Guest editorial

Corporate reporting in emerging economies: determinants and consequences

The separation between ownership and control creates an agency problem, particularly an information asymmetry problem, where market participants believe that managers tend to behave to their own benefits (Jensen and Meckling, 1976). Accordingly, any mechanism intended to overcome the information asymmetry problem is profound to the success of the financial market (Ronen and Yarri, 2002). One of the most effective mechanisms in mitigating such problem is keeping investors informed through disclosure, which is critical for the functioning of capital market (Healy and Palepu, 2001). Financial statements information is crucial; however, it reflects only one part of the overall firm performance – it focuses only on the short-term results of firms, giving little emphasis to their long-term value potential (Beattie *et al.*, 2004). The International Accounting Standard Board (IASB) argues that:

> [. . .] if financial statements are not sufficient to meet the objectives of financial reporting, then the IASB should consider requiring the disclosure of other information to help the financial reports meet their objective (IASB, 2005, p. 11).

The disclosure requirements and practices are growing and the types of information that firms provide to the investors are being changed. Instead of simply providing financial information, companies begin to provide more detailed voluntary disclosures to accommodate investors' needs for information. The under-exploration of corporate reporting in emerging economies was one of the key reasons for proposing this special issue. The Guest Editors have selected papers that examine the determinants and consequences of corporate reporting in emerging economies.

Ajili and Bouri's paper measures and compares the level of compliance with the International Financial Reporting Standards (IFRS) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) for a sample of Islamic banks (IBs) in Gulf Co-Operation Council (GCC) countries. They then examine the determinants of the compliance levels. They find that the level of compliance with IFRS is higher than that of compliance with AAOIFI. They also find that compliance with IFRS/AAOIFI disclosure requirements is higher for larger and older IBs and also in IBs with a higher leverage and multinational subsidiaries. The field of IBs is increasingly interesting because these banks have grown rapidly over the past years and seem to present themselves as serious competitors to conventional ones. The findings of this paper would inform regulators and policy makers about the levels of compliance with accounting standards and the factors affecting this level.

Koubaa and Jarboui's paper examines the direct and indirect effect of Abnormal Book-Tax Differences (ABTDs) on audit quality and investigates the mediating effect of earnings quality on the association between both ABTDs and audit quality. They find a positive association between ABTDs and audit quality. These findings suggest that earnings quality mediates the relationship between ABTDs and audit quality. Thus, the auditor can use information reflected in ABTDs in the auditing process of financial statements. The paper may be of interest to the academic researchers, practitioners and regulators who are interested in discovering the informational value of BTDs in the audit process. The opportunistic sources of BTDs have different implications for the informativeness of earnings and audit quality. The external auditor should take into consideration the

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importance of the information provided by discretionary BTDs and subsequently promote more investigation on firms' financial statements. The use of discretionary component of BTDs can help regulators better understand and assess the audit quality from different dimensions.

Erdem, Aslanertik and Yardımcı contributed to disclosure literature by using Chi Square Automatic Interaction Detection (CHAID) analysis to investigate the determinants of compliance with IAS 16 disclosures for a sample of non-financial firms listed on Borsa Istanbul (BIST). They find that auditor reputation (i.e. Big-4 or Non-Big-4) is the most influencing factor over company size. They also find that there is a significant association between size of companies audited by Big-4 auditors and compliance to disclosures related to business combinations. However, for firms with Non-Big-4, the disclosure requirements for the commitments were determined as an influencing factor. The results suggest that there is a need for the regulators (i.e. The Public Oversight, Accounting and Auditing Standards Authority [Turkish: Kamu Gözetimi, Muhasebe ve Denetim Standartları Kurumu, KGK]) to encourage auditors other than Big-4 auditors to enforce compliance.

Ahmed and Hussainey compare the level of accounting conservatism for a sample of Egyptian companies pre- and post-Egyptian revolution of 2011. They also examine the association between accounting conservatism and the level of leverage and profitability. They find that Egyptian companies are actually engaging in less conservative accounting policies following the revolution. They find a positive relationship between firm size and the level of accounting conservatism pre- and post-Egyptian revolution. The study contributes to the literature by being most recent study that examines the level of accounting conservatism among non-financial companies in a developing country, i.e. Egypt. The authors add Egyptian evidence with respect to the directions of accounting conservatism throughout crisis periods, as the majority of prior studies focus on countries with developed capital markets. In addition, the absence of any specific evidence concerning the direction of accounting conservatism during crisis periods will lead to naïve investors misinterpreting earnings figures and not realizing the actual value of their shares. The paper may be of particular interest to regulators and standard-setters charged with developing accounting standards to improve the quality of accounting information. It also may encourage investors to seek out extensive, widely sourced information regarding investee firms before deciding whether to hold or sell their holdings.

Kachouri and Jarboui investigate the relationship between corporate governance effectiveness and information transparency in Tunisia. The authors find that corporate governance practices have a significant positive effect on information transparency. The findings confirm that corporate governance issues arise when there is an existence of agency problem. The paper may be of particular interest to the academic researchers, practitioners and regulators who are interested in investigating the quality of corporate governance practices within the context of Tunisian firms. It can help Tunisian regulators in developing requirements for corporate governance disclosure. It also provides insights to the African business community in terms of the quality of corporate governance and corporate reporting practices. This paper helps in informing regulators about the benefits of more disclosure of information to both investors and firms.

In the last paper in this issue, Kamath focuses on Intellectual Capital Disclosure (ICD). She examines the extent and determinants of ICD in India. She finds an increase in the level of ICD by Indian firms. Particularly, human and external capitals are the most frequently reported disclosures. This finding may be owing to the awareness among the managers toward the significance of this type of non-mandatory disclosure (Blaise *et al.*, 2008). The study also finds that firm size, age and ownership structure affects the disclosure of ICD.

She provides a benchmark for voluntary disclosure of IC which could be used by managers of Indian firms. The relationship between firm size and ICD is relevant and an eye-opener for policy makers. The ICD being completely voluntary, minimum disclosures are found even in small-sized companies; however, as the firms grow in age and experience, they find it more fruitful to disclose their IC. If the accounting standards are made uniform across firms and disclosure of IC made mandatory, it is quite possible that shareholders would get a better picture about the performance of the firms and help the small firms grow faster in the market space and the stakeholder in better decision-making.

In summary, the aforementioned papers have considered different aspects of corporate reporting in emerging economies. The papers have regulatory, policy and research implications. In addressing their research questions, the authors inevitably provide more material for future researchers to explore. This is a further benefit of a collection of papers in a single issue. I hope that academics and policy makers will find the papers in this special issue a useful contribution to the current debates related to corporate reporting in emerging economies. I would like to thank all of the referees for their time, constructive and valuable comments in reviewing the papers. I would also like to thank all of those associated with *Journal of Financial Reporting and Accounting (JFRA)* for their guidance throughout the process.

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