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Bridging Accounting and Corporate Governance: New Avenues of Research

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This paper draws on the articles in the Forum on Corporate Governance 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 affect

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multiple organizational outcomes ranging from financial performance to corporate social performance and reporting quality.

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1. Introduction

There is no doubt that accounting and corporate governance researches are highly intertwined. In this paper, we first discuss with a critical eye the articles included in the Forum on Corporate Governance 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, such as employees, suppliers, and consumers (Aguilera & 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 the 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 of 2002 (SOX)]. 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.

2. Summary of the Forum Papers

Alhossini *et al.* (2020) take stock of the debate about the optimal coverage of advisory and monitoring functions of the board, 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 the interests of shareholders (and other stakeholders) are protected; 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 & 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 previous studies. Second, the authors argue that marginal attention has been paid to the advisory role of directors/ advisory board subcommittees 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 United States — and cross-country examinations are still rare. In addition, most studies reviewed use quantitative methods, while other methods, such as mixed or qualitative methods, are rarely applied.

In the second article, Habib *et al.* (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: (a) audit firm and audit engagement characteristics; (b) gender, board attributes, and audit committee attributes; (c) CEO-related attributes; (d) ownership structure variables; and (e) 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 are 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 emphasizing audit committee size, independence, financial expertise, and diligence yields strong evidence of support in curbing financial restatement.

The third article by Aman *et al.* (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 researches 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, Habib *et al.* (2020) conclude that there is still a gap in our knowledge of why and how audit committees perform their oversight function, as their meta-analysis reveals that none of the audit committee dimensions, such as size, independence, financial expertise, and diligence, yields strong evidence of support in curbing financial restatement. 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 the 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.

3. 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 the most (Aguilera & Jackson, 2010; Bell *et al.*, 2014; Hall & 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 & Soskice, 2001; Haxhi & Aguilera, 2017; Jackson & Deeg, 2008). While different typologies of institutional settings have been proposed, the "varieties of capitalism" (VOC) framework of Hall & Soskice (2001) is probably the most influential one (Fainshmidt *et al.*, 2018; Surroca *et al.*, 2020; Witt & 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 the 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, and an extensive use of networks and alliances among the firms that favors the internalization of three stakeholder groups' interests — top management, shareholders, and workers — in the firm's decision-making (Kang & Moon, 2012).

Important institutional differences limit the external validity of the 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 & Cuervo-Cazurra, 2004; Aguilera *et al.*, 2008; Desender *et al.*, 2016). A number of recent studies demonstrate this point clearly. Poretti *et al.* (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 the 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 the countries with a 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 the shareholder value. Finally, Desender *et al.* (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 mechanism 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 committees is likely to be context-dependent. In particular, the importance of the monitoring role is expected to be influenced by the distribution of power among the stakeholders and their individual incentives (Desender *et al.*, 2013). When the ownership is diffuse, the monitoring role of the board is likely to be more important because it is difficult for the dispersed shareholders to coordinate 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 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 & 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 & Shaw, 2000), engage with management in setting corporate policy (Denis & McConnell, 2003), have some ability to influence proxy voting, and may also receive special attention from management (Useem, 1996). Because 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 *et al.*, 1998; Aguilera, 2005; Desender *et al.*, 2013). Future research on boards and board committees 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 shapes 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 United States, 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 markets 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 *et al.*, 2015; Okhmatovskiy, 2010; Tihanyi *et al.*, 2019; Zheng *et al.*, 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 the firm financial performance and that political connections have no direct consequences on 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 the 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 *et al.*, 2005; Karamanou & Vafeas, 2005; Skinner, 1994; Stocken, 2000; Verrecchia, 2001). Most of the researches therefore focus 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 Hilligeist (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 United States, 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 *et al.*, 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 *et al.*, 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.

4. 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 & Jackson, 2010). To move the corporate governance literature forward, research is increasingly focused 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 the 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) illustrates this point. The authors analyze 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 *et al.*, 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 *et al.* (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 committees is much scarcer and may be one of the main channels through which boards of directors shape the 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, such as independence, to examine the 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 *et al.*, 2019), particularly as the global expectations of MNCs' economic and social accountability are intensifying and emerging market MNCs are challenging the traditional corporate governance models and theories (Cuervo-Cazurra & Ramamurti, 2014; Jackson & Strange, 2008). The following studies illustrate how examining some of these new attributes can enrich the accounting research on corporate governance.

4.1. *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 focused on linking diversity to performance measures, the impact of board diversity on other accounting outcomes is much scarcer. Friedman (2020) 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 *et al.* (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 *et al.* (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 the strongest.

Focusing on audit committee characteristics, Badolato *et al.* (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 the 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 *et al.* (2018) examine 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 reputations 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.

4.2. *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 *et al.*, 2006; Orlitzky, 2008; Edmans, 2011; Eccles *et al.*, 2014; Di Giuli & Kostovetsky, 2014; Flammer, 2015; Lys *et al.*, 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 impacts of their businesses and the expectations of their stakeholders (European Commission, 2001; Arjaliès & 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 outcomes,[1] such as earnings quality (Petrovits, 2006; Chih *et al.*, 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 firms that report small earnings increases tend to 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-Lamy *et al.* (2017) suggest that there may be an optimal level of firms' CSR performance and find a U-shaped relationship between CSR performance and audit fees. While there exists 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 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 *et al.*, 2014; Clarkson *et al.*, 2013; Plumlee *et al.*, 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 websites using a disclosure index consistent with the Global Reporting Initiative disclosure framework. Plumlee *et al.* (2015) provide evidence that voluntary environmental quality is

[1] Radhakrishnan *et al.* (2018) revise the accounting research on CSR and develop a CSR framework for strategic business purposes, proposing various avenues for future research.

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, related to providing either 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 non-financial disclosures or CSR performance scores.

4.3. *Multinational enterprises*

Multinational enterprise (MNE) corporate governance deals with a variety of measures that influence the multinational corporation's headquarters (HQ), subsidiaries, and their interrelationships, and in turn they are influenced by the environment in which each unit is operating (Aguilera *et al.*, 2019). For example, at the HQ level, MNE corporate governance focuses on how an MNC might select, compensate, and monitor the CEO so that its 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 intraorganizational 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 *et al.*, 2010; Leuz & Wysocki, 2016), as well as its impact on accounting outcomes (e.g., De Simone, 2016; Dutillieux *et al.*, 2016). For example, De Simone (2016) tests whether adoption of IFRS by individual affiliates of 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% tax-motivated change in the reported book pretax profits following affiliate IFRS adoption, relative to preadoption and non-adopter affiliate-years.

Relatedly, Dutillieux *et al.* (2016) examine whether the SOX had a flow-through effect on the earnings quality of local GAAP financial reports for a sample of Belgian subsidiaries owned by the US-listed firms. Because Belgium has weaker institutions relative to the United States, the authors expect the spillover effects of SOX to improve the local GAAP earnings quality. Using a difference-in-differences research design, they compare the changes in earnings quality before and after the SOX for a treatment sample of Belgian subsidiaries owned by the US-listed companies (which are subject to SOX), with a control sample of Belgian-owned subsidiaries whose owners are not subject to the SOX regulations. They find that the earnings quality of the US-owned subsidiaries improved after the SOX (smaller abnormal accruals and more timely loss recognition). In contrast, the earnings quality of the control sample either remained unchanged or had 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.

5. 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 the 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 paper is that there is no such thing as a rule that fits all because each organization, each platform, or 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 insights 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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