

Report on the 3rd Dutch Accounting Research Conference

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One of the best protected secrets of the Dutch accounting community is that the Netherlands is among the best European countries when it comes to accounting research and that Dutch universities also perform excellent when making worldwide comparisons. The current situation is the result of the hard work of many people at the different Dutch universities during the last three decades. Despite the fact that accounting research flourishes in the Netherlands and despite the geographic concentration of the different universities, initiatives to bring accounting researchers together were lacking. The Dutch Accounting Research Conference (DARC) aims at filling this gap. During this one-day conference, researchers from different universities come together to present and discuss about a wide range of current topics in accounting research. After being organized in Maastricht in 2015 and in Rotterdam in 2016, the third DARC took place in Tilburg on June 7, 2017. The number of attendees increases every year and the accounting department of Tilburg University was very happy to see that more than 70 researchers found their way to the beautiful campus. In this article, we will give a short summary of the papers that have been presented at the conference. Short presentations of the papers can be found on www.mab-online.nl.

An important question for both researchers and practitioners is why strategic changes improve performance in some firms but not in others. From an accounting perspective, it is quite intuitive to predict a key role for management control systems in strategic change processes. However, practitioners often complain that management control systems inhibit the initiation of strategic change and also the role of the different aspects of a management control system is not yet clearly documented. In the paper *“Initiation and Implementation of Strategic Change: Does Management Control Matter?”*, Margareth Abernethy (University of Melbourne), Henri Dekker (Vrije Universiteit Amsterdam, presenter) and Jennifer Grafton (University of Melbourne) use data from 457 mid-sized Australian firms to investigate the role of management control systems in the initiation of strategic changes, such as market repositioning or changes in the organizational structure. A

unique feature of their paper is that they can follow firms over multiple years, allowing them to better analyze the process through which strategic changes unfold over time. The study documents that the initiation of strategic change is supported by strategic planning processes, implying that firms who make more business plans, budget forecasts, and competitive benchmarking plans are more likely to initiate strategic changes. Next, firms initiating strategic changes are more likely to introduce operational changes but only when performance measures are more intensively used to evaluate business performance. The rationale behind this result is that performance measures helps to implement the strategic change because performance measures guide employees, keep them accountable and incentivize the right actions. Finally, the results show that strategic changes and the subsequent operational changes are more successful in firms that are more intensively using performance measures. This paper can inform the cost-benefit tradeoff that managers make when initiating strategic change. Specifically, improving the planning and measurement aspects of the management control systems is indeed costly but also increases the likelihood of success of strategic changes.

The auditing profession has been seriously criticized during the last years. One of the complaints is that the audit opinion is not informative enough for users of the audited financial statements. One way through which an audit opinion can become more informative is by supplementing additional statements regarding the risks that the auditor identified during the audit. Such an expanded audit report will be introduced in Europe but has already been introduced in the UK since 2013. In their study titled *“Is More Always Better? Disclosures in the Expanded Audit Report and their Impact on Loan Contracting”*, Reggy Hooghiemstra (presenter), Vlad Porumb, Yasemin Karabrahimoglu, and Dick de Waard (all University of Groningen) find that the supplemental information provided through the expanded audit report has value for loan decisions made by banks in the private debt market. Specifically, the introduction of the expanded audit report is associated with a lower interest rate and lower maturity. This pa-

per can be of interest to regulators as it documents the impact of a new regulation on a specific user of the audit opinion.

Segment reporting has always been a very controversial area within financial reporting. On the one hand, investors and lenders care about disaggregated information to understand and assess sources of profitability and risk. On the other hand, segment information might also be useful for competitors to assess strategic developments and potentially profitable business areas. To avoid a competitive disadvantage, firms might prefer not to disclose segment information. At the same time, it has been discussed whether firms might just use the proprietary cost argument as an excuse to hide potentially relevant information, such as poor performance in strategically important segments. Empirical evidence about whether firms prefer not to disclose disaggregated segment information for proprietary or for more opportunistic reasons is mixed. Edith Leung (Erasmus University Rotterdam, presenter) and Arnt Verriest (EDHEC Business School) address this question in their paper “*Does Location Matter for Disclosure? Evidence from Geographic Segments*” by examining the introduction of IFRS 8 Operating Segments that forced firms to disclose information on all material geographic segments. The reporting change allows the authors to identify geographic segments and segment-specific information that firms choose not to disclose before the introduction of IFRS 8. Consistent with a proprietary cost argument, the study documents that factors explaining the performance of geographic segments, such as areas with lower entry barriers or better future economic prospects, also affect the non-disclosure of these segments. Interestingly, once these segments are revealed, firms still use their discretion over reporting rules to disclose less information about these segments relative to segments already disclosed prior to the regulatory change. This highlights the importance of understanding the trade-offs between informing investors and informing competitors, when using segment information and developing new reporting regulations.

The regulation and enforcement of IFRS in Europe is also the focus of a new study by Robin Litjens (Tilburg University, presenter) and Sanjay Bissessur (University of Amsterdam). Since the introduction of IFRS in 2005, practitioners, standard setters, and academics, have been discussing about the role of legal institutions and enforcement mechanisms for financial reporting outcomes. Recent literature suggests that enforcement of IFRS regulation is the most important determinant of economic benefits of IFRS adoption and that outcomes across countries vary predictably with legal institutions. In their study “*How does Discretion in Institutional Design affect Financial Reporting Enforcement Intensity?*” Litjens and Bissessur take a more dy-

namic perspective and explore the inputs and outputs of institutional enforcement design and how these correspond to the intensity of financial reporting enforcement in the European Union. Interestingly, enforcers in Europe seem to vary their enforcement behavior – across countries, over time, and even within countries in the case that the institutional design includes multiple enforcement institutions. These findings are inconsistent with a more steady-state view of the legal environment of financial reporting and suggest that it could be beneficial to come to a unique standard in Europe leading to more homogeneous enforcement and decision making within enforcement institutions.

Mean reversion in corporate profitability and growth is a well-documented pattern. As competing entrepreneurs exit relatively unprofitable industries and enter relatively profitable industries, incumbents’ profitability eventually moves back to the industry mean. Industry models have found widespread use in academia and practice to explain corporate decision making and forecasting profitability or growth. However, these industry models are far from perfect, especially since the underlying factors affecting the existence and speed of mean reversion are still relatively unclear. In their recent study “*Life Cycle Models and Forecasting Growth and Profitability*”, authors Patrick Vorst (Maastricht University) and Teri Lombardi Yohn (Indiana University) take a different perspective: What if there is predictable variation across firms’ structures, decisions, and development as a function of different organizational life cycles? Is it possible to improve traditional mean-reversion models by taking different life cycle stages into account? In fact, the authors demonstrate that life cycle models significantly outperform traditional economy-wide and industry-specific models for forecasting growth and profitability, i.e., earnings revert back to their life cycle-mean. These findings suggest that practitioners, such as financial analysts, auditors, and managers, can significantly improve the accuracy of profitability forecasts by taking life cycle information into account.

Improving knowledge and application needs critical discussion and the exchange between research and practice. With this in mind, we are looking forward to the 4th edition of the Dutch Accounting Research Conference to be organized at the University of Groningen in 2018. ■

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