

Future Directions for Chinese Accounting Research

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Introduction and Summary

Capital-markets based accounting research in China has a relatively short history; the two principal stock exchanges in Shanghai and Shenzhen have operated for less than 20 years. Recent accounting research has tended to adopt techniques, research designs and even topics that were developed in North America and apply them to the Chinese setting. This paper describes several aspects of the current empirical-archival focus of accounting research in China and offers some suggestions for expanding that focus to include analytical modeling and judgment-decision making experimentation. The paper also suggests there is a need to adjust existing research designs and methods for special features of the Chinese economy and its institutional arrangements. Finally, the paper puts forward some examples of research areas where Chinese accounting researchers can make useful contributions. In this discussion of possible research areas, we distinguish between the motivating question, which establishes the importance of the research inquiry, and the research question itself, which is relatively narrow and specifically focused on one aspect of the motivating question.

The Current Focus of Accounting Research in China

An informal assessment of published accounting research in China suggests that the current focus of the research has two key features. The first feature is the use of empirical-archival methods that typically apply to large datasets of, for example,

reported accounting numbers and disclosures from audited financial reports, stock prices and returns, audit opinions, composition of audit committees, analyst forecasts and stock recommendations, compensation of top management, share holdings of institutional investors and other information that is pertinent to the preparation and use of accounting data. The quality of empirical-archival accounting research is therefore partly determined by the quality and availability of data, and the efficiency of the research is enhanced by the widespread availability of machine-readable datasets. For example, the China Stock Market & Accounting Research Database (CSMAR) provides returns data and financial statement data on Chinese listed enterprises beginning in 1990. Other commercial, and sometimes proprietary, databases are being created to provide additional detailed China-specific records of other types of information that is pertinent to accounting researchers. These databases free accounting researchers to focus on questions of issue identification, research design and methods rather than hand-collection of data.

The second feature of Chinese accounting research is the relatively greater focus on matters pertaining to auditing, earnings management and corporate governance, implying a relatively weaker focus on purely capital market questions that involve the use of stock prices and stock returns for large samples over long periods. Recently published Chinese accounting research has addressed the causes and consequences of issues related to auditor independence, causes and consequences of related-party transactions (for example, the extraction of resources from a listed firm by means of “tunneling”), earnings management and accounting implementations, the governance of listed Chinese firms including ownership structure and executive turnover. Because of the focus on corporate governance, accounting research in China currently has closer ties to corporation finance than does accounting research in the U.S.

Possible Expansions of Accounting Research in China

The existing research approach—primarily empirical-archival and often grounded in corporation finance—has produced valuable insights and will continue to do so. We suggest, however, that additional insights can be gained by expanding the research focus in three ways: analytical modeling, behavioral experimentation and methodological research that considers how best to adjust data and research designs to fit with China’s institutional arrangements. We discuss each of these possible expansions in turn.

Analytical modeling. The first expansion would encompass the application of analytical modeling methods to accounting problems, using the tools of microeconomics and mathematical statistics. Learning how to use these tools does require an extensive investment but we believe that such an investment has the potential to provide a significant payoff in terms of providing insights into

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