

### Professor Jonathan Glover to Visit CAR



Carnegie Mellon University's Jonathan Glover will come to Graz and hold a doctoral seminar in Accounting Research this June. The focus of his class will be on analytical research methodology in accounting. Students will read and discuss relevant literature and enhance their skills in analytical modeling. This seminar is part of CAR's mission to promote young researchers.

Professor Glover received both his undergraduate and graduate education at Ohio State University. He graduated with a Ph.D. in Accounting in 1992 and has since worked at the Carnegie Mellon Tepper School of Business (formerly the Graduate School of Industrial Administration). He has published extensively in leading academic journals in both accounting and economics and sits on the editorial board of a number of highly prestigious journals, including *The Accounting Review*, *Management Science*, *The Review of Accounting Studies* and others. Jon Glover was selected to be the Academic Fellow of the Office of the Chief Accountant of the Securities and Exchange Commission.

Jon Glover's far reaching research and teaching interests include financial and managerial accounting, corporate financial reporting, management control, incentives, mechanism design, and micro-economic theory. His most recent work is a joint paper with Anil Arya published in the *Review of Accounting Studies*. Starting from the observation that a common feature of managerial and financial reporting is an iterative process during which various parties selectively correct particular measurements by challenging them and subjecting them to increased scrutiny the authors ask whether allowing for "cherry-picking" can be optimal. Using a standard agency model they show that in the presence of measurement errors optimal contracts will give the agent more opportunity for cherry-picking if he chooses the action preferred by the principal.

### Research News: Convergence of Financial and Managerial Reporting

Management accounting in German-speaking countries has historically been quite separate from financial accounting. Financial reporting strongly emphasizes the prudence principle which biases the reported figures and makes them often less suited for decision making and control. The increased importance of International Financial Reporting Standards (IFRS), which are more closely aligned with decision making requirements than traditional accounting rules, allows companies to redesign their accounting systems by converging financial and managerial reporting. This new trend was pioneered by listed companies which are mandated by the European Union's IAS-Regulation to apply IFRS. Recent work carried out at the Center for Accounting Research investigates the implications of this tendency.

The main purpose of financial reporting according to international standards is the provision of decision-useful information for a broad set of users, in particular investors and creditors. Managerial reporting, on the other hand, serves to assist management make good decisions. Unlike financial reporting it is generally not subject to regulation, and management can design it according to its needs. The value of information results from its influence on decisions and this value therefore depends on the individual decision context. The different decision context is a major reason for differences between financial and managerial reporting. Convergence of the two reporting systems requires a compromise so that both systems may be less capable of fulfilling their individual functions. On the other hand, there are costs involved in maintaining two separate information systems.

The optimal degree of convergence between financial and managerial reporting depends on the individual costs and benefits of the information for firms, according to Alfred Wagenhofer from CAR, who has published a study on the subject in the recent issue of *Betriebswirtschaftliche Forschung und Praxis*. External users of financial reports may prefer more precise information about a company's financial situation in order to make their capital allocation decision. However, such information may



be too strongly influenced by uncontrollable factors to be the basis for performance management and human resource (e.g. promotion) decisions. A convergence of the management accounting system towards the financial accounting system in this case implies a loss in incentive usefulness for management.

The degree to which firms have integrated their internal and external reporting systems in practice is an empirical question. However, in contrast to financial reporting management reporting practices are not readily observable. One way to obtain data is by means of survey questionnaires. Such a research was carried out in CAR in 2006 by Alexandra Dorfer and Thomas Gaber ([www.uni-graz.at/car/downloads/Controlling\\_und\\_Reporting.pdf](http://www.uni-graz.at/car/downloads/Controlling_und_Reporting.pdf)). It used an online survey of large Austrian companies' experience with management accounting and reporting in the light of requirements set by international reporting standards. Some two thirds of the companies apply IFRS, the remainder follows national standards.

A number of general conclusions emerge: According to the survey, firms motivate their decision to implement IFRS mainly with legal requirements, requirements from the parent company and signaling to potential investors. Firms using IFRS (or, in some cases, US GAAP), exhibit significantly less adjustments between financial and managerial reporting. Methods and instruments used in selected areas of management accounting do not seem to be conspicuously different between companies using IFRS or national standards. Firms reporting according to national standards use methods borrowed from international reporting standards, such as fair value accounting and segment reporting in certain fields.

Wagenhofer's recent research exploits the fact that segment reporting according to US GAAP (and, as of 2009, also IFRS) uses the so-called management approach that requires reporting of segment measures used in managerial reporting also for financial reporting. This allows external users of financial reporting to see segment performance "through the eyes of management". The Standards presume that the fact that this number is reported to chief decision makers is sufficient to imply decision relevance of the reported numbers. This particular setting enables researchers to take publicly available data from financial reporting and draw inferences about management reporting without recourse to the method of surveys.

Wagenhofer analyzes five large German compa-

nies that report under US GAAP and five industry and size matched US firms. The focus is on the reconciliation of the total segment results to US GAAP results, which shows adjustments between managerial and financial income. Surprisingly, there are no systematic differences between US and German firms with respect to the reconciliation items. Wagenhofer concludes that the original differences between managerial and financial accounting systems in Germany are not a major force, at least for large and global companies.

This research is part of an effort to inform standard setters in their current debates about the objectives of financial reporting and the presentation of financial statements. In their current project, the IASB and the FASB state decision usefulness as the only and overarching objective of financial reporting, which should include stewardship that has historically been emphasized. This proposal has been discussed controversially. Research such as that undertaken in CAR can provide more insights in what the objective or objectives are and what differentiates them.

### Dr. Bock, BASF, met CAR students

On behalf of the Schmalenbach-Gesellschaft für Betriebswirtschaft e.V. Professor Wagenhofer hosted a business dinner with Dr. Kurt Bock, CFO BASF SE, at Schloss Obermayerhofen. During a fireplace chat doctoral students had the opportunity to talk to the Chief Financial Officer of the biggest chemistry company in the world. Dr. Bock himself was very interested in the research projects of the participants. The evening was spent well chatting about current developments in financial reporting and dining at the very pleasant environment of Schloss Obermayerhofen.



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