

THE ACCOUNTING PROFESSION'S ROLE IN CORPORATE GOVERNANCE IN FRONTIER MARKETS: A RESEARCH AGENDA

Carl A. Crittenden II

Ernst & Young LLP, Financial Services Office

William F. Crittenden*

D'Amore-McKim School of Business, Northeastern University

Abstract: *Accountants, and especially auditors, play an essential role in financial reporting of public and private firms. Stakeholders of companies in frontier markets rely on financial reports to assist with uncertainty avoidance. Yet, the rules of the game are evolving and not well known. If firms, financial institutions and individuals are to invest and commit resources within frontier nations, there has to be confidence in the accuracy of financial information. The research ideas generated herein fuse early work on corporate governance with more recent research from a variety of emerging market scholars to develop an agenda for accounting and governance research in frontier markets. It is our belief that the accounting profession will have to take a lead role in creating the standards needed to deal with issues unique to frontier nations and to create the transparency necessary to help stakeholders evaluate risk.*

Key words: *frontier markets, corporate governance, financial reporting*

The Cadbury Committee was established in 1991 by the Financial Reporting Council, the London Stock Exchange, and the accountancy profession due to an increasing lack of investor confidence in the honesty and accountability of corporations (Cambridge Judge Business School, 2014). According to the Cadbury Committee (1992), "corporate governance is the system by which companies are directed and controlled ... The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place ... Within that overall framework, the specifically financial aspects of corporate governance are the way in which boards set financial policy and oversee its implementation, including the use of financial controls, and the process whereby they report on the activities and progress of the company to shareholders. The role of auditors is to provide the shareholders with an external and objective check on the directors' financial statements which form the

* Corresponding author: D'Amore-McKim School of Business, Northeastern University, 101 Hayden Hall, Boston, MA 02115, USA, phone: +6173734636, e-mail: w.crittenden@neu.edu

basis of that reporting system... The [Cadbury] Committee's objective is to help raise the standards of corporate governance and the level of confidence in financial reporting and auditing..." With this report, the Cadbury Committee was at the forefront of a variety of efforts, worldwide, to enhance governance.

The Cadbury Report brought attention to the actions that have led to corporate scandals and subsequent public disdain for gross mismanagement practices that have resulted in considerable financial loss to a large group of public and private constituents. With corporate governance at the forefront of compliance, subsequent bodies have followed suit and instituted additional monitoring suggestions per the Cadbury suggestions. These include The 1995 Greenbury Report, The 1998 Hampel Report, The 1998 Combined Code: Principles of Good Governance and Code of Best Practice, the 1999 Turnbull Report, and the 2009 Walker Report (Cambridge Judge Business School, 2014). While provisions of the Cadbury Report and these subsequent reports were driven by a 'comply or explain' principle, the United States of America introduced legislation, The Sarbanes-Oxley Act of 2002 and The Dodd-Frank Wall Street Reform and Consumer Protection Law of 2010, that created mandatory compliance with regard to the regulation of financial practice and corporate governance (U.S. Securities and Exchange Commission, 2014).

As evidenced by the reports and acts, the role that accountants play in the controls and functions as related to corporate governance is paramount to ensuring that the rules, processes, and regulations that guide the strategies and operations of an organization are applied responsibly. Unfortunately, developing nations experience a turbulent environment in which the governance policies and the "rules of the game" are not easily applicable across all nations (Crittenden & Crittenden, 2012). This inherent turbulence makes it particularly difficult for the accounting profession to balance the opportunities and risks associated with doing business in developing economies (Shoenholz, 2011).

The intent here is to merge ideas about emerging markets, in particular the frontier markets, with research on corporate governance so as to develop a research agenda for the accounting profession with regard to its role and relevance in less developed countries. Discerning what exactly differentiates emerging and frontier markets is challenging since both fall into the same general sector of the global marketplace. Cussen (2013), however, identifies what he refers to as two critical differences between the two sub-sectors: (1) emerging markets offer greater liquidity and stability than frontier markets and (2) emerging markets are now progressing at about the same rate as developing markets and, as such, fail to provide the level of diversification as found in frontier markets. From an accounting perspective, a better understanding of emerging markets will necessarily offer significant advancements in accounting related to frontier markets. Yet, the future is moving quickly toward frontier markets, which demands that the accounting profession begin to explore the idiosyncrasies of this particular marketplace.

Chen, Hope, Li, and Wang (2011) suggest that while there is a large literature on accounting systems in developed countries, much less is known about the role

of accounting in less developed markets, and the value relevance of accounting information is lower in less developed countries than it is in more developed countries. Yet, accountants have become the rule checkers where the expectation for compliance of governance standards in remarkably different institutional contexts has become the norm and within contexts for which the rules of the game are changing and not completely known (Carmona & Trombetta, 2008; Peng, Wang, & Jiang, 2008). According to one advisor, “It’s one thing to have international standards, it’s another thing to apply them” (Quinn, 2004).

1. Corporate Governance

Brown, Beekes, and Verhoeven (2011) used Google Scholar to assess the number of citation hits using “corporate governance” as keywords, and, as of July 2010, Google Scholar returned 287,000 such hits. As of August 2014, this number had almost doubled, with 514,000 hits. Thus, it appears that corporate governance is a well-researched phenomenon, with the most cited article being one by Shleifer and Vishny in the *Journal of Finance* in 1997 (almost 12,000 cites). Based on their review of the literature, Brown et al. (2010) found that corporate governance is a multidisciplinary construct and one that warrants additional research in developing countries so as to capture local conditions. In the opinion of that set of authors, it would be foolish to assume that the best governance practice in the USA would be the best governance practice in a developing country.

From a strategic management perspective, the public stock company is an important institution contributing to global market growth. Effective corporate governance mandates that corporate decisions regarding international strategic market entry, alliances and foreign direct investment be effectively grounded with sound assessments of asset value and risk. Individual investors and money managers have recognized the risk-return opportunities and challenges outside the developed country markets. Market valuation is a critical element in the risk-return equation. Understanding and having confidence in underlying asset and performance factors of companies operating in developing country markets will be provided via information supplied by the accounting profession.

1.1. Developing Countries

Countries referred to as “developing” encompass a wide range of nations that are growing regional powerhouses transitioning through economic, social and political reforms.

There is no agreed-upon criterion for what makes a country developing versus developed (versus un-developed/non-developing). Yet, developing countries are generally viewed as those having a lower living standard, an underdeveloped industrial base, and a low Human Development Index (HDI) relative to other countries.

Crittenden and Crittenden (2010) explored emerging economies as a research context and suggested that there is likely a continuum of market economies. Minović and Živković (2010) divided this continuum into three major types of markets: (1) developed markets in North America, Western Europe, and Japan, (2) emerging markets of East Asia and Latin America, and (3) frontier markets of Southeast Asia and Southeastern Europe. While Crittenden and Crittenden (2010) discussed the lack of demarcation between emerging and developed markets, this distinction is likely less concerning from a governance perspective since the move from emerging to developed status would mean that many of the challenges of doing business in the newly transitioned country market would have been resolved once developed status was attained. According to Shoeholz (2011), it is the frontier markets that are in the spotlight, particularly for asset managers, and he refers to these frontier markets as “emerging-emerging,” “next generation emerging,” “next eleven (N-11),” and “proto-emerging.”

2. Frontier Markets

According to Levisohn (2013), frontier markets are what emerging markets were more than a decade ago. As to the appeal of frontier markets, Zafari (2010) cited GDP growth per capita of close to 700 percent for the frontier markets, for example, of Nigeria and Vietnam. While not without risks, the frontier markets have high expected growth rates and high dividends and they generally outperform emerging markets as investors increasingly feel comfortable doing business in the more remote locations of the world (Levisohn, 2013). Shoeholz (2011) suggested that a key attraction in frontier markets was the lack of correlation to each other and to developed and emerging markets; thus, a broader investment strategy could reduce overall risk. Table 1 shows the frontier market classification offered by MSCI.

TABLE 1. Frontier Markets

Americas	Europe & CIS	Africa	Middle East	Asia
Argentina	Bosnia	Botswana	Bahrain	Bangladesh
Jamaica	Herzegovina	Ghana	Jordan	Pakistan
Trinidad & Tobago	Bulgaria	Kenya	Kuwait	Sri Lanka
	Croatia	Mauritius	Lebanon	Vietnam
	Estonia	Morocco	Oman	
	Lithuania	Nigeria	Palestine	
	Kazakhstan	Tunisia	Saudi Arabia	
	Romania	Zimbabwe		
	Serbia			
	Slovenia			
	Ukraine			

Source: MSCI, 2014.

2.1. Corporate Governance in Frontier Markets

Crittenden and Crittenden (2012) suggested that it was not the same governance game in emerging economies as it was in developed economies and that it was imperative that the nuances of demographic trends, technological development, natural resources, and political/legal unease be taken into consideration when shaping governance in emerging markets. Zafari (2010) and Shoenholz (2011) both corroborated these nuances and identified various risks associated with frontier markets (e.g., regulatory, transaction costs, currency, liquidity, cultural, and geo-political turmoil). With the goal to move from frontier market status to emerging market status, it is critical to understand the major governance issues encountered when doing business in frontier markets since the standards of corporate governance and financial reporting in frontier markets can be uneven (Shoenholz, 2011). For example, in a case study within the Nigerian banking industry, Human, de Monts-Petit, and Roach (2014) found that accounting standards and the level of transparency and disclosure could vary across African regions, with some organizations adhering more to international standards than others.

The role of the accounting profession is critical to corporate governance in frontier markets. According to Ponduri, Sailaja, and Begum (2014), the accounting role becomes the primary source of information to capital market participants and other stakeholders and the failure to develop reliable financial reporting infrastructures could result in financial catastrophe (Schultz & Welker, 2006). Given the importance of accountants in improving governance in companies operating in frontier markets, a research agenda should help clarify the areas of keen importance to both accountants and strategists as investment decisions are made with regard to market entry/investment strategies.

3. Issues Comprising a Research Agenda

Crittenden and Crittenden (2010) referred to four major drivers of decision-making in emerging markets. These four drivers were: demographic trends, technological developments, natural resources, and political/legal unease. These variables that exist in a country's traditional processes and systems, yet comprise a company's external environment, are breeding grounds for major challenges and risks in doing business in the countries. Companies cannot control the external environment as changing societal attitudes, natural disasters, and political upheaval will create risks in these markets, and companies must learn to balance the marketplace opportunities with these risks (Ernst & Young, 2012).

With regard to governance risks, Shoenholz (2011) and Gibley (2012) both focused on the fact that the standards of both corporate governance and financial reporting among even listed companies in frontier markets could be uneven and unreliable. According to Henisz and Zelner (2010), the costs related to the diversion of profits through (the selective lack of) regulation is equivalent to at least a 33 percent increase in tax for the company doing business in the particular market. Yet, Shoenholz (2011)

goes on to suggest that it is this large difference in the nature of doing business that makes the frontier markets attractive as part of a broader investment strategy for reducing overall risks.

Since much of the governance of these risks in frontier markets resides in the hands of the accounting world, it is imperative that those charged with the day-to-day regulatory governance issues identify and understand the factors that impact decisions that shape the responses rendered by various stakeholders. These factors are: accounting standards and related components of competency and quality, stock market exchanges, and sovereign risks. Rich research opportunities exist in exploring these factors on a cross-country basis so as to take into account the variety of governance frameworks that exist in frontier markets.

3.1. Accounting Standards

Corporate collapses and resulting fraudulent financial reporting in the early 2000s led to many changes and standardization in accounting professional practice in developed countries. Yet, one of the major corporate governance pitfalls in emerging markets is still that of different accounting standards across emerging countries, with financial statements clearly lacking in detail (Logue, 2011). Hussain, Chand, and Rani (2012) reported on studies that suggested that one of the first things developing economies should do was restructure accounting systems and encourage the adoption of global accounting standards since these global systems and standards would help build confidence in the economies' financial markets. Unfortunately, the failure to develop reliable financial reporting infrastructures could result in financial catastrophe for emerging economies and those who have invested in those economies (Quinn, 2004).

The International Financial Reporting Standards (IFRS) are a set of global accounting standards developed by the International Accounting Standards Board (IASB) for the preparation of public company financial statements. By 2014, approximately 120 nations required IFRS for domestic listed companies, although only about 75 percent of those 120 nations had fully conformed with IFRS (AICPA, 2014). In 2010, the U.S. Securities and Exchange Commission stated that it believed that a single set of high-quality globally accepted accounting standards would benefit U.S. investors and it encouraged the convergence of generally accepted accounting principles (GAAP) and IFRS (U.S. Securities and Exchange Commission, 2010).

According to GMI Ratings (2014), however, many challenges exist in effectively implementing the standards in emerging markets:

- The lack of accounting and legal infrastructure and technical competence of professionals trained on the rules.
- Fair value accounting, at the heart of IFRS, is often cited as difficult to implement in lesser developed economies where a lack of active markets makes it tough to obtain market prices in compliance with IFRS rules.
- Rules that originated from mature markets where firms engage in arm's length exchanges can be challenging to transfer to markets that emphasize personal social networks and government connections.

- When a legal infrastructure is not robust, adoption of a standard by a local accounting regulatory body is not enough to ensure compliance.
- Firms' ownership structures can be a significant influence with state-owned enterprises that conduct related-party transactions.

According to Carmona and Trombetta (2008, p. 460), "emerging economies lack well developed markets and this makes it difficult to implement the market based approach to the estimation of fair values, a concept that may involve controversial means within institutional contexts that are remarkably different from those that witnessed the emergence of this notion." Given the diversity of markets, examination of the implementation of IFRS in frontier markets would be a relevant research area for international accounting and public policy research. Quinn (2004) suggested that losers in the failure to include emerging market countries in a robust accounting system were: investors, consumers, multilateral agencies (e.g., World Bank, International Monetary Fund), individual countries, and all who espouse corporate governance. Without effective in-country accounting systems, external corporate entities are constrained in their ability to effectively judge potential suppliers, distributors or acquisitions. Nadia, Cătălin, and Mădălina (2012) suggested that accounting and accountants are undervalued in emerging economies, making it even more difficult for managers to embrace Western ideas. This leads to our first research question:

RQ1: Are there country-specific or regional differences with regard to impediments to the adoption and implementation of IFRS in frontier markets?

4. Accountant Competency

Hussain, Chand, and Rani (2012) note that the biggest challenge in adopting IFRS in emerging markets is the lack of adequate training to equip practitioners with the necessary skillset prior to the preparation of the first set of financial documents. Thus, accounting competency is a critical forerunner to the adoption of international standards. Accountants are the rule checkers yet their knowledge base in the 21st century has to go beyond mere application of rules. The adoption of IFRS would require accountants to have a solid working-knowledge of business and economics which would result in substantial changes in the education and training of accountants and auditors working in frontier markets (Carmona & Trombetta, 2008).

Accounting competencies are far-reaching in the 21st century. Byrne and Pierce (2007) suggested that the roles of management accountants are quite broad and are linked to competencies such as business knowledge, interpersonal skills, IT skills, personal qualities and entail activities such as information provider, decision supporter, ad hoc analysis, administration, and use of high-level techniques. Corroborating this thinking, a KPMG (2004) report identified three types of skills necessary for accountants that would essentially transform them into consultants: (1) compliance (i.e.,

through audit, communications, forecasting, IFRS), (2) strategic and commercial (e.g., business plans, managing costs), and (3) people-related (e.g., manage relationships, leadership, provide support).

Albu, Albu, Faff, and Hodgson (2011) explored the influence of technical and accounting reforms on Romanian accountants by examining employer expectations for accounting competencies from the three levels of technical, personal, and environment-related. The results of their study reflected a slow move toward more hybrid expectations of accountants. That is, accountants in Romania were not only expected to be rule-checkers, they were also expected to possess a wide-range of skills that would enable greater ability to explore a wider range of governance issues. Increasing expectations for accountant capabilities suggests the next research question:

RQ2: How should the expanding role and expectations for accountants and the merging of GAAP and IFRS be reflected in the training of accountants in frontier markets?

5. Tax Law

In addition to issues concerning GAAP and IFRS, the accountant's work with regard to emerging markets is fraught with the complexity of differing tax laws for each country and proper recording of tax liabilities within financial statements. In 2009, the Financial Accounting Standards Board (FASB) issued an update that covered proper accounting for uncertain tax liabilities and disclosure requirements (FASB, 2009). While there was clear guidance for accountants and corporations on disclosing tax liabilities, it was not straightforward when accounting for the liabilities related to emerging and frontier markets. This lack of clear guidance was due to the differing tax laws across borders. As noted by Barker (2007, p. 367) "...emerging economies' tax systems contain numerous gaps and tax arbitrage points." A Deloitte (2012) report identified two major tax issues in emerging markets: (1) tax-driven accounting where accounting processes are driven by tax requirements instead of applicable accounting standards and (2) ever-changing tax regimes where the tax landscape can change significantly over time as a result of local country political changes. Thus, an accountant's due diligence has to take into account idiosyncratic tax laws for each country, leading to the following research question:

RQ3: What are the tax arbitrage points in major frontier markets? What mechanisms could create improved linkages between accounting standards and tax laws in frontier markets?

6. Financial Reporting Quality

Accountant competency links clearly to the critical outcome of financial reporting quality. An important component of financial reporting quality is that of audit quality. Perceptions of quality have a significant impact on both the efficient allocation of capital and, ultimately, reduction in a firm's agency costs (Michas, 2011). Essentially, a strong audit infrastructure provides the environment for high quality financial reporting. Un-

fortunately, poor disclosure and financial opacity are common traits among companies in emerging markets (Fan, Wei, & Xu, 2011). These characteristics may be even more pervasive within frontier markets.

Elbannan (2011) suggested that investment in the Egyptian stock market would remain limited as long as investors were skeptical about the quality of published accounting information via companies' financial reports. In their study on private firms, Chen et al. (2011) provided empirical evidence to suggest that financial reporting quality positively affected investment efficiency and that this investment efficiency increased with bank financing versus tax-maximization financial incentives. Additionally, quality reports serve information intermediaries (e.g., analysts) for gauging managerial actions (Shroff, Verdi, & Yu, 2014). Thus, it appears that accounting information plays a critical role in economic activity for both publicly-traded and private firms in emerging economies. Yet, there remains a lack of clarity as to a full view of the problems and specifics of the emerging markets with regard to corporate governance. Thus, the following question opens the door for future research efforts with respect to governance:

RQ4: What types of disclosure problems are most prominent in frontier markets? Is there a typology of traits that can be identified in these markets that would enhance corporate governance?

6.1. Stock Market Exchanges

A low level of liquidity is a key problem facing frontier markets (Minović & Živković, 2010). Essentially, liquidity ensures the ability of investors to buy and sell securities with relative ease and is dependent upon both objective, exogenous factors as well as the endogenous forces of the market participants (Crocket, 2008). Unfortunately, frontier markets are plagued with illiquidity, resulting in assets not being convertible quickly and easily to cash. This illiquidity has been created by a lack of transparency regarding securities suspected of losing value (i.e., poor quality of financial reporting) and also to the trading market venue (Caruana & Kodres, 2008).

In 2011, FASB released Accounting Standards Codification Fair Value Measurement (Topic 820) that required companies to disclose their investments' market values based on the level of risk involved with the fair market value (FASB, 2011). In this regard, a publicly-traded company in the United States is always rated Level 1 and, in normal circumstances, so are foreign equities. However, circumstances within frontier markets could potentially change that rating due to the infrequent and low-volume trading. Thus, the accountant must perform further procedures when determining the risk of the fair market value of frontier investments.

The trading venues for frontier markets, specifically the stock market exchanges, are frequently discontinuous; that is, the time between subsequent trades can be several weeks (Minović & Živković, 2010). According to Arouri, Jawadi, and Nguyen (2010), stock exchanges in Sri Lanka, Zimbabwe, or Morocco, for example, might be open for one trade a day and for possibly only two or three days a week thus limiting information about market price and value. Essentially, the low trading rate with respect to the infre-

quent and irregular trading practices in frontier markets is a major reason behind market inefficiencies (Živković & Minović, 2010). While researchers have embarked on efforts to measure liquidity in emerging markets (Bekaert, Harvey, & Lundblad, 2007), the issue here in developing this research agenda is not the actual measure itself. Rather, the concern is the systemic risk encountered by accountants in attempting to assess fair value and conduct due diligence for clients and subsequent stakeholders when that valuation depends on whether markets are active or not (Chukwunedu, 2011).

Financial markets in emerging markets lack the sophistication and information exchange taken for granted in developed economies. Many frontier markets lag further behind in financial development. These issues suggest specific accounting concerns related to exchanges on frontier stock markets and lead to the following research questions:

RQ5: How should a public stock held on an infrequently trading stock exchange be assessed? Should the stock be treated as a liquid asset?

6.2. *Sovereign Risks*

Scholars and world leaders have long acknowledged that political and legal instability are hallmarks of an emerging economy (Crittenden & Crittenden, 2010). Accounting for these sovereign risks has a huge impact in the valuation approach taken by analysts. Rating agencies, using accounting data among other measures, regularly evaluate a country's risk of default on its government debt. Moral hazard is introduced if one fails to acknowledge the role of inflation. That is, some countries might avoid default simply by printing money, thus increasing inflation and creating a different set of financial difficulties.

Anshuman, Martin, and Titman (2011) offered insights into how the valuation approach used by practitioners with regard to investment projects in emerging markets differed from the standard valuation approach. According to these authors, practitioners account for sovereign risks implicitly by adjusting the investment's required rate of return or the discount rate; theoretically, however, these risks are project-specific and should be accounted for in the estimation of the expected investment cash flows. This becomes particularly tricky for auditors, for example, in the process of auditing a large financial services firm doing business in a frontier market.

Examples abound related to sovereign risks with regard to political and legal unease. For example, companies doing business in frontier markets face risks related to government takeover. The takeover actions of Venezuelan President Hugo Chavez of oil field service companies in 2010 and those of Ecuadorian President Rafael Correa to enforce profit-sharing agreements add to concerns about unethical practices, corruption, and terror that abound in markets fraught with political and legal unease (Anshuman et al., 2011; Crittenden & Crittenden, 2010). The weakened global economy has led to widespread problems with regard to pervasive risks and, at the same time, increased regulatory activity (Ernst & Young, 2013a). As such:

RQ6: What is the role of the accountant in assessing sovereign risk? Specifically, what guidelines can be offered to assess risk regarding the potential governmental takeover of non-government entities and assets?

7. Corruption

A report by Ernst & Young (2013c) suggested rampant concern about financial manipulation in companies in 36 countries in Europe, the Middle East, India, and Africa. To summarize the findings of the survey of over 3,000 employees:

- One in five respondents were aware of financial manipulation in their own company in the past 12 months,
- 42 percent of board members and senior managers were aware of irregular financial reporting in their company,
- 38 percent of respondents believed that companies in their jurisdiction overstated financial performance, and this was particularly profound for respondents from rapid-growth markets (as compared to those with headquarters in Western Europe),
- 67 percent of respondents in rapid-growth markets believed that bribery and corruption were widespread in their country.

It is clear that executives of companies in frontier markets feel personal pressure to produce growth and profit in a challenging marketplace (Ernst & Young, 2013b). While gray areas exist, executives must perform under intense scrutiny as the regulators (accountants) are themselves under more and more scrutiny. For example, members of the accounting profession have to now be experts in the Racketeer Influenced and Corrupt Organizations Act (RICO) and the U.S. Foreign Corrupt Practices Act (FCPA). RICO and FCPA have extensive reach when it comes to regulation. This is true even when the illegal action is made by a third-party to the business under contract to the accounting firm. This was shown in the 2010 Panalpino case in which payments were made on customers' behalf to local officials to speed up import procedures (Ernst & Young, 2013a).

Transparency International (2013) releases its Corruption Perceptions Index (CPI) annually. Using this index, the frontier markets noted in Table 1 represent a wide range on the corruption scale. If the index is looked at from a quartile perspective, 13 percent of the identified frontier markets would be in the highest quartile, 48 percent in the next quartile, with the remaining 39 percent divided equally across the two bottom quartiles (note: Palestine was not listed in the 2013 CPI). Unfortunately, corruption is an ancient practice that is embedded in many of the emerging market cultures (Hammond, 2011). Thus, corruption is a potentially fertile ground for future research as suggested by the following:

RQ7: What risks do accountants face when operating in countries with high corruption? What steps can be taken to mitigate these risks?

8. Fraud

Corruption and fraud often go hand-in-hand. There is certainly a heightened risk of fraud in several emerging and frontier markets. For example, companies from developed and developing nations have been accused of overstating assets reportedly situated in a developing market. Unfortunately, certain kinds of fraud can be very challenging for auditors due to physical remoteness or lack of adequate access to assets (e.g., timber land, mines), weak or incomplete government records regarding asset ownership (e.g., land & building records), and the common language barriers related to doing business in the emerging market arena. In such instances, auditing firms may be tempted to rely heavily on a third-party for valuation and/or translation work. Yet, are these third-parties trustworthy? Do they have the training to conduct the level of necessary due diligence? While any fraudulent activity might clearly be that of the client, scrutiny on doing business in emerging markets raises the level of expectations for accounting firms. This leads to our next research question:

RQ8: What additional procedures should auditors perform on audits of companies in frontier markets that would improve detection of fraud?

Accounting firms increase their own exposure when operating with clients (either directly or via third-parties) in emerging markets (Deloitte, 2011). The Public Company Accounting Oversight Board (PCAOB) released an alert in 2011 that called for a “heightened awareness of risks when performing audits of companies with operations in emerging markets,” noting that there are possibly incentives or pressures to manipulate financial statements rather than report poor results to the investing public. As noted by Ponduri, Sailaja, and Begum (2014), the role of accounting is critical with regard to corporate governance since it is the accountants and auditors who are the primary providers of information to the capital market participants and its stakeholders. As such:

RQ9: What are the heightened risks for public accounting firms when doing business with companies in frontier markets? How should firms act to mitigate these risks?

9. The Research Agenda

The Worldwide Governance Indicators project identified six indicators of corporate governance (Kaufmann, Kraay, & Mastruzzi, 2010):

1. Voice and accountability,
2. Political stability and absence of violence/terrorism,
3. Government effectiveness,
4. Regulatory quality,
5. Rule of law, and
6. Control of corruption.

TABLE 2. Research Questions

RQ1:	Are there country-specific or regional differences with regard to impediments to the adoption and implementation of IFRS in frontier markets?
RQ2:	How should the expanding role and expectations for accountants and the merging of GAAP and IFRS be reflected in the training of accountants in frontier markets?
RQ3:	What are the tax arbitrage points in major frontier markets? What mechanisms could create improved linkages between accounting standards and tax laws in frontier markets?
RQ4:	What types of disclosure problems are most prominent in frontier markets? Is there a typology of traits that can be identified in these markets that would enhance corporate governance?
RQ5:	How should a public stock held on an infrequently trading stock exchange be assessed? Should the stock be treated as a liquid asset?
RQ6:	What is the role of the accountant in assessing sovereign risk? Specifically, what guidelines can be offered to assess risk regarding the potential governmental takeover of non-government entities and assets?
RQ7:	What risks do accountants face when operating in countries with high corruption? What steps can be taken to mitigate these risks?
RQ8:	What additional procedures should auditors perform on audits of companies in frontier markets that would improve detection of fraud?
RQ9:	What are the heightened risks for public accounting firms when doing business with companies in frontier markets? How should firms act to mitigate these risks?

As evidenced in this research overview, each of these indicators plays a major role as we begin to better understand the value relevance of accounting in less developed countries. It is clear that accountants are the gatekeepers and can be held responsible legally for actions taken by clients. Thus, the corporate governance and accounting literatures need to have an improved focus on the “rules of the game” since it seems that the rules are standardized for accountants even though they are not easily applicable and implementable across all nations.

The suggested research questions are summarized in Table 2 and lay the groundwork for future accounting and corporate governance research in frontier markets. The pursuit of each of the research questions can invoke a wide range of research methodologies – from qualitative methods to survey data to econometric modeling. There is much to be learned, regardless of method. As well, we recognize that these questions are just the tip of the iceberg with respect to the questions that need to be pursued by scholars.

As noted by Crittenden and Crittenden (2012), “To ensure sustainable development in emerging economies, it is imperative that those in corporate governance well understand the factors that can affect a company’s ability to make sound business deci-

sions in a turbulent environment.” It is clear from this review that the accounting profession should take a lead governance role as frontier markets become more and more the location of choice for a large number of investors. At the same time, it is clear that much work needs to be done to better understand activities behind the governance needs.

References

- AICPA. (2014). *IFRS FAQs*. Retrieved 31 August 2014 from http://www.ifrs.com/ifrs_faqs.html#q1.
- Albu, C.N., Albu, N., Faff, R., & Hodgson, A. (2011). Accounting competencies and the changing role of accountants in emerging economies: the case of Romania. *Accounting in Europe*, 8(2), 155-184.
- Anshuman, V.R., Martin, J., & Titman, S. (2011). Accounting for sovereign risk when investing in emerging markets. *Journal of Applied Corporate Finance*, 23(2), 41-49.
- Arouri, M., Jawadi, F., & Nguyen, D.K. (2010). *The Dynamics of Emerging Stock Markets: Empirical Assessments and Implications*. Berlin: Springer-Verlag.
- Barker, W. (2007). An international tax system for emerging economies, tax sparing, and development: It is all about the source. *Journal of International Law*, 29(2), 349-389.
- Bekaert, G., Harvey, C.R., & Lundblad, C. (2007). Liquidity and expected returns: Lessons from emerging markets. *The Review of Financial Studies*, 20(5), 1783-1831.
- Brown, P., Beekes, W., & Verhoeven, P. (2011). Corporate governance, accounting and finance: A review. *Accounting & Finance*, 51(1), 96-172.
- Byrne, S., & Pierce, B. (2007). Towards a more comprehensive understanding of the roles of management accountants. *European Accounting Review*, 16(3), 469-498.
- Cadbury Committee (1992). *The financial aspects of corporate governance*. Retrieved 16 August 2014 from <http://www.ecgi.org/codes/documents/cadbury.pdf>.
- Cambridge Judge Business School (2014). *The Cadbury Archive*. Retrieved 16 August 2014 from <https://www.jbs.cam.ac.uk/cadbury/report/index.html> and <https://www.jbs.cam.ac.uk/cadbury/report/furtherreports.html>.
- Caruana, J., & Kodres, L. (2008). Liquidity in global markets. *Financial Stability Review*, 11, 65-74. Retrieved 24 August 2014 from http://www.banque-france.fr/fileadmin/user_upload/banque_de_france/publications/Revue_de_la_stabilite_financiere/rsf_0208.pdf.
- Carmona, S., & Trombetta, M. (2008). On the global Acceptance of IAS/IFRS accounting standards: The logic and implications of the principles-based system. *Journal of Accounting and Public Policy*, 27(6), 455-461.
- Chen, F., Hope, O-K., Li, Q., & Wang, X. (2011). Financial reporting quality and investment efficiency of private firms in emerging markets. *The Accounting Review*, 86(4), 1255-1288.
- Chukwunedu, O.S. (2011). *International financial reporting standards (IFRS) – An emerging market perspective*. Retrieved 24 August 2014 from <http://ssrn.com/abstract=1951819>.
- Crittenden, V.L., & Crittenden, W.F. (2012). Corporate governance in emerging economies: Understanding the game. *Business Horizons*, 55(6), 567-574.
- Crittenden, V.L., & Crittenden, W.F. (2010). Strategic management in emerging economies: A research agenda. *Organizations and Markets in Emerging Economies*, 1(1), 9-23.
- Crockett, A. (2008). Market liquidity and financial stability. *Financial Stability Review*, 11, 13-18. Retrieved 24 August 2014 from http://www.banque-france.fr/fileadmin/user_upload/banque_de_france/publications/Revue_de_la_stabilite_financiere/rsf_0208.pdf.

Cussan, M. (2013). *The difference between emerging and frontier markets*. Retrieved 1 November 2014 from <http://www.investopedia.com/articles/investing/092013/difference-between-emerging-and-frontier-markets.asp>.

Deloitte. (2011). *Accounting for emerging market activities*. Retrieved 12 August 2014 from http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/AERS/ASC/us_aers_lsspotlight_0811.pdf.

Deloitte. (2012). *The siren song of M&A in emerging markets – How consumer product companies can add value and avoid the rocks*. Retrieved 25 August 2014 from http://deloitte.wsj.com/cfo/files/2012/07/us_ma_The-Siren-Song-of-MA-in-Emerging-Markets_062212.pdf.

Elbannan, M.A. (2011). Accounting and stock market effects of international accounting standards adoption in an emerging economy. *Review of Quantitative Finance and Accounting*, 36(2), 207-245.

Ernst & Young. (2012). *Audit committee oversight of emerging market risks*. Retrieved 24 August 2014 from [http://www.ey.com/Publication/vwLUAssets/AU1176_InSights_Issue_16_2012/\\$File/AU1176_InSights_Issue%2016_2012.pdf](http://www.ey.com/Publication/vwLUAssets/AU1176_InSights_Issue_16_2012/$File/AU1176_InSights_Issue%2016_2012.pdf).

Ernst & Young. (2013a). *12th Global Fraud Survey – Growing beyond: A place for integrity*. Retrieved 25 August 2014 from [http://www.ey.com/Publication/vwLUAssets/Global-Fraud-Survey-a-place-for-integrity-12th-Global-Fraud-Survey/\\$File/EY-12th-GLOBAL-FRAUD-SURVEY.pdf](http://www.ey.com/Publication/vwLUAssets/Global-Fraud-Survey-a-place-for-integrity-12th-Global-Fraud-Survey/$File/EY-12th-GLOBAL-FRAUD-SURVEY.pdf).

Ernst & Young. (2013b). *Navigating today's complex business risks*. Retrieved 10 August 2014 from [http://www.ey.com/Publication/vwLUAssets/Navigating_todays_complex_business_risks/\\$File/Navigating_todays_complex_business_risks.pdf](http://www.ey.com/Publication/vwLUAssets/Navigating_todays_complex_business_risks/$File/Navigating_todays_complex_business_risks.pdf).

Ernst & Young. (2013c). *One in five employees aware of financial manipulation in their own company*. Retrieved 10 August 2014 from http://www.ey.com/GL/en/Newsroom/News-releases/News_One-in-five-employees-aware-of-financial-manipulation.

Fan, J.P.H., Wei, K.C.J., & Xu, X. (2011). Corporate finance and governance in emerging markets: A selective review and agenda for future research. *Journal of Corporate Finance*, 17, 207-214.

FASB. (2009). *Income taxes (topic 740): Implementation guidance on accounting for uncertainty in income taxes and disclosure amendments for nonpublic entities*. Retrieved 31 August 2014 from <http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175819501289&blobheader=application/pd>.

FASB. (2011). *Fair value measurement (topic 820): Amendments to achieve common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs*. Retrieved 31 August 2014 from <https://asc.fasb.org/imageRoot/00/7534500.pdf>.

Gibley, M. (2012). *Emerging markets: What you should know*. Retrieved 22 July 2014 from <http://www.schwab.com/public/schwab/nn/articles/Emerging-Markets-What-You-Should-Know>.

GMI Ratings (2014). *Accounting and governance risk (AGR[®]) emerging markets white paper*. Retrieved 24 August 2014 from http://go.gmiratings.com/rs/gmiratings/images/GMIRatings_AGR%20EM%20White%20Paper.pdf?mkt_tok=3RkMMJWWfF9wsRomrfCcI63Em2iQPJWpsrB0B%2FDC18kX3RUvJrWdfkz6htBZF5s8TM3DVfpBXR9H5kEMTrM%3D.

Hammond, A.G. (2011). *The corruption trap*. Retrieved 25 August 2014 from <http://knowledge.insead.edu/economics-politics/the-corruption-trap-881>.

Henisz, W.J., & Zelner, B.A. (2010). The hidden risks in emerging markets. *Harvard Business Review*, April, 89-95.

Human, T., de Monts-Petit, C., & Roach, G. (2014). *Four stories from frontier markets*. Retrieved 10 August 2014 from <http://www.irmagazine.com/articles/case-studies/20208/frontier/>.

Hussain, F.F., Chand, P.V., & Rani, P. (2012). The impact of IFRS for SMEs on the accounting profession: Evidence from Fiji. *Accounting & Taxation*, 4(2), 107-118.

Kaufmann, D., Kraay, A., & Mastruzzi, M. (2010). *The worldwide governance indicators: Methodology and analytical issues*. Retrieved 20 January 2012 from <http://ssrn.com/abstract=1682130>.

KPMG (2004). *The CEO of the future – Leading through influence and integrity*. Retrieved 24 August 2014 from http://www.finaccsolutions.com.au/files/cfo_of_the_future_2004_-_leading_through_influence_integrity.pdf.

Levisohn, B. (2013). *Braving the frontier markets*. Retrieved 10 August 2014 from <http://online.barrons.com/news/articles/SB50001424052748704372504578290142797535974>.

Logue, A. (2011). *Emerging Markets for Dummies*. Hoboken, NJ: John Wiley & Sons.

Michas, P.N. (2011). The importance of audit profession development in emerging market conditions. *The Accounting Review*, 86(5), 1731-1764.

Minović, J.Z., & Živković, B.R. (2010). Open issues in testing liquidity in frontier financial markets: The case of Serbia. *Economic Annals*, LV(185), 33-62.

MSCI (2014). *MSCI Frontier Markets Indexes*. Retrieved 10 August 2014 from http://www.msci.com/products/indexes/country_and_regional/fm/#.

Nadia, A., Cătălin, A., & Mădălina, G. (2012). *Improving corporate governance in emerging economies – An analysis of the implications on the accountants' roles and competencies*. Retrieved 24 August 2014 from <http://steconomiceuradea.ro/anale/volume/2012/n1/122.pdf>.

Peng, M., Wang, D., & Jiang, Y. (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, 39, 920-926.

Ponduri, S.B., Sailaja, V., & Begum, S.A. (2014). Corporate governance – Emerging economies fraud and fraud prevention. *IOSR Journal of Business and Management*, 16(3), 1-7.

Public Company Accounting Oversight Board (PCAOB). (2011). *Staff audit practice alert no. 8 – Audit risks in certain emerging markets*. Retrieved 10 August 2014 from http://pcaobus.org/standards/qanda/2011-10-03_apa_8.pdf.

Quinn, L. (2004). *Emerging pains*. Retrieved 22 July 2014 from <http://www.camagazine.com/archives/print-edition/2004/april/features/camagazine15680.aspx>.

Schultz, W., & Welker, M. (2006, March). Accounting value. *CAMagazine*, p. 57-59.

Shleifer, A., & Vishny, R.W. (1997). A survey of corporate governance. *Journal of Finance*, 52(2), 737-783.

Shoenholz, D. (2011). *The new frontier: Understanding the opportunities, knowing the risks*. Retrieved 16 August 2014 from [http://www.ey.com/Publication/vwLUAssets/Frontier_markets/\\$FILE/Frontier%20funds_Final.pdf](http://www.ey.com/Publication/vwLUAssets/Frontier_markets/$FILE/Frontier%20funds_Final.pdf).

Shroff, N., Verdi, R.S., & Yu, G. (2014). Information environment and the investment decisions of multinational corporations. *The Accounting Review*, 89(2), 759-790.

Transparency International (2013). *Corruption Perceptions Index 2013*. Retrieved 25 August 2015 from <http://cpi.transparency.org/cpi2013/results/>.

U.S. Securities and Exchange Commission. (2010). *SEC approves statement on global accounting standards*. Retrieved 31 August 2014 from <http://www.sec.gov/news/press/2010/2010-27.htm>.

U.S. Securities and Exchange Commission. (2014). *The laws that govern the securities industry*. Retrieved 16 August 2014 from <http://www.sec.gov/about/laws.shtml#sox2002>.

Zafari, A. (2010). *The next frontier?* Retrieved 16 August 2014 from <http://www.professionaladviser.com/professional-adviser/feature/1811540/frontier>.

Živković, B.R., & Minović, J.Z. (2010). Illiquidity of frontier financial market: Case of Serbia. *Panoeconomicus*, 3, 349-367.