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Bridging Accounting and Corporate Governance: New Avenues of Research

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Abstract: This essay draws on the articles in the symposium to discuss how corporate governance and accounting research complement each other well in explaining how companies are governed as well as properly managed from an accounting point of view. We put special attention to the cross-national differences in both corporate governance systems and accounting practice and how that affects multiple organizational outcomes ranging from financial performance to corporate social performance and reporting quality.

Key words: comparative corporate governance; accounting; CSR; board of directors; TMT; MNEs

Introduction

There is no doubt that accounting and corporate governance research are highly intertwined. In this essay, we first discuss with a critical eye the articles in this symposium to identify their most significant contributions to corporate governance research. Then, drawing on this collection of articles, we propose new avenues for fruitful research at the crossroads of these two closely related fields that often do not talk to each other. Corporate governance refers to the strategic design of the distribution of rights and responsibilities among different participants in the corporation such as managers, shareholders, the board of directors and other stakeholders (e.g., employees, suppliers, and consumers) (Aguilera and Jackson, 2003). It seeks to provide transparency and accountability, reduce conflicts of interest and promote the efficient allocation of firm resources. The accounting system not only provides an important source of information to governance mechanisms that help alleviate the potential conflicts of interest, accounting information is itself shaped by the governance process. Accounting information is provided by management, who understand that this information is a key input to the governance process. To avoid opportunistic behavior, a series of governance mechanisms have evolved to ensure the quality of accounting information (Sloan, 2001). Thus, corporate governance and accounting are unavoidably linked.

Interestingly, accounting principles and practices are nicely aligned with corporate governance practices across countries. For instance, in countries with strong shareholder minority rights, there tends to be higher firm financial disclosure and accountability to investors. Similarly, countries with strong capital markets need to be governed by solid accounting regulation and enforcement. In these settings, numerous regulatory initiatives have been undertaken to enhance the information available for

investors, to reduce opportunistic behavior of managers and to restore investors' confidence in managerial decision-making (e.g. Sarbanes-Oxley Act). Conversely, in countries with concentrated ownership and powerful stakeholders, several initiatives have promoted social, environmental and ethical accounting with the intent to reduce the information asymmetries not only for the shareholders but also for other stakeholders.

Summary of the symposium papers

Alhossini, Ntim and Zalata (2020) take stock of the debate about the optimal coverage of advisory and monitoring functions of the board and especially the board committees. Theoretically, the advisory and monitoring roles may complement each other, because board members depend on the information provided by the CEO both to make better recommendations and to monitor. Adams and Ferreira (2007) however suggest that these two roles of the board may also conflict. They show that in selecting their boards, shareholders may optimally elect a less independent or friendlier board that does not monitor the CEO too intensively, to encourage the CEO to share information. Boards are thus faced with an apparent paradox in that, on the one hand, they are expected to exercise control over the top management so that interests of shareholders (and other stakeholders) are protected; and on the other hand, they need to work closely with the top management to provide valuable support in choosing corporate strategy and make informed decisions in implementing strategy (Hillman and Dalziel, 2003).

Adding to this literature, Alhossini et al. (2020) provide a comprehensive review of the current body of international accounting literature regarding advisory/monitoring committees and corporate outcomes. Using the systematic literature review method, the authors review 304 articles from the fields of accounting and finance that were published between 1992 and 2018, and present three main findings. First, the theoretical

evidence suggests that agency theory is the most dominant theoretical framework applied, followed by the resource dependence theory. The authors identify gaps in the integration of theory in most past studies. Second, the authors argue that marginal attention has been paid to the advisory role of directors/advisory board sub-committees and promising attributes of directors. In their review, the authors develop several possible future lines of research based on a comprehensive overview of director characteristics that could influence the advisory role of directors and firm outcomes. Third, the study highlights that the vast majority of studies concentrate on a single country – in most cases, the USA – and cross-country examinations are still rare. In addition, most studies reviewed use quantitative methods, whilst other methods, such as mixed or qualitative methods are rarely applied.

In the second article, Habib, Bhuiyan and Wu (2020) present a meta-analysis on a comprehensive set of corporate governance determinants of financial restatements. The authors focus on 37 separate corporate governance variables, which are organized into five broad categories: (1) audit firm and audit engagement characteristics; (2) gender, board attributes, and audit committee attributes; (3) CEO related attributes; (4) ownership structure variables, and (5) external corporate governance variables. The results from the meta-analysis reveal that Big N auditor choice, types and timeliness of audit opinions are negatively associated with the occurrence of financial restatements, while economic bonding between auditors and their clients is positively related to the occurrence of financial restatements. Interestingly, the findings do not support that auditor tenure (auditor change) increases (decreases) financial restatement. In terms of corporate governance mechanisms, the authors find that board independence and separating the CEO and chair position is significantly and negatively associated with the occurrence of financial restatements, while board size and insider ownership are

positively related to restatements. The authors also uncover that corporate governance practices calling for gender diversity in governance bodies, cross-listing, and adopting anti-takeover provisions may reduce the likelihood of financial restatement.

Interestingly, none of the regulatory reforms emphasising audit committee size, independence, financial expertise and diligence yields strong evidence of support in curbing financial restatement.

The third article by Aman, Beekes and Brown (2020) looks at the relationship between corporate governance and transparency in Japan. Specifically, they examine the relationship between corporate governance ratings and the frequency and timing of disclosures by the firm itself, and the timeliness or speed of share price adjustments. The authors find that firms with a better corporate governance rating make more frequent disclosures and their disclosures are earlier in the year. In addition, firms with better corporate governance have significantly faster price discovery when the market judges the news to be good, but the speed of price discovery is unrelated to the corporate governance rating for bad news.

While these articles cover different topics in the accounting field and use different methodologies, they raise a number of interesting observations on the current state of accounting research in corporate governance and on how to move this research forward. A first observation is that the vast majority of studies concentrate on a single country, typically the United States, which raises the question of external validity of existing research to other settings. Promising future lines of research may therefore emerge from linking accounting research more closely to the comparative corporate governance literature that emphasizes the importance of the institutional context. A second observation points to the importance of gaining a better understanding of the underlying mechanisms and logics that link corporate governance practices to

accounting outcomes. For example, the meta-analysis of Habib et al. (2020) reveals that none of the regulatory reforms emphasising audit committee size, independence, financial expertise and diligence yields strong evidence of support in curbing financial restatement. The authors conclude that there is still a gap in our knowledge of why and how audit committees perform their oversight function to fulfil the public expectation of enhanced financial reporting quality. Studying the underlying mechanisms and processes may help to better understand the current mixed findings. For example, Pomeroy and Thornton (2008) find that independent audit committees are more effective at enhancing reporting quality by reducing going concern opinions and auditor resignations, than they are at avoiding restatements. Third, the availability of detailed Environment Social and Governance (ESG) data has allowed an increased focus on new dimensions and attributes of corporate governance. For example, to gain a better understanding of the role of the board, research has moved beyond traditional measures of board independence, to explore new attributes of the board and its committees, individual characteristics of its members, behavioral features of boards as teams (i.e., group thinking) or directors' socio-cognitive traits. In what follows we further elaborate each of these observations and establish different path for future accounting research in corporate governance.

Moving beyond a single national context

While governance research often focuses on a particular governance mechanism in one specific national context, a more complete understanding requires an explicit recognition of interactions across governance mechanisms, within the institutional setting. Scholars working in the field of comparative capitalism or cross-national governance have long acknowledged that institutions matter for explaining firms'

adoption of certain structures and practices, and that substantial variation exists across countries in terms of the institutions that matter most (Aguilera and Jackson, 2010; Bell Filatotchev and Aguilera, 2014; Hall and Soskice, 2001). Despite diversity in institutions, countries tend to cluster into distinct institutional settings that define the “rules of the game” regarding how economic actors solve conflicts of interests among different stakeholder groups (Hall and Soskice, 2001; Haxhi and Aguilera, 2017; Jackson and Deeg, 2008). While different typologies of institutional settings have been proposed, the “Varieties of Capitalism” (VOC) framework of Hall and Soskice’s (2001) is probably the most influential one (Fainshmidt, Judge, Aguilera and Smith, 2018; Surroca, Aguilera, Desender and Tribó, 2020; Witt and Jackson, 2016). The VOC framework identifies two main types of institutional settings: Liberal Market Economies (LMEs) and Coordinated Market Economies (CMEs).

On the one hand, LMEs are characterized by a stock market-based financial system, fluid labor markets, a limited use of networks and alliances among firms, and a concentration of firms’ decision-making power in top management. On the other hand, CMEs are characterized by a bank- or state-based financial system providing patient capital, strong internal labor markets based on employment protection, an extensive use of networks and alliances among firms that favors the internalization of three stakeholder groups’ interests—top management, shareholders, and workers—in firm’s decision making (Kang and Moon, 2012).

Important institutional differences limit the external validity of research conducted in one setting and open a pathway for future research because corporate governance elements common in LMEs often remain absent in CME, where other corporate governance mechanisms may effectively substitute and display different sets of complementarities. For example, in German and Japanese corporate governance,

monitoring by relationship-oriented banks may effectively substitute for an active market for corporate control (Aoki 2001). Universalistic policy prescriptions may therefore lead to important shortcomings and, as a result, they need to consider the institutional within which firms operate (Aguilera and Cuervo-Cazurra, 2004; Aguilera, Filatotchev, Gospel and Jackson 2008; Desender, Aguilera, Lópezpuertas-Lamy and Crespi-Cladera 2016). A number of recent studies demonstrate this point clearly. Poretti, Schatt and Bruynseels (2018) examine whether the percentage of independent members sitting on the audit committee, in different institutional settings, impacts the market reaction to earnings announcements. For a sample composed of more than 7600 earnings announcements made by European firms from 15 countries, they find that the market reactions to earnings announcements when the audit committee is more independent are significantly larger in countries with weak institutional setting. Surroca et al. (2020) examine whether firms' simultaneous adoption of managerial entrenchment provisions and corporate social responsibility (CSR) reinforces or undercuts one another in influencing financial performance, and whether the financial impact of such configurations is contingent on the institutional setting. While in LMEs, the combination of entrenchment practices and CSR creates shareholder value, in CMEs, the combined adoption of entrenchment practices and CSR initiatives destroys shareholder value. Finally, Desender, López-Puertas-Lamy, Pattitoni and Petracchi (2020) examine the link between CSR performance and the cost of financing and reveal that while the link between CSR performance and the cost of equity is negative in a shareholder-oriented system, this relationship is positive in a stakeholder-oriented system.

Building on the comparative corporate governance literature, a number of interesting paths for future research in accounting emerge. First, future work could

further explore whether the results obtained with US or UK data also apply in other institutional settings. Findings on the effectiveness of one particular corporate governance mechanisms may vary depending on the institutional context and the presence of other corporate governance mechanisms. For example, the role of the board in terms of monitoring versus advice, and the relevance of board committee is likely to be context dependent. In particular, the importance of the monitoring role is expected to be influenced by the distribution of power amongst the stakeholders and their individual incentives (Desender, Aguilera, Crespi and García-Cestona, 2013). When ownership is diffuse, the monitoring role of the board is likely to be more important because it is difficult for the dispersed shareholders to co-ordinate their monitoring activities (and is also not worthwhile for any individual institution to monitor the company on a continuing basis) (Aguilera, 2005). To resolve the alignment problem in firms that owned by atomistic shareholders, the board primary focuses on the control role. While owners do not have incentives to monitor individually, collectively all shareholders benefit from the monitoring efforts by the board of directors. In contrast, large shareholders have strong incentives to monitor managers because of their significant economic stakes (Shleifer and Vishny 1986). Even when they cannot control the management themselves, large shareholders can facilitate third-party takeovers by splitting the large gains on their own shares with the bidder. Large shareholders might have access to private value-relevant information (Heflin and Shaw, 2000), engage with management in setting corporate policy (Denis and McConnell, 2003), have some ability to influence proxy voting and may also receive special attention from management (Useem, 1996). Since blockholders have both the incentive and the power to hold management accountable for actions that do not promote shareholder value, the monitoring role of the board is, in such a situation, considered to be less important (La

Porta, López-de-Silanes, Shleifer and Vishny 1998; Aguilera, 2005, Desender et al., 2013). Future research on boards and its committee could therefore examine the importance of the institutional context, and the interaction with other corporate governance mechanisms in the effectiveness of the monitoring and advisory roles. Similarly, when considering the link between board and audit committee attributes and financial restatements (or other accounting outcomes), it would be interesting to explore whether this relationship is contingent on the institutional context, and the presence of other monitoring mechanisms. A similar argument can be built regarding the external validity of findings of how managerial incentives or the market for takeovers shape accounting information in a context where these mechanisms play a key role.

Second, the recent increase in data availability on corporate governance, especially outside the US, allows future research to shed light on corporate governance practices that are absent in a US setting, or to exploit international differences in corporate governance arrangements. For example, the stream of research on corporate governance in emerging market has grown rapidly over the last years, where the prominence of state-owned enterprises and political connections has gained a lot of attention. (e.g., Musacchio, Lazzarini and Aguilera, 2015, Okhmatovskiy 2010, Tihanyi et al. 2019, Zheng, Singh and Mitchell, 2015). Tihanyi et al. (2019) conduct a meta-analysis of a sample of 210 studies spanning 139 countries to provide insight into how state ownership and political connections affect firm performance. While they find that state ownership has only a small negative effect on firm financial performance and that political connections have no direct consequences for performance, both state ownership and political connections have a profound effect on the strategies firms pursue, such as financial leverage, R&D intensity, and internationalization, and that these strategies play a mediating role in the state ownership–firm performance

relationship. The impact of state ownership or political ties on accounting outcomes presents an interesting venue for future research.

Other recent studies are taking advantage of differences in corporate governance practices in one specific setting to gain new insights unavailable in other settings. For example, the management forecast literature has been largely developed in the US context, where management earnings forecasts are voluntary. However, precisely because forecasts are voluntary, this research devotes a great deal of attention on the managerial incentives to disclose forecasts (e.g., Ajinkya, Bhojraj and Sengupta, 2005; Karamanou and Vafeas, 2005; Skinner, 1994; Stocken, 2000; Verrecchia, 2001). Most of the research therefore focuses on explaining the determinants of engaging in voluntary earnings forecasts. To evaluate the consequences of voluntary earnings forecasts important endogeneity problems need to be addressed. For example, Brown and Hillgeist (2007) argue that, if better voluntary disclosure quality leads to less information asymmetry, then high information asymmetry firms will have greater incentives to choose high quality voluntary disclosure to reduce information asymmetry.

However, a lot less is known about how management earnings forecasts vary across countries and how different firms across the globe use earnings forecasts and guidance to manage the pressures from owners and other stakeholders in a mandatory setting. Unlike the US, the Japanese stock exchanges request managers of listed companies to provide forecasts of annual earnings at the beginning of each annual earnings announcement period as well as revisions of these initial forecasts at interim earnings announcement dates (Kato, Skinner and Kunimura, 2009). These differences in corporate governance practices allow for the exploration of how the properties of managerial earnings forecasts evolve as corporate governance arrangements change (e.g., Kato et al. 2009) or to understand how managers respond to foreign investor

pressures for greater disclosure (e.g., Aguilera, Desender, LopezPuertas-Lamy and Lee, 2017). By looking at different corporate governance settings, and studying unique features, research can provide new insights that are not only relevant to the specific setting, but may also help in our understanding of the underlying processes that lead to better corporate governance.

Underlying mechanisms and new dimensions of corporate governance to explore

One reason for the existing mixed empirical findings regarding the effectiveness of corporate governance practices may be the neglect of patterned variations in corporate governance present in different organizational environments and important omitted variables (Aguilera and Jackson, 2010). To move the corporate governance literature forward, research is increasingly focusing on uncovering the channels that help to explain the relationship between corporate governance mechanisms and firm outcomes. Within the accounting literature, reporting quality has been one of the key firm outcomes of interest and a vast body of research has linked corporate governance mechanisms directly to measure of reporting quality, yielding mixed results (Habib et al. 2020). While a particular corporate governance mechanism may enhance monitoring and restrict opportunistic behavior directly, these mechanisms do not operate in isolation to other mechanisms and failure to account for the interactions between corporate governance mechanisms may help to explain some of the mixed findings in the literature. The study by LópezPuertas-Lamy et al. (2017) illustrate this point. The authors analyse whether the audit effort mediates the relationship between CSR and the financial reporting quality of firms. Their findings suggest that audit effort is one mechanism through which CSR performance may influence the financial reporting

quality of firms and as a result, that audit fees may be an important omitted variable of prior studies that examine the effect of CSR performance on financial reporting quality (e.g. Kim, Park and Wier, 2012). Responding to the call of Alhossini et al. (2020) for increased attention on board committees, it would also be interesting to explore to what extent the influence of the board of directors on financial reporting quality works through the board committees. According to the meta-analysis of Neville, Byron, Post and Ward (2019), audit committee independence presents the strongest negative relationship with corporate misconduct compared to other forms of board independence. While there is a vast amount of corporate governance literature at the board level, research on board committee is much scarcer, and may be one of the main channels through which the board of directors shapes accounting outcomes.

The increased availability of ESG data for a large global sample and detailed information on individual board members and executives also allows researchers to examine new dimensions and attributes of corporate governance. A first stream of research has moved beyond traditional measures of the board, like independence, to examine aspects of board diversity, networks and individual characteristics of board and committee members and the top management team (TMT), such as financial expertise. Using Asset4 and KLD data, a second stream has looked at determinants and consequences of non-financial disclosure, especially CSR disclosure. Third, the interest for the study of corporate governance in multinational corporations (MNCs) has grown significantly in the last few decades (Aguilera, Marano and Haxhi, 2019), particularly as global expectations of MNCs' economic and social accountability are intensifying and emerging market MNCs are challenging traditional corporate governance models and theories (Cuervo-Cazura and Ramamurti, 2014; Jackson and Strange, 2008). The

following studies illustrate how examining some of these new attributes can enrich the accounting research on corporate governance.

Board and TMT attributes

Focusing on diversity, Post and Byron (2015) find a positive association between board diversity and accounting performance, but a negative association between diversity and market performance in countries with high gender inequality. While the governance literature on board diversity has especially focused on linking diversity to performance measures, the impact of board diversity on other accounting outcomes is much scarcer. Friedman (2019) examines whether investor-level preferences for director characteristics influence portfolio choices, using data on the US holdings of non-US funds. Consistent with bias-based preferences influencing portfolio allocations, the author finds that funds from countries with greater gender inequality invest less and hold smaller stakes in firms with more female directors. While most of the studies on board diversity have examined gender diversity, other forms of diversity may equally play a role. In this line, Du, Jian and Lia (2017) use a sample of Chinese companies to examine the monitoring role of foreign directors in deterring earnings management. They show that earnings management is negatively associated with the presence and ratio of foreign directors on corporate boards. Interestingly, they also find that earnings management is less pronounced in state-owned enterprises as compared to others.

Focusing on board networks, Chiu, Teoh and Tian (2013) test whether earnings management spreads between firms through shared directors. They find that a firm is more likely to manage earnings when it shares a common director with a firm that is currently managing earnings and is less likely to manage earnings when it shares a common director with a non-manipulator. Looking at contingency factors, the authors

reveal that earnings management contagion is stronger when the shared director has a leadership or accounting-relevant position (e.g., audit committee chair or member) on its board or the contagious firm's board. Future work could explore other accounting outcomes such as the auditor choice, accounting conservatism or tax avoidance, as well as other contingency factors that help to explain when contagion is strongest.

Focusing on audit committee characteristics, Badolato, Donelson and Ege (2014) explore the relevance of status of the audit committee, in addition to financial expertise to reduce earnings management. They argue that regulatory pressure to increase both audit committee financial expertise and board independence has resulted in lower status for audit committees relative to management. The authors argue that this status differential is relevant because expertise and relative status are important determinants of each party's ability to influence outcomes, particularly when parties face conflicting goals. They find that audit committees with both financial expertise and high relative status are associated with lower levels of earnings management, as measured by accounting irregularities and abnormal accruals. This study provides an interesting new insight in terms of the importance of status to examine the effectiveness of corporate governance mechanisms. For future research, the importance of status may also apply to other board committees and help to explain when committees are expected to play a stronger role, or even the board itself.

Focusing on TMT characteristics, Hsieh, Chen, Tseng and Lin (2018) examines how TMT knowledge and average tenure affect accrual-based earnings management in Taiwanese listed companies. The authors argue that, on the one hand, TMT members with more knowledge and longer average tenure have better performances and higher reputation and are more aware of the litigation costs of earnings manipulations, which reduce managers' incentives to manage earnings. On the other hand, these TMT

members may become entrenched, which could increase the incentives for earnings manipulations. The authors show that firms' TMT knowledge and average tenure are negatively associated with discretionary accruals, which makes TMT members less likely to engage in earnings management. Finally, the study explores a number of interesting contingency factors and suggests that the presence of a founding family may reduce the influences of TMT knowledge and average tenure on earnings management. The availability of detailed information, of the CEO and the TMT team allows future research to examine new dimensions that help to broaden our understanding. In this line, Gounopoulos and Pham (2018) find strong evidence that newly listed firms with financial expert CEOs are less likely to engage in either accrual-based or real earnings management in the offering year than those with non-financial expert CEOs. While the governance literature has focused greatly on the board and board characteristics, TMT characteristics have received far less attention. Examining how TMT characteristics interact with corporate governance mechanisms to influence accounting outcomes, or how CEOs interact with the rest of the TMT, would be another interesting venue for future work.

Corporate social responsibility

Corporate social responsibility (CSR) has become increasingly important in recent years and the publication of social and environmental information by companies has attracted considerable attention from the research community (e.g. McWilliams, Siegel and Wright, 2006; Orlitzky, 2008; Edmans, 2011; Eccles, Ioannou and Serafeim, 2014; Di Giuli and Kostovetsky 2014; Flammer, 2015; Lys, Naughton and Wang, 2015). CSR consists of a set of social and environmental activities that companies implement on a voluntary basis in order to address the social and environmental impact

of their business and the expectations of their stakeholders (European Commission, 2001; Arjaliès and Mundy, 2013). The rapid increase in available CSR scores and CSR reporting has spurred a lot of research on uncovering both the determinants and consequences of CSR performance scores, as well as the rationales and benefits of this type of voluntary disclosure.

Within the accounting literature, a growing body of research has focused on how CSR performance has impacted various accounting outcomes¹, such as earnings quality (Petrovits 2006; Chih, Shen and Kang, 2007; Kim et al., 2012; LópezPuertas-Lamy et al. 2017), often reporting mixed results. For example, Petrovits (2006) focuses on one particular dimension of CSR to examine the strategic use of corporate philanthropy programs to achieve financial reporting objectives. She finds that reporting small earnings increases make income-increasing discretionary foundation funding choices, which is consistent with the idea that firms use their charitable foundations as off-balance sheet reserves. In contrast, Kim et al. (2012) focus on a broad measure of CSR performance and find that CSR firms are less likely to engage in aggressive earnings management. LópezPuertas et al. (2017) suggest that there may be optimal level of firms' CSR performance, and find a U-shaped relationship between CSR performance and audit fees. While there exist a large body of CSR research, CSR performance measures are increasingly available for more companies, especially in developing countries, opening promising new avenues of research. Information on specific dimensions of CSR, or advancement in the CSR measures also allow future research to move our understanding forward. For example, Hawn and Ioannou (2016) distinguish between external and internal CSR actions and argue that they jointly contribute to the

¹ Radhakrishnan, Tsang and Liu (2018) revise the accounting research on CSR and develop a CSR framework for strategic business purposes, proposing various avenues for future research.

accumulation of intangible firm resources and are therefore associated with better market value.

Another stream has focused on CSR disclosure, as an important dimension of non-financial disclosure (e.g., Dhaliwal, Li, Tsang and Yang, 2014; Clarkson, Fang, Li and Richardson, 2013; Plumlee, Brown and Marshall, 2015; Cai et al. 2017).

Clarkson et al. (2013) argue and show that this forward-looking information is relevant to investors to predict future financial performance. They measure voluntary environmental disclosures in standalone environmental reports, CSR reports, and corporate web sites using a disclosure index consistent with the Global Reporting Initiative disclosure framework. Plumlee et al. (2015) provide evidence that voluntary environmental quality is associated with firm value through both the cash flow and the cost of equity component. Similar to Clarkson et al. (2013), they measure voluntary environmental disclosure quality using a disclosure index consistent with the Global Reporting Initiative. Dhaliwal et al. (2014) find a negative association between CSR disclosure and the cost of equity capital. They show that this relationship is more pronounced in stakeholder-oriented countries. In contrast to Clarkson et al. (2013) and Plumlee et al. (2015), they focus on the presence of a standalone CSR report as their key measure of CSR reporting. Cai et al. (2017) evaluate whether voluntary CSR disclosure is influenced by the economic incentives of controlling shareholders using a natural experiment setting based on the Split Share Structure Reform in China. Their findings suggest that the economic incentives of key stakeholders are associated with voluntary CSR disclosures. Future research could focus on further uncovering the rationales behind this type of voluntary disclosure, both related to providing standalone CSR reports or specific environmental or social dimensions. Future research may also further explore the potential benefits that firms gain by spending resources on compiling

and publishing standalone CSR report, relative to other nonfinancial disclosures or CSR performance scores.

MNEs

MNE corporate governance deals with a variety of measures that influence the MNC's headquarters (HQ), subsidiaries and their interrelationships, and in turn they are influenced by the environment in which each unit is operating (Aguilera, Marano and Haxhi, 2019). For example, at the HQ level, MNE corporate governance focuses on how an MNC might select, compensate, and monitor the CEO so that her interests are aligned with those of shareholders and other stakeholders. At the subsidiary level, MNE corporate governance may be concerned about expropriation from the parent company and how to keep the subsidiary competitive and accountable to the HQ. MNC complex intra-organizational relationships go hand in hand with accountability and internal controls.

From an accounting perspective, research on MNE corporate governance has focused on the harmonization of accounting standards and reporting (Judge, Li, & Pinsker, 2010; Leuz & Wysocki, 2016), as well as its impact on accounting outcomes (e.g., De Simone, 2016; Dutillieux, Jere and Willekens, 2016). For example, De Simone (2016) test whether adoption of IFRS by individual affiliates of multinational entities (MNEs) for unconsolidated financial reporting facilitates tax-motivated income shifting. MNEs often justify transfer prices to tax authorities by benchmarking intercompany profit allocations against a range of book profit rates reported by economically comparable, independent firms that use similar accounting standards. Additional qualifying benchmark firms resulting from IFRS adoption could allow managers to support more tax-advantaged transfer prices. The author documents an increase in the

arm's length range of book profits reported by potential IFRS benchmark firms following affiliate adoption of IFRS. In addition, the results show a 11.3 percent tax-motivated change in reported book pre-tax profits following affiliate IFRS adoption, relative to pre-adoption and non-adopter affiliate-years.

Relatedly, Dutilleux et al. (2016) examine whether the Sarbanes-Oxley Act of 2002 (SOX) had a flow-through effect on the earnings quality of local GAAP financial reports for a sample of Belgian subsidiaries owned by U.S.-listed firms. Because Belgium has weaker institutions relative to the U.S., the authors expect the spillover effects of SOX to improve local GAAP earnings quality. Using a difference-in-differences research design, they compare changes in earnings quality before and after SOX for a treatment sample of Belgian subsidiaries owned by U.S.-listed companies (which are subject to SOX), with a control sample of Belgian-owned subsidiaries whose owners are not subject to SOX regulations. They find that the earnings quality of the U.S.-owned subsidiaries improved after SOX (smaller abnormal accruals and more timely loss recognition). In contrast, the earnings quality of the control sample was either unchanged or declined in the pre- versus post-SOX periods. While there is a growing interest in corporate governance MNEs, the accounting literature is relatively scarce and future work can help gain a better understanding of how MNEs interact with accounting regulation and changes, as well as how they manage their operations and design corporate governance mechanisms that influence accounting outcomes.

Conclusion

In sum in an era of grand societal challenges such as global warming, widening social inequality, and health pandemic as well as tremendous speed of the digital transformation with artificial intelligence supporting many dimensions of accounting and functions of boards, the time is ripe to continue to analyze how the accounting

science can support companies' governance to thrive in a global environment that demands greater disclosure, accountability and inclusiveness. One takeaway from this article is that there is no such thing as a rule that fits all because each organization, each platform, each entrepreneur is embedded in an ecosystem of cultural norms, institutional force and sense of what their purpose is. In addition to constituting an important input to the governance process that supports long term sustainability, accounting information is itself a product of the governance process. Valuable new can be gained from focusing on identifying the unique structure and characteristics of accounting information that make it useful in specific governance mechanisms and settings.

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