

## **RAE 2001 - UoA 44 – Accounting and Finance**

### **Overview of research in Accounting and Finance**

This note gives an overview of the state of research in the field of Accounting and Finance in UK universities over the period 1996-2001, based on the reading undertaken by the RAE panel in this subject area. Some 20 units comprising over 200 staff [202.2 fte] made direct submissions to the panel, with the grades awarded being directly published. However, in addition, the work of over 280 staff classified as being in the area of Accounting and Finance was submitted to the Business and Management panel (UoA 43) as part of a larger unit. Most of this work was cross-referred to the Accounting and Finance panel for evaluation, although overall grades were not awarded, and this report is based on the total reading undertaken. It should be noted that some units of assessment were quite rigorous in excluding staff where the quality of some of their work might reduce the grade awarded. In addition, only four items of work for each selected researcher could be included, so some UK research work (often of national quality) is inevitably excluded from this review.

#### **Accounting**

Accounting research covers a very broad range of topics ranging from taxation and auditing through financial reporting and corporate governance to management accounting and control systems, as well as history and education. It also engages with a variety of source disciplines including economics, the behavioural sciences and history. Given that much institutionally specific work is of most interest to UK audiences, this raises particular problems when assessing the international standing of the work submitted, given that the 'world class' benchmark the panel adopted may well be best represented by UK work.

There is a deal of accounting research produced in the UK which is clearly world class, but the eclecticism shown in UK work is not mirrored in the USA where the predominant approach is still based upon economics. UK economics-based work now centres upon market-based accounting research, although there is a small amount of excellent work that uses principal-agent analyses and also some in the 'positive economics' tradition. This latter has become more reflective of its impact in UK settings and thus has more potential to contribute to underlying theoretical debates. Within market-based accounting research, empirical work focuses on the relationship between accounting numbers and stock market returns (e.g. event studies) and market valuations (e.g. cross sectional valuation models). Although often derivative, in the sense that it may be based on prior US work, it does not typically replicate results found in the US and, as a consequence, has the potential to improve the underlying theories in use.

Mainstream work in financial reporting appears to be declining in quantity although not in quality. Auditing research also represents only a small part of the work submitted, with the focus being on studies of the audit market and judgement studies. There is a dearth of high quality policy- or business-oriented work, due in part to the declining number of researchers with a professional background, and some survey work appears to be only loosely connected with any underlying theory and often has very low response rates (less than 15%). However, there is interesting work being conducted in the areas of corporate governance, corporate social reporting, international accounting, taxation and 'critical' auditing (including historical research).

Overall, the panel has concerns about the maintenance and development of mainstream financial accounting research, and of ways of improving the supply of broadly based researchers to conduct it.

Work in management accounting and information systems has also been quite limited in amount, perhaps due to the time-consuming nature of data collection. There is some good work in the case study tradition, where some in-depth analyses have been undertaken, although attempts to re-theorise management accounting are thin on the ground. This case-based work is very much in the European rather than the US tradition and often has an emphasis on change and change management. There is a strong tradition developing based in the public sector which provides another area where UK work is world leading and contributes to the debate on the New Public Management.

Critical and post-structural work is another European speciality undertaken in the UK and there are signs of researchers in this field moving into fieldwork, thus complementing and modifying their theoretical understandings with empirical evidence. This work concentrates on the roles played by accounting in organizations and society. There are also bodies of excellent work in accounting history and, increasingly, in accounting education.

Accounting research is thus spread relatively thinly over a broad front. A considerable proportion of this work is world class, although it should be noted that this is not equivalent to having an impact on US-based work, and researchers need to consider how this lack of impact should be addressed as there is the potential for useful learning on both sides. There is also a degree of fragility in the discipline. Although PhD training for new researchers is now almost universal, it is counter-balanced by a decline in professional background and experience which has restricted the amount of good policy-relevant work. Pressures for speedy publication may have also resulted in more intensive and longitudinal work being less frequent. So although the quality of work in accounting has steadily improved over the last decade or more, there is a serious question mark over whether this standard can continue to improve, or even be maintained, in the future. Serious attention needs to be given to the recruitment and career development of new academics in this field.

## **Finance**

A major trend over the period of review has been the increasing amount of work that is being undertaken in the area of Finance which accounts for around one-quarter to one-third of the total work submitted. Many of the comments about assessing international quality in accounting also apply to research in finance, where work involving non-US data is often not of interest to US journals or, indeed, to US researchers.

Research work is spread over a wide spectrum of topics. Asset pricing and market efficiency figure most prominently, but strength is also to be found in areas such as banking, risk and options, futures and other derivative securities, and event studies (including market-based accounting). There was also strength in the study of international issues, the market for corporate control and finance theory. By contrast, there was less work than might be expected in corporate finance, although the new issue market and take-overs were investigated by a number of researchers. There was only a relatively small amount of research submitted in the area of bonds and the bond markets, despite their importance.

Published work in Finance is predominantly empirical and emphasises large sample statistical and econometric methods. This may be partly driven by the widespread availability of databases and computing power, together with the emphasis in graduate programmes on acquiring empirical skills and understanding statistical methodologies. The range of methods used within this work typically matches those applied by the best scholars in the world, and some of the work being produced is clearly world class. Journal articles are the main form of publication (over 80% of submissions) and although these include a small number of articles in some of the leading US journals, the most popular outlets are in journals not very visible in the USA. Units might consider whether seeking publication of more work in US journals should form a part of a publication strategy. Alternatively, editors of UK and European-based finance journals need to consider how best to increase the impact of their journals on USA research activity if they are to continue to publish the best Finance research emanating from the UK. In addition to the more traditional finance journals, work is published in a range of other specialist journals ranging from mathematics, operational research and statistics to accounting, economics and general business, indicating that finance has attracted researchers from many fields and that the problems addressed interest people in a range of disciplines.

### **Overall**

There has been a continued improvement in the quality of UK-based work in Accounting and Finance. The best work is clearly world class and there are some areas of novel work that lead the field. Much of the improvement appears to be due to better funding and management of research within universities. But there is a limited supply of new researchers to continue this work and they increasingly lack the professional or business background that is conducive to producing high quality and policy-relevant work. The next decade will be critical in preserving and developing the successful foundations that have now been laid.