditors and economic crime investigators perceive the importance of red flags as significantly different across two fraud types: fraudulent financial reporting and misappropriation of assets, as well as across within-subject categories. A total of 471 useable responses were collected using a web-based survey. The findings indicate that significant differences exist on both single and aggregate mean levels among the participant groups. Internal auditors report a higher perceived importance of the red flags related to detecting misappropriation of assets than of those related to fraudulent financial reporting, whereas the opposite is true for economic crime investigators. For external auditors, only small differences in aggregate means between misappropriation of assets and fraudulent financial reporting were found. As the sensitivity to fraud type may affect professional planning, procedures and techniques with regard to fraud prevention, detection and investigation, the results may have both practical and theoretical implications. Further, the focus on both fraud types adds to prior literature on fraud.

Harris, E. E., and J. Krishnan. 2012. The Impact of Tarnished Auditor Reputation on Nonprofit Income, *International Journal of Auditing*, (Volume 16, Issue 2): 130–146.

This study focuses on nonprofit clients of Arthur Andersen and investigates the impact of Andersen's loss of reputation on five charity income sources. We find that Arthur Andersen's loss of reputation does not impact nonprofit *(continued on page 17)*

Have you Seen *(continued from page 16)*

income. Our results are robust to alternative definitions of nonprofit income including multiple donation and revenue types, as well as organizational characteristics such as year, size, state, industry, organizational age, replacement auditor, and reliance on revenue source. These findings are in contrast to the results reported in for-profit studies that document the loss of market value suffered by shareholders of Andersen's clients. We believe this contribution has interesting implications for both nonprofit organizations and nonprofit researchers who aim to explore the effect accounting firm reputation plays in the nonprofit sector.

Hou, W. , J. Kuo, and E. Lee. 2012. The impact of state ownership on share price informativeness: The case of the Split Share Structure Reform in China. *The British Accounting Review*, (Volume 44, Issue 4): 248-261.

This study examines the impact of state ownership on share price informativeness using the unique setting of the Split Share Structure Reform in China. This reform abolishes the trading restriction on shares held mainly by state shareholders. In doing so, it renders state shareholders' wealth more sensitive to share price movements and decreases their conflict of interests with private shareholders. This change is expected to strengthen the corporate governance incentives of state shareholders and reduce the information asymmetry in Chinese listed firms. This prediction is confirmed through empirical evidence of increased share price informativeness among firms that are more sensitive to the impact of this reform, i.e. those with more state ownership or restricted shares. These findings imply that this reform benefits the information environment and minority shareholders in the Chinese stock market.

Joos, P., and E. Leung, 2013. Investor perceptions of potential IFRS adoption in the United States. *The Accounting Review*, March 2013, Vol. 88, Issue 2, 577 – 609.

This paper examines the stock market reaction to 15 events relating to IFRS adoption in the United States. The goal is to assess whether investors perceive the switch to IFRS as beneficial or costly. Our findings suggest that investors' reaction to IFRS adoption is more positive in cases where IFRS is expected to lead to convergence benefits. Our results also indicate a less positive market reaction for firms with higher litigation risk, which is consistent with investors' concerns about greater discretion and less implementation guidance under IFRS for these firms. Overall, the findings are relevant to the current debate on IFRS adoption in the U.S. and highlight the importance of convergence to investors.

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Have you Seen *(continued from page 17)*

Lin, Steve; Riccardi, William; Wang, Changjiang, (2012). Does accounting quality change following a switch from U.S. GAAP to IFRS? Evidence from Germany, *Journal of Accounting and Public Policy*, (Volume 31, Issue 6) : 641-652.

This study examines whether accounting quality changed following a switch from U.S. GAAP to IFRS. Using a sample of German high tech firms that transitioned to IFRS from U.S. GAAP in 2005, we find that accounting numbers under IFRS generally exhibit more earnings management, less timely loss recognition, and less value relevance compared to those under U.S. GAAP. In addition, after analyzing the accounting quality of firms that applied IFRS throughout the entire sample period, we find that, for the metrics suggesting a decline in accounting quality for both groups of firms, the change is significantly more pronounced for firms switching to IFRS from U.S. GAAP. Overall, our findings indicate that the application of U.S. GAAP generally resulted in higher accounting quality than application of IFRS, and a transition from U.S. GAAP to IFRS reduced accounting quality. Our findings provide the first evidence on the potential consequences of a switch from U.S. GAAP to IFRS.

Miranda-Lopez, J., L. M. Nichols. 2012. The use of earnings and cash flows in investment decisions in the U.S. and Mexico: Experimental evidence. *Journal of International Accounting, Auditing, and Taxation*, (Volume 21, Issue 2): 198-208.

In this study, we investigate which of two accounting performance measures, earnings or cash flows, is used more in valuation decisions by non-professional investors in the United States and in Mexico. This issue is relevant for the Mexican Stock Market (Bolsa Mexicana de Valores) because the Bolsa's growth has stagnated compared with markets of other Latin American countries. Results of the study reveal that the majority of participants in the U.S. rely on earnings while the majority of participants in Mexico rely on cash flows. Results also suggest that the users' predisposition can be dysfunctional to the extent that they do not consider using the other accounting measure, even when doing so made it easier to arrive at the correct valuation result (i.e. they did not choose to use the more persistent and therefore easier to forecast accounting measure). However, results are mixed for participants using earnings, since we document a higher chance of forecasting errors for participants in both countries when using earnings rather than cash flows in their calculations for the failure of these participants to adjust earnings for depreciation. This study extends the existing international literature by documenting a country-specific predisposition to use cash flows or earnings as a valuation tool by non-professional investors. Moreover, this study also shows that this predisposition can be dysfunctional, leading participants to make incorrect valuation decisions as a result of their failure to consider the differential persistence of the two accounting measures presented in the experiment.

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Have you Seen (continued from page 18)

Mohamed, Z., M. Mazlina., N. Subramaniam, and W. F. Wan Yusoff. 2012. Internal Audit Attributes and External Audit's Reliance on Internal Audit: Implications for Audit Fees. *International Journal of Auditing*, (Volume 16, Issue 3): 268–285.

This study aims to examine two aspects of internal audit quality, namely internal audit competency and internal audit contribution to financial statement audits. Consistent with the *substitution view*, this study predicts a negative relationship between the competency aspects of internal audit (the tenure of the existence of internal audit in the organization, internal audit staff expertise in IT and computer skills, training hours, internal audit staff professional certifications in accounting and auditing, and internal audit staff experience in auditing) and audit fees. Second, this study tests whether the contribution of internal auditors to financial statement audit reduces audit fees. The data analysis is based on a cross-sectional regression model with observations of 73 public-listed firms in Malaysia, which include publicly available data matched with survey responses from their internal and external auditors. The results of the study suggest that the competency of internal audit, namely the tenure of the existence of internal audit in the organization, training, internal audit staff prior experience in auditing and accounting, and certifications are associated with lower audit fees. Our findings for both aspects of internal audit quality (competency and internal audit contribution) lend support to the substitution view for explaining the links between internal audit quality and audit fees.

Modell, S. 2012. Strategy, political regulation and management control in the public sector: Institutional and critical perspectives, *Management Accounting Research*, (Vol. 23, Issue 4): 278-295.

This paper mobilizes institutional and critical theories in examining how evolving management control practices, inspired by the balanced scorecard, mediated the process of strategy formation in a Swedish central government agency. Particular attention is paid to how this process was conditioned by external, political regulation of the organization. Contrary to popular conceptions of strategy and strategic management as emerging alternatives to political regulation in the public sector, the study shows how the meaning of the notion of strategy became intricately intertwined with government regulation. Whilst this affirms the tendency of organizations to comply with institutional pressures exerted by dominant constituencies, the analysis also shows how the unfolding strategy discourse gradually narrowed the meaning of the notion of strategy permeating the organization. The extension of an institutional perspective to incorporate more critical insights highlights how this process fostered some “unintended” consequences with a detrimental impact on organizational practices aimed at achieving broader social objectives. In so doing, I draw attention to how the unobtrusive power of evolving strategy discourses conditions conceptions of organizational performance and relevant constituent interests. The implications for future management accounting research combining institutional and critical theories are discussed.

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Have you Seen *(continued from page 19)*

Nichols, N., D. L. Street, and S. J. Cereola. 2012. An analysis of the impact of adopting IFRS 8 on the segment disclosures of European blue chip companies, *Journal of International Accounting, Auditing, and Taxation*, (Volume 21, Issue 2): 79-105.

Amidst the IASB's post-implementation review of IFRS 8, we examine how the standard's adoption changed the reporting of segments by European blue chips (i.e. companies comprising the top tier index of 14 European stock exchanges). We focus on anticipated benefits articulated in the IASB's Basis for Conclusions and concerns expressed by IFRS 8 opponents. In addition to convergence with U.S. GAAP, IFRS 8 results in the reporting of significantly more operating segments on average. However, most companies report the same number or fewer segments. Refuting claims regarding the loss of geographic data at the entity-wide level, we identify an improvement in the fineness of disclosures and a significant increase in the disclosure of geographic groupings. We do not identify an improvement in consistency of segment disclosures with other sections of the annual report, which is due to the consistency already achieved under IAS 14R. IFRS 8 results in a significant decline in the number of reportable segment information items (notably liabilities) and a significant decline in the reporting of capital expenditures at the entity-wide level. Furthermore, adoption of the standard produces a lack of comparability in segment profitability measures and extensive reporting of non-IFRS measures. However, almost all companies report a measure of segment profitability tied to a number on the consolidated income statement or reconciled to the income statement.

Pinto, O. 2012. A Comparison of Transfer Pricing Practices in Canada and China, *International Journal of Business and Social Science*, (Volume 3, Issue 23); 36-44.

Multinational corporations, as well as countries around the world, regard transfer pricing as one of the most important challenges they face. There has been a substantial increase in foreign direct investment between China and Canada in the past two decades, with an increase in transfer pricing concerns. This qualitative study compares the transfer pricing practices in Canada and China, including an examination of the practices for intangible property. The results indicate that although the Organization for Economic Cooperation and Development issues global transfer pricing guidelines, the choice of transfer pricing practices in a country is dependent on its economic development, and its culture, political and economic systems. In particular, this study finds that transfer pricing for intangibles is a contentious issue, with uncertainty about the definition and the valuation of intangible assets.

Selling, T., 2013, Bumps in the road to IFRS adoption: IS a U-turn possible? *Accounting Horizons*, March 2013, Vol. 27, Issue 1, 155 – 167.

In this commentary, I address the question of adoption of International Financial Reporting Standards in the United States. I argue that ten claims made in support of IFRS adoption, by leading proponents in two recent speeches, should be rejected;

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and consequently, the Securities and Exchange Commission should have long ago made a "U-turn" on its related rulemaking proposal.

Shi, C., K. Pukthuanthong, and T. Walker, 2013. Does disclosure regulation matter? Evidence from international IPO markets. *Contemporary Accounting Research*, Spring 2013, Vol. 30, Issue 1, 356 – 387.

This study examines whether IPO disclosure requirements mandated by countries' securities laws are associated with variation in IPO underpricing in international IPO markets. Our empirical analysis uses a unique sample of 6,025 IPOs from 34 countries over the period from 1995 to 2002. We show for the first time that the stringency of disclosure requirements for IPO prospectuses is negatively associated with the extent of IPO underpricing, after controlling for various country- and firm-level determinants of underpricing. Moreover, we find that the disclosure effect on IPO underpricing is moderated by the extent of a country's capital market integration. Taken together, our findings are consistent with the view that increased disclosure regulation appears to reduce IPO underpricing and hence the cost of equity, and that institutional factors such as capital market integration play an important role in understanding the economic consequences of disclosure regulation in international IPO markets.

Soltani, B. 2013. The Anatomy of Corporate Fraud: A Comparative Analysis of High Profile American and European Corporate Scandals, *Journal of Business Ethics* (Volume 113, Issue 1): 1-3.

This paper presents a comparative analysis of three American (Enron, WorldCom and Health-South) and three European (Parmalat, Royal Ahold and Vivendi Universal) corporate failures. The first part of the analysis is based on a theoretical framework including six areas of ethical climate; tone at the top; bubble economy and market pressure; fraudulent financial reporting; accountability, control, auditing, and governance; and management compensation. The second and third parts consider the analysis of these cases from fraud perspective and in terms of firm-specific characteristics (ownership structure) and environmental context (coverage in media and academic literature, regulatory and corporate governance frameworks). The research analyses shed light on the fact that, despite major differences between Europe and U.S. in terms of political institutions, laws and regulations as well as managerial practices, there are significant similarities between six groups. The analysis also demonstrates that, the ethical dilemma has been coupled with ineffective boards, inefficient corporate governance and control mechanisms, distorted incentive schemes, accounting irregularities, failure of auditors, dominant CEOs, dysfunctional management behavior and the lack of a sound ethical tone at the top. Significant similarities were also observed in the analysis from the fraud triangle perspective. However, there are several major differences between the six corporate failure cases particularly with regard to ownership structure, coverage in media, and legal, regulatory and govern-

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ance frameworks. This research study may have several academic and practical contributions, particularly because of multidisciplinary, international features, and comparative analyses used in the paper.

Srinidhi, B., M. Hossain, and C. Y. Lim. 2012. The Effect of Arthur Andersen's Demise on Clients' Audit Fees and Auditor Conservatism: International Evidence. *Journal of International Financial Management & Accounting*, (Volume 23, Issue 3): 208–244.

Using samples from 12 non-U.S.A. countries, we find that following Arthur Andersen's failure in the United States of America, successor Big-N auditors charged an audit fee premium for ex-Andersen clients compared to existing clients and non-Andersen switch-ins. We show that this audit fee premium is not attributable to the Andersen switch-ins having lower prior earnings quality or lower bargaining power than non-Andersen switch-ins. We also show that ex-Andersen clients exhibit higher earnings quality after the switch than do ongoing clients and other switch-ins. These results suggest that the audit fee premium is attributable to auditor conservatism. Furthermore, we find that risk assessments for ex-Andersen clients are higher in countries with weak legal and extra-legal institutions. We interpret this result as suggesting that the effect of lost auditor reputation is stronger when objective evidence of earnings quality is uncertain because of weaker supporting institutions. This is the first study to document a direct effect of countrywide institutions on audit risk assessment.

Triki, T. and L. Ureche-Rangau. 2012. Stock Options and Firm Performance: New Evidence from the French Market. *Journal of International Financial Management & Accounting*, (Volume 23, Issue 3): 154–185.

This study investigates the effect of stock option-based compensation on the short-term and long-term performance of French companies. To the best of our knowledge, we provide the first empirical evidence describing the market reaction following initiations and renewals of Employee Stock Option (ESO) plans in France. We find that the French market reacts positively to initiations of ESO plans but does not consider their renewal as relevant information. Our results on the long-term effect of ESO plans suggest that neither the size nor the value of the grants affect the firm's accounting and market performance. Similarly, corporate performance prior to the grant has no explanatory power of the size or value of the grant. This implies that, over our sample period, the relationship between option-based compensation and corporate performance in France was inexistent, regardless of the direction considered.

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van Essen, M., H. van Oosterhout, and M. Carney . 2012. Corporate boards and the performance of Asian firms: A meta-analysis, *Asia Pacific Journal of Management* (Volume 29, Issue 4) : 873-905.

The prevalence of ownership concentration in Asian firms presents a challenge to the influential agency theory-based understanding of the role of corporate boards. In this paper we develop and test hypotheses about board attributes and firm performance that reflect Asian institutional conditions. We present the first meta-analysis of the relationship between board attributes and performance of Asian firms using a varied set of meta-analytical techniques on a database of 86 studies covering nine Asian countries. First, we find that board structure and composition preferences are influenced by the identity of the concentrated owner. Second, consistent with US data, we find very limited evidence of a direct relationship between board attributes and firm financial performance in the Asian context. Third, we find that the relationship between board structure and composition and firm performance is mediated by the revealed strategic preferences of Asian firms specifically by the level of R&D investment.





NOMINATIONS FOR 2013-2014

Revised Report of Nominations Committee-April 15, 2013

The Nominations Committee met on February 28, 2013 via conference call and several email exchanges. All members of the Nominations Committee participated in the conference call and email exchanges: Pat Poli, Chair, Carolyn Callahan, Mahendra Gujarathi, Paul Herz (as chair of Advisory Committee), and Tony Kang.

Prior to the meeting all committee members were given the list of nominees, their nominators, and whether they were willing to serve. All nominees were listed even if they declined to serve so that the Committee would know all those nominated. Bios and CVs were also sent to all committee members.

In conformity with the IAS Bylaws, the Chair asked all continuing members of the Advisory Board, the Council rep, and the Vice President-Practice if they were willing to continue to serve. All replied YES.

The Nominations Committee selected Susan B. Hughes – University of Vermont – to be the Chair of the Advisory Board for one year starting in August 2013.

The following is the majority-recommended slate:

President-Elect: F. Greg Burton – Brigham Young University

Secretary (2-year term): Carolyn M. Callahan – The University of Memphis

Advisory Board: (3-year term):

Gary Biddle – The University of Hong Kong

Agnes Cheng – Louisiana State University

Publications Committee (2-year term):

Sakthi Mahenthiran – Butler University

Wayne Thomas – University of Oklahoma

Nominations Committee (1-year term):

Rob Larson – University of Dayton

Teresa Conover – University of North Texas

AAA GIFT MEMBERSHIP

Almost half the American Accounting Association’s International Accounting Section’s (IAS) members live outside the United States, representing 60 countries. The IAS administers the Gift Membership Program to provide sponsored gift AAA memberships to department chairs in universities outside the United States to be selected by the IAS’s International Relations Committee or by individual contributors. The gift membership provides accounting departments at these universities with AAA and IAS Section membership, including much-needed access to *The Accounting Review*, *Accounting Horizons*, *Issues in Accounting Education*, *Accounting Education News*, and *Journal of International Accounting Research*.

The Gift Membership Program is funded entirely by contributions from AAA members. We urge all AAA members to contribute, including those who are not [yet] IAS members. Individuals contributing US\$200 or more may designate a specific non-US university, with which they are not affiliated, as the beneficiary of their contribution.

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