# Introduction

Victoria Krivogorsky

College of Business Administration,
San Diego State University,
5500 Campanile Drive,
San Diego, CA 92182-8230, USA
Email: vkrivogo@mail.sdsu.edu

**Biographical notes:** Victoria Krivogorsky is a Professor in the Charles W. Lamden School of Accountancy, San Diego State University. Her research and teaching experience includes serving as Visiting Faculty at ESSEC – Paris, ESCP-EAP – European School of Management, Paris, France, Higher School of Economics, Moscow, Russia and l'Universite d'Avergne, Clermont-Ferrand, France. Her research interests rest in the areas of IFRS and corporate governance. Her research efforts resulted in more than 25 academic publications. She presented the results of her research efforts at numerous business schools and conferences in France, Netherlands, Switzerland, Portugal, Finland, Poland, Russia, Turkey, Italy, and China. She is a Director of iBEACON (International Business Economics Accounting Collaborative Network). She received her PhD in Economics from the Academy of Sciences of Soviet Union and PhD in Accounting from the University of Wisconsin-Madison.

## 1 Introduction

This special issue of the *International Journal of Economics and Business Research* on *business globalisation: accounting and auditing, corporate governance, ethics, and management* provides the highlights of the scholarly work from a variety of business disciplines in an array of multinational contexts. In this issue, we emphasise the multidisciplinary nature of international business research by including studies that bring together different theoretical backgrounds from accounting, management and finance. A general solicitation for submissions was made, and all of the papers in this issue followed the journal's general submission process. In accordance with the journal's general policy, the final selection of papers was made by the guest editor based on the standard refereeing process; and I was asked to provide an introduction to this issue.

## 2 The need for and focus of this special issue

Few changes in the world have had a more profound influence than the emergence of the global marketplace. The relaxation of constraints on capital flows between countries, and the creation of different economic unions initiated a flow of capital, goods, and services across national borders, and growth and diffusion of shareholding. Increasing merger activity among the world's largest stock exchanges elevated the significance of understanding the merits of new developments in accounting, finance, and management to a new qualitative level. Organisations worldwide manage significant assets in different countries, maintain equilibrium between product and functional concerns and face numerous geographic, cultural and institutional issues. To this end, the aim of this special issue is to establish a forum in which to articulate the intensity of the problems encountered by organisations from different countries by illuminating the voices from several business disciplines. In other words, this special issue fills a niche for a publication that combines a selection of different aspects related to new developments in different business areas faced by companies in different countries. In particular, it addresses a broad view of origins and business developments with an emphasis on their functions, and consists of manuscripts that tend to explain current international business practices, with related theoretical justifications.

This issue features six articles that are intended to help a reader appreciate the array of matters faced by modern corporations in different countries by each telling a unique story, and expounding on the respective lessons learned by the authors while conducting their investigations. Both common themes and distinctions found among the topics contribute to a mosaic picture of the overarching subject. None of the articles present an exhaustive literature review, but the authors cite the resources that function as a basis for their research. Furthermore, the articles focus on real problems associated with business practices, and all papers included in this issue use theoretically grounded analysis to investigate their research questions. Two studies here employ an archival research method, one study uses the experimental method, one study utilises modelling and the remaining two use a conceptual approach.

## *Article 1: Enhancing electronic reporting in business information supply chain: using XBRL to establish the enterprise reporting engine*

This study proposes a comprehensive design model, which enhances the effectiveness of electronic reporting for various purposes. The recommended model was tested by the authors using data collected in Taiwan. A consolidated Extensible Business Reporting Language (XBRL)-based framework was developed as the core of the design model called the enterprise reporting engine (ERE) to provide extensive access to both financial and non-financial information and facilitate transparent financial reporting. As such, it is considered to be a requisite for unifying electronic reporting by generating reports for a variety of purposes. Currently, two main packages; XBRL FR and XBRL GL have been developed for external and internal reporting needs respectively. The XBRLFR (financial reports) package itself consists of two major parts: the construct set (which defines the elements constituting a business report) and the association set (which identifies the ‘aggregation’ and ‘recursive’ relationships among report elements).

The XBRL FR adopts XML technology (such as schema, XLink and XPath) which unifies the reporting format and terminology and describes a variety of relationships embodied in business information supply chain (BISC) reports. To support data collation contained by internal reporting, a special taxonomy called ‘general ledger (GL)’ has been originated by the XBRL International in 2003. Taking into account the significance of electronic reporting unification, this study conjectures that with an ERE model based on XBRL-compatible specifications, both FR and GL can be a core portion of the development of BISC practice. To provide the support for their hypothesis, the authors develop a three-tier metadata model to be used by a report preparer to generate high-quality XBRL outputs. To test the proposed ERE model, authors use a partial consolidated financial report as an example. They design the taxonomy architecture based on their model and implement parsers to instantiate the conceptual model. The authors conclude that through the instantiation of the model, the BISC preparers' reports will comply with the regulatory requirements, therefore ERE provides a solution for continuous business reporting.

### *Article 2: Financial reporting for joint ventures and capital markets reactions*

This article imparts a comparative analysis of using proportional consolidation vs. equity method of accounting for investment in joint ventures (JVs). The authors argue that more financial information conveyed to a wide range of users may contribute to a decrease in the information asymmetry on the capital markets. In recent years, the accounting treatment for JVs has been a subject of intense debate. The recently issued IFRS 11 is a product of the conversion project, and the outcome of long deliberations between the International Standard Board, Financial Accounting Standard Board (USA), accounting scholars, and practitioners. The main purpose of the conversion project, as stated beforehand by both boards, was to provide more transparent and relevant financial information for a wide spectrum of users, with a special focus on investors and creditors. To this end, IFRS 11 has introduced two significant accounting changes: first, it changes the classification of IAS 31 jointly controlled entities to redefine joint operation (JO) and JV. If separation between the arrangement and the party is deemed ineffective, it is now called JOs. JV unlike JO, is structured now as separate vehicle, i.e., separately identifiable financial structure. In particular, in case of JV, neither the legal form nor the contractual terms give the parties rights to the assets or obligations for the liabilities of the arrangement. Contributed equity by the parties is sufficient to buy assets and raise debt finance for future investments. Sales proceeds are used to repay external debt, and remaining profit is distributed to parties. Parties provide guarantee to financier.

Second, the free choice of using the equity method or proportionate consolidation to account for the remainder of IAS 31 jointly controlled entities, now called JVs, is eliminated; JVs must now always use the equity method. The elimination of proportionate consolidation will subsequently change all key performance measures and ratios, as equity accounting will affect virtually all financial statement line items, notably decreasing revenue, gross assets and gross liabilities. If the JV has tax expense, then the transition will also decrease profit before tax. Therefore, the two methods lead to different amounts recorded on the balance sheet as assets and liabilities, and on the income statement as revenues and expenses. Due to the significance of these changes, the debate on the rightfulness of the decision to eliminate the proportionate consolidation is still on. The opponents of equity method argue that the equity method does not provide sufficient information and could cause unrecognised losses, the advocates of this accounting treatment suggest otherwise. In particular, they state that equity method is the more informative, simpler and more straightforward approach of accounting for outside investments. To investigate whether IFRS 11 provides more information, the authors refer to previously conducted research on the same issue, as well as analysing the accounting methods employed by the equity approach as compared to proportional consolidation. After conducting their analysis, the authors conclude that the financial statements prepared under proportionate consolidation elicit a better prediction of future return on shareholder equity than do financial statements prepared under the equity method.

### *Article 3: Competitive strategies and company performance of Taiwanese firms*

This article addresses the issues associated with the competitive strategies utilised by Taiwanese companies. A strategy employed by a firm reflects the specific combination of competitive methods employed by managers with a primary goal of success. The strategies put to use around the world are believed to be country-specific; given that countries have unique cultures, institutions, labour markets, and are at different stages of economic development. That said, in the present case of interdependent economies, it is not clear if the countries should use and subsequently benefit from emulating the modal competitive strategies of their counterparts, or if they would do better by developing competitive stances of their own. In an attempt to answer this question, the authors investigate the competitive strategy parameters of a large sample of Taiwanese companies, matched to Kotha et al.'s sample of US and Japanese firms distributed across a wide range of industries. The authors find that a majority of the sampled Taiwanese firms mimic the US companies' strategies. The next largest percentage of Taiwanese firms follows their Japanese counterparts, and the smallest percentage of them that do not follow either model, but rather develop what might be called Taiwanese strategies. A variance analysis indicates that the sub- sample of firms that have an Eastern strategic orientation (Japanese and Taiwanese) have better performance as defined by growth rate of sales, employee morale, job satisfaction and commitment. To the extent that the results of this study are valid, authors suggest a possible need for Taiwanese companies with Western strategic orientation (US) to re-examine their competitive postures. Prior to making any major change, however, authors find it important to conduct future research to validate the findings of this study. In particular, they suggest expanding future investigation to cover a more comprehensive set of industries and national settings.

### *Article 4: The effect of deregulation and capital market incentives on voluntary disclosure in the electric utility industry*

This paper examines voluntary disclosures choices in the electric utility industry as it undergoes deregulation. Previous research suggests that a reduction in barriers to entry (perhaps triggered by deregulation) increases/decreases disclosure of both good and bad news. Authors claim that using a single industry in the test has an advantage of eliminating industry-specific factors (such as market volatility and reporting regulations) as control variables from the empirical test, and therefore, this approach helps to shed light on within-industry differences by investigating single industry cross-sectional differences in greater depth.

The passage of the National Energy Policy Act of 1992 (the Act) initiated the process of deregulation of the electric utility industry. Although actual source generation of electricity was deregulated, the transmission of electricity was still regulated, forcing electric utility companies to open their transmission lines to competitors. The authors believe that deregulation of the electric utility industry changed the environment, potentially affecting the motivation for firms to voluntarily disclose additional information, and provided an opportunity to empirically test whether firms' voluntary disclosure decisions were changed. As a measure of voluntary disclosure, the authors use the issuance of Dow Jones News Service (DJNS) announcements published in the DJNS. The results reveal, after controlling for firm-specific factors, that deregulation of the electric utility industry is associated with increased voluntary disclosure. In particular, the Wilcoxon signed rank test results indicate that one of the alternative proxies of voluntary disclosure level, analyst forecast error (FE) increased significantly from the pre-deregulation period to the post-deregulation period. The results for other two alternative proxies, analyst following (AF), and analyst forecast revisions (AR), do not show any significant change from the pre-deregulation period to the post-deregulation period. Overall, the results provide empirical evidence that the deregulation of the electric utility industry is strongly associated with an increase in voluntary disclosure.

Although the tests performed in this study did not distinguish the specific cause of the increase in disclosures (e.g., changes in firm structure, increases in consolidation activity, increased attention paid to the industry by the media because of the deregulation process), the results nevertheless indicate that the relationship between disclosure levels and the variables used to predict disclosure levels is a dynamic relationship, rather than a static one. It is affected by the passage of time and/or the influence of additional factors such as deregulation or changes in the level of competition within an industry.

## *Article 5: Expense report abuse: influence of mood and social presence*

This article examines the impact of mood and communication medium on individuals' ethical decision-making behaviour within the context of expense reporting. Research on the impact of mood has exploded over the past twenty years as a part of much broader research on social life and organisational behaviour. The impact of mood has been analysed in a variety of setting, with minimum attention being allocated to the relationship between mood and ethical behaviour measured as the precision of the travel and entertainment expense report. There is no consensus in the literature so far as to the significance of the determinants of ethical/non-ethical decisions, when it comes to filing a truthful expenses report. Among determinants identified in the literature are good/ bad mood and communication method (whether the expense report is filed online or face-to-face).

To test the significance of these two determinants, authors conduct an experiment using 87 business graduate students with previous professional experience, which includes preparation and filing expense reports. As a part of the experiment, the participants' mood has been induced using statements of positive, neutral, or negative nature (debriefing). Next, subjects were offered four scenarios requiring them to prepare and file a travel expense report containing 'gray areas' (e.g., unconfirmed and unsupported taxi fare, cost of snacks to be filed with meal, etc.).Also, subjects were offered to file their expense report using a face-to-face communication medium (high social presence) or online (low social presence). The total sample was portioned by the nature of the statement offered to the participants on one side and by the communication method on the other side and the impact of each determinant was measured within the respective subsample. Consistent with expectations, participants subjected to the statement of negative nature and those communicated online were engaged in more unethical behaviour than the rest of the subjects. The results also indicate that the communication medium did significantly mediate the impact of mood.

## *Article 6: On the issue of currency internationalisation – South Korean won*

With these recent movements of the currency markets as a backdrop, this paper examines why there is significant volatility in the Korean foreign exchange market and, while answering this question, proposes that the Korean currency (KRW) should be permitted to be traded offshore as part of the internationalisation of the Korean currency.

During the past few decades, global currency markets have been characterised by a significant increase in trading volume and volatility. The Eurozone sovereign debt crisis that followed the US housing-market collapse exacerbated currency fluctuations, and made the currency war or competitive devaluation by major central banks commonplace, further contributing to the uncertainty of the global currency market. Global currency markets are both highly unpredictable, and highly intertwined, perhaps the former being due to the latter. It should not come as a surprise then, that in the midst of all of these events, the Korean foreign exchange market has been experiencing serious fluctuations. A substantial part of the erratic movements of the Korean currency, won, is largely attributable to the fact that won is not one of the major international currencies. The Korean Government often states that given the limited demand for won, internalisation of the Korean currency is premature because further liberalisation of the financial market including permitting offshore trading of won will negate the independence of monetary policies and erode the stability of the financial market, making it susceptible to foreign capital flows. In the meantime, the Chinese currency, renminbi (RMB), is rapidly emerging as one of the most frequently traded currencies in the world, as RMB has been internationalised already.

Another good example is Australia. Australia adopted various market-liberalisation measures back in the 1980s. Change in the policy resulted in an active offshore market for Australian dollar, making Australia a major global financial centre. The author suggests, that compared to Australia, Korea has been in an even better position to speed up the advancement of the currency market and financial industry. In contrast to Australia, Korea has well-developed competitive and sizable non-financial industrial sectors which could complement and support the financial sector. Korea is less dependent on the financial industry than Australia, while the financial sector can be the next source of substantial growth. To expedite the process of currency internationalisation, a permission to trade won offshore should be accompanied by other market liberalisation measures, as it has been done in Australia. Also, lifting the restriction on KRW offshore trade will enhance the liquidity on the won market. The downside of these actions originates from the fact that market fails when information asymmetry (as one of the main causes of market failure) becomes sizeable. In this regard, the author believes that to smooth the effect of information asymmetry some governmental regulations are necessary, especially when it comes to the policy on disclosure.