Editorial

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This Special Issue of the *Int. J. Accounting, Auditing and Performance Evaluation* is motivated by the seemingly increasing volatility in international capital markets, and the important and growing role corporate governance plays in providing stability and assurance to market participants in the face of such volatility. In the latter stages of the 20th century, the Asian financial crisis caused enormous turmoil in the currency and equity markets in major East and South-East Asian nations that threatened to escalate into a worldwide economic meltdown due to financial contagion. In the wake of the Asian financial crisis, governments and market regulators implemented reforms aimed at preventing a similar dilemma (e.g. Baek et al., 2004; Pathan et al., 2008).

Despite the severity of, and lessons learned from, the Asian financial crisis, it appears to have only been a mere precursor to the more widespread and crippling financial tsunami that swamped the capital and economic markets of developed and developing nations worldwide a decade later. The global financial crisis is viewed by some leading economists as the most serious financial crisis since the great depression. A USA housing market bubble, built primarily upon the back of high risk 'subprime' loans subsequently repackaged and resold to investors (including banks, hedge funds and individuals) around the world, burst in mid-2007 as subprime loans defaulted eventually creating a credit freeze.

Exposure to the credit crunch was not confined to Wall Street but rolled across all international markets including those with little or zero exposure to subprime losses. As stock market values gyrated wildly (particularly during the third and fourth quarters of 2008), financial institutions fell. Soon, countless firms around the world were decimated, including those far removed from finance and lending. Nearly, all developed economies fell deeply into recession with emerging economy stock markets tilting precipitously as once heady growth rates slumped savagely. Whilst, many affluent people in developed economies suffered huge financial losses, the world's poorest citizens faced further challenges as trade ground to a halt and aid evaporated.

Just as with the great depression, the global financial crisis has prompted a full-scale evaluation and rethink of the financial regulatory system, talk of a reordering of the international balance in financial power and serious questioning of economic theory. Also, as in the aftermath of the Asian financial crisis, there are growing calls for further reviews and reforms of international corporate governance and financial reporting practices. The renewed calls raise serious questions about the suitability of large corporate governance and financial reporting reforms introduced during the past decade.

Reforms emanating from the Asian financial crisis most likely affected Asian-based firms. However, few firms around the world were immune from the large set of reforms introduced worldwide following fallout from various high-profile corporate accounting scandals of 2002/03 (e.g. Enron, Parmalat, HIH and WorldCom). Advocates of reforms introduced following the Asian financial crisis and the 2002/03 corporate accounting scandals charged that the reforms would strengthen practices and aid in preventing future crisis. The global financial crisis, however, casts a deep shadow over such claims. Indeed, the global financial crisis raises new concerns such as:

- Did corporate governance and financial reporting reforms introduced during the past decade go far enough? Or did the reforms contribute to the global financial crisis?
- Is corporate financial reporting a contributing or mitigating factor to crises such as the global financial crisis? Did corporate financial reporting benefit from corporate governance reforms during the past decade?
- Were the corporate governance reforms introduced sufficient to adequately arm firms with appropriate structure for dealing with highly volatile and risky markets? Did corporate governance reporting magnify the volatility?
- What corporate governance system is best for minimising/preventing a reoccurrence and exposure of firms to high-risk taking? And for coping with volatile markets? Is corporate reporting at present a benefit or hindrance in reducing risking undertakings?
- Despite escalating internationalisation of markets can a single set of 'one-size-fits-all' corporate governance practices (and corporate financial reporting) be applied to all national systems?
- Are corporate governance and corporate financial reporting issues mirrored across national boundaries? Markets? Industries?
- Do corporate governance/corporate financial reporting issues encroach on sectors beyond the private sector? Are private sector reforms suitable for implementation in non-for-profit and public sector settings?

Whilst the global financial crisis did not provide the initial motivation for this Special Issue, the crisis provides a relevant backdrop for the Special Issue's aim. Specifically, the Special Issue aims to provide a canvas from which to step back and reflect on the corporate governance/financial reporting interlude that has prevailed during the past decade to examine whether introduced reforms were sufficient to address the current crisis, and will be adequate in countering future dilemmas striking the world economy. The Special Issue adopts an international lens to foster a greater understanding of the corporate governance/financial reporting link and how it may shift across different national boundaries. The issue also sought to address issues that may traverse different operational sectors (i.e. private, public and non-for-profit).

The Special Issue is fortunate to have received contributions from researchers basing their research in different national settings, including Australia, Egypt, Indonesia, the People's Republic of China (PRC) and Tunisia. Overall, the contributions tackle several different themes. However, between several of the papers, there is some overlap that allows for a comparison and additional insight to be drawn.

Earnings quality has been a prominent issue during the past several decades. Various corporate governance regulations have been introduced worldwide to prevent managerial opportunism in managing the earnings number. Debate on the success of introduced regulations continues unabated. Lai reexamines this important issue in the first paper in the Special Issue by focusing on the effectiveness of new regulations introduced in the PRC related to independent directors. The study by Lai builds on earlier work (e.g. Klein, 2002; Xie et al., 2003) but provides new and additional insights by examining an alternative political, economic and social system. Lai demonstrates that voluntary adoption of independent directors was effective in reducing earnings management. However, Lai found the subsequent introduction of mandatory adoption of independent director by PRC firms did not lead to significantly lower levels of earnings management. The results of Lai's study provide additional evidence that reforms highly touted but developed within an Anglo-American corporate governance framework may not be effective in countering managerial opportunism (and its effect on corporate financial reporting) across all national systems.

Earnings management is also the major theme investigated by Pilcher. In contrast to Lai, however, Pilcher frames the study within a public setting framework using a sample of local governments from the Australian state of New South Wales. In a further contrast to Lai, Pilcher concentrates on earnings management via aggregate and specific accruals rather than aggregate accruals alone. Prior research (e.g. Marquardt and Wiedman, 2004; McNichols, 2000, 2002) has recognised the important need to focus on specific accruals to draw greater insights into earnings management literature. The paper by Pilcher expands on the limited work on specific accruals but importantly through an alternative lens-setting. Considering private sector issues in the public sector is also important. During the past several decades, there has been a gradual convergence in accounting practices between the private and public sector (e.g. increasing use of accrual-based accounting vs. traditional cash-based approach; greater emphasis of accounting figures for external reporting purposes than simply budgetary considerations). Business practices between the private and public sectors have also converged (e.g. growing proportion of management's salaries based on performance). Convergence of accounting and business practices raises the issue of whether factors pertinent to the private sector are increasingly transferred to the private sector arena. Reports suggest public sector organisations (e.g. local governments and agencies) have also suffered sizeable losses due to the global financial crisis. It is timely, therefore, to consider if mechanisms introduced into the private sector to counter pivotal accounting issues could be expanded to the public sector to reduce effects of the current (and potentially future) volatility in the capital markets.

The third and fourth papers (i.e. Samaha and Dahawy and Setyadi et al.) in the Special Issue shift the focus from the impact of earnings management on the accounting numbers to the disclosure of accounting information. Asymmetrical information is frequently viewed as a 'curse' on the efficiency of the capital markets which provides scope for greater volatility and speculation (Healy and Palepu, 2001). Increased transparency is viewed as an important step in controlling managerial opportunism, whilst assisting to protect the capital market's integrity. Aside from shifting the focus to accounting disclosure, Samaha and Dahawy and Setyadi et al. also concentrate on the impact of corporate governance features. Both studies concentrate on the association between corporate governance and accounting disclosure within emerging market settings. Samaha and Dahawy conduct their analysis using publicly listed companies from Egypt, whereas Setyadi et al. use a sample from Indonesia.

Although there are similarities between the papers by Samaha and Dahawy and Setyadi et al., the two papers offer an important contrast. Specifically, the former concentrates on voluntary disclosure, whereas the latter considers the level of compliance with measurement and disclosure requirements. Using an extensive 80-item disclosure index, Samaha and Dahawy provide further evidence of the mixed influence of firm level corporate governance features on voluntary disclosure levels across different capital markets. This result assists to reinforce the view that a blanketed implementation of a standard firm-level 'one-size-fits-all' corporate governance code worldwide may improve voluntary disclosure levels overall but not necessarily lead to greater convergence to enhance comparability. That is, variations in societal and institutional at a national level are likely to impede the consistent influence across international boundaries of a given firm-level corporate governance feature on voluntary disclosure. Results from Setyadi et al. further support this view. Specifically, Setyadi et al. find that firm-level corporate governance features are not significant determinants of compliance levels (both measurement and disclosure). Rather, Setyadi et al. suggest with an emerging market setting, such as Indonesia, regulation and enforcement at a market level by the government and/or market institution (e.g. stock market) is likely to enhance compliance. Together, the two papers show how in-depth research can inform practice across international boundaries, and the need for practitioners, regulators and reformists to consider key flexibility in developing and implementing corporate governance regulations designed to improve disclosure.

The final paper in the Special Issue (Mnasri and Abaoub) is also set within an emerging market (i.e. Tunisia) with a concentration on a single industry at the heart of the global financial crisis (i.e. the banking industry). With investor confidence shattered by the global financial crisis many are likely to question traditional corporate financing approaches to valuing companies and what contributes to shareholder value. The paper by Mnasri and Abaoub in part addresses these concerns by examining the relative and incremental information content of the economic value added (EVA) method developed by Stern Stewart and Co (Biddle et al., 1999; Stewart, 1991) and traditional performance measures. Currently, there is much debate about executive compensation, particularly, within the banking sector. Various advocates argue that there must be a stronger tie between long-term objectives of the firm and executive compensation. The longitudinal analysis by Mnsari and Abaoub of Tunisian banking is an interesting contribution to this debate with some having argued previously that EVA may be a more effective basis for aligning the long-term interests of shareholders with short-term horizons of executives. Currently, few corporations actively use EVA as a predominant basis for awarding executive compensation. Findings from Mnsari and Abaoub may help to reignite this debate and refine arguments on the contribution of EVA as a corporate governance mechanism.

The corporate governance debate continues to rage with new catalysts continuing to appear to reignite issues and controversy. Some may argue that developments in corporate governance reform during the past decade to protect investors from volatile markets spurned in part by actions of opportunistic management has been a case of 'one step forward and two steps back'. Nonetheless, it is important in the increasing globalised market that research continues to search for answers, and to debate issues in earnest so as to aid regulators, businesses and practitioners in developing appropriate strategies and mechanisms in advance of an issue rather than through knee-jerk reactions in hindsight. The collection of papers included in the Special Issue provides an interesting cross-section of key corporate governance issues affecting the world's volatile capital markets. The papers demonstrate that there is much to be gained both theoretically and practically through in-depth international accounting research. The collection of papers should encourage international accounting and corporate governance researchers to continue their ongoing critical enquiries to provide a comprehensive understanding of the complex issues affecting the world's capital markets both now and into the future.

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