UNIVERSITÀ DI PISA

Dipartimento di economia e management

Corso di dottorato in Economia aziendale e Management

Ciclo XXVIII

IMPAIRMENT OF GOODWILL AND CORPORATE GOVERNANCE

Settore scientifico-disciplinare SECS-P 07

Relatore

Chiar.mo Prof. Marco Allegrini

Candidato

Silvia Ferramosca

To my Mum

TABLE OF CONTENTS

List of Illustrations and Tables

Chapter 1.

Chapter 2.

Chapter 3.

Chapter 4.

Introduction

Central question

This Ph.D. thesis investigates the association between the impairment of goodwill and corporate governance. The thesis is the result of a deep study on which I worked during my three-year Ph.D. research period. My interest arises from the will to examine whether and how different corporate governance subjects influence an important accounting decision as the goodwill write-off. Indeed, the impairment of goodwill involves across-the-board most firm functions. The procedures needed to carry out the impairment test cannot be limited only to the accounting domain, being instead necessary merging the competences in the strategic and operational management, in organization and finance with the accounting-related ones. Underlying the impairment of goodwill there are indeed assumptions that are used for both the ordinary and the strategic decisions. Hence, the valuations underlying goodwill impairments are meaningful, revealing about internal politics and they are portentous of the management past (because goodwill originates from business combinations) and future (because goodwill is the expression of the expected benefits deriving from the synergies created or from the invisible intangibles of the acquired entity) strategy. The result of the periodic impairment test constitutes a signal of the future strategy of the firm or of the effectiveness of past strategies. As a matter of fact, the maintenance of the value of goodwill implies that suitable strategies to preserve its value are in place while a reduction in the value of goodwill might suggest a change in the strategy of the firm, either triggered by external or internal indicators. Also, the assumptions underlying the impairment procedure derive from the forecasts, which are predicted at different levels within the firm.

The development of my research takes into account a conceptual, historical and doctrinal analysis of the goodwill write-offs, mainly in the Italian accounting literature and with a brief overview on the International accounting literature. The reason to explore the evolution of the goodwill notion and treatment through the accounting history moves from the dense and puzzling debate that since the nineteenth century characterised the accounting panorama, leading the goodwill to be one of the most controversial assets.

By common consent the process underlying the valuation of goodwill is associated to the entire process to determine the company economic value.

From the introduction of Statement of Financial Accounting Standards No. 142 (SFAS 142) in the United States and of International Accounting Standard 36 (IAS 36) in the International Accounting Standards adopter countries, follows several critiques and reservations from academics, practitioners, standard setters and regulators. As far afield as that in recent years both the US Public Company Accounting Oversight Board and the European Financial Reporting Advisory Group questioned whether prior amortisation process was more relevant and reliable.

The amortization of goodwill was convenient for under-performing companies leading them to charge lower expenses (amortization charge) and resulting in higher earnings, but it was inconvenient for over-performing companies. Indeed, even though the goodwill acquired was maintained or even strengthened through an effective and favourable management the company had to record the established amortization charge, leading to lower earnings and moving away from the underlying economic value of the company.

Overall, at the very beginning the switch from the systematic amortization to the impairment test of goodwill led companies to more satisfactory earnings and higher assets, but since 2008 with the crisis outbreak the companies' financial statements have begun to suffer large and unexpected impairment losses. The companies' assets became too high to overcome the impairment test, thus, according to the international accounting standards the goodwill allocated to the cash generating units (called reporting unit according to the US GAAP) was the first to be impaired.

One of the main critiques raised to the impairment of goodwill is the fluctuation of the results. Nonetheless, the primary problem that has been highlighted is the everlasting trade-off between relevance and reliability of the financial information. The aim of both SFAS 142 and IAS 36 was to produce more relevant information for investors and financial users in general. Both academic literature and financial press criticized the new accounting principles tied to fair value measurements, suggesting their likely "irrelevance" for investment decisions (Holthausen and Watts, 2001; Watts, 2003; Benston, 2008).

My own opinion is that it is hard, if not impossible, to get relevance without reliability. Investors, and financial users in general, are well aware of the subjectivity underlying the write-off or non-write-off decisions. The corporate governance

system may moderate the use of discretionary accounting choices, enforcing the overall reliability of financial reporting. Hence, my research objective is to investigate the role of corporate governance in constraining (or exacerbating) the manipulation of goodwill write-offs.

On the one hand I investigate the impact that the internal corporate governance mechanisms have on the impairment test. On the other hand I verify whether the external corporate governance mechanisms are able to affect the decision of impairment.

Within the internal corporate governance mechanisms I explore the board of directors, the managerial incentives, the insider ownership and the chief financial officer perception on the impairment of goodwill.

Within the external corporate governance mechanisms I explore the institutional ownership, state ownership, external auditor and the analysts forecasts likely associations with discretional impairment of goodwill. Ownership structures (i.e. investors) are in and between internal and external corporate governance mechanisms, they are the primary beneficiaries of the financial information and at the same time they may guide the same financial information.

Theoretical background

Academic literature suggests that writing off goodwill is a key accounting choice with a direct effect on the quality of financial reporting. Unlike other accruals, the write-offs disclose to the outside the private expectations of managers concerning the firm's future profitability and perspectives. Thus, goodwill write-offs can imply several financial consequences, including drops in stock prices, a more in-depth scrutiny of asset values by minority investors and lenders and a re-assessment of the firm's financial health (Zucca & Campbell, 1992; Alciatore et al., 1998; Ramanna and Watts, 2012).

Prior research maintains that the management exploits the discretion allowed by accounting rules and uses write-offs as an earnings management tool for agency-related reasons, such as maximizing their remuneration, saving their acknowledged reputation as skilled and capable manager, beating the market earnings forecasts or to send a signal to financial markets (Francis et al., 1996; Riedl, 2004). Manipulated

goodwill write-off causes biased earnings, unreliable goodwill value and non-transparent future prospects of the firm.

This study is mainly grounded on the positivist **agency theory**, supposing that the agent, whether is the management, or the external auditor or different types of shareholders acts in its own interests which usually may not correspond to the best interests of the principal (Jensen and Meckling, 1976; Fama and Jensen, 1983; Jensen, 1983; Eisenhardt, 1989).

Well aware of the limits and critiques provided by several scholars on the individual view of agency theory, the research question could be further investigated also from different perspectives. A major criticism of the agency theory is its entrenchment in the neoclassical assumption of rational behaviour, which maximises the principal and agent's different utilities without considering the social and institutional contexts (Wiseman et al., 2012). Accounting information should not be abstracted from the social, economic and cultural environments in which the companies operate (Carruthers, 1995).

I also use the **political theory** to explain how politicians may exploit the control over companies and banks to obtain votes, contributions and bribes in return of employment, subsidies and other benefits to supporters and cronies (North, 1990; Olson, 1993; Shleifer and Vishny, 1994; La Porta et al., 2002; Bushman and Piotroski, 2006). State-owned companies may be interested in obfuscating the firm transparency in order to easier engage in expropriation activities. Politicians interested in concealing the firms' economic and financial performance may be interested in obfuscating the actual value of goodwill, avoiding or exacerbating the impairment losses. At the same time a benevolent view of the state suggests that government control over companies may play a development role being a guarantee of a general welfare and reducing market imperfections (Gerschenkorn, 1962; Shleifer, 1998). However, also this benevolent view of the state-ownership may create incentive to manipulate the impairment of assets to avoid economic and market drawbacks, which could have severe consequences on the employment (Ding et al., 2007; Huyghebaert and Wang, 2012).

The **institutional theory** could constitute a supplementary perspective to further develop the study, since it is not centred on the individual rational behaviour, but on an organisation's determination to achieve legitimacy in compliance with the external expectations (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). In this

sense, the "fair" use of the accounting information as well as external auditing may be viewed as devices formally established within an organisation in response to institutional pressures to, respectively, conform to the required information and formalise the expected control practices (Gupta et al., 1994). Also the stream of institutional theory discussing the "decoupling" may be suitable to analyse how both managers and auditors formally use their general accepted, respectively accounting and auditing, standards to accomplish legitimacy but how the actual practices depart them to serve their interests (Westphal and Zajac, 2001).

The empirical analysis carried out in chapter three allows also to interpret the results using even other theories from those above-mentioned, as different corporate governance subjects are involved. For instance, in the analysis of the influence of the external auditor on the reliability of the goodwill write-offs the **game theory** may be explanatory of auditor behaviour. According to the game theory there is at least a rational and self-interested player with a strategy purposely built to reach the equilibrium, that is the best result among the players (Von Neumann and Morgenstern, 1944; Nash, 1951, 1953; Rasmussen, 1989). In a two-person cooperative game the auditor and the auditee (client) can both obtain benefits. It is a sort of negotiation game; the client might threaten the auditor with the replacement of a new and more lenient auditor, the auditor, on the other side, by disclosing misstatements increases its reputation. Nevertheless, in certain circumstances the auditor and the manager interests may converge and both of them reach the equilibrium to the detriment of fair financial information; a case in point is the overstatement manipulation of the goodwill write-off (Antle and Nalebuff, 1991; Hatherly et al., 1996).

Main contributions

This thesis provides a threefold theoretical contribution, contributing to the studies on accounting history, on accounting and on corporate governance.

First, it develops a path within the Italian accounting tradition that might be considered as trailblazing of the modern accounting standards. I retrace different approaches on the evaluation issues and on the concept of goodwill that some of the most influential Italian "*Economisti Aziendali"* emphasised in their writings. From

the specific attention devoted to the long-lived assets financial evaluations one can appreciate the multidimensionality of our "*Economia Aziendale"*, including operations, management and control. As a matter of fact, the impairment of assets constitutes the *trait d'union* between various functions within the firm, involving beyond accounting also strategy, finance, operation, internal and external control. I thus carefully explore the past accounting literature on the goodwill-related issues, employing a constructive and historical method that led me to build a personal interpretation.

Second, as underlined by prior literature, the manipulation of goodwill write-offs makes allocating financial resources highly inefficient, both at the firm and at market levels, and compromises the role of financial reporting as an external control system (Beatty & Weber, 2006; Ramanna and Watts, 2012). Given the important economic and market implications, managers, directors, chief financial officers, shareholders and external auditors carefully assess the estimates underlying the goodwill write-offs (Gu and Lev, 2011; Ramanna and Watts, 2012). Despite this, prior research has not yet systematically investigated whether the corporate governance mechanism influences the write-offs decisions. As a matter of fact, in literature there are conflicting findings on managerial incentives in manipulating the earnings through specific accruals and in detail through assets write-offs.

Third, as far as I know there are still unexplored areas of corporate governance's influence on impairment of goodwill. I attempt to fill this literature gap.

Chapter overview

Four chapters make up my thesis. Following I briefly sum up the structure of the thesis delineating the main issues faced in each chapter.

In **chapter one** I analyse the historical studies on goodwill and on write-offs, how goodwill has been defined and measured over years, in the Italian academic literature and introducing some hints to the historical International studies. I also discuss the main trends that theoretically proved to be prodromal for the preparation of the current financial statements pervaded by the fair value logic.

In **chapter two** I present the research design referring to both the theoretical framework on which is based the study and the research methods used. I introduce

the research question that is the potential association between (1) the impairment of goodwill and its weaknesses and (2) the corporate governance mechanisms. I focus on the role played by the corporate governance system on the reliability of the financial information. Therefore, I briefly illustrate what I include in the concept of corporate governance, distinguishing between internal and external corporate governance devices.

The link between accounting principles and corporate governance offers an interesting area that can be considered from different theoretical frameworks. The dominant theory in both corporate governance and accounting studies, mostly used in this thesis, is the neoclassic economic agency theory with its declination in moral hazard, risk aversion, information asymmetry and opportunistic behaviour. Notwithstanding the discussions of each empirical essay might be extended to a broader view of theories, explaining the results from different lens including more interpretive paradigms spacing up to the theories used by the critical accounting studies.

The second part of this chapter is dedicated to the representation of the methods used to explore my research question, including the historical method, the archival research and the survey research.

Chapter three discusses the empirical research and findings. In detail, I articulate the findings in sub-paragraphs. In the first one (§ 3.1), I examine the impairment of goodwill and earnings management behaviours, taking into account reporting incentives to use discretionary write-offs (e.g. leverage, big bath, income smoothing, CEO changes, CEO tenure, bonus, etc.). I investigate how different ownership structures affect the impairment decision in three different contexts (Italy, United Kingdom and Germany); specifically, I consider managerial, state and institutional ownerships. The ownership structures constitute the joining link between the internal corporate governance mechanisms and the external corporate governance mechanisms. In the same paragraph I study also the association between the discretionary use of goodwill write-off and the corporate governance in terms of independent directors within the board, the separation of Chairman and CEO positions and the board and audit committee meeting frequency.

The successive paragraph (§ 3.2) still concerns with the internal corporate governance mechanisms. In detail, I questioned to CFOs their perceptions about the

use of the impairment test especially focusing on their perceptions of the driver of manipulated goodwill write-offs.

Subsequently (§ 3.3), I move the attention to the investigation of the external mechanisms of corporate governance. The external auditor features might moderate the manipulation of goodwill write-offs. In this part I exclusively discuss some possible associations between goodwill write-offs and auditor size, tenure, fees and non-audit-fees and expertise.

A further development of the general research question (§ 3.5) is the exploration of the analysts' earnings forecasts and the association to goodwill write-offs.

In **chapter four** I draw the conclusions and I review the contribution of my study to the field of knowledge. Particularly, the thesis mainly contributes to the accounting literature and to the corporate governance literature. To conclude, I discuss the relevance of the findings, the limitations of the thesis and potential future research avenues.

Chapter 1.

The concepts of goodwill and of impairment throughout accounting history

TABLE OF CONTENTS:

1. The concepts of goodwill and of impairment throughout the accounting history

> *(...) It is said, in other words, that even in the accounting systems we sometimes have to proceed to general or particular "revaluations", providing renewed foundation to the incomes determination for the period.*
> *(...) It almost seems that not in the short-run, the net assets should find in the equity economic value the touchstone that allows the appropriate evaluation.*
>
> Zappa, 1950, translated

> *Goodwill, when it appears in the balance sheet at all, is but a master valuation account – a catch-all into which is thrown both an unenumerated series of items that have the* economic, *though not necessarily the* legal, *properties of assets, and an undistributed list of undervaluations of those items listed as assets. It is the valuation account* par excellence.
>
> Canning, 1929

1.1. The concepts of goodwill and of impairment: an introduction

The introduction of the Statement of Financial Accounting Standards No. 142 (SFAS 142) and of the International Accounting Standards No. 36 (IAS 36) replaced the systematic amortization of goodwill with a procedure called impairment test. Both the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) consider the goodwill as an asset with indefinite useful life, not subjected, therefore, to the systematic allocation of the cost along its useful life, but subjected at least once a year to the impairment test.

The impairment approach, respectively introduced by the FASB and IASB in 2001 and in 2004, actually seems to have much more ancient origins.

This first part of the thesis, mainly descriptive, introduces a historical perspective aimed at discussing some of the main ideas developed in the tradition of the Italian accounting and management discipline, known as "*Economia Aziendale*", with some hints to the International arguments that have led to the delineation of the concept of goodwill and of impairment. More specifically, I focus on the post-acquisition accounting for goodwill, studying the evolution in the history of the accounting theoretical discussions that might have been at the base of the modern international approach that requires the impairment test. Even though the concept of goodwill and the impairment approach are mainly attributed to the contribution of the Anglo-Saxon accounting history, several studies accentuate how, actually, less known non-English works might have pioneered or advanced certain accounting practices (Mattessich, 2003; Guarini et al., 2013).

The concept of goodwill has raised an increasing interest only from the nineteenth century; nonetheless, far away in the past we encounter cases that may recall to the concept. In literature we do not find a unique and shared definition or interpretation of the concept of goodwill. Bianchi Martini (1996) suggests that the idea of goodwill emerged already in the ancient Rome with the jurist Papiniano on the occasion of the inheritance of a banker, while the first regulatory reference to the so-called "*jus entraturae"* (right to entry)[1] is in Tuscany in the Middle Ages. In detail, the "*jus entraturae"* conferred to the trader who «with his active and intelligent work increased the value of a company» (Ferrero, 1912, translated) the right to the recognition of this higher value. Leake (1948: 1-2) instead suggests that the first usage of the goodwill term was in the year 1571 while the first legal acknowledgement was with the case of *Crutwell v Lye* (1810, 17 Ves. 335) when Lord Eldon commented as follows: «The goodwill which has been the subject of sale is nothing more than the probability that the old customers will resort to the old place»[2].

Initially the notion of goodwill was tied to specific causal factors such as the customers loyalty, the public esteem and credit, the company site, the ability and

[1] The "*jus entraturae*" may be considered the historical antecedent of goodwill. It has often been mentioned in medieval texts and it arises in the statutes of the Florentine arts. See Fierli G. in "*Del diritto dell'entratura secondo i nostri statuti delle arti"* (Firenze 1798; 2nd ed., 1805), which takes into consideration the privilege (called "*entratura*") granted by the arts statutes to manufactorers and merchants, except in certain cases, of not being expelled from the rented workshops to practice their craft. See also S. Bianchi Martini (1996: 16) in "*Interpretazione del concetto di avviamento. Analisi dei principali orientamenti della dottrina italiana"*.

[2] This reference is cited also by Courtis (1983: 12) and Bloom (2008: 21).

experiences of the people managing the business, the products quality and the reputation (Villa, 1870; Giocoli, 1905).

Since its origin, however, the concept of goodwill postulates the uniqueness generated by the combination of all productive factors of a company system that allows the same company to obtain a higher value than the simple sum of the equivalent analytical elements considered individually.

Nonetheless, due to the difficulties to measure the value of goodwill, it has always been prohibited its recognition as an asset in the financial statement unless it was acquired. This empiricist approach based on the induction – that is goodwill can be recognized only after the payment of a higher value – is still today applied for the publication of the annual report under the US GAAP, the IAS/IFRS and the Italian GAAP as well. These standards, indeed, are anchored to the acquisition cost and to the goodwill premium. Both the FASB and the IASB set out the requirements for the recognition and the measurement of an asset in the statement of financial position. The IASB requires for the recognition of an asset the probability that its future economic benefits are expected to flow to the entity and that its cost can be measured reliably. Similarly, the FASB defines assets as the probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. Once the entity has recognized the goodwill in the statement of financial position, it has to assess at least annually if the carrying amount of the cash generating unit[3] or reporting unit (henceforth CGU), respectively in IAS 36 or SFAS 142, to which the goodwill is allocated exceeds or not the recoverable amount of the same unit. If the carrying amount exceeds the recoverable amount of the unit than the entity has to recognize an impairment loss. The amount of the impairment loss is the difference between the recoverable amount and the carrying amount of the entity. This impairment loss firstly reduces the value of the goodwill and then pro-rata the other assets allocated to the unit.

[3] IAS 36 at paragraph 6 defines a cash generating unit as: «The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets». SFAS 142 defines a reporting unit as: «A reporting unit is an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. However, two or more components of an operating segment shall be aggregated and deemed a single reporting unit if the components have similar economic characteristics. An operating segment shall be deemed to be a reporting unit if all of its components are similar, if none of its components is a reporting unit, or if it comprises only a single component».

From this short summary of the current accounting principles, we can easily observe that, now as then, the cost/price paid by the acquirer has always been the yardstick for the recognition of goodwill. However, the cost is just the expression of a value, thus it immediately arises the problems underlying the recognition, measurement and maintenance of the cost/value of goodwill.

The assessment of the goodwill value involves the process of evaluation of the equity economic value of the entire entity. The goodwill, indeed, can be defined as the expression of a set of multiple intangible conditions that allows the entity to obtain from the business a profitability higher than the average-profitability obtained from the entities operating in the same industry and in similar conditions.

Several Authors argue that the financial accounting valuations, and more precisely, the criteria of these valuations, can change according to the aims for which the financial statement is drawn up, or, in other words, according to the knowledge that we pursue to gain[4] (Alfieri, 1915; Ghidiglia, 1921; Onida, 1951; Ceccherelli, 1956; D'Ippolito, 1963; Capaldo, 1971). Several reasons induce to determine the capital value (e.g. determination of: the income for the period, the outcome of the firm liquidation, the value of the firm, the price to which the firm might be exchanged and so on). To different reasons correspond different capital definitions: equity or net assets, liquidation capital and "equity economic value" (called "*capitale economico"* by the Italian scholars). It can be deduced that each different capital evaluation conveys to a different income configuration. The determination of the value of the total assets of a "running entity" ("*entità in funzionamento*") is a means to attain to the knowledge of another amount, the income of the period[5]. Thus, the equity value has not an independent connotation but it is instrumental in relation to the

[4] Alfieri (1915: 64, translated) observes that: «The evaluation can take place for different aims and may vary from aim to aim. Hence, the plurality of financial statements and recording systems from which the financial statements should be deduced». Alike, Ghidiglia (1921, translated) notes that: «The estimation criteria must be chosen according to the estimation aim». Also, Ceccherelli (1956: 193) denotes how the evaluation criteria depend on the evaluation aims. Please, see note I at the end of this chapter.

[5] Ceccherelli (1961: 194, translated) highlights how in the financial valuations it is necessary «(…) to attribute to the firm equity a value not as it would have to or might be liquidated or transferred, and with reference to the liquidation or transfer moment, but as it represents the disposal of a "running" firm and of a firm that have to run in the future. Hence, the corresponding valuation is called "*valutazione di funzionamento*"». For a thorough distinction between "*valutazione di funzionamento*" and liquidation or transfer valuations see amongst others Giannessi (1960: 594) and Caramiello (1968: 165).

determination of that income[6]. Capaldo (1998: 42-45) observes that income is a conventional amount, since it can be determined using different criteria. The Author notes that the basic problem lies in the choice of the valuation criteria used to determine the value of the investments still existing at the end of the period (e.g. long-lived assets). Further, Allegrini (2001) highlights the interdependence between capital and income supporting that the capital valuation logic and criteria affect also the income determination.

The following paragraphs deepen how the different equity configurations proposed by some Italian accounting scholars could have, in a certain sense, inspired or at least anticipated the current position of the accounting standards regarding goodwill measurements and valuations. More specifically, this chapter provides a review of the thought of some of the main historical accounting Schools regarding to goodwill and impairment test. While discussing these issues it is unavoidable to present also some of the logic underlying the equity assessment proposed in the past, demonstrating to be still central for the assets valuation criteria currently adopted.

1.2. Goodwill through the Italian accounting history: From the *"Precursors"* to the origin of *"Economia Aziendale"*

The primitive notion of goodwill has antique and empirical origin. This primitive notion develops following the functional needs of the business pushing the academic literature to define the goodwill concept. At the very beginning the notion of goodwill was associated with some specific causal factors (e.g. customers loyalty, public esteem, credit, company site, entrepreneurs' ability, cumulated experiences, brand name notoriety, etc.).

Giovanni Massa (1898) analyses the goodwill in close relation with the installation costs, considering both of them as "special assets" and "fictitious capital". In these

[6] See Nelson (1942: 141) concludes a discussion on "The relation between the balance sheet and the profit-and-loss statement" as follows: «The balance sheet and the profit and loss statement are complementary: each completes the picture by presenting a different aspect of enterprise receipts and disbursements». In the same vein, Zeff (1964: 31) concludes his contribute by highlighting that both statements merit regards and stating that: «The financial statements are analytically coordinate». On the relationship between equity and income amongst the Italian scholars see also Ceccherelli (1961), Superti Furga (1979), Capaldo (1998) and Allegrini (2001).

first definitions we perceive the effort to attribute to the goodwill the characteristics of incurred costs in order to reduce, in a certain sense, its fleeing and evasive nature[7]. Nonetheless, already from the first definitions, the goodwill value was entangled to the same concept of firm value and of economic-profitable potentialities ("*potenzialità economico-reddituali*"). Indeed, once passed the overlapping between the notion of goodwill and some specific causal factors existing in the Italian literature until the end of the nineteenth century, the doctrine begins to conceive goodwill as a "*sui generis*" (i.e. with very special characteristics) asset able to generate income (Rossi, 1906).

With Giovanni Rossi (1906) surfaces the idea that goodwill should be considered as an economic potentiality able to generate income, though within this perception, the value of the goodwill is still knowledgeable only in the hypothesis of firm transfer[8]. Specifically, Rossi (1906) suggests an example to determine the economic value of goodwill in the hypotheses of disposal of the firm and he proposes the formula of the perpetual rents (partially approaching to the contemporary income approach to firm valuation). Despite the remarkable intuitions, Bianchi Martini (1996: 30-31) raises doubts about Rossi's simplistic approach since the Author (1906) relies on the shares market prices, oversimplifies the problem of estimating the future income and the capitalization interest rate and does not distinguish properly the theoretical value from the price effectively paid to acquire the firm. Also Borrè (2008) highlights that the conceptualization of the goodwill notion for all the nineteenth century is anchored to a predominant phenomenal approach. Indeed, as above suggested, the first attempts of goodwill definition derive from the frequent observation of firm disposals at prices exceeding the sum of the transferred equity.

It is only from the early twentieth century and later with the emerging concept of *"Azienda"* that the Italian academics become conscious of the possibility that goodwill might exist even without the necessary empirical evidence of the exceeding price over the equity transferred. Hence, the higher value of the "complex" compared to the simple "sum of its parts", although not recorded in the financial statement,

[7] Massa (1898) is scrupulous in clarifying that the goodwill can be recorded in the inventory only after a disposal of the company. The Author explains that one could consider the installation costs as goodwill but in this case a low (prudent) valuation is highly suggested.

[8] Rossi (1906) is amongst the Authors maintaining that the goodwill has to be subjected to taxation as an income, because even if it is a capital, it does not origin as capital but it is an income that grows gradually and emerges financially with the company transfer.

may exist even out of the firm transfer cases; the goodwill finally is identifiable as a stand-alone value.

Besta's theoretic represents the first discontinuity from prior theoretical systems, followed by another discontinuity introduced by Zappa's (r)evolution.

Fabio Besta follows a positivist approach adopting an empirical-inductive method. Empirical as the theoretical development is based on the observation of what happened and happens in the firm's real life. Inductive as it arises the necessity to introduce an *a-priori* perspective in order to scientifically translate the observation into inference. More specifically, Besta focuses his perspective on the firm equity and on its modifications. The Author then introduces the concept of *value* within the accounting field, even though it is still influenced by the economic studies[9]. Indeed, the *value* and the wealth measurement, in terms of asset measurement, are anchored to the replacement or exchange value (D'Amico and Palumbo, 2011; Sargiacomo et al., 2012). Nevertheless, the Author determination is to provide a value theory aimed at controlling the firm equity. Particularly, Besta perceives the necessity to determine that *value*, not only on the basis of a transfer operation inclusive of the "real" determination of the value (price), but also in the absence of a transfer, developing in this case the concept of estimation (D'Amico and Palumbo, 2011). Since it is not always possible to have the evidence of the "real" exchange values, to perform the economic control it is necessary to resort to applicable estimations (e.g. replacement cost, normal cost, etc.)[10].

[9] Economists like Ricardo, Cossa, Carey and other have always tried to determine the origin of value. They generally derive value from the lack of resources available, their usefulness, the need to remunerate the factors of production, including the capital, and considering his remuneration. The profit has been identified as the reward for the investor, who renounces to consume in order to use their wealth productively. Besta (1922: vol. I p. 225, translated) is well aware of Ricardo's value theory when he maintains that the economist «was far from truth…when he supported that the goods *value* is equal to the cost or expenses for their production». Besta (1880: 32, translated) is convinced that: «Economics investigates the wealth world in relation to the universal society… Accounting studies in a given aspect that same world in relation to the single Firm, but it cannot differ from that (from Economics)».

[10] Besta (1922: vol. I p. 215, translated) explains the differences between "valuation" (translated from the Italian "estimo") and accounting maintaining that: «(…) the "valuation", as it has been done so far, does not cover all kinds of wealth; mostly, it is restricted to rural goods and to buildings… and in addition it considers only the commercial or exchange values. Instead, the economic control, in order to be performed in its entire action, have to valuate wealth of any form and matter, and not only the wealths existing at a given moment, but also the changes that these wealths have experienced and will experience; and more, not being always able to hold out the real exchange values, it must compensate using appropriate expedients».

Fabio Besta in his writings assumes an atomistic-reductionist perspective[11], measuring the single phenomenon (i.e. increase or decrease in wealth), which finds a place in the statement of financial position, while the income statement assumes relevance only as an aggregation of the partial results deriving from the modifications in the value of the individual assets over a certain period of time (Catturi, 1989; Zan, 1994; Viganò, 1994). To this scope, Besta distinguishes between active and passive items, whose values depend on the *utilities producing (expensing) potentialities*[12].

D'Amico and Palumbo (2011) argue how according to Besta the application of current values is usable only for the replaceable assets, but it is convenient to give up to the estimation of the "real" value in the financial statements' valuations, applying the cost value. The cost value is still grounded on real (i.e. objective) data and should follow the prudence principle. In other words, Besta tries to limit the financial statements preparers' manipulation avoiding valuing the assets at costs higher than their exchange values (Besta, 1922: 238). The ideal or "real" value is bound to the legalistic-prudential paradigm, expecting that the statement of financial position represents the items at the minor value between the historical cost and the market values (D'Amico and Palumbo, 2011: 55).

Besta (1922) specifies that the valuation of the individual items is different in relation to their classification. The items belonging to the working capital or the long-lived assets should be valued at their *normal price* (current purchasing price), which tends to coincide with their exchange value. Rents, credits and debits should be valued at their actual values taking into account the degree of probability they will be received or paid in the determined time. Finally, he advances the existence of other particular elements of the equities, amongst which there is the determination of the goodwill value[13].

---

[11] Reading Besta's (1920: 263, translated) words we can easily interpret this atomistic perspective: «(…) every change in value, even temporarily, of an asset or liability is actually a profit or loss, because it is profit any increase in the value of the enterprise equity deriving from its management (*gestione*), loss any reduction: future changes will increase, diminish or remove that profit or that loss, but they cannot exclude that what was taken place, has not taken place». See note IV at the end of this chapter.

[12] As suggest Perrone (1997: 344-345) and D'Amico and Palumbo (2011: 50) since the value of the items depends on their potentialities to produce utilities (i.e. future benefits using the IAS/IFRS expressions), Besta's theoretic is framed within the future-perspective paradigm.

[13] These elements are not stand-alone items but they might allow in the future obtaining "real" assets. With Besta's (1922: vol. I p. 67, translated) words: «The receivables, the goodwill, the factory secrets, the monopolies, are not, if carefully analysed, assets *per se,* but (they are) only conditions or means

More specifically, Besta (1922, translated) classifies the goodwill amongst the "complementary active assets" (*elementi complementari*)[14], arguing that:

> «The goodwill exists and is measured as the sum of the resources that the company hopes to achieve in the future, as a result of its capital (investments), higher than the normal profits that are used to be produced by the investments of similar companies».

Thus, the atomistic and equity-based view of the entity, as conceived by Besta and his School, considers goodwill as a premium-profit.

As observed by Catturi (1989), Besta's doctrine can be defined "equity-atomistic" (*patrimoniale-atomistica,* see note III at the end of this chapter) as he grounds the basis of the company on its assets and liabilities obtaining the net equity from a mere algebraic sum of them. In this way, each asset and liability loses its autonomy and its original acquisition cost as the sum of each item composes a whole[15]. Each asset and liability participates in the value of the coordination of the net assets, forming a systematic and unitary set of resources available for the business[16].

This theoretical approach of the Author is still today somewhat alive[17] although it takes form in various declinations. Indeed, the IASB and FASB approaches used to identify the goodwill value very often retrieve to the coordination and combination concepts advanced by Besta. For instance, both the FASB's Exposure Drafts (1999, 2001) and the IASB's Exposure Draft 3 list the six components that arise from a business combination, of which only two relate to goodwill[18]. Precisely, following

---

for the purchase of assets; and these "real" assets, not yet owed, but on which you can entrust for the future, are the "real" elements of the firm's equity».

[14] Purposely, the Author specifies that the complementary assets (*elementi complementari*), mainly, are the goodwill and the instalments of sum prepaid to obtain higher wealth (e.g. buildings rents) (Besta, 1922: vol. I pp. 83-85).

[15] Perrone (1986: 130) notes that the same word "sum" used by Besta matches with the word "system", advancing the future Zappian systemic-approach. On the theory of the system see for example, Sciarelli in *"Il sistema d'impresa: problemi di organizzazione e di gestione"* (Cedam, 1977), Amaduzzi in "*L'azienda nel suo sistema e nell'ordine delle sue rilevazioni"* (Utet, 1978), Ferrero in *"Impresa e management"* (Giuffrè, 1980) and Bertini in *"Il sistema d'azienda: schema di analisi"* (Giappichelli, 1990).

[16] Besta (1922: vol. II p. 14, translated) supports the following: «When a firm lives or prospers, its individual assets with capital nature, that is aimed at the production scope, should be considered in relation to the firm and not in relation to third party acquirers, that is according to the profit that they can produce keeping their current destination, and remaining combined with all the other assets that make up the equity, and not according to the profit that others might draw from their separate use».

[17] Cf. Canziani (2007: 23, translated) where the Author comments how «the patrimonialistic logic was highly innovative for the time and still predominant in the Anglo-Saxon countries (…)». Also, D'Amico and Palumbo (2011: 53) recognise elements of commonalities between the IAS/IFRS and the reference to the destination and combination mentioned by Besta.

[18] As we read in the Basis For Conclusion (B313) to SFAS 141 (revised 2007): «The components and their descriptions, taken from the FASB's Exposure Drafts were:

the above-mentioned Drafts configuration, the "core" goodwill resulting from a business combination is made up (1) by the fair value of the going concern element of the acquiree's existing business and (2) by the fair value of the expected synergies or other benefits deriving from the combination of the acquirer's and acquiree's net assets. In other words, the fair value of the going concern element represents the ability to obtain from the acquired net assets a rate of return higher than that expected by the management whether it have had acquired these assets and liabilities separately. This form of goodwill is representative of the value of the synergies detected within the acquired business, which was already recognised as goodwill in the acquiree's statement of financial position or was latent as internally generated goodwill (IFRS 3 BC 313). The second component of goodwill often referred to as "combination goodwill" takes form only after the business combination and is uniquely derived from the synergies expected by that combination (Johnson and Petrone, 1998; Henning et al., 2000).

Besta's goodwill conception as premium-profit is still nowadays largely used in the firm valuation methods that apply a mixed approach between the static valuation of the firm's equity and the independent estimation of the value that the firm will create in the future (i.e. goodwill). This method is called mixed since it starts by valuing the firm's assets and liabilities and then it adds a capital gain obtained from the value of its future earnings. It is undeniable, anyway, the intuition of Besta, who with the concept of goodwill in a certain sense overcomes his strong tie to the assets-liabilities system (*sistema patrimonialistico)*. The "*Azienda*" value is not only the

---

• Component 1 – The excess of the fair values over the book values of the acquiree's net assets at the date of acquisition.
• Component 2 – The fair values of other net assets that the acquiree had not previously recognized (…).
• Component 3 – The fair value of the going-concern element of the acquiree's existing business. The going-concern element represents the ability of the established business to earn a higher rate of return on an assembled collection of net assets than would be expected if those net assets had to be acquired separately. That value stems from the synergies of the net assets of the business, as well as from other benefits (such as factors related to market imperfections, including the ability to earn monopoly profits and barriers to market entry – either legal or because of transaction costs – by potential competitors).
• Component 4 – The fair value of the expected synergies and other benefits from combining the acquirer's and acquiree's net assets and businesses. Those synergies and other benefits are unique to each combination, and different combinations would produce different synergies and, hence, different values.
• Component 5 – Overvaluation of the consideration paid by the acquirer stemming from errors in valuing the consideration tendered. Although the purchase price in an all-cash transaction would not be subject to measurement error, the same may not necessarily be said of a transaction involving the acquirer's equity interests (…).
• Component 6 – Overpayment or underpayment by the acquirer (…)».

reflection of its assets and liabilities, but it has to reflect also its ability to generate income[19] ("*capacità reddituale*"). To sum up, Besta actually disentangles the value of the firm in two parts. The first derives from the replacement values of the assets combined within the firm that generate a normal income and the second is the premium-profit that will allow in the future the acquisition of new resources (Borrè, 2008). From Besta's (1920) approach we derive that the "equity economic value" might be condensed with the following equation:

$$EEV = \sum_{i=1}^{n} A_i - \sum_{i=1}^{n} L_i + GW$$

Where:

- EEV stands for "Equity Economic Value"
- A corresponds to the book value of the single assets reported in the balance sheet
- L corresponds to the book value of the single liabilities reported in the balance sheet
- GW is the value attributed to the goodwill

Amongst Besta's scholars Carlo Ghidiglia assumes a relevant role. Ghidiglia (1913) acknowledges the importance of the coordination amongst the various productive factors. The Author suggests that each element is combined with the others and is part of a whole; this is the reason why its value is higher than compared to the individual evaluation. The goodwill, according to Ghidiglia, arises from the sum of these surplus values and it is called a "*sui generis*" asset or complementary element recognisable only after a change in the economic subject. According to this still primal approach, the complementary assets must be depreciated over their useful lives, which in this case cannot exceed the company life[20].

Francesco De Gobbis (1939), in a similar manner to his "*Maestro"* Besta, defines the goodwill a "special element" arising when the price paid to acquire a company is higher than its equity. The Author also contributes to the financial valuation matter. He was a strong supporter of the equity integrity, maintaining (1926: 198, translated) that «[it] has to be the prerequisite in the determination of the income and consequently, the concept that should be followed in the financial valuations (…)».

[19] Differently, Zappa (1937) refers to the "global" income determining directly the firm value. The firms value determined through the algebraic sum of the goodwill and the values by abstraction attributed to the single equity elements "tangible or intangible", is always different from the complex value, which tend to be higher (Zappa, 1937: 99).

[20] Amprino (1989: 94-95), commenting the work of Ghidiglia, recognises how actually the current accounting principles were already rigorously professed by the Italian doctrine.

In the same piece of work (1926: 292) he suggests that some of the complementary elements do not have an autonomous value but a value conditioned to the company's situation and to its going-concern ability. This last thought, perhaps, subtends the relevance of the goodwill as a complementary element and that its evaluation should reflect the company's overall conditions always in accordance with the prudence and integrity principles.

Pietro D'Alvise, as indicated by Giannessi (1965: 214) is one of Besta's favourite scholars. D'Alvise (1938), convinced of the goodwill relevance in accounting, lists and comments the thought of various Authors around the goodwill concept. Mentioning Francesco Villa, the Author questions whether we can still speak of goodwill when the credit, reputation and estimation claimed do not allow earning beyond the normality. D'Alvise then wittily criticises Giovanni Massa when he refers to the possibility to capitalize goodwill only in case of incurred expenses[21]. It is interesting the comment on the perpetual rent proposed by Giovanni Rossi where D'Alvise arises the problem of possible reductions in the goodwill value. Another remarkable observation is the one on the amortization of the goodwill as proposed by Vincenzo Vianello. D'Alvise implies that it is illogical to believe that the goodwill depreciates through a straight-line amortization process and that it should be "written-off" in case of reiterated losses. As I see it, the above statements constitute a substantial anticipation of what the current international accounting standards for goodwill require, i.e. amortization process substituted by the impairment test. It is relevant the comment on the conception of goodwill proposed by Francesco De Gobbis. D'Alvise underlines again the fact that the value of goodwill should follow the "extra-profit" independently of the cost of it. The Author further raises doubt on the issue of the distinction between acquired goodwill and internally generated goodwill. He explicitly asks why two firms with the same value of goodwill should record it respectively as asset or expense it because the first has acquired it while the second developed it internally. D'Alvise reviews many other notorious academics amongst which there are Zappa, Ceccherelli, Onida, Masi, Della Penna and D'Ippolito and concludes that the differentiations amongst the various ideas requires further constructive analysis including also the views proposed abroad.

[21] D'Alvise (1938: 2, translated) expresses as follows: «Let's see that if an American uncle gives us a company with goodwill, we cannot measure goodwill, because it did not cost us anything! Once evaluated, it does not seem logical to entirely exclude it from the inventory». It almost seems that D'Alvise covertly alludes to the internally generated goodwill.

Vittorio Alfieri (1921) in the conception of goodwill might represent the missing link between Besta and Zappa[22]. Alfieri follows Besta's doctrine and the method based on the independent estimation of goodwill but his representation of goodwill approaches more closely Zappa's ideas (Bianchi Martini, 1996: 45). Indeed, Alfieri perceives goodwill as a value in continuous formation that cannot be avoided if the purpose is to estimate the equity as a complex destined to last with the aim of income determination (Cinquini, 1991). The Author underlines that the subjective goodwill can decrease when it depends on the acquiree's energies. Alfieri sees a teleological constraint linking each assets together, including the goodwill, thus the equity can be determined only unitarily (Palumbo, 1999: 316). One of the major contributions of Alfieri is surely on the estimates subject. In his work (1925: 394-395) he primarily distinguishes the "true and real" estimates and the "pseudo-estimates" (*pseudostime*) or "apparent" estimates. While the first directly refers to the market values (prices), the second ideally substitutes the value of an asset to the value of another complying with certain rules. Secondly, he distinguishes between the "composition" and "decomposition" estimates, where the first considers the complex in its entirety while the second evaluates each element composing the complex separately, hence, only the "decomposition" estimates can lead to the "true and real" value as it disregards the assets complementarity. Thirdly, he distinguishes between the "permanence" estimate, aimed at determining the income of the period, and the "liquidation" estimate, aimed at determining the money obtainable from dismissing the company. Taking back the estimates issues on the goodwill valuation we understand that the first step is to establish whether the estimate concerns with the identification of the company disposal value or not. Only in case of disposal we can determine the "true and real" estimate of the goodwill through the exchange value. Conversely, in case of "permanence" estimate the value of goodwill can be determined through a "pseudo-estimate" of the company. Specifically, the value of goodwill emerges as

[22] Giannessi (1965: 171, translated) points out that: «Alfieri's observations on the estimates and on the different purposes to which they can be attributed are very important because they foreshadows the successive study address of the author and fits directly into the modern evaluations theory, linked to the dynamic interpretation – prospective and probabilistic - of the financial statements». In a similar vein Anselmi (1984: 75, translated) states: «Already Besta, unlike previous authors, had recognized the complementary significance of the assets, it is however Alfieri's merit that have given full prominence to their complementary features, opening the way for a study of the dynamics of the company assets that has pioneered, for some aspects, the systematic logic». Cf. also Palumbo (1999: 303 et seq.) where Alfieri's contribution is interpreted as a progressive transition of the equity-asset approach towards the income-based approach.

the difference between the "composition" value of the company, comprising the coordination amongst the elements, and the value of the same company considered as an agglomerate of elements whose values derives from the "decomposition" estimate (Alfieri, 1925: 395). In this context it seems to me that the goodwill evaluation for a functioning company is for certain aspects comparable to the goodwill evaluation as required by the accounting standards (IAS 36 and SFAS 142). The goodwill, indeed, is measured by the difference between the equity economic value of the company, proxied by the price paid to acquire the "composition" of the company, and the values of the assets and liabilities transferred, considering their "decomposition" status[23]. As observes Giannessi (1965: 182), Alfieri with the considerations on the estimates recognises the importance of the going-concern of the firm. Particularly, Alfieri (1908: 168, translated) accentuates that:

> «When we cannot use the fundamental roman rule: *res valet tanti quanti vendi potest,* the goodwill estimation cannot be certain and it is often arbitrary».

Thus, he lucidly perceives the subjectivity underlying the goodwill estimation[24]. To conclude, Alfieri with the introduction of the "pseudo-estimates" and the departure from Besta's "true and real value" introduces some concepts like e.g. the coordination amongst factors further re-elaborated by Zappa in its systemic and income-based approach.

Indeed, it is only with Gino Zappa that our discipline definitely assumes its holistic and polyhedral nature. Zappa (1926/1927) introduces a systemic perspective of the firm, shifting the viewpoint from Besta's static spotlight on the change in wealth to a dynamic interpretation of the firm, whose primary focus is on the income (Allegrini, 2001; Alexander and Servalli, 2011).

However, in its first studies Zappa interprets the goodwill as the expression of a set of subjective and objective factors (e.g. intelligence and cleverness of the management, quality and uniqueness of the products, customers fidelity and habits, start-up expenses, location and so on) able to generate a "premium-profit"

[23] Also D'Amico and Palumbo (2011: 63) suggest that: «[Alfieri] lays the basis for the definition of goodwill as the difference between systemic evaluation and the atomistic evaluation of the company».

[24] Alfieri (1925: 403) concludes his piece of work by saying that: «The pseudo-estimates must be accepted as gimmicks or second-best and without the prejudice of being able to replace or compare with the true estimate. Their results are not intelligible to those who ignore the rules that they obey. But the rules necessity is the best requirement of the pseudo-estimates. As the rules become more specific as they approach to the concrete case, that they never reach [the same case] and for which it is necessary, this is a rule again, going out of the rule, the more the pseudo-estimates become coercible and verifiable».

(*sovrareddito*) (Zappa, 1927: 167). Even though this first interpretation of the Author is tied to specific factors, Zappa departs from the definition of goodwill as "fictitious capital" (*capitale fittizio*) or as "non-real capital" as meant by Massa (1898) and Rossi (1906). Further, Zappa criticizes Rossi that capitalises at the normal interest rate the past annual extra-profit to determine the exchange value of the goodwill. Indeed, still aligned with Besta he suggests that the value of goodwill is the present value of the extra-profits that we can hope to obtain in normal conditions. As a consequence, the goodwill value can be derived from the difference between the profits the firm generates in normal conditions and the profits generated by other similar firms in common and not favoured conditions[25]. At that time it was usual to write in the statutes of the companies that the expenses recorded had to be amortized in the shortest possible time and Zappa agrees with this arrangement. However, he reminds how actually the goodwill value does not decline over time as its exchange value might even progressively increase. Thus, already in that historical period it was suggested not to amortise goodwill. In turn of the goodwill amortization he proposes to leave amongst the assets the goodwill value and at the same time to constitute a corresponding reserve in the equity able to «remedy the consequences of any possible depreciation» (Zappa, 1927: 173, translated).

As soon as the Author changes perspective, he changes also the way to determine the firm value and as a consequence also its conception of goodwill changes. Indeed, considering the firm as a system, leads to value its transfer price as a unique and synthetic amount, the so-called equity "economic" value (or economic capital, called "*capitale economico*" by Italian scholars)[26]. The idea that surfaced from this renewed thought is that the atomistic or analytical valuations whose values are aggregated in subsequent phases do not consider the complementary or interdependent relationships amongst the resources[27]. From this moment Zappa recognises that the

[25] Cf. Zappa (1927: 170 et seq.).

[26] In this sense see Borrè (2008) who suggests two different phases in the thought of Zappa. A first, influenced by the thought of his *Maestro* Besta, and a second period, in which Zappa developed his independent thinking and incidental to the innovative point of view on the "*Azienda"*. See note II at the end of this chapter.

[27] Already in Zappa (1937: 100, translated) we find the idea that the value of the whole is different from the sum of all its components: «If in the complex firm equity, we still want to identify, in the economic aspect, the assets and liabilities items, however these [items] cannot never be perceived as elementary items, from which for algebraic sum we might derive the measure of the equity economic value of the complex. In the firm with goodwill the algebraic sum of the value abstractly attributed to the single "tangible and intangible" items, is always different from the complex value, often it is considerably lower than that value». See also Zappa (1950: 117, translated) where we read: «Assets

aggregation of the different values abstractly associated to the individual assets and liabilities cannot constitute the value of the whole, of the complex, as that sum does not contemplate the value of the coordination. This indifference to likely synergies and interactions produces a biased value relative to the actual transfer value, as it would represent only the book value of the entity. This assertion does not imply that the two notions of capital (or value), book and economic, are totally independent; as Zappa (1937: 110, translated) observes:

> «…the notions of book value and economic value of the company even though tend to be in sharp contrast, in a certain sense they balance, intertwine and integrate each other...».

In the wake of these considerations, unlike the capitalization of the only premium-profit as required in the mixed method for the firm valuation, he descends the income-based valuation method. According to the income-based valuation method the company's value is estimated through the size of its future earnings or other income indices. Hence, the firm value is estimated through the size of its future earnings[28]. In algebraic terms the "equity economic value" following Zappa's thought and assuming a definite life of the firm may be condensed by the temporary annuity formula[29]:

$$EEV = \frac{I}{(1+i)} + \frac{I}{(1+i)^2} + \cdots + \frac{I}{(1+i)^n}$$

Where:

- EEV stands for "Equity Economic Value"
- I corresponds to the expected average income
- *i* is the interest rate

The goodwill, in the context of the income-based valuation method, is no more considered as an asset, but as Zappa (1929: 583, translated) notes:

---

and liabilities, in the economic point, must be considered as components of a given capital, as interdependent: they are complementary or coordinated assets/liabilities, because joint each other, showing a correlative utility».

[28] Zappa (1937: 96, translated) delineates the economic value of the equity as a «unique value resulting from the "capitalization" of future income».

[29] In order to sum up through a mathematic formula the EEV conception of Zappa I used the temporary annuity as with reference to the premium-profits Zappa (1927: 179, translated) states that their life: «cannot be for easily understandable reasons supposed unlimited».

> «…the value of the goodwill of a going-concern firm, that is the most concise manifestation of profitability, cannot be derived by the mere composition of the assets values since an economic complex (system) cannot be broken down quantitatively into constituent portions[30]».

In the following pages he specifies that an "exchange value" (price) can be determined for the firm with goodwill and for its capital considered as an economic complex, but not for the "intangible capital attributable to the goodwill" (Zappa, 1929: 670). He further explains that the cost of goodwill is a mere portion, higher or lower, of the price paid for an economic complex.

We understand that instead of considering the goodwill as standing alone, the attention should be paid on the entire going-concern entity and only subsequently we can determine the "value goodwill" as the difference between the economic value and the book value (as the algebraic sum of the single assets and liabilities)[31].

De Dominicis (1950: 39, translated) asserts that: «While in Besta's School the values composing the capital (as the fund of values) are always attributed to goods and services, according to Zappa, instead, between the one and the other capital there is not a direct correlation». Allegrini (2001: 29) further stresses how the income-based approach leads to a dynamic perspective of the capital, which is not anymore a mere aggregation of values attributed to goods and services; the capital derives from a list of monetary changes recorded and estimated depending on the income determination. As a consequence, with Zappa the statement of financial position assumes a secondary role and it becomes the tool necessary to determine the income (Galassi and Mattessich, 2004). In successive years, other eminent Authors following Zappa's approach emphasize how the determination of the values composing the equity is instrumental to the determination of the income, in other words the capital

[30] In this sense Ceccherelli (1967) argues that goodwill cannot be thought as an asset, which stands alone from the firm complex. The goodwill is part of the firm complex and is not an element that can be added in the capital as much as one likes. Hence, the goodwill has a spontaneous origin in the firm complex and in the vital power of the same firm complex that is able to generate it. More recently, Catturi (2012) maintains that the company's equity is a system so it is relevant the combinatorial design that is at the base of the single choices and the modalities followed to aggregate the items that compose the equity, the effectiveness in the acquisition of some resources instead of others, the efficiency in the use of the resources, but also the climate that is established within the firm. That way the single item (asset) loses its autonomy and constitutes part of a unitary system, whose value is based on the book value, but it, more or less, moves away from it according to the relevance that is attributed to the intangible resources.

[31] Zappa (1946: 670, translated) pointedly argues that: «The effortless strength of the experts would also be able to determine in autonomous manner the value of many of the main goodwill conditions, especially of the customers and of the location of the venues where the exercise takes place» letting implying the unreliability of similar analytical estimations.

measurement becomes the means to determine the income (Ceccherelli, 1961; Onida, 1971; Superti Furga, 1979).

Comparing Besta's with Zappa's theoretic we see that the first has been mainly associated with Hick's definition of income, while Zappa's theoretic mainly reflects Fisher's definition (Cinquini and Marelli, 2007; Fiume, 2007; Viganò and Mattessich, 2007; Alexander and Servalli, 2011; Guarini et al., 2013). Hicks (1950: 172) defines a man's income (in business terms, a firm's income) as: «The maximum value which he can consume during a week and still expect to be as well off at the end of the week as he was at the beginning». Fisher (1906: 101) defines income of an individual as «the total flow of services yielded to him from his property» besides the economist (1930: 14) asserts that «it would seem then that income must be derived from capital; and, in a sense, this is true. Income *is* derived from capital *goods*. But the *value* of the income is not derived from the *value* of the capital goods. On the contrary, the value of the capital is derived from the value of the income». From the above definitions we can perceive some differences. The main difference consists in the conception of the time considered to determine the equity value. While Hicks (and Besta's assets-liabilities approach) demonstrates a future oriented perspective as the capital maintenance aim is verified in terms of benefits expected from each element of the capital, Fisher (hence, Zappa) has a past oriented perspective as the income is measured by the difference between realised revenues and allocated costs, in this way, it is determined a capital expressing past outflows (Perrone, 1997; Allegrini, 2001). Basically, in the income-based approach, assets are conceived as suspended costs awaiting future matching with revenues (Paton and Littleton, 1940).

In stable economies the two definitions lead to similar results, as the benefits expected from each asset according to the hicksian approach approximate the historical cost. Yet, in case of inflation (or deflation) entry values may diverge consistently from the end-period values, leading to higher (lower) values of the capital at the end of the period. The notion of income as difference between beginning and end period net assets becomes no more representative of the real flow of income produced. It is in the wake of these and other observations that Canziani (2014) links Zappa's revolution to the historical period in which the father of our "*Economia Aziendale"* lived. As a matter of fact, the First World War generated prices instability and uncertainty in the income flows, the relation capital-income had

to be reversed[32] and the «value-attribution process (had to be) centred upon the flow values (income) instead of stock values (capital)» (Canziani, 2014: 152).

Entering into the details of the financial valuations we can identify other divergences between Besta's and Zappa's theoretic. Indeed, even though Besta for the equity evaluation refers to the "true and real" value of each element expressed by the exchange values[33], actually he goes back to the historical or production cost. It prevails than the will to objectify the evaluation process, as the cost value mitigates any sort of management manipulation. Further, the Besta's resolute focus on the control makes it prevail the objectivity over the complementarity amongst the elements. Besta, indeed, even though is aware of the "value" of the elements' interdependence and destination within the company[34], continues to determine the equity as the algebraic sum of all the assets and liabilities, essentially, moving away from the economic value (Palumbo, 1999). Zappa (1950) criticises the exchange value so professed by Besta, as it supposes that all the elements can be disposed without considering their destination within the firm. Also, the exchange value cannot be representative of the capital value as it ignores the complementarity amongst the elements. The productive factors should be valued systematically in relation to their ability to jointly generate income in the future[35].

Commenting the ideas expressed by Besta and later by Zappa, Catturi (1989) highlights that more than opposing accounting theories, the two Authors express two different concepts of firm and of its equity and of business and its dependent economic results[36]. It is remarkable that Besta (1920) conceives the company as a

[32] See Zappa (1950: 77, translated) where the Author explicitly specifies that: «In an economic sense, therefore, the capital is produced by the income, if we may say; not the income [produced] by the capital. The firm investments have economically capital value only as they produce income. A firm, or its capital, according to what it is used to say, has economic value as a whole, not because manufactures and sells products, not because it renders services, but because the production carried out is, or rather, will be a source of profits».

[33] After all, this approach is in line with the economic approach of the period, when under the conditions of the market functioning, the equilibrium prices were considered a good proxy for the "true and real" values.

[34] Besta (1922: Vol. II p. 13, translated) points out that: «[An estimate based on exchange values] would not even be rational because it would assume the company forced to immediate liquidation, i.e. in a not actual condition».

[35] Viganò (1998: 397) explicitly maintains that: «The "capital economic value" (*valore economico del capitale*) is the present value of future income and it is the global value of the enterprise». He continues saying that: «The "economic value" of capital is obtained as a total value (not separating individual assets and liabilities). This is an extreme, nearly closed, application of the system concept of firm (*azienda*)».

[36] Some other Authors have been inclined in seeing continuity and evolution rather than discontinuity of thought that led to the development of the income based-approach at the expense of the assets-liabilities perspective. To this purpose see e.g. Giannessi in "*I precursori*" (Pisa, 1965 Vol. V);

sum of deals, or contracts or agreements to run, we derive that the income is conceived as the realization of the gross results attributable to the single activities considered. On the contrary, with Zappa (1927) there is the affirmation of a new kind of firm defined as the "on-going economic coordination" (*coordinazione economica in atto*) whose income is the synthetic expression of all the management operations (*operazioni di gestione*) realized by the whole business entity.

1.3. The equity economic value as "precautionary limit"

Typically the reasons that lead to the determination of the economic value are attributed to the determination of an exchange theoretical value of the firm or of a branch (e.g. business unit, division, segment, sector, etc.) economically separable from the rest of the firm. However, several Authors point out that the assessment of the economic value produces several outcomes also in the valuations of the equity. Memorable in this regard are the words of Zappa that already in 1937 states that in the long run the net assets (*"capitale di funzionamento netto"*) find in the equity economic value the touchstone allowing the appropriate valuation. With this abridged thought it seems that Zappa roughly foresees the need to revise the book values depending on the economic values, or more precisely, it is certainly foreseen the importance of comparing the two values, book value and economic value[37]. The fair value logic that permeates the IAS/IFRS and the US GAAP annual reports has some similarities with the above-summarised thoughts. Also, the switch from the systematic amortization process to the annual impairment test of goodwill and other intangible assets with indefinite useful life is not far from the pioneer thought of Zappa and of other authors as e.g. Onida and Ferrero who develop innovative ideas on this issue. These authors indeed deal with the systematic-analytical valuations and their theoretical bases are key for the assessment of the equity value in the current

---

Amodeo in "*Di alcune posizioni limite nel campo di una teoria generale dei sistemi*" (Rivista Italiana di Ragioneria, 1943) and Palumbo in "*Spunti di riflessione sul decadimento del paradigma bestano a vantaggio di quello zappiano: il contributo di Vittorio Alfieri*" (Rivista Italiana di Ragioneria e di Economia Aziendale, 1999).

[37] Zappa even though recognises the importance of the economic value as a touchstone with the book value, expresses doubts about the prediction of the future income and about the identification of an appropriate discount rate, so that the Author does not consider the company economic evaluation possible in any case.

accounting principles. Purposely, it is significant to cite the words of Zappa (1950: 580) where he clarifies that:

> «Any decreases in the net goodwill value occurred in subsequent years should be reflected in the financial statements assessment either by adjustment of the equity value, thus reducing the goodwill value, or through the determination of extraordinary depreciations».

IAS 36 and SFAS 142 through the impairment test of goodwill, *de facto,* impose an implicit control over the whole process of valuation of the total economic value of the entity. As a matter of fact, the impairment test of goodwill includes the check of the recoverability of the CGU (or reporting unit) to which the goodwill is allocated. When the entity has only one operating segment, which constitutes the minimum level at which the goodwill can be verified, the impairment test of goodwill exactly corresponds to the valuation of the economic value of the entire company[38]. Correspondingly, IAS 36 and SFAS 142 specify that the management in order to monitor the goodwill value has to allocate it to each of the acquirer's CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination, implying even in this case the allocation of goodwill at the corporate level. Hence, the impairment test involves a laborious valuation procedure. First, direct and preliminary, it involves the assessment of the recoverable amount of the identifiable tangible and intangible assets; second, it concerns the indirect assessment of the fair value of goodwill comparing the carrying amount of the CGU (or group of CGUs) to which it was allocated with the recoverable amount of the same CGU (or group of CGUs). The following stage allows the adjustments of the amounts resulting from the impairment test, considering the dynamic connections of complementarity and interdependence[39] existing amongst the assets comprised

[38] In detail, IAS 36 paragraph 80 determines what follows: «For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall:
(a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
(b) not be larger than an operating segment as defined by paragraph 5 of IFRS 8 Operating Segments before aggregation».

[39] As Ferrero (1988, translated) observes: «It is necessary an "adjustment process" in which are considered and weighted these relations of complementarity: "Process" to be realised through the economic reasoning that puts forward a "synthetic evaluation" which is aimed at correcting the conceptual error underlying the preliminary "atomistic evaluation". With this "synthetic evaluation",

within the tested unit and, *in extenso,* within the company itself. These connections are the expression of the "economic" value, resulting from indirect and mediated evaluations in which the value is an "*unicum*" (i.e. a unique ensemble) that has no longer to be split into other components.

As is known with reference to the valuations, both for assets revaluations and depreciations (known also as write-down or impairment), it has always been applied the general condition of not inflating the net assets and the income[40].

In the thesis I do not consider the upward capital assessments (revaluations), while I focus exclusively on the goodwill impairment losses recognised in order to represent an equity that can be defined as "intact"[41] (or integral), as well as to safeguard the business continuity and to avoid the distribution of dividends not actually realised.

The problem of capital maintenance – proved that there is a realised profit only if the end period net assets exceed the initial net assets – is intimately intertwined with the correct determination of the periodic income. This statement is the specification of what already mentioned at the beginning of this chapter where I recalled how the Italian scholars highlight the link between income and capital[42].

It is important to note that although the criteria alternation that gradually have taken place in the Italian accounting history for the capital valuation, all of these criteria were almost in unison pervaded by a conservative (precautionary) inspiration, usually defined as the prudence (or conservative) criteria[43].

---

the assets and liabilities at the end of the year are reconsidered in their ensemble, as elements composing an "asset complex", i.e. a "unitary ensemble" consisting of complementary elements».

[40] Amodeo (1965, translated) maintains that in the case of capital dilution (inflating): «The value of the share shown by the accounts and financial statements is greater than the economic value, either by passive acquiescence of the assessor to actual overcome historical situations, or - more frequently - to deliberate, but malicious, alteration».

[41] According to Allegrini (2001: 56-57, translated): «There is the capital (i.e. equity) integrity if it is maintained, in respect to the beginning of the period considered, the same capacity to generate income in the future or if this capacity is increased; hence, there is the *economic integrity of capital*».

[42] According to Zappa (1950, translated): «[…] If we carefully consider the accounting formation of income and capital, we perceive that these items are not used to designate distinct connected phenomena, and correlative concepts, but rather, as the concrete economy teaches, [they are] two ways of appearing of the same phenomenon or rather two phases in which the company values can be considered». Equally, Ceccherelli (1961, translated) observes that: «The capital and income, the "value fund" (i.e. the equity), that is invested in the company, and the flow of new wealth it produces, does not represent the manifestation of two distinct phenomena but rather two consecutive stages of the same process of economic production».

[43] As De Gobbis (1925, translated) states: «The value attributions should be made in a way to avoid a dividend distribution that may be or become, in fact, an impairment of capital and legal reserves or statutory pre-established reserves...». Also Onida (1935, translated) has a similar thought, sustaining that: «In its typical and ideal configuration – but for this reason far from the common reality – the income that we would like to determine, would represent – if it were possible to make predictions and assumptions so perfect – the highest value which, when there is a positive income, you might...

The notion of equity economic integrity seems therefore embracing the valuation theories that consider the equity economic value as a "test" for the net assets, judging the non-exceeded limit to the economic value useful to assure the company future capability of generating income[44]. The idea of this first chapter is to retrace the main trends proved to be prodromal in the light of the underlying valuation criteria for the statement of financial position, focusing the analysis on the impairment losses of goodwill.

The next sub-paragraphs analyse more in depth, first the thought of Pietro Onida, then the Neapolitan School and the opposed theory of the revaluations "*fuori bilancio*" (the term does not find a fitting translation in English but see § 1.3.3 for the details of this latter theory). After that, I examine the interpretation proposed by Giovanni Ferrero and finally, the "functional evaluation" briefly reviewing some of the works of Alberto Ceccherelli and Egidio Giannessi.

1.3.1. Pietro Onida's contribution to the financial evaluations

The notion of consumable or distributable income[45] (*reddito consumabile* or *distribuibile*) postulated by Pietro Onida, essentially, involves the pursuit of two principles: 1) the estimated values referring to in-progress transactions at the end of the year are not economically overvalued and, compatibly with this first condition, 2) the financial valuations contribute to the stability of the income periodically distributable. Consistently with these conditions, the financial valuations are divided into two consecutive stages.

---

distribute or take dividends for the entrepreneur needs, without putting at risk or damage – as has links with the last financial valuations – the subsequent results. Or, in the case of loss (negative income), the value above-mentioned should reduce the initial net assets, to adjust it to the size of the final net assets remaining after all expenses or "losses" related to operations (in broad sense) started and not yet exhausted with the previous management, and revenue or "profits" pertaining to this, have entirely engraved on it». De Minico (1935: 291, translated) develops these thoughts as follows: «The needs of caution and prudence, relating to the maintenance of at least one normal future income flow, direct and inspire the evaluation criteria of the equity at the end of the period and, therefore, the allocation of income to the same period».

[44] D'Ippolito (1958, translated) underlines that: «The measure of income reported is correct when it is presumably ensured the integrity of the existing capital, in the light of the predictions that can arise at the time of the financial statement on the future occurrence of the business operations in progress».

[45] According to Onida (1951, translated): «The practical purpose of the financial statement (determination of the results in order to make any withdrawals or distribution of profits) suggests – even though does not strictly delimits in every details – the notion of income that better and reasonably can be accepted».

First, we consider each single assets and liabilities component. Concerning the assets, these should not overcome the corresponding presumed effective future realisable values, both direct and indirect; while, the liabilities should tend to their presumable costs or settlement values.

In the successive stage, the analytical valuations carried out separately on the equity items are merged and compared with the economic value of the equity. Essentially, it is a two-stage valuation process, firstly analytical and successively systemic (or synthetic). Onida (1951: 62, translated) states that:

> «When we consider the financial statement as a value system, a conclusive judgement on the convenience, or not, to accept the estimated value attributed to certain income or capital components, cannot be given, as long as these components are isolated and individually examined, out of the system to which they belong».

As a matter of fact, only through the transition from the analytical to the synthetic valuation it is possible to judge whether the net assets do not result overvalued in relation to the future earnings perspectives[46]. The assets recognition at their historical cost[47] cannot be maintained unless in the future they produce an adequate stream of revenues. Further, the objectivity of the same historical cost falls away in front of the unitary firm perspective (Giannetti, 2013).

The capital overvaluation problem is relevant as it might result in the distribution of "imaginary" profits, making necessary, perhaps, in subsequent years, massive extraordinary write-downs and capital reductions. Onida (1951) concludes that the financial valuation theory should study the individual components but considering them within the more complex "value system"[48] and their interdependences.

A closely related aspect to this theory is that the statement of financial position, whose values are determined according to the principles just outlined, should tend to ensure a determined income stability to distribute steady dividends. Hence, the

[46] Onida (1951, translated) notes that: «Especially when the capital is largely made up of long-lived assets, whose book values necessarily and more closely relate to the economic perspectives of the company, in the long run, and to the related exploitation conditions of the same long-lived assets, there is no denying that even in the ordinary financial statement for the year we usefully do similar conjectures».

[47] On the historical cost as the basis for the financial valuations cf. the contribution of, amongst other, Besta (1922), Zappa (1937), Amodeo (1965) and Ferrero (1976). In the USA for a contribution on the historical cost see e.g. Paton (1934).

[48] On the system concept Bertini (1990: 29, translated) writes: «The company systematic nature depends on the nature of the management operations which are intimately linked each other by a relationship of the type "from cause to effect". Taken together all the events of the company world are a single body of phenomena governed by identical laws and oriented toward common ends. There is therefore a higher order structure, which may be called *system*. This structure is *dynamic*, in the sense that it is constantly renewed due to the change of internal constraints and environmental conditions».

financial statement gives way to a sort of equilibrium (balance) of the different income produced over a span of time, in order to mitigate the effect of favourable or adverse trend and ensuring a constant return on equity. With the aim of income stability and the consequent pursuit of a determined "dividend policy", the management may lever on the assessment (evaluation) of the estimated income items and on the provisions[49].

Comparably to the current accounting standards on the impairment test, Onida (1935: 74) highlights how the valuation of the long-lived assets is often uncertain as it is necessarily connected to the future economic trend of the firm[50]. Hence, the evaluation of these assets should be grounded on the future economic perspectives of the firm. For this reason the Author (1935: 78) warns that the financial statement reliability is very limited, especially in firms with high investments in fixed assets. Relatedly to this aspect about the future perspectives, the IAS 36, as well as the SFAS 142, specify that in assessing the recoverability of the assets value the management shall use the most recent financial budgets and forecasts (e.g. see IAS 36 paragraph 33). The constant propensity to the correlation between the equity elements and the stream of revenues they will produce in the future leads to introduce the criteria of the "economic time".

The theoretical construct underlying the above criteria is the unitary generation of the income in terms of time and space. The asset valuation should overcome the conventional twelve months period and the resulting income is the global and unitary income produced during the whole life of the firm. Thus, the "economic time" criterion advances Onida (1935) to the current accounting standards viewpoint in estimating the recoverable amount of the assets, which considers management's future business plans. Hence, the adequacy of the equity book value should be judged in relation to the future income perspectives that are expressed in the equity economic value. The main difference between the equity economic value and the

[49] As Onida (1951, translated) observes: «Depending on this dividend policy in the financial statement we record stabilization reserves of distributable income or we draw from reserves formed in the past, but both the creation of profit reserves and the profit withdrawals, are carried out in a concealed manner, managing the period estimated income elements or including liabilities (provisions) in so far as to make the income resulting in the amount equal to that required to attribute to the shares the dividend that is judged convenient to distribute».

[50] Onida (1937: 217, translated) notices that: «Certain financial values may assume, at the same time, very different measures, depending on the forecasts that can be done on the firm economic situation, on its hoped profitability».

equity book value derives from the concept of time: forward-looking the first, backward (and current)-looking the second[51].

The long-lived assets should respect the upper limit represented by the future realizable value (directly or indirectly) of the historical cost; moreover, that value is highly dependent on the earnings management policies that are functional to the income stability. If the long-lived assets carrying amount is not recoverable, even though only partially, then it would imply the recognition of "losses to be amortized" against the prudence principle which denies the postponement of expected losses and *a fortiori* of realised losses. The upper limit of the long-lived assets carrying amount should be represented by the sum of the presumed revenues obtainable during the useful life of the long-lived assets and the presumed elimination value of the same assets. If the presumed revenues are not sufficient to cover the presumed costs (depreciations and other costs of the period, including the costs for an adequate return on equity) then it is necessary to adjust these carrying amounts with a write-down of the long-lived assets involved[52].

Amongst the ideas of Onida (1935: 397-398) stands out even a sort of anticipation of the triggering events[53] similarly listed by way of example also by both SFAS 142 and IAS 36. The Author presents some typical cases in which it is possible to take an extraordinary write-down, in detail, amongst these we can find the following hypotheses:

- When we can consider that in prior years there have not been recognized sufficient depreciations;
- When profound changes in the company economic situations intervened in relations to the environmental economic changes;
- When regardless of the changes dependent on the general economic changes, there have been overvaluations of the long-lived assets with regard to their useful life and to profitability of the company they belong to;
- When there have been profound changes in the currency economic value.

[51] For a deep analysis on the possibility to admit the economic value in the financial statements see Viganò (1967: 104-140).

[52] The valuation of the individual assets being analytical implies a write-down on the single item involved. The situation is different when there has been the transition to the systemic valuation, in this latter case, the excess of the book value on the economic value would be a signal of deteriorated overall conditions of the company entirely considered.

[53] The triggering events can be defined as those events that the company must evaluate to verify whether an asset may have suffered an impairment loss.

Correspondingly, Onida identifies opposing circumstances for any extraordinary revaluations.

It might almost seem that the FASB and IASB before listing some sources of information symptomatic of any impairment losses had read the pages written more than fifty years earlier by Onida, as a matter of fact, for instance, in paragraph 12 of IAS 36, we read that: «In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications: (a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use; (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated; (c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially; (d) the carrying amount of the net assets of the entity is more than its market capitalisation; (e) evidence is available of obsolescence or physical damage of an asset; (f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite; (g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected».

1.3.2. The Neapolitan School

The Neapolitan School has provided a great contribution to these issues; in particular, I refer to Amodeo, De Minico, Salzano and Viganò. These Authors fly even higher than Onida on the concept of equity economic value, to the extent that they state that the value to attribute to the net assets should be equal to the equity economic value of the company. They believe that the equity economic value should

not be evaluated in two consequent stages since it represents a unique and indivisible value measurable through the capitalization of the future annual income.

The valorisation procedure of the capital is opposed to the precedent one. In this perspective, it is the economic value that should be allocated amongst the various assets or liabilities item of the statement of financial position so that their algebraic sum is equal to the future income capitalisation. The analytical-synthetic evaluation, in this model, becomes a successive issue, as the value that has to be assigned to the individual assets and liabilities items of the statement of financial position is the result of the allocation of the entire economic value. This conception of the economic equity to split into the different financial items in my opinion come closer to the basis laying in IFRS 3 Business Combination. In this regard it is sufficient here to directly refer to paragraph 18 of IFRS 3 that states as follows: «The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values». This standard allows the only application of the acquisition method requiring the purchase price allocation on the identifiable firm's (or business unit's) assets and liabilities and the recognition and measurement of goodwill (positive or negative)[54].

The above-mentioned Authors confer a fundamental position to the equity economic value, not only for the measurement of goodwill, but it assumes an even greater importance in relation to the income distribution. As a matter of fact, according to De Minico's and Amodeo's thoughts, the comparison between the equity economic value and the net assets (*capitale di funzionamento*) is functional to assess that the equity is not overvalued and therefore that are not distributed unrealised profits, in other words to avoid capital distribution.

De Minico (1935) is the first Author to introduce the concept of "normal" income[55]

[54] In paragraph 32 of IFRS 3 we read: «The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:
(a) the aggregate of:
(i) the consideration transferred measured in accordance with this IFRS, which generally requires acquisition-date fair value (see paragraph 37);
(ii) the amount of any non-controlling interest in the acquiree measured in accordance with this IFRS; and
(iii) in a business combination achieved in stages (see paragraphs 41 and 42), the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this IFRS».

[55] It is interesting to read the chapter dedicated to the "relations deriving from the costs arising from the typical cautions carried out to maintain normality for the further income flow", where De Minico (1935: 291, translated) notes that: «The needs of caution and prudence, relating to the maintenance of

(*reddito normale*), which is useful especially to value the deferred costs, deferred revenues and provisions. The long-lived assets value in this context is represented by a portion of the equity economic value determined in such a way that does not create "disturbance" to the "normality" of the future income flows. Indeed, according to De Minico (1935: 291, translated):

> «The deferred costs and revenues, identified in the measures of the values assigned to the *non-numerary zones* (*zone non numerarie*) of the assets and liabilities, being elements - fully or as residual - of future income, for the needs arising from these same income, are determined in such a way to constitute an economic basis for the continuity of the normal lucrative flow or, at least, are determined in such a way that would not disturb the normality of that further flow».

For some aspects, the concept of "normal income" might have some points in common with the concept of "variable income" as proposed by Solomons (1961) and Alexander (1950), since both concepts are forward-looking oriented and are basically stable in the long run (see paragraph 1.4)[56].

Domenico Amodeo in his works confirms that the economic value of the firm is the synthetic expression of the normal return and that it is a worthy tool for testing the actual assessments. Although in expressing these concepts, Amodeo (1965) distinguishes between two situations, namely, if the net assets (book value of the equity) are lower or higher than the equity economic value. In the first case, the firm health condition cannot be negatively judged, as the positive difference between the equity economic value and the equity book value constitutes a kind of "safety margin" indicating the presence of hidden reserves or goodwill. Amodeo (1965: 764, translated) maintains that:

---

at least one normal future income flow, direct and inspire the evaluation criteria of the equity at the end of the period and, therefore, the allocation of income to the same period». Salzano (1961: 90, translated) defines the concept of normal income as follows: «As normal income should not be considered the income that the company normally, in normal business operations, achieves, but we should interpret that income which in future periods should be achieved, on average, to maintain unchanged the economic potential of the company».

[56] According to De Minico (1946: 242, translated): «The concept of normal income comprises: 1) the future return on equity; 2) the future firm risk; 3) the future remuneration for the shareholders». For similar ideas see also Salzano (1938: 73 et seq.) and Amodeo (1960: 38). Looking at the Internaltional literature see Alexander (1950: 30) where we read «[…] income in any period will represent a yield on a principal still invested just equal to the rate of interest». Within this framework cf. also the "net present value" theory (Penman, 1970; Barton, 1974; Bromwich, 1977; Mattessich, 1970) that consistently applies Hicks' definition of income that considers the standard of "being as well off" as maintaining capital intact in terms of the discounted value of the expected future net receipts. For the economic income and variable income concepts see: Hicks (1939), Alexander (1950), Solomons (1961), Penman (1970) and Staubus (1971).

> «(…) Since the excess of the economic value over the book value declares the existence of a safety margin, the precautionary limit can be considered represented by the economic value of the capital, in the sense that the economic health of the firm is evermore ensured when the result of the financial valuations is expressed in a measure of capital that is lower than that represented by the economic value».

On the contrary, when the book value is higher than the economic value, this is "significant" only in part, indeed, the excess would represent only a meaningless number as it is not reflected in the future firm's income perspectives. In this sense Amodeo (1965: 763, translated) observes that:

> «If a firm equity is valued beyond the measure constituted by its economic value it will have meaning only for a part of its extension. Because the reasonable expectations of income open to it can justify only that part of it which corresponds to the economic value: the excess amount is a meaningless amount, a pure number, because it does not reserve the future income perspectives».

Amedeo Salzano in some of his works deepens the evaluation stages that the financial statement preparers should follow in order to «raise on a field of higher rigour»[57]. The precautionary limit of the equity economic value represents a constraint that guides in the successive financial valuations. The first level of evaluation consists, as already said, in the determination of the economic value; the second level of evaluation, instead, consists in the allocation of that value on the equity components. In this regard, according to Amodeo (1938, translated) the unitary valuation of the equity constitutes «the *prius* from which the identification of the partial values follow as a *posterius*, but never vice versa».

This allocation or "atomization[58]" of the equity amongst the different items should follow a well-defined *iter*. At first, the value has to be distributed on the certain "numerary" values (cash and cash equivalents), which will be recorded at their nominal value. Then, gradually, on the less certain values, the "numerary" credits will be recorded at their presumable realisable value (thanks to the allocation to specific allowance accounts for credit losses), while the "numerary" payables, the "non-numerary" payables (deferred costs) and the "non-numerary" receivables (deferred revenues) are recorded at their nominal values. For the inventories (goods, raw materials, semi-finished products, products and similar goods) the reference was

[57] See De Minico (1944) and Salzano (1938, 1939 and 1961).

[58] The term "*polverizzazione*" translated here in English with "atomization" was coined by Salzano (1951) in *Orientamenti per la determinazione dei risultati di esercizio e per la rilevazione sistematica nelle imprese*, Ferri, Roma.

already to the prudential criteria of the lower between the cost and the net realisable value[59]. Other financial items not subject to estimates or for which the original cost (historical cost) does not differ significantly from the value attributed, are carried at the value so determined. Thus, until this first stage, the financial items certain or anyway not subject to estimates are analytically evaluated. At this point, it is determined the partial financial result (which is given by the difference between identified assets and liabilities) from which we deduce the share capital, the reserves, the retained earnings and we add the losses of the year and the losses of previous years. The value obtained through the above procedure should be compared with the economic value of the whole firm and the difference between the two values have to be attributed *en mass* to the "more uncertain" identifiable items that correspond with the fixed assets[60]. It is undeniable the innovativeness of this approach, which implies, in the occurrence of a positive differential between net assets (excluding the fixed assets) and the economic value, a potential direct revaluation of the long-lived assets recorded in prior financial statements at their historical cost whether this positive differential results higher than the cost of the fixed assets inherited from previous years. On the contrary, when the positive differential is lower than the long-lived assets value recorded or is even negative, the situation would be exactly inverted and symmetrically, would arise the need to record extraordinary impairment losses[61]. As a matter of fact, the firm ability to generate profit would result weakened if the maximum theoretical value attributed to the fixed assets was exceeded without recording, when the firm particular situation is aggravated and repeated over the years, write-downs[62]. However, commenting this abstractions Amodeo (1955), urges to consider the equity value measured on the basis of the normal income as a mere

[59] The same criterion is set out in article 2425 of the current Italian civil code and in the IAS 2 where inventories are required to be stated at the lower of cost and net realisable value.

[60] See Salzano, A. 1961. *Metodologia contabile e determinazione del reddito*, Edizioni dell'Ateneo. As Amodeo (1965: 772, translated) notes: «The value found in that way is compared to the economic value, obtaining a negative or positive difference. If the economic value exceeds on the partial equity found, the difference is attributed, fully, to the fixed assets of the firm. Actually, it will not be perfectly identified the value of the fixed assets but that of a *mixtum compositum* which, in addition to tangible fixed assets it includes the hidden gains or losses amongst which there will be also the intangible assets».

[61] Amodeo (1965: 772, translated) continues expressing the following: «If, conversely, the economic value is lower than the partial net assets found, then the practical solution looks less easy, even though not impossible. We could, for example (...) evaluate the fixed assets at the symbolic value of only 1 Lyre, while absorbing in the meantime the profit eventually assigned to the exercise and reflecting a differential loss, or by increasing the loss already properly set in the previous financial statement».

[62] See (Salzano, 1964).

upper or test limit for the financial evaluations[63].

Enrico Viganò (1967) dedicates a whole chapter of "*La natura del valore economico del capitale di impresa e le sue applicazioni*" (which can be translated in English with "The nature of the equity economic value and its applications") to the possibility of expressing the economic value of the equity in the financial statements. In that chapter, the Author briefly reviews the theories developed by Pietro Onida and by his "Maestro" Amodeo on the feasibility of expressing in the ordinary financial statement the maximum value assigned to the firm represented by the equity economic value. In a passage of that chapter, we read that, the contrast between Onida's solution which denies the possibility to record the higher value in the financial statement and Amodeo's solution, which on the contrary allows the possibility of recording higher values, derives from: «The different equity nature that is discussed, and more properly, the different problem vision of the income attribution» (Viganò, 1967: 107, translated). The contrast is not purely quantitative and essentially consists in the fact that the first doctrine considers the equity as a mere aggregate while the second one considers it as a unique value[64]. This perspective should be interpreted with caution as theoretically Onida does not deviate from the unitarity principle and the unique income concept introduced by Zappa. As I see it the difference between the two Schools is merely procedural, the economic value of the complex arise in the first stage for the Neapolitan School, while for Onida it arises from the second stage of the analysis.

[63] In this regard, Amodeo (1955, translated) confirms that: «Even if it is even conceivable a financial statement that expresses, in the traditional forms, an identification of the partial values (at least in some areas of the capital and, except for an indistinct residual to fixed assets) which is situated in the complex value of the capital determined as a function of the appreciation of the future normal income flow, such a financial statement would represent, in contrast to the concrete needs, an abstraction even, at times, dangerous. This meaning of the principle of the reference to the complex value of the capital determined on the basis of the normal income then was identified with a limit or testing value of the concrete evaluations, and purely on that. No criteria or precept, then, but only an indication of comparison, of reference, of asseveration or of denial of concrete evaluations».

[64] Viganò (1967: 107, translated) specifically states that: «Instead, if we consider the equity expressed in the financial statements as a sum, an aggregate – let's even say fund - of values, then reaching the equity economic value – which is a unique value – is a simple accidental circumstance, it is not a logically derivable consequence. Therefore, the contrast is exactly this: that the first doctrine [Onida] does not consider the capital of the financial statements as a single value, as does the second doctrine [Amodeo]».

1.3.3. The so-called "*rivalutazioni fuori bilancio*"

A part of the Italian literature instead argues that the "equity economic value" cannot constitute the basis for the comparison with the financial statement net assets, neither for the impairment of assets, and this even though the prudence principle represents a cornerstone for the financial reporting[65].

As Coda (1966: 73-74, translated) affirms:

> «The higher value of the equity economic value compared to the equity value determined with the analytical assessment can be correctly interpreted as formed by the future income exceeding the measure judged to be a satisfactory return on equity. But, nevertheless, such incomes are and remain "future"; that is, attributable to future years and they cannot therefore contribute to define the income generated by the management of the past exercises».

This part of the doctrine proposes, in order to determine the "income produced" (*reddito prodotto*) in a measure considered adequate, the comparison with the "revaluated capital out of financial statement" (*capitale di rivalutazione fuori bilancio*). If the historical cost would lose importance consequently to price changes or to the change in the position of the productive factors within the firm system, than the management have to provide for a revision of the value[66]. In Superti Furga (1979: 63, translated) we read that:

> «(The revaluation) is necessary in order to restructure the values system that represents the firm's equity so that it can constitute a basis economically suitable to determine the future recognitions of the income for the period».

The revision thus made allows adapting the financial statement values in such a way to ensure a higher adherence for the purpose of determining the income of the period,

[65] On this theme consult also: Masini (1957, 1963), Viganò (1979), Coda & Frattini (1986), Superti Furga (1991).

[66] Coda (1963: 22, translated) maintains that: «The equity revaluation for the formation of appreciable future years is periodically necessary, with varying frequency in times of slow and intense economic dynamics, due to the changes in the firm conditions and in the environment denying a significant correlation and in the economic values common to more than two years, recognized in different times and maintained "constant", with the other system values formed in the changed conditions and in the equity with the period income recorded». On the technique of the revaluation Perotta (1983, translated) notes that the same: «(...) allows to achieve, through general revaluations out of the period, the determination of the revaluation capital that, included in the values system suitable for the determination of the economic results, is a set of initial values suitable for subsequent determinations of income and capital for the period. The need for a general revaluation of capital is not only manifested in strong instability of the currency economic values; whenever the firm internal conditions or environment externalities present changes that will demand new management guidelines, related to changed economic prospectives, it is then necessary to re-express the capital values so that they take on meaning in relation to the expected future economic developments».

since the utilization costs of the productive factors become again comparable with the current revenues. The revaluation deriving from this procedure would increase the equity and not the economic income. Acting in this direction the competence and prudence postulates are followed with a major rigour in their traditional sense[67]. The proposal of this doctrinal address acquires a greater significance if we interpret it also in the light of the International Accounting Standards No. 16 (IAS 16) dedicated to Property, Plant and Equipment. Under IAS 16, indeed, the financial statement preparers can decide, after the first recognition, to record the property, plant and equipment according alternatively to the cost model or the revaluation model[68]. However, it is important to highlight that these Italian scholars do not require a systematic revision of the value as the accounting standards do. The adoption of the revaluation model implies the assets evaluation in compliance with the principles conveyed by the doctrine cited in this paragraph. As a matter of fact, in this hypotheses, the redetermination process must be performed regularly and whenever it is necessary to ensure that there is not a significant difference between the amount recorded in the statement of financial position and the amount that would be determined using the fair value at the date of the financial statement, being the revaluations dependent on the assets market value fluctuations. The fair value fluctuations' significance determines the frequency of the process that might be annual or multi-year and it must interest simultaneously the whole class of property, plant and equipment in order to avoid that in the financial statement are recorded a set of values selectively combined through evaluations on different dates.

If as a result of this procedure the value of an asset is increased, the increase shall be accumulated in equity under the heading of a specific revaluation surplus reserve, but in the event that the revaluation is a reversal of prior impairment on the same asset, previously recorded in the income statement, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If, on the contrary, the appraisal (and

[67] Santesso (1992: 27, translated) highlights that the application of the revaluation technique out of the period: «(...) results in a reasonable contribution to the application of the prudence principle and ...favours a more consistent application of the competence principle».

[68] The same alternative is left to the discretion of the preparer for the intangible assets treated within International Accounting Standards No. 38 (IAS 38). However, this solution, although allowed by international accounting standards, results less frequently used compared to the cost model, since it presumes the existence of an active market of the asset expressed at the fair value, circumstance very rare for intangible assets, which often are so specific and unique to make them peerless and hardly comparable for different firms.

therefore, the evaluations out of the financial statement) would lead to the recognition of an impairment loss, the negative difference shall be recognised in the income statement, unless there is a revaluation reserve related to that specific asset whose carrying amount will be reduced by an amount corresponding to the impairment loss.
For an international comparison with this school of thought see paragraph 1.4 where I briefly recall to some similarities and differences with Edwards and Bell's (1961) concept of "current income".

1.3.4. The amortization "corrective criterion"

A significant contribution on these issues is provided by the thought of Giovanni Ferrero who, further developing the ideas of his "Maestro" Pietro Onida, outlines the configuration of the "income produced" (*reddito prodotto*) in the period, which causes impacts on the entire equity evaluation process. Ferrero (1988) notes that the evaluations can be considered actually objective only for the recognitions of costs and revenues "ascertained" during the period and not also for the end-period adjustments recorded in compliance with the competence principle. This competence criterion, or of the "physical time", should therefore be considered as a basically "indicative guide", because according to Ferrero (1988, translated):

> «If this criterion were fully applied, the long-term costs anticipated and amortizable (costs of long-lived assets and amortizable costs of any kind) would distribute over time, at the expense of the single exercise period, in proportion of the same passing time and, therefore, pro quota that each year would express the same rata of the total cost to be amortized, in relation to the assumed duration of the amortization process».

The full implementation of the competence would imply rigidity in the straight-line amortization schedule and, more generally, in all the allocations of multi-year costs and revenues. The financial statement preparers should be able to compound two distinct needs. The equity must not be "inflated", neither "depressed" and at the same time, the income produced in the period must be determined reliably as net income. To this end, the rigid guiding criterion of the competence has to find a balance with a

weighted introduction of the "economic time" criterion[69]. Indeed, only through the criterion of the economic time the competence of the positive and negative elements of the income is included within a broader firm management conditioned by the economic situation and by its development in the future, considering the "economic solidarity" of the periods, alternatively favourable and adverse[70]. In Ferrero's thought the prudential limit-values should guide both the analytical distinct capital assessment and the subsequent synthetic assessment that concludes the evaluation process (so-called analytical-systematic evaluation, in Italian "*valutazione analitico-sistematica*"). The evaluations must be done according to the administrative prudence, that is the net income is not influenced by "wished profits" but must consider the losses (even if only) "presumed".

On the principle of cost valuation Ferrero (1988, translated) suggests that: «on the "rationality" of this estimating criterion, there would be nothing to object, if it was assumed the hypothesis of a static economy», therefore, it is necessary an analysis also on the "future presumed cost", as "minimum limit" below which the valuation of the liabilities (debts) would result incorrect. Conversely, the cost can be recorded amongst the assets only within the "upper limit" identified in the presumable realisable value, direct or indirect, of the same assets[71]. However, in the fixed assets valuation, also the cost reduced by accumulated depreciation should be considered as a mere guiding criterion, the Author (1988), indeed, suggests proceeding in the evaluation of these assets "for successive approximation". The cost should be split amongst several periods taking into account, with the passing of time, the remaining

[69] Ferrero (1988, translated) writes: «If the "factor time" is conceived in a "physical" sense, these common costs - even if they are rigid costs partially or completely unused - are allocated to each period according to the extent of the time spent, "physically" measured, independent from the variable flow of revenues, which is connected to the unstable trend in production, sales and, in general, to the overall operating activities. Similarly, the revenues with a flow that tend to be inelastic, opposing to variable costs, are "charged" to each period regardless of the fluctuation of the same costs». Conversely, Ferrero (1988, translated) continues: «If the "factor time" is conceived in an "economic" sense, it can be variously "qualified" – at equal extent "physically" measured – from the different and unstable economic conditions, internal and external, that the management encounters in the succession of the periods».

[70] See Ferrero (1988, translated) where he justifies the introduction of the economic time criterion as the firm management is «conditioned by the economic situation and by its development in a multi-year span of time, taking into account the "economic solidarity" that the same management for its nature unitary in the time, establishes and continually renews, in the various interchanging of conditions, now favourable now adverse, of its various attitudes».

[71] Colombo (1987, translated) maintains that: «It is... basing on the perspectives of indirect realization through the contribution to the income production – or, in other words, according to the amortization charged on the periods during which will extend the useful life of the fixed assets – that we will have to establish if and how much to keep, in the recording, below the criterion-limit of the cost, and to what extent reduce this value in each subsequent year through the amortization».

useful life of the asset under scrutiny. With such a "corrective criterion" it is constantly performed a review[72] that concerns not only the preliminary analytical distinct evaluations but also the conclusive synthetic assessment of the equity which, using Ferrero's (1988, translated) words: «results prudentially balanced as the synthetic expression of the "services tank" available for the future firm continuity». Entering in the specific theme of the accounting valuation for goodwill Ferrero (1988) explicitly upholds the amortization of goodwill, in other words, the goodwill similarly to the other long-lived assets is intended with a definite useful life[73]. In this synthetic framework, it is evident the absence of an impairment loss not only ordinary, but also extraordinary, nor it is possible to configure the hypothesis of revaluations "*fuori bilancio*". The consequences of the assets impairment losses are achieved in the model outlined by Ferrero through an increase and continuous adjustments of the amortization rate compared to the rate established in accordance with the amortization plan of the long-lived assets.

1.3.5. The "functional evaluation"

An interesting approach for the equity evaluation is the one introduced by the Tuscany School. Specifically, Alberto Ceccherelli and Egidio Giannessi propose the "functional evaluation" (*valutazione di funzionamento*). According to Ceccherelli (1956: 193, translated):

---

[72] Ferrero (1988, translated) notes that: «It is a proceeding "for successive approximations", little by little that the "estimating horizon" provides significant review insights to change the route of the journey still ahead: review that affects not only the preliminary analytical distinct evaluation, but also that of the "final phase" in which it implies a weighted "compound judgement", aimed at the determination of an "equity"».

[73] Ferrero (1988: 95-96, translated) objects that: «It is unacceptable, the statement – not unusual – according to which it is neither necessary, nor opportune, to amortize the goodwill in the ordinary financial statements. In support of this argument, sometimes it is specified that the goodwill with the flow of time, rather than depreciate may increase in value, and that, therefore, in front of an unchanged goodwill value in the financial statements, we can suitably recognise, if at all, a "special reserve fund" against the risks of any possible impairments. Besides, even when this "special fund" is conceived as a "retained earnings reserve", the periodic income, that during the destination phase, would increase this "reserve" could not be interpreted as a "net income", as it would not being "purified" from all its negative components, including the amortization charge that we would exclude with the mentioned thesis: in these terms, the given "special fund" could not have, despite appearances, the actual content of a "true and real reserve". Therefore, having actually the content of a "risk fund", we do not understand why the increasing of such a "special fund" should be preferred to a weighted and monitored process of gradual depreciation of the value in question, articulated in the light of a "balanced administrative prudence" constantly kept in mind».

> «Evaluating means determining the monetary measure of the net value fund that can be assigned, at the considered time, to the equity of a going concern firm».

Ceccherelli following the reasoning explains that this definition extends the terms of the financial valuations to the complementary utilities that derives from the coordination and functioning of the assets. Thus the Author specifies that we have to distinguish at least amongst three situations to which correspond three different evaluation procedures. First, the atomistic valuation of each single asset is adequate in case of gradual liquidation. Second, the valuation of the assets as inseparable parts of a complex is adequate in case of an *en mass* liquidation of the complex. Nonetheless both these valuations differ from the financial accounting valuations as the latter are characterised by the main assumption of firm continuity (i.e. functioning). Basically, the fundamental of the financial valuations is the continuity of the actual and law conditions in which the company currently operates. In this sense, Ceccherelli (1956: 194, translated) clearly states that:

> «It is, in this particular case, (that is necessary) to assign a value to the firm equity not because it should or could be liquidated or disposed, and with reference to the liquidation or disposal time, but as it represents the endowment of a firm that functions and that has to continue functioning. The corresponding evaluation for that very reason is called functional evaluation (*valutazione di funzionamento*)».

The main idea of this approach is that all the productive factors should be considered *systematically*. We derive that the historical cost, the realizable value or the value in use, as well as, the market value in part loose significance, becoming relevant only as terms of reference within the wider functional judgement (Marasca, 1999: 58). Each component has a function (or destination) within the firm and its contribute to the income depends not only by the single factor but also by the role it assumes within the combination of all the other factors[74].

In the "functional evaluation" all the equity items assume within the firm a specific and essential function and for that precise intention (or function) they were purchased. Therefore, the cost paid was considered appropriate for their function, for their successive use and the consequent income generation (Ceccherelli, 1956: 194). The Author (1956: 195) continues explaining that as long as the productive factors

[74] Ceccherelli (1956: 194, translated) highlights how: «(…) these components do not have within the firm equity an independent position: they usefully exist, as they concur together with the others to make it possible the occurrence of certain economic transformations, that is, as they constitute a complex destined to and dependent of the firm management (*gestione dell'azienda*)».

play a role within the complex they form typical "qualitative" and "quantitative" components of the same complex and their value find reference only in the cost originally paid, in every successive moments their value is represented by the "inventory cost" (i.e. residual cost, *rimanenza di costo*)[75]. In this sense, the productive factors are seen as "inventories of on-going operations" (*rimanenze di operazioni in corso*) and "liabilities of operating resources" (*predisposizioni di mezzi operativi*) for the future (Ceccherelli, 1956: 196). As a consequence, the evaluation takes as point of reference the cost, because it is "inventory evaluation" (*valutazione di rimanenza*)[76], in few words all the investments are seen as anticipated costs.

Summarily, the cost reveals not only the financial expense but also it is expressive of the functioning value that is attributed to each investment in relation to its convenient contribution in the system. The evaluation should consider the degree of functionality of the productive factors under assessment, as a matter of fact, the cost should be prudentially adjusted for the decreased functionality. The new cost (adjusted historical cost) must be expressive of the lower degree of functionality corresponding to the changed firm internal and external conditions[77]. Hence, we can consider an investment as functional or anti-functional if it respectively comes closer or far from the aim, modality and duration originally assigned (Ceccherelli, 1956: 200). The Author then acknowledges that the financial valuations are based on forecasts, as the value attributed to a certain factor must take into account not only the cost but also the expected matching future revenue[78]. In different terms, all the functional evaluations procedures starting from the original cost actually modify the value of each investment according to their future profitability. It does not mean that the functional evaluation is an overall evaluation of the firm equity through the

[75] According to Ceccherelli (1956: 195, translated) assessing the equity with the functional evaluation: «(…) does not mean to attribute the values to the different groups or qualitative units that compose it [the equity], instead, it means to attribute a value to the inventories of the original and successive costs paid for the firm functioning».

[76] The "inventory evaluation" is a thread of union through the time among the original costs, the other costs and the matching revenues, tying the equity to the income. The income becomes dependent on the equity value. Using Ceccherelli's (1956: 202, translated) words: «The functioning value is (…) a measure of correlation between original costs and future expected revenues».

[77] On the contrary, Ceccherelli (1956: 201, translated) does not leaves any doubt on the impossibility to recognise any revaluations and clearly states that: «(…) The higher degree of functionality (…) cannot affect also with a super-valuation [revaluation] of the inventories, because the effects of their higher functionality reflect the future and cannot be part of an already realised income».

[78] Relating to the indicative cost criterion Ceccherelli (1956: 202, translated) affirms that: «(…) it cannot become an evaluation rule: it might become rule and formula only in a static environment, that is hypothetical and unreal because only in that environment we might consider the revenue measure sure (…)».

income capitalization; indeed, this evaluation is appropriate only in the firm transfer case. Whereas in the financial evaluations we should never depart from the cost criterion; the potential capability to generate income is subordinate to the cost criterion and it serves as control in the assumptions underlying the financial valuations that transform the costs in values (Ceccherelli, 1956: 209).

The evaluation process behind this approach follows a three-stage *iter* (Giannessi, 1979: 345; Marasca, 1999: 61; Giannetti, 2013: 98). Firstly, there is the identification of the nature of each productive factor considered individually. Secondly, each factor has to be contextualised within the firm system to which they belong. Thirdly, there is the exam of the equilibrium positions and of the features of the "firm motion" (*moto aziendale*). Each stage of the evaluation process leads to review the value of the productive factors, creating a sort of circular evaluation process.

Drilling down through the concepts of this evaluation, Giannessi (1978: 462) notes that every change in a productive factor generates other not-proportionate changes in the residual «*n – 1*» productive factors. We derive as anticipated that the evaluation process is circular because as a variation in a productive factor occurs, the other factors shall be evaluated again considering the renewed functional relationships amongst the factors and the renewed equilibrium. This process aims at predicting the recoverable amounts of costs through the future revenues. The exam of the relations and interdependencies amongst the factors does not yet lead to the functional value. To determine the functional value it is necessary to assess also the equilibrium positions and the direction of the firm motion, which according to Giannessi (1979) can be evolutionary (*moto evolutivo*) or regressive (*moto involutivo*). When the firm is in an equilibrium position and the motion is evolutionary the productive factors value increase; while, when the firm is not in equilibrium and the motion is regressive the value of the productive factors tend to be lower than their original costs[79]. Giannessi (1979: 61-64) suggests that to determine the system equilibrium positions the aspects to take into account are for example: the favourable market trend, the firm financial situation, the existence of a constant liquidity condition, the positive nature of the economic and financial perspectives on the firm future life, the system of the environmental risks and the predicted evolution of these, the internal

[79] According to Giannessi (1979: 346, translated) the firm value is higher when the system is in equilibrium because «the productive factors can be fully used». If the system, instead, is not in equilibrium «the value is lower because the productive factors find a reduced utilisation, suffering a loss whose entity is proportional to the causes that have originated the disequilibrium».

constraints (capability of the existing functional assets to uphold the predicted programs), the changes in the economic politics, the firm image, etc.

Besides, the third stage of this evaluation *iter,* should consider also the firm risks attributing specific provision or with the constitution of reserves[80]. Only with this final contemplation of the risks we get the functional value that a considered item assumes for the financial valuations purposes.

Since the goodwill is largely defined as the excess of the cost paid over the equity acquired it is interesting within this perspective to introduce Giannessi's (1937) study on the costs' problem in the thought of Alberto Ceccherelli ("*Il problema dei costi nel pensiero di Alberto Ceccherelli*")[81]. In the above revision Giannessi displays the significance of Ceccherelli's contribution for the studies on the so-called "*Ragioneria*" (accounting). In detail, Giannessi (1937: 7), firstly, highlights the introduction of the "perspective" concept, which is intended dynamically as a set of conditions periodically renewable to reconcile the differences between the firm and the external environment, harmoniously reflecting the nature of the firms as "operating coordinations" (*coordinazioni operanti*). At this point, we can already try to find the similarities with the current accounting procedures. Definitely, the impairment procedure is pervaded by the perspective concept as well as by the need to constantly reconcile the differences between the firm financial and economic conditions with the expectations extrapolated from both the internal and external environments[82].

The costs' recording has different aims. It is necessary to determine the income and to resolve return and economical convenience judgements, where the first aim is directly linked with the preparation of the financial statements and the assets' value attribution. In this sense, Giannessi (1937: 12) emphasizes how the cost problem is

[80] Giannessi (1979: 400-413) considers three kinds of risks: the specific risks (*rischi specifici*), the common risks (*rischi di comunanza*) and the management risks (*rischi di gestione*). The specific risks relate to a single item, for instance to compensate an overvaluation of a machinery or of the inventories; the common risks relate to two or more items of the equity for instance the risk for theft or fire; finally, the management risks have a wide content and for this reason are faced through the allocation of reserves to the equity or through assets undervaluation and liabilities overvaluation, although as observes Giannessi the latter is formally less correct as it implies earnings management policies.

[81] Giannessi, specifically, in his writing (1937) *"Il problema dei costi nel pensiero di Alberto Ceccherelli"* addresses the attention on Ceccherelli's study (1936) entitled "*Il problema dei costi nelle prospettive economiche e finanziarie delle imprese"*.

[82] By way of example see IAS 36 paragraph 33, where we read: «In measuring value in use an entity shall: (a) base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence (…)».

not to establish which cost components are included either in a cost configuration or in another, but to establish which components may be recovered through the revenues and which components, on the contrary, are, according to the conditions of the period, not recoverable. In this last case, it is necessary also to determine the not-recoverable amount. Thus, Giannessi (1937) in explaining Ceccherelli's thought implicitly advances the connection between the recoverable amount and the cost recorded, which, as said, is the *nucleus* of the impairment test.

Hence with the purpose to relatively contextualise the "functional evaluation" process to the current accounting standards, we can see that IAS 36 similarly adopts this evaluation criterion. Indeed, when it is not possible to apply the impairment test at the individual asset level, the management should review the asset as part of a group, identifying the CGUs (or groups of CGUs) to which that asset is allocated[83]. Evidently, many assets can generate cash inflows only when combined with other assets as part of larger CGUs. The Basis for Conclusions on IAS 36 (paragraph BCZ 114) underlines how the «IASC believed that the concept of CGUs is a matter of fact: assets work together to generate cash flows». The same concept of CGUs underlies a *systematic* assessment for the assets and not an asset-by-asset method. Hence, the process of the impairment test for the assets that do not generate cash inflows, which are largely independent of those from other assets or group of assets, is comparable with the process underlying the "functional evaluation" proposed by the Tuscany tradition. Where, the first stage, i.e. the identification of the nature of each productive factor, corresponds to the determination of the scheme of the impairment review (as assets are reviewed individually or as part of a group). The second stage, that is the contextualisation of each factor within the firm system, corresponds to the identification and allocation of the CGU (or CGUs) to which the asset belongs. Finally, the exam of the equilibrium positions may be assimilated to the estimation of the recoverable amount at the CGU level and the possibility to allocate arbitrary the impairment loss of that unit when it is not practicable the individual-asset estimation of the recoverable amount as all assets of a CGU work together (see IAS 36 paragraph 106).

[83] Namely, IAS 36 paragraph 22 specifies that: «Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs (see paragraphs 65–103), unless either: a) the asset's fair value less costs to sell is higher than its carrying amount; or b) the asset's value in use can be estimated to be close to its fair value less costs to sell and fair value less costs to sell can be determined».

1.4. Overview of the Anglo-Saxon doctrine on goodwill

As for Italy also in the Anglo-Saxon context we find several Authors in the past studying the relationship between income, capital and value (Bonbright, 1937; Edwards, 1938; Alexander, 1950; Edwards and Bell, 1961; Solomons, 1961; Chambers, 1966; Sterling, 1970; Barton, 1974).

Entering more in the details, also in the International accounting literature we can read that the goodwill represents an asset implying several valuations issues (e.g. see Canning, 1929; Hughes, 1982; Courtis, 1983)[84].

Accordingly also in the Anglo-Saxon setting we can find different definition, measurement and accounting for goodwill leading to the construction of differing accounting theories relating to the goodwill (Carlin and Finch, 2007; Bloom, 2008).

One of the first Authors cited in the literature on the contribution to goodwill theories (Carsberg, 1966; Courtis, 1983) is More (1891: 282) who conceives the goodwill as an annuity and provides the following definition:

> «Goodwill is just another name to designate the patronage of the public».

Few years later Dicksee (1897) warns to exclude goodwill from the accounts and when it cannot be excluded to write it off against the reserves as soon as possible. He (1897: 40) provides than a more thorough definition of goodwill as it represents:

> «The benefit arising from connection and reputation, the probability of the old customers going to the new firm which has acquired the business. The value of that reputation which a business has acquired during its continuance, which induces the confidence or expectation that the same, or an increasing patronage will continue to be extended so long as the business is conducted in the same place upon the same principles».

[84] In this sense Canning (1929: 42-43) observes as follows: «Goodwill, when it appears in the balance sheet at all, is but a master valuation account – a catch-all into which is thrown both an unenumerated series of items that have the *economic*, though not necessarily the *legal*, properties of assets, and an undistributed list of undervaluations of those items listed as assets. It is the valuation account *par excellence*». Hughes (1982) goes even beyond the accounting-related valuation issues maintaining that: «The origin of goodwill can be revealed through history, but its nature is a matter of personal interpretation». Courtis (1983) observes that: «Goodwill, from being thought of as a set of inducements which attract persistent patronage, has become submerged by methods of valuation based upon superior earning power concepts and by the accounting notion of a residuum». According to Bonbright (1937, Vol. I, p. 80): «The goodwill account is really a kind of "valuation account" representing, not the value of a particular intangible asset, but rather the difference between the values that accounting practice arbitrarily assigns to the separately stated assets and the value that the management desires to assign to the enterprise as a whole».

Guthrie (1898) explains that the value of goodwill derives from the difference between the normal results of a business and the results that might be achieved with any similar business. The Author (1898: 425) then focuses on the nature of goodwill and suggests that:

> «[it] differs from other property, inasmuch, as, while other property is palpable, goodwill is impalpable. Other property can be handled, weighed, or measured, its nature ascertained by inspection, its quality tested by sight, smell, feeling or analysis, or the annual income receivable from it identified. But goodwill – how can its quality be ascertained? The difference between the two kinds of property is like that between matter and life, or between a man's estate and a man's character – one is ponderable, the other imponderable» (citation from Courtis, 1983).

Similarly to the contemporaneous Italian scholars of that period, initially, the goodwill was associated to specific casual factors, for example reading Hunter (1901: 351) we find that:

> «Goodwill exists as a benefit or advantage accruing to the firm, in addition to the value of its property, derived from its reputation for promptness, fidelity and integrity in its transactions, from its mode of doing business, and other incidental circumstances, in consequence of which it acquires general patronage from constant and habitual customers».

More (1891), Dicksee (1897), Guthrie (1898) might be considered the antecedents of the so-called "super-profit" theory whose father is considered P.D. Leake. Since the above-mentioned first notion of goodwill indeed resulted that the goodwill value was approximated by the excess profit. Hence, following these first perceptions of goodwill we come closer to the professed "super-profit" or "annuity" theory (Leake, 1914; 1921; 1930; Walton, 1919; Yang, 1927; Seed, 1937; Emery, 1951; Walker, 1953; Wright, 1955).

Specifically, Leake (1914: 81) defines goodwill as:

> «The privilege, granted by the seller of a business to the purchaser, of trading as his recognised successor; the possession of a ready-formed "connexion" of customers, considered as an element in the saleable value of a business, additional to the value of the plant, stock-in-trade, book debts, etc. Goodwill, in its commercial sense, is the present value of the right to receive expected future super-profits, the term "super-profits" meaning the amount by which future revenue, increase or advantage, to be received, is expected to exceed any and all expenditure incidental to its production»[85].

[85] Kester (1930, Vol. I, p. 301) succinctly claims that: «As stated above, the essence of good will is excess earning capacity». Similarly according to Seed (1936: 8): «Goodwill is the advantage which

It is essential to point out that even when there are some or all of the cited causal factors that are generally associated to the existence of the goodwill value, the business with goodwill shall be able to generate excess profits[86]. The Author argues that to determine the value of goodwill it is appropriate to use a diminishing annuity formula, as the super-profit hardly can be considered everlasting and highlights its wasting nature. The goodwill should be determined with the diminishing annuity because it gradually reduces due to the action of the market competition.

The "super-profit" theory seems a refinement of previous formulation of goodwill, introducing the consideration of a diminishing annuity for its determination. However, Carsberg (1966: 15) criticizes Leake's effective contribution to the goodwill theory, as even though it approximates reasonable result in certain circumstances theoretically it implies the existence of a perfect market actually inexistent. Also, it might happen that the competition action decreasing the goodwill value is compensated by the purchaser favourable action. Another weakness might be identified in determination of a normal rate of interest on the investments because he does not describe how to identify an appropriate discount rate. To sum up, Leake determines the value of the whole business as the sum of the individual balance sheet items comprising the goodwill as computed independently. We can appreciate that in contemporary times, from the first quarter of the twentieth century, Besta in Italy and Leake in the UK, propose similar accounting approaches and methods to determine the firm value.

In the USA, although Paton and Littleton (1940) continue supporting the "super-profit" theory hence agreeing with the rationale that the goodwill represents an advanced payment for future extra-profits, they partially divert from Leake's goodwill determination method. Moving from Paton (1934) beyond the two classes

---

arises from the good name, reputation and connection of a business; alternatively, the benefit which accrues to the owner of a business from the likelihood that such business will earn, in the future, profits in excess of those required to provide an economic rate of remuneration for the capital and labour employed therein. Goodwill represents the probability of the retention by a professional man of the confidence of his clients and their continued employment of his services and, in the case of a commercial undertaking, the likelihood of customers continuing to deal with it, with all the implications that such likelihood of continuance of profitable association carries with it». According to Yang (1927: 88) goodwill is: «The present worth or capitalized value of the estimated future earnings of an established enterprise in excess of the normal results that it might be reasonably assumed would be realized by a similar undertaking established new».

[86] In this sense Kester (1930, Vol. I, p. 357) notes that: «Goodwill therefore includes every advantage connected with location premises, reputation, personality, name, etc. That all this elements of goodwill cannot be gainsaid, but unless an earning power or capacity larger than that of a newly established competing concern goes along with these elements, no one would be willing to pay anything for the goodwill of the old concern».

of assets of a typical enterprise, the "more or less liquid funds" and the "commitments in technical cost factors" there is also the class of the "intangibles values". The Author (1934: 122) defines the "intangibles values" as:

> «The excess, if any, of the value of the entire enterprise as a going concern over the sum of the more specific and independent assets listed individually».

Hence, Paton clearly implies the need to determine the value of the whole enterprise. He suggests the importance of considering the enterprise as an economic entity and as a consequence the importance of determining the return on the entire fund of capital (Stabler and Dressel, 1981). This approach is very clear in Paton and Littleton (1940) where we appreciate how for the Authors income determination constitutes the fundamental of accounting[87].

It is interesting to note that Paton in the same paper (1934) recognizes that the intangibles' value arises from the difference between the sale value of the enterprise as a whole and the value that is assigned to the tangible factors. Paton's concept of intangibles is very close to the concept above discussed introduced by Zappa (1950). Furthermore the similarities regarding the reference to a going-concern entity and to the composition of the assets as system that goes well beyond the mere sum of the assets are not the only similarities with the Zappanian thought. Indeed, Paton (1922) while defining the concept of goodwill makes specific reference to the income and profitability of the enterprise[88]. Regardless these similarities, it is critical to remind that Paton and Littleton (1940) theoretically support the historical cost as the basis for measuring the assets and liabilities[89]. Instead, Zappa believes that the income measurement is not simply based on the deferral of the historical cost awaiting for

---

[87] See Paton and Littleton (1940: 10) where they express on the importance of the income statement: «The details of the process of measuring the rate of income are unsettled but there is no question as to the importance of this factor. Earning power – not cost price, not replacement price, not sale or liquidation price – is the significant basis of enterprise value. The income statement therefore is the most important accounting report». Obviously, even from this income-statement view, the Authors do not deny how the assets valuation issue and the related equity value are matters of significant relevance as they impact the income statement through e.g. the effect of asset consumption.

[88] Paton (1922: 313) defines goodwill as: «The capitalized value of the excess income which a particular enterprise is able to earn over the income of a representative competitor – a "normal" business – having the same capital investment, the rate used in capitalizing being the rate realized by the representative concern».

[89] See also Littleton (1952: 168) where we read: «Is not the primary function of accounting to furnish to management data about past transactions (invested cost) so that management can benefit from the knowledge of past experience when considering the next future commitments? Management must be able to review its prior efforts; and no better measure of these exists than invested cost».

the matching with the related revenues but it may imply the allocation of the maturing incomes over the periods in which the operations are carried out.

Leake as well as Paton and Littleton propose to write-off the goodwill against the future earnings for the determined period of time that the goodwill is expected to produce earnings. This solution is somewhat similar to the accounting approach often used to depreciate goodwill over a definite period of time[90]. Leake motivates the goodwill depreciation also in relation to the denial of recognising internally generated goodwill. Indeed, when the purchased price of goodwill was maintained at cost amongst the assets its value would be, with the passing of the time, inevitably confused with the internally generated goodwill[91]. Hence, goodwill was considered a wasting asset whose value was subjected to the amortization process. For many Authors the need to charge depreciations and not retain the goodwill cost goes hand in hand with the prudence principle (Bourne, 1988; More, 1891; Guthrie, 1898; Leake, 1912)[92]. Graham and Mcgolrick (1964: 34) states that:

> «The writing down of goodwill does not mean that it is actually worth less than before, but only that management has decided to be more conservative in its accounting policy. This point illustrates one of the many contradictions in corporate accounting. In most cases the writing off of good will takes place after the company's position has improved. But this means that the good will is, in fact, considerably more valuable than it was at the beginning».

In subsequent years appeared differing conflicting theories to the "annuity" or "super-profit" theory. Kaner (1938) in its book entitled "A New Theory of Goodwill" asserts that the accountants often confuses the goodwill with the formulas

---

[90] Explicitly Leake (1930: 80) notes that: «If it be granted that, in computing the fair present value of goodwill, interest at a minimum rate of 10 per cent per annum on the cost must be allowed for, it is obvious that the accounting value of purchased goodwill must diminish, and, in fact, it diminishes rapidly year by year, and consequently it should be gradually written off».

[91] In this sense Leake (1912: 166) argues that: «Exchangeable value arising from unexpected developments taking place subsequently, and which was, therefore, not included in the original capital outlay, cannot properly be substituted for that which has expired. Otherwise, by parity of reasoning, any undertaking would be entitled to add to revenue, and charge to capital outlay sums purporting to represent the exchangeable value of self-created goodwill».

[92] As cites Cooper (2007) the following extrapolations of thought (with emphasis added) are particularly interesting. Bourne (1988: 604) notes that: «A successful business will be able comfortably to depreciate the amount, and it is the *prudent* course to adopt, not knowing what may happen in futurity». Similarly More (1891: 286): «*Prudent* traders feel that goodwill is not an item which ought to appear in a balance sheet» and Guthrie (1898: 430): «Accountants are mainly in the hands of those who are concerned in the undertaking in question as to whether any goodwill is written down or not. They can only advise, and, I think, the general practice of all of us is to advise, on the *prudential* side, and make some provision, however small it may be». Finally, Leake (1912: 169) notes that: «It is undoubtedly sound financial policy to appropriate the largest possible sums out of surplus profits to write down the book value of goodwill».

to calculate its value as a matter of fact according to Kaner the "super-profit" theory is just a method to value goodwill. According to the Author (1938: 17):

> «Goodwill is that asset possessed by a commercial undertaking which, by embracing that undertaking's reputation, attracts from a portion of the public special preferences, and results in an added value in excess of the surplus tangible assets of the undertaking».

With humorous spirit Norris (1946: 100) writes:

> «If X is a live pedigree dog, and Y a dead one, then perhaps X – Y = Z. But Z means nothing itself. The label "goodwill" in business accounts closely resembles Z; its use is as sensible as trying to find what makes the dog tick by dissecting it».

To these critics the super-profit theorist opposed. Amongst others Walker (1953) reacts by highlighting that the monetary value of goodwill is strictly tied to the expected creation of super-profits[93].

Kester (1930) although supporting the super-profit theory sometimes in a certain sense misperceives the goodwill concept with the advertising expenditures, indeed, he (1930, Vol. I, p. 358) maintains that:

> «Creating a demand for a product by means of extensive advertising is one of the quickest ways of building up goodwill. The difference between the cost of advertising necessary to retain a given increased volume of trade, which we may call the normal advertising expenditure, and the cost of publicity required to secure that increase may be looked upon as the expenditure on account of goodwill».

According to Kester (1930) to determine the value of goodwill it is necessary to use a discount rate that is given by the difference between the average rate of profit and the return on the investment achieved by the business[94]. Kester (1930) recognises

[93] Walker (1953: 213) words are indeed clear in this sense: «By definition, goodwill has no accounting significance except in terms of an earning capacity which is estimated to be above normal. A price is paid for goodwill – a price above the value placed on the other assets – because profits in excess of a normal return on investment are anticipated. In other words, an enterprise is purchased, not primarily as a means of securing a group of assets, but as a means of securing a stream of income in the future. If the expected stream of income is a normal amount or at a normal rate, all factors considered, no payment is likely to be made for goodwill. If the expected income stream is in excess of normal earnings, a payment will be probably have to be made for goodwill. Then, it may be said that the payment for the expected stream of income in excess of a normal return is a payment for goodwill, and that the payment for the expected stream of income equal to a normal return is a payment for the other assets».

[94] Kester (1930, Vol. I, p. 301) indeed sustains that: «The valuation of good will rests, therefore, upon the profit making ability of the business. If the average rate of profit in an industry is, say, 9% on the total capital invested and a given business under consideration is earning 12%, its excess earning capacity is 3%. This 3% is a measure or serves as a basis for measuring the value of goodwill». The Author (1930, Vol. I, p. 303) continues saying: «However, the business is worth $ 10,000 more than

also the importance of estimating the following elements: the measure of the equity that contribute to achieve the "super-profit", the normal return on that equity and the interval in which the "super-profit" are generated[95].

Kester's noise between the notion of "super-profit" and "advertising expenses" for the recognition of goodwill might be seen as a sort of anticipation of Nelson's (1953) "momentum" theory. Nelson (1953: 492) deliberately defines the momentum theory as:

> «The hypothesis that a businessman purchases a promotional push instead of an annuity and that the "push" dissipates like momentum».

From the above definition we can develop the main assumption of this theory. Namely, an asset cannot indefinitely live and as a corollary descends the need to amortize goodwill over the estimated life of the momentum[96]. We also see that in the decision to purchase a company, the purchaser focuses on the marketing or promotional "push" and the higher stream of revenues is the consequence deriving from this starting "push"[97]. Although Nelson identifies this starting "push" only with the marketing advantages, Bloom (2008: 72) suggests other circumstances tied with the goodwill momentum, such as the existence of a trained staff, established production and administrative procedures and other ordinary advantages. Even though Nelson hopes that his "momentum" theory will be distinguished from the "annuity" theory I suggest that these theories assumptions are essentially comparable

---

the $ 40,000 shown in the balance sheet, and for this reason, instead of paying $ 10,000, R is required to invest $ 12,500. The excess of $ 2,500 is paid by R as an offset to the shares of the others in the goodwill of the firm».

[95] Purposely, Kester (1930, Vol. I, p. 360) claims that: «The usual method of valuing goodwill requires an estimate of the period during which it may be reasonably expected that the excess earning power of the business will continue under the new owners, i.e., goodwill is based and must be valued on the ability to make above-normal profits. Valuing it, therefore, requires a consideration of the following factors: 1) a determination of the net asset values used in the business which have contributed to securing above-normal profit; 2) Determination and acceptance of a normal rate of return on such net assets; 3) Estimate of the period during which the above normal profits will continue, i.e., their reasonable expectancy of life».

[96] Nelson (1953: 492) argues that: «Due to the nature of this momentum, it seems that the amortization would, in most cases, be over a life from two to ten years. The Annuity Theory would call for a shorter life than the Momentum Theory hypothetically, since excess earnings would cease before all the "push" was dissipated».

[97] Nelson explains that a purchaser is disposed to pay for goodwill because he wants a starting "push" as the creation of goodwill requires effort. Specifically the Author (1953: 491) writes: «*Goodwill* is about as fickle as the human nature of which it is an aspect. (…) Fickle or not, it is hard to build up, so the buyer of a concern will often pay a large sum of money for the *goodwill.* The reason is that he wants this starting "push" in his new enterprise, rather than to start fresh in a similar business and devote much effort and money over a long period of time to develop such *goodwill;* especially since his profits are likely to be meager until *goodwill* is developed».

and I deviate from prior literature highlighting the differences (Bloom, 2008; Ratiu and Tudor, 2013). The "annuity" theory focuses for the goodwill definition on the generation of "super-profit". The "momentum" theory implicitly refer to the generation of higher profits as the payment of an higher cost is associated to the will of the purchaser to start with a "push" and avoid the likelihood to obtain "meagre profits" until goodwill is developed. Of course, it is important to point out also that for Nelson it is not essential the obtainment of "super-profit" while in the "annuity" theory is. Both Nelson and Leake suggest goodwill to be amortised over its life. Nonetheless, since in the "annuity" theory the goodwill is tied to the generation of "super-profits" it is likely that its life is shorter while the "momentum" theory indicates that goodwill should be amortised in a span of period from two to ten years conditional to the "push" duration.

Chauvin and Hirschey (1994) provide empirical evidence that advertising and research expenditures are relevant sources of goodwill, this result in a certain sense is supportive of Nelson's theory.

The literature stresses how the "momentum" theory actually did not attract much debate even though it tries to find an alternative explanation for the recognition of goodwill (Bloom, 2008; Ratiu and Tudor, 2013). As I see it, Nelson's contribute has not been so much appreciated as it develops concepts anticipated by prior literature. Indeed, prior literature already tried to define goodwill specifying certain causal factors that might be at the base of the goodwill value. It should be anyway acknowledged the momentum theory contribution as it specifically identifies the main goodwill constituents with the marketing and promotional "push" deriving from acquiring a firm with goodwill.

Tearney (1973) aims at theoretically demonstrating that the goodwill acquisition is based upon certain identifiable conditions and argues that the failure in their recognition discloses nebulous information to the financial statement users. He (1973: 44) wittily argues that:

> «Whenever an acquired entity does possess excess profitability (theoretical goodwill), the underlying reasons for this excess could be identified, valued and recorded, rather than ignored and arbitrarily labeled "goodwill"».

Acting this way rather than determining the goodwill through the residual method and than amortise this value over a pre-established forty years period would disclose

more relevant information[98]. According to him the valuation methods already at the time he wrote were sufficiently developed and sophisticated to avoid the existence of goodwill within the statements as that value could be attributed to the identified assets (Tearney, 1973: 45)[99]. This contribution is an anticipation of what would be more recently proposed in Australia by Lonergan (1995) who grounds a theory on the "analyses of the goodwill components". The analysis of the goodwill components would help the financial statement preparers to better identify the useful life of the goodwill and amortised the identified sub-categories in a less indiscriminate manner over their life. To this scope Lonergan (1995) distinguishes amongst goodwill components with short (0-3 years), medium (3-7 years), long (7-10 years) and very long (10-20 years) useful lives. Specifically, the quality of management team, marketing expertise, know-how and technical skills are components that should be amortised over a short/medium period. The synergies are expected to expire in the medium period, while consumer preference loyalty, economies of scale, distribution network and locational are expected to expire in the medium-long period. Finally, the individuality/uniqueness and monopoly useful life may swing between short and long period. It is evident that the goodwill should be considered in terms of its constituent's elements avoiding to interpret it as a residual value as a top-down approach would imply (Bloom, 2008).

Leading this last theory to its extreme limit, in other words, being able to completely allocate the goodwill value over the corresponding identifiable intangibles, the goodwill would disappear from the financial statements. I wonder if the users in this latter case have more relevant information. To the extent that the system value is different from the mere aggregation of the net assets, as I see it this difference when allocated to the goodwill is representative of the firm past, present and future

[98] Tearney (1973) critically observes that: «The failure of accountants to require identification and valuation of so-called "hidden assets" is not because the task is impossible or impractical, but apparently because of a lack of interest when a generally acceptable and less time-consuming alternative exists—i.e., labeling the entire excess cost "goodwill"».

[99] The identification of the assets composing the goodwill value become as much important as being raised to a social responsibility for accountants. In this sense, Tearney (1973: 45) writes: «By substituting the catchall account "goodwill" for many assets purchased in business combinations, such as personnel skills and marketing channels, accountants are not only ignoring the existence of expert appraisers but perpetuating a disservice to clients and the general public as well. It is high time that we accountants recognized our social responsibility in this area».

perspectives[100]. Otherwise, the residual value should be allocated on the identified net assets overvaluing the assets or undervaluing the liabilities. This latter manoeuvre would certainly increase the subjectivity and would obscure the true and real value of the identified assets and liabilities[101]. Another alternative is to directly expense the residual value in the income statement, avoiding flexible attribution of value on the net assets. However, in this latter case the financial statement users would miss the information on the value of the system, interrelationships and synergies[102].

The above theory seems also consistent with the bottom-up perspective illustrated by Johnson and Petrone (1998) where the goodwill value is split in six components. This approach is also consistent with the IFRS 3 and SFAS 141 on business combinations[103].

1.5. Goodwill reporting under IAS 36 and in SFAS 142

After the historical excursus and before the empirical research it is important to zoom in on the origin and qualification of goodwill as an asset and then on the procedure of impairment as required by both the IAS/IFRS and US GAAP (see e.g. Paolini et al., 2003; Azzali, 2005; Allegrini et al., 2006; Andrei, 2006; Guatri and Bini, 2009; Di Pietra, 2010; Di Pietra and Allegrini, 2011; Marchi and Potito, 2012; Quagli, 2013).

The goodwill arises from a business combination as the excess of the consideration transferred by the acquirer over the net assets acquired (SFAS 141: § 34; IFRS 3: § 32)[104].

---

[100] Preinreich (1937: 29) underlines the importance of the future perspectives tied with the goodwill value: «The first point to remember in valuing goodwill is that the problem is concerned with the future, not with the past. It is necessary to look forward and not backward, because goodwill depends on future probabilities».

[101] In a certain sense it would inflate the net assets value with earnings management policies.

[102] For the financial statement users it becomes relevant both the information at the aggregation and disaggregation levels. Hence, the goodwill may represent the value of the aggregation which otherwise would remain hidden. In this sense see Miller (1973) who suggests that the aggregation level is important for wealth measurement and that: «This does not deny the relevance of information on individual asset valuations. In fact, a variety of attributes of assets at a variety of aggregation levels is relevant in assessing the current status of an enterprise and making decisions about investment, disinvestment, and future prospects. But any individual valuation should be interpreted within the context of a purposive system and, because of the interconnections in an enterprise, a number of perspectives on individual assets are required as well as information on the interrelations».

[103] For instance, cf. the Basis For Conclusion (B313) to SFAS 141 (revised 2007).

[104] Both the IASB and FASB prohibit the recognition of the internally generated goodwill. This prohibition in addition to the prohibition of the reversals of impairment on goodwill may constitute an

Once recognised as an asset in the statement of financial position, goodwill shall be assigned to reporting units (called cash generating units in the IAS/IFRS, CGU hereafter) of the acquiring entity that are expected to benefit from the synergies deriving from the combination (SFAS 142: § 34; IAS 36: § 80).

In a similar vein, the FASB's Exposure Drafts (1999, 2001) and the IASB's ED 3 (2005) list the six components that result from a business combination, of which only two directly refer to goodwill[105]. As indicated in the aforementioned Drafts, the "core" goodwill deriving form a business combination is formed (1) by the fair value of the *going concern* element of the acquiree's existing business and (2) by the fair value of the expected synergies or other benefits deriving from the combination of the acquirer's and acquiree's net assets. Saying it differently, the fair value of the *going concern* element represents the ability to achieve from the acquired net assets a rate of return higher than that expected by the management whether it have had acquired these assets and liabilities individually. The first component (1) of goodwill represents the value of the synergies detected within the acquired business, which was already recorded as goodwill in the acquiree's statement of financial position or was concealed in the form of internally generated goodwill (IFRS 3 BC 313). The second component (2) of goodwill often known under the label of "combination goodwill" takes form only after the business combination and is exclusively consequential of the synergies expected from that combination (Johnson and Petrone, 1998: 296; Henning et al., 2000)[106].

The Financial Accounting Standards Board (FASB) first introduced in USA the Statement of Financial Accounting Standards 142 "Goodwill and other intangible assets" in 2001. The International Accounting Standards Board (IASB) issued

---

incentive to avoid or underestimate goodwill write-offs. As a consequence, unrecognized goodwill write-offs might be meaningful (Chambers and Finger, 2011). Indeed, unrecognised goodwill write-offs may suggest that the acquired goodwill has been (inaccurately) replaced by internally generated goodwill, through a strategy of internal growth rather than through the external growth achieved with strategies of M&A or business combinations. As a matter of fact, some studies highlight how the fictitious separation between the internally generated goodwill and the purchased goodwill become clouded and the two items become undistinguishable (Bloom, 2009).

[105] For a complete exposition of the six components refer to note 18.

[106] These aspects are not mere technical accounting definitions. Indeed, the management strategies are continuously designed and changed according to the future benefits that may be derived from a certain operation, transaction or action and the composition and origin of goodwill enclose the future perspectives or expectations that the management has upon the firm and its investments (Chalmers et al., 2011).

International Accounting Standard 36 (IAS 36) in 2004[107]. The statements set the requirements for accounting goodwill and other intangible assets after their first recognition in the financial statements. The rationale for the issuance of new rules for goodwill and other intangibles stated in SFAS 142 was to provide better information about these assets, which are important economic resources, to analysts and other financial statements users (SFAS 142, p. 5). The scope for revising IAS 36 in 2004 «was to improve the quality of, and seek international convergence on, the accounting for business combinations and the subsequent accounting for goodwill and intangible assets acquired in business combinations» (IAS 36: § IN 2).

SFAS 142 and IAS 36 change the approach to how goodwill is accounted subsequent to its acquisition in accordance with SFAS 141 and IFRS 3; indeed, since it is no longer amortized its value will not decline systematically as under prior statements. Goodwill is not anymore presumed as a wasting asset (with definite life) and thus having indefinite useful life it will be tested at least annually for impairment[108]. A goodwill impairment loss arises when the carrying amount of the CGU (or CGUs) to which goodwill is allocated exceeds its implied fair value.

Following SFAS 142 (§§ 19-22) the impairment test on goodwill is carried out by the entity using a two-step process. The first step concerns with the estimation of the fair value of the CGU to which the goodwill was allocated and its comparison with the carrying amount of the same CGU to identify any potential impairment. When the carrying amount of the CGU exceeds its fair value, then the entity proceeds with the second step by measuring the amount, if there is, of the impairment loss of goodwill. Thus, the second step deals with the comparison between the estimated implied fair value[109] of reporting unit goodwill and the carrying amount of that goodwill. The excess of the carrying amount of reporting unit goodwill over its implied fair value corresponds to the impairment loss. The total amount of the impairment losses recognised in each reporting units shall be represented as a separate line within the

[107] The International Accounting Standards Committee originally issued the IAS 36 in 1998. Equally to the US SFAS 142 impairment-only-approach for goodwill, also IAS 36 mandates that goodwill is no longer subjected to the amortization process over its expected useful live while it has to be tested for impairment at least annually.

[108] The same approach is adopted for intangible assets with indefinite useful lives, while intangible assets with finite useful lives have to be amortized over their useful lives and they are tested for impairment only when there is an indication that an asset may be impaired.

[109] To determine the implied fair value of goodwill the entity shall allocate the fair value of a CGU to all of its assets and liabilities, comprising also the unrecognized intangibles, hence adopting the same procedure used in a business combination. Then, the amount exceeding the fair value of that CGU over the amounts allocated to its assets and liabilities corresponds to its implied fair value.

income statement before the subtotal income from continuing operations, unless the impairment losses are corresponding to discontinued operations.

Following IAS 36 (§ 104) the impairment loss deriving from the excess of the carrying amount over the recoverable amount of a CGU shall be allocated firstly to reduce the goodwill carrying amount allocated to the impaired CGU and the remaining impairment loss pro-rata to the other assets of the CGU on the basis of their carrying amount.

The adjusted carrying amount of the goodwill becomes the new accounting basis and subsequent reversals of previous impairment losses are not allowed (SFAS 142: § 20; IAS 36: § 124).

Ultimately, the SFAS 142 in paragraph 28 (and IAS 36 in paragraph 90) indicates that the impairment test on goodwill shall be performed between annual tests even when a particular event or circumstance occur and make it more likely that the carrying amount of the reporting unit exceeds its implied fair value (that the CGU value is impaired in IAS 36). Thereupon, the SFAS 142 lists a set of examples (not to be considered exhaustive) of such events or circumstances (e.g. a significant adverse change in the business climate; unanticipated competition; a loss of key-personnel; a more-likely-than-not expectation that a significant portion of a reporting unit will be sold)[110]. Similarly, IAS 36 in paragraph 12 indicates some triggering events for the impairment distinguishing between external sources of information (e.g. observable indication that the asset's value has declined significantly more than would be expected; significant changes with an adverse effect have taken place or will take place in the near future in the technological, market, economic or legal market in which the entity operates[111]; market interest rates have increased affecting the discount rate used to calculate the value in use; and the carrying amount of the entity net assets is higher than its market capitalisation) and internal sources of information (e.g. evidence is available of obsolescence or physical damage; significant changes with an adverse effect have taken place or will take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used, these

[110] In literature there are critics on the non-exhaustive list provided by the accounting standards regarding the triggering events. Amongst others Comiskey and Mulford (2010: 746) acknowledge that: «The standards themselves provide only limited guidance on what constitutes a triggering event and how an impairment charge should be measured. Further, the guidance provided is somewhat sterile and textbook- like, devoid of the richness and situation variability found in practice».

[111] Examples of such changes with an adverse effect might be the issuance of new norms that limit or do not allow the use of certain machinery, the exercise of particular activities or the commercialization of determined products (see Lionzo, 2007: 64).

changes comprise the asset becoming idle, future discontinuing, restructuring, disposal; and evidence is available indicating that the economic performance of an asset is, or will be, worse than expected).

1.5.1. (Dis)-approvals to impairment of goodwill

Accordingly, one of the main functions of the financial reporting is to provide financial users with sufficient and adequate information allowing the stakeholders to assume economic decisions and the investors to rationally allocate their resources (so-called decision-usefulness objective). To this scope, are fundamental certain reporting characteristics such as objectivity in terms of verifiability and neutrality.

The high flexibility allowed by the accounting standards with reference to the impairment test and specifically with the accounting for goodwill has always raised doubts in terms of reliability of the accounting numbers. The ample room for discretion left to the financial statement preparers if on the on hand increases the economic relevance of the accounting numbers, on the other hand may lead to earnings management practices. Thus, the trade-off between reliability and relevance may be well represented by two different stream of literature. The first stream of literature criticises the impairment test as it would reduce the financial reporting reliability allowing earnings management through anticipated or postponed losses (i.e. timeliness) as well as with the overvaluation or undervaluation of the impairment losses (Francis et al., 1996; Watts, 2003; Riedl, 2004; Beatty and Weber, 2006; Zang, 2008; Lhaopadchan, 2010)[112].

The flexibility allowed by the accounting standards relating to goodwill surfaces since its first recognition. As a matter of fact the goodwill originally has to be allocated to the CGU or CGUs, which are expected to benefit from the business combination synergies (Massoud and Raiborn, 2003; Jordan and Clark, 2004)[113].

[112] Watts (2003: 217) directly maintains that: «Assessing impairment requires valuation of future cash flows. Because those future cash flows are unlikely to be verifiable and contractible, they, and valuation based on them, are likely to be manipulated». Laopadchan (2010: 123) stresses that the prohibition of impairment reversals on goodwill incentivises to avoid or postpone the losses: «As such this creates incentives to time goodwill write-downs or even postpone impairment as any fall in value is charged against the current period's profits».

[113] Jordan and Clark (2004: 65) note that: «Discretion is required in allocating assets among reporting units and certainly is needed in determining fair values for the assets in the reporting units. This discretion opens the door for earnings management and big bath charges».

Hence, the room for judgements derives from the identification of the CGU[114], the identification and consideration of the triggering events[115], the selection of proper market value benchmarks and of the key inputs for the estimation of the value in use (e.g. risk-adjusted discount rates, growth rates, cash flow projections, etc.)[116]. The great number of variables to take into account in carrying out the impairment procedure makes the results across firms also scarcely comparable (Comiskey and Mulford, 2010)[117]. The cost-based accounting supporters maintain that values are too subjective and also they depend on the time variable; hence it is preferable to use the historical cost. The historical cost allows higher verifiability and objectivity hence it would better assist users in evaluating the convenience of certain investments and more generally the firm economic and financial conditions (Bedford and Ziegler, 1975).

A second stream of the literature maintains that the impairment test flexibility is exploited in order to send credible information to the market on the effective values of the tested assets (Rees et al., 1996; Godfrey et al., 2009; Jarva, 2009). The

[114] The identification of the size of the CGU is not neutral since the impairment loss of a CGU cannot be offset by any potential revaluation of other CGUs, then the larger the CGUs the lower, *ceteris paribus,* the likelihood to impair the goodwill is. For example, Carlin and Finch (2011: 379) observes that: «By defining too few CGUs relative to the true number of operating units within the organisation which generate independent streams of cash flows and with which at least some goodwill is associated, the level of disclosure transparency achieved falls, and the risk that impairment losses which should be recognised in a given period are not recognised in that period, rises». Also Guatri and Bini (2009: 69, translated) observes that: «The identification of the CGUs is a critical aspect of the goodwill impairment test».

[115] It is significant to point out that besides the annual test, the impairment test triggers off whenever any indication of impairment is judged to affect the CGU recoverable amount. This implies a preliminary (and subjective) assessment of the overall firm situation and on the likelihood that the CGU value is impaired.

[116] For instance the guidance to IAS 36 A17 may open to earnings management; Husmann and Schmidt (2008: 60) state that: «if a highly leveraged entity is interested in a high impairment, it may determine the value in use using an estimated cost of capital based on the 'incremental borrowing rate'. If the entity is not highly leveraged, it may use WACC as the discount rate instead. If the reporting entity is interested in a low impairment, it may act the other way round, that is, use WACC if the entity is highly leveraged, and the 'incremental borrowing rate' if it is not». In a similar vein Carlin and Finch (2009: 334) state that: «If bias in the selection of discount rates exists, fundamental questions must be asked about the quality of reported earnings, the validity of valuations ascribed to goodwill and the status to be accorded to financial statements produced in conformity with the IFRS regime».

[117] Comiskey and Mulford (2010: 765) supports that the implementation impairment of goodwill is challenging, indeed: «Triggering events are many and vary greatly in significance and severity. Different valuation models are used and there is little conformity in the selection of discount rates. In some cases, but not consistently, control premiums are used to enhance the indicated market values of reporting units. Some firms may even deny the need for an indicated impairment charge. We often noted the need for the use of estimates and the possibility that these estimates might be managed to avoid goodwill impairments. At a minimum, assessments of goodwill impairment limit the comparability of results across firms».

impairment decisions in this sense are used to signal the firm economic and financial performance to the stakeholders. Some researchers find that the impairment losses are associated with the firm stock-returns and with poor-operating performance (Strong and Meyer, 1987; Elliot and Shaw, 1988; Rees et al., 1996; Ahmed and Guler, 2007). Li et al. (2011) find that both investors and financial analysts after the announcement of an impairment loss revise downward their expectations and this revision is related to the magnitude of the impairment loss. Bens et al. (2011) also find a negative and significant stock market reaction to unexpected goodwill write-offs. Interestingly, they find that this negative stock market reaction is attenuated for firms with low information asymmetry (their proxy is a high analyst following). When the firm impair the goodwill then the market already incorporated the information, hence the negative stock return is attenuated. Jarva (2012) examines the consequences of SFAS 142 goodwill write-offs according to different points of view. The first one explores whether the write-offs generate positive 'abnormal' returns in the year following the impairment of goodwill, as investors tend to fixate on earnings. The second perspective investigates the association between goodwill write-offs and analyst-forecast accuracy as regards future earnings. The last tested hypothesis refers to audit pricing and it asserts that firms recording goodwill write-offs pay higher audit fees than non-write-offs firms. Consistently with the basics of market efficiency, analyst-forecast rationality and efficient audit pricing, the Author (2012) concludes that investors and analysts are able to incorporate the information related to goodwill write-offs and the auditors charge higher fees to balance the greater effort required.

As observed by Kim et al. (2013) it is not inconsistent that IAS 36 and SFAS 142 created two opposite views on the introduced higher subjectivity. Indeed, verifiability and representational faithfulness represent two sides of the same coin, in other words, both the above-mentioned features, that not necessarily occur together, are explicative of the reliability concept.

1.5.2. Accounting for goodwill: Impairment of goodwill, amortization of goodwill and immediate write-off.

Given the above-mentioned doubts on the impairment of goodwill it might be interesting to succinctly hint at the diverse accounting approaches generally

discussed for goodwill. For example, Laghi (1994) analyses the considerations behind three different alternative practices used to account goodwill: 1) the goodwill has an indefinite useful life and as such its value should not be systematically amortised; 2) the goodwill as the other assets has a definite useful life hence its value should be amortised along its life; 3) the goodwill value should be immediately written-off, either offsetting its value against the reserves, or directly expensing its cost in the income statement[118].

The first school of thought believes that the goodwill value represent a set of internal and external relations, coordinated and combined in such a way that contributes to the firm going concern. Hence the goodwill value is a sort of "collection of favourable attributes" that perpetuates through unceasing transformations until the firm complex continues its operations (Laghi, 1994: 44). The fallout of these considerations is the conception of goodwill as an asset with indefinite useful life whose value should not be amortized. Some Authors point out how by retaining the value of the goodwill is methodologically rather more rigorous[119] (Stacy, 1987; Tweedie and Blanchet, 1989). For instance, Tweedie and Blanchet (1989) dissent from the major disapproval to this method, which maintains that retaining the value of purchased goodwill is an elusive manner to include the value of the future internally generated goodwill[120]. Also, if we consider the goodwill as an asset with

[118] Also Brunovs and Kirsch (1991) recognises three alternatives accounting methods for the goodwill, specifically: «By the early 1900s three clear schools of thought had emerged. Hughes identified and classified the alternative accounting treatments as: (a) immediate write-off, (b) permanent retention as an asset, and (c) gradual reduction». In literature there are also the proposals of other alternative methods for the accounting of post-acquisition goodwill (see Carlin ad Finch, 2007: 77-78).

[119] Stacy (1987: 22) lively debates that: «The fact that a price may be calculated mathematically by reference to profits for a particular period does not mean that it is only those profits that the purchaser is acquiring an interest in. The effect of a high discount rate in arriving at a present value means that profits after, say, 10 years have very little effect on a business valuation, but the profits for the period after that time are still available. So if a valuation for goodwill appears initially to be based upon 10 years' profits, than as the years go by its value will continue to be supported by an evaluation of 10 years' profits. Nothing has been used up or realised; the purchaser acquired the right to profits for an infinite period and nothing has changed». Tweedie and Blanchet (1989: 20) write that: «The argument in favour of retaining acquired goodwill as an asset is that its book value should not be reduced as long as the value of the asset appears unlikely ever to fall below the cost». On the other hand: «Arguments used against amortisation are: that net income should not be reduced by both depreciation and by expenditure intended to maintain the value of goodwill; that any period of amortisation is in essence arbitrary, as the life of goodwill is indefinite; and that the selection of an arbitrary period for amortisation can lead to an understatement of net income during the period and an overstatement later».

[120] Tweedie and Blanchet (1989: 20) continue saying: «This method is criticised as acquired goodwill is deemed eventually to be replaced with self-generated goodwill. Income, it is argued, can be overstated if acquired goodwill is not written off as its benefits expire, and income would be understated when the eventual write-off took place».

indefinite useful life, its subsequent write-downs will constitute unwavering indicator of the overall financial and economic position of the firm. Besides, the recognition of goodwill as an asset diminishes the difference between the equity book value and the market value (Woolf, 1990)[121].

On the contrary, another part of the literature supports the amortization of goodwill (Graham and Mcgolorick, 1964; Rutteman, 1987). The goodwill as the other long-lived assets is an anticipated cost for future benefits thus it should be amortised over the time it produces income[122]. As the other long-lived assets the value of goodwill depreciates as the synergies and relationships from which it derives are predestined to change over time. Cooper (2007: 255) recalls a long list of Authors supporting the capitalization at cost of the goodwill and the subsequent amortisation to profit and loss[123]. In this framework, the goodwill like the other assets has a definite useful life[124].

The third approach suggests to immediately write-off goodwill against reserves or expensing in the income statement. The immediate write-off against reserves is based on the belief that the purchased goodwill should be treated consistently with the internally generated goodwill. Since the internally generated goodwill cannot be recognised in the statement of financial position, the cost of the purchased goodwill should be immediately written-off, but this write-off should not affect the income statement and the future income. The reason underlying the write-off of goodwill against the equity derives from the fact that it is motivated only by a reason of

[121] Indeed, Woolf (1990: 93) says that: «One advantage of permitting the undepreciated retention of acquired goodwill in qualifying instances would be to reduce the discrepancy between balance sheet values and market capitalisation». The Author disapproves the goodwill amortization; putting it into his words: «This problem lies at the heart of the goodwill conundrum: all methods of eliminating it assume (without proof) that goodwill is a depreciating asset, and this assumption has now become a feature of both European directives and U.K. legislation».

[122] Rutteman (1987: 32) specifies that: «This would reflect the reality that the price paid for another company is dependent on the perceived value of the intangible asset of goodwill, that the intangible asset represents a cost used up in earning additional profits, and that the cost (amortisation) and the profits should both reflected in earnings per share».

[123] Specifically, within this school of thought Cooper (2007) cites the following Authors: Bourne (1882: p. 604), Guthrie (1898: pp. 428–429), Storer, Trevor, Grierson, Fred Scott and Matheson (in Roby, 1882: p. 293), Whinney (in Payne, 1892: p. 145), Densham (1898: p. 570), Cooper (in Smith, 1904: pp. 48–49) and Leake (1912, 1914, 1921).

[124] On the definite useful life of goodwill read Guthrie (1898: 428) stating that: «No goodwill is eternal, and some provision, however small, should be made for its ultimate extinction, whether its estimated life – and the estimate must always be absolutely arbitrary – be it ten years or a hundred years». Read also Emery (1951: 566) arguing that: «It must be realized that all factors giving rise to goodwill value are finite or temporal».

consistency with the internally generated goodwill[125]. Finally, the immediate expense of goodwill in the income statement is grounded on the hypothesis that the goodwill does not satisfy the assets definition as it is not controlled by the company and the higher cost paid is not related to expected future benefits (Laghi, 1994: 57).

This short discussion of some alternatives for the accounting of post-acquisition goodwill should be interpreted also in light of the recent debate on the goodwill write-off. As indicate Bratten et al. (2013) in the USA the US Public Company Accounting Oversight Board calls for research on the goodwill write-off. In Europe the European Financial Reporting Advisory Group is currently discussing the re-introduction of the goodwill amortization in the EU to avoid excessive subjectivity in the goodwill impairment (EFRAG, 2014).

1.6. Discussion

The brief historical excursus presented so far highlights some similarities and differences amongst the concepts proposed by the Italian literature on "*Economia Aziendale*" and the modern applications in accordance with the accounting standards. In general, without going back in the single models, we can see that relating to the concept of assets' recoverable amount, the difference between value in use and fair value existent in IAS 36 and SFAS 142 has been somewhat anticipated by both Pietro Onida and Giovanni Ferrero with the distinction (still up-to-date) between the direct and indirect realizable value.

In addition, even though the IAS 36 and SFAS 142 do not fully embrace the phase of the systemic evaluation, in part and with regard to the impairment test of goodwill at the corporate business level, that is when the test is carried out on the CGUs, the valuation become systemic.

[125] Rutteman (1988: 24) notes that: «On one side are those who see no grounds for valuing purchased goodwill on a different basis from that used for self-generated goodwill. If the latter is not capitalised, than to be consistent the purchased goodwill should be written-off immediately but not so that it affects income. (…) Whatever the technical merits of the opposing arguments, a practical factor had to be brought into consideration: amortisation reduces reported profits, whereas a write-off against reserves does not».

Finally, it seems possible to summarily maintain that the international accounting standards (and the US GAAP) related to the valuation of long-lived assets[126] have borrowed some concepts outlined by the past academic literature, approaching in certain respects to each model presented and at the same time departing in other respects. Recently, some Italian Authors stress how the notion of recoverable amount existent in the current accounting standards may be approximated for certain aspects with a particular notion of "equity economic value"[127].

With reference to the concept of goodwill we find almost in all the Italian and International accounting literature a deliberate intention to define it, to limit the boundaries for its recognitions and to regularly control its value through *ad hoc* evaluations practices. Due to the complexity that has inspired the debate on the goodwill[128], aiming at concisely interpreting it in Table 1.1 I enclose in chronological order some of the delineations of goodwill provided by diverse Italian Scholars[129] (see note VI at the end of this chapter). Specifically, Table 1.1 includes the Italian and the translated English definition, the corresponding references and finally an extrapolation from the entire definition of a summarizing delineation characterising each description. Even though we perceive the evolution in the concept, we can also perceive that since the first definitions there are some common features. These features might be convened according to the Schools that influenced the thought of the Authors. We can see that before Besta the goodwill is assimilated to the ability to

[126] In detail, see with reference to the IAS/IFRS the IAS 16, IAS 36 and IAS 38 and with reference to the US GAAP the SFAS 142 and SFAS 144 respectively superseded by the Accounting Standards Codification (ASC) 350 and ASC 360.

[127] See Florio (2011: 119), Lionzo (2007: 10) and Momentè (2003: 251).

[128] See D'Alvise (1938, translated) who notes that: «The ideas divergence is too complex and severe to draw, albeit with the best examination, a conceptual conclusion» and De Minico and Amodeo (1942: 81, translated) that few years later observe: «Perhaps the long debates that in doctrine and practice have long been developed around the topic, are in part due to the fact that each author has attributed to the word "goodwill" an all personal meaning, and has set about to refute the other authors arguments, without in the most cases clarifying their initial positions of thought». Onida (1956: 7, translated) acknowledges that: «The definition and particularly the scientific one, is destined, therefore, as the theories, to be superseded with the knowledge extension and with the refinement of the investigation methods; in the economic field, then, the definitions can change in the time, also because the same phenomena which are the object of the study change in their manifestations». In a similar manner Ardemani (1958: 6, translated) highlights that: «We (indeed) must not forget the merely instrumental character of the scientific definitions».

[129] We can find a similar approach in Courtis (1983) where the Author in the appendix presents a chronology of selective definitions of goodwill from 1882 to 1981. Courtis (1983: 3) observes that: «Continuously throughout the chronology of definitions there is this slippage in thinking between goodwill as attributes that generate patronage, and goodwill as an asset resulting from application of a profit capitalization formula».

attract customers or the credibility of the company anyway it was generally considered a latent value (Villa, 1870; Giocoli, 1905).

Overall, we may say that the least common denominator in all the formulations is the resolute conviction that goodwill derives from the acquisition of an economic complex, as since the first definitions, goodwill is perceived as the excess cost paid to acquire a firm. From this point of view, over the decades this conviction has not changed. Now as then, the internally generated goodwill cannot be recognised in the financial statements, both under the IAS/IFRS and the US GAAP[130].

The income takes on a key role in almost all the formulations of goodwill.

Some Scholars assimilate the income to the "economic profit" and the goodwill becomes the "*fictitious capital*" (Massa, 1898), the "*extra-profit*" (Alfieri, 1908) or the "*condition to obtain economic profit*" (Amaduzzi, 1963) that allows the achievement of a return higher than that of the interest for the invested capital and for the shareholder's remuneration.

Other Authors compare the income with the income produced by other companies with the same economic conditions (e.g. industry, size, etc.). First and foremost, Besta (1922) explains that goodwill ensures a return higher than the normal return obtained by similar companies. Following, we find Besta's disciples like Vianello (1932) that associates the existence of a business with goodwill to the obtainment of higher profits than other traders, or D'Alvise (1934) that speaks of company with goodwill when it produces profits higher than the normal profits produced in the same environment, or Della Penna (1931) maintaining that goodwill may derive by the way the assets are combined and used beyond the normal efficiency measure. Also Zappa (1927) suggests that the existence of goodwill allows the firm to achieve profits higher than those considered normal. Further, D'Ippolito (1955) writes that in the firms with goodwill it is possible to obtain an income higher than that produced by similar firms in the same industry but with a different goodwill and anyway an income that is higher than the normal remuneration of the invested capital. Conversely, Ponzanelli (1955) indicates that the goodwill value should not be

[130] IAS 38 at paragraph 48 in bold prescribes what follows: «Internally generated goodwill shall not be recognised as an asset». Equally, SFAS 142 paragraph 10 dictates: «Costs of internally developing, maintaining, or restoring intangible assets (including goodwill) that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business and related to an entity as a whole, shall be recognized as an expense when incurred». Also in Italy it is excluded the recognition of internally generated goodwill to this regard see *Organismo Italiano di Contabilità* (OIC) No. 24 paragraph 69.

determined as the ability of the firm to produce profits higher than those produced by the average firms of that type. Still in more recent times the goodwill has been associated with the efficiency of the elements coordination (Guatri, 1955) or with the prospect of durable future income (Ardemani, 1958).

As hinted at paragraph 1.3.2 in the international literature we can find some common points between the concept of "normal income" anticipated by De Minico (1935) and "variable income" as suggested by Alexander (1950) and Solomons (1961). Both concepts of "normal" and "variable" income, indeed, are forward-looking and are basically stable in the long run[131].

Then, out of Italy the theory of the revaluations *"fuori bilancio"* might be compared with some concepts proposed by Edwards and Bell (1961). The Authors develop the concept of current income expressive of the increase or decrease in the value of the equity, evaluated at current costs. When we consider the decrease in the value of the equity it is apparent the link with the downward revision of the goodwill value ran through the current impairment test. In detail, they (1961) make reference to the replacement cost (Edwards and Bell, 1961), where asset figures are based on sacrifice values, the cost that the firm would sustain if it had to repurchase or reconstruct that particular asset, and not on benefit values. Thus, the replacement cost seems to be less balance sheet oriented than other measurement rules. However, especially if realisable holding gains are allocated to the income statement, the measurement income process is consistent with the asset-liability paradigm, in so that some revenues and costs are obtained just by the variation in the value attributed to an asset or liability, without any reference to an actual transaction[132]. The measurement process, as is required in the asset-liability paradigm, begins with the determination of the value of each asset and liability and leads to the determination of revenues and expenses. It is important, however, to underline the differences with the above Italian doctrine. Indeed, Edward-Bell's replacement cost (current cost) is

[131] According to Solomons (1961) the economic income will react both to real future changes and to changes in human expectations, and the effects of these two sets of factors will be inextricably combined. Actually, Alexander (1950) distinguishes between: mixed economic income, pure economic income and variable economic income. The first one takes into account the unexpected changes. For the economic income and variable income see also: Hicks (1939), Alexander (1950), Solomons (1961), Penman (1970), Staubus (1971).

[132] As we can read from Edwards and Bell (1961: 36): «The purposive profit-making activities of a firm can be conveniently divided into 1) those yield a profit by combining or transforming factors of production into product whose sale value exceeds the value of the factors and 2) those that yield a gain because the prices of assets rise (or prices of liabilities fall) while such assets (or liabilities) are in possession of the firm».

applied indifferently and systematically to all the assets and liabilities (e.g. including inventories) while the theory of the revaluations "*fuori bilancio*" is applied neither systematically nor to all the items of the equity. Finally, a relevant difference consists in the presence of a gain or loss (holding gain or loss) in the income statement following the above equity "adjustments" according to the current cost, while, following the revaluations "*fuori bilancio*" the gain or loss can never appear in the income statement.

This analysis is limited to the study of some models considered significant even though it may be considered incomplete, since countless and authoritative Italian and International academics have pronounced on the issue. Furthermore, this chapter is mostly dedicated to the Italian context, while there is only an overview of the International historical context. Specifically, in the paragraph dedicated to the overview of the International studies I contemplate only three theories underlying the goodwill concept (i.e. "annuity theory", "momentum theory" and "analyses of the goodwill components"). Although the reported list should be considered as a mere indicative interpretation of some of the most debated theories but not as an exhaustive list. For instance, I do not examine the "residuum theory"; in the residuum concept the goodwill is the «balance of the legitimate values attaching to an enterprise as a totality, over the sum of the legitimate values of the various tangible properties taken individually» (Gynther, 1969: 249). Again, also in the paragraph dedicated to alternative methods to account for post-acquisition goodwill I explore only three alternatives (i.e. impairment, amortization and immediate write-off of goodwill). This list should not be considered as complete as prior literature suggested also other alternative accounting treatments. Finally, in the analysis I do not consider the perspective of the practitioners and of professional bodies in the history, which could be constructive as they may anticipate or on the contrary may be anticipated by the academics streams of literature.

In light of these premises, in the following chapter I present the methodology and methods used in the thesis and in chapter three I show the empirical research carried out on the relationship between the impairment test and corporate governance.

Table 1.1: A chronological list of selected delineations of goodwill provided by the Italian "*Economisti Aziendali*".

AUTHOR	DEFINITION IN ITALIAN	DEFINITION TRANSLATED IN ENGLISH	GOODWILL	REFERENCE
VILLA	«Diconsi capitali immateriali le somme che si impiegano per esempio nell'acquisto di clientele, altrimenti avviamento di commercio. Se, rilevando un negozio, si pagano 10 mila lire a titolo di avviamento, non viene perciò ad aumentare di un millesimo il valore delle mercanzie comperate; ma il credito di cui gode il negozio rilevato, la buona qualità delle mercanzie, l'onestà de' prezzi, attirandovi gli avventori, le dieci mila lire sono il valore di questo credito».	«We call them intangible assets the sums that are used for example in the purchase of customers, otherwise trade goodwill. If, acquiring a business, you pay 10,000 Lire for goodwill, it does not therefore increasing the value of a thousandth of the acquired merchandise; but the credit owned by the business acquired, the good quality of the merchandise, the prices honesty, attracting the customers, the ten thousand Lire are the value of this credit».	Credibility of the company acquired	Elementi di amministrazione e contabilità, 1870: 48-49
MASSA	«L'avviamento di un negozio viene da molti considerato come un capitale e compreso nell'inventario. Se un negozio in proporzione al capitale impiegatovi, frutta una somma rilevantissima, di gran lunga superiore all'interesse del capitale ed anche ad un largo compenso al proprietario per l'opera sua di direzione, è certo che, dovendosi cederlo, il proprietario non si contenterà di riavere il capitale impiegatovi, che tanto vorrebbe vendere tutto e chiudere il negozio; ma pretenderà un compenso per l'avviamento».	«The goodwill of a business is widely considered as a capital and included in the inventory. If a business in proportion to the capital invested, returns a very considerable sum, far superior to the capital interests and also to a large compensation to the owner for its direction activity, it is certain that, having to sell it, the owner does not content himself to get back the capital invested, as he would like to sell everything and close the business; but it will demand a compensation for the goodwill».	Fictitious capital	Ragioneria teoretica, 1898: 38.
BELLINI	«L'avviamento è di tutte le attività immateriali la più elastica, siccome quella la cui esistenza accertata potrebbe mancare domani. Infatti l'avviamento è un valore così variabile, che non può venire valutato in modo concreto, che nell'eventualità della cessione dell'azienda a terzi».	«Amongst all the intangibles, goodwill is the most elastic, as its ascertained existence might be missing tomorrow. Indeed, goodwill is a value so variable that can be assessed in a concrete way in the event of the company sale to third parties».	The most elastic intangible	Trattato elementare teorico pratico di ragioneria Generale, 1898: 58
GIOCOLI	«…il reddito conseguibile dal patrimonio e la capitalizzazione del reddito stesso non debbono, in alcuna maniera, influire nel determinare il valore degli elementi effettivi, e che il bene complementare da noi chiamato avviamento conserva un valore latente, come fattore potenziale di guadagno, ma non può trovare posto nella parte attiva del bilancio, finchè l'azienda procede nel suo regolare funzionamento. Tuttavia, abbiamo, come già dicemmo, un componente patrimoniale positivo, che richiama alla mente il detto bene complementare, ed esso appare in bilancio sotto la denominazione di spese d'impianto, o di primo stabilimento, o di fondazione, semprechè si tratti di spese effettivamente erogate per contribuire a creare e ad accrescere, all'azienda una potenza economica».	«... The income achievable from the equity and the capitalization of the same income must not, in any cases, influence in determining the value of the actual items, and the complementary item that we call goodwill retains a latent value, as a factor of potential earnings, but has no place amongst the assets in the statement of financial position, as long as the firm proceeds in its regular operation. However, we have, as we already said, a positive equity component, which brings to mind the said complementary item, and it appears in the financial statement under the name of installation costs, or first plant, or establishment, proved that these are expenses actually incurred to contribute to create and increase, to the firm, an economic power».	Complementary asset; latent value	La valutazione dell'avviamento, 1905: 15
MINGARELLI	«L'avviamento è l'elemento immateriale, il capitale morale dell'azienda; è l'indice misuratore e valutabile della sua prosperità attuale; è il risultato di	«The goodwill is the intangible element, the moral capital of the company; it is the indicator that measures and evaluable of its current prosperity; it is the	Moral capital of the company	Di una formula matematica per la

	tutte le cure, di tutti i sacrifici e di tutte le lotte del commerciante, congiunti ad un complesso di fortunate circostanze di tempo, di ubicazione, di abitudini ecc., che hanno concorso ad attirare, conservare ed aumentare una buona clientela».	result of all the trader cares, sacrifices and struggles, joint to a set of fortunate circumstances of time, location, habits etc., which contributed to attract, retain and increase a good clientele».		valutazione del capitale di avviamento in una taberna instructa, 1906: 5
ROSSI	«Quando un'impresa è stata ben istituita in un ambiente adatto e quando abbia acquistato se non la certezza almeno una certa sicurezza di potersi ricavare negli anni futuri un reddito netto o costante o gradualmente crescente, si è formata una energia, una potenza economica *sui generis* capace di dare un reddito, se oggettivamente considerare, sono capitali, così anche quell'energia che si è formata con un'azienda produttiva sarà da considerarsi come un capitale, avente un valore proporzionato al reddito che procura. Ora codesta potenza economica, codesta energia, insomma codesto capitale *sui generis*…dicesi *avviamento,* buon avviamento cioè dell'azienda in cui è nato e in cui manifesta i suoi effetti col mezzo del reddito netto». «Si guardi però dal ritenere che l'avviamento sia un capitale vero e proprio… il buon avviamento si risolve in un reddito annuo costante sinchè durano le condizioni in cui si è formato».	«When a firm has been well established in a suitable environment and when it has acquired if not the certainty at least a sort of sureness of being able to obtain in future years a net income either constant or gradually increasing, it has formed an energy, an economic power *sui generis* able to produce an income, if objectively considered, they are capital, so also that energy that was formed with a productive firm will be considered as a capital, having a value proportionate with the income it produces. Now this economic power, this energy, in short this *sui generis* capital... is called *goodwill*, goodwill of the firm that where it has been originated and where it shows its effects by means of net income». «Beware, however, to consider the goodwill as a real capital…the goodwill results in an annual constant income constant as long as the conditions in which it was formed last».	Economic power, capital whose value is commensurate with the income that produces	Sulla tassabilità del prezzo di avviamento delle imprese e del sovrapprezzo delle società commerciali e industriali. 1906: 12-13
ALFIERI	«…se trattasi d'impresa in condizioni tali da non far temere che sia prossima la sua fine e da far piuttosto sperare che avrà vita lunga e proficua, i valori dei singoli elementi patrimoniali possono determinarsi in guisa che la loro somma indichi quanto si ricaverebbe dalla vendita complessiva dei beni a chi volesse mantenerli nell'attuale loro destinazione. Questa somma di valori adeguasi a quella del valore di alienazione dei singoli elementi patrimoniali, distintamente presi e del valore di avviamento dell'impresa; considerando come effetto dell'avviamento l'extra-profitto che, per lo stato dell'impresa stessa, si potrà ancora ottenere; voglio dire l'aumento futuro del patrimonio netto oltre la somma degli interessi normali sui capitali assegnati all'impresa, il premio per il rischio e la rimunerazione normale per l'opera personale dell'imprenditore».	«In the case of a firm in conditions that do not cause concern that it is close to its ending and that make hope that it will have a long and fruitful life, the values of its individual assets can be determined in such a way that their sum indicates how you would derive from the sale of the total asset to those who would like to keep them in their current destination. This sum of values conforms to the sale value of the individual assets, taken separately and of the firm goodwill; considering as a result of the goodwill the extra-profit which, for the condition of the firm itself, you will still be able to obtain; I mean the future increase in equity over the sum of the normal interest on capital allocated to the company, the risk premium and the normal remuneration for the personal work of the entrepreneur».	Real capital coordination	La valutazione dell'avviamento, 1908: 156
SALVATORI	«La valutazione al costo non soccorre al bisogno. Con essa non possiamo rappresentare che l'onere sostenuto per la spese di primo impianto, di fondazione e simili occorse all'azienda. Queste infatti sono incluse fra le voci attive del bilancio e si ammortizzano gradatamente. Talune volte si risolvono in una perdita effettiva, specialmente quando profuse senza ponderazione. Comunque il valore di avviamento non può essere contenuto nei limiti delle somme erogate per dar vita e solidità all'azienda, ma deve estendersi a quel complesso di requisiti d'ordine economico, morale e intellettuale necessari per l'avvenire dell'azienda stessa».	«The cost valuation does not help when needed. With it we can represent only the expenses for the installation cost, establishment and similar that the company occurs. These indeed are comprised among the active items of the financial statement and are gradually amortised. Sometimes they resolved in an effective loss, especially when squandered without a weighted consideration. However, the goodwill value may not be contained within the limits of the sums paid to give life and solidity to the company, but it must extend to the complex economic, moral and intellectual requirements, necessary for the company future».	The goodwill value extends to the complex economic, moral and intellectual requirements	L'avviamento, 1912: 482

BESTA	«…trova la ragion di sussistere e la misura sua nella somma dei beni che l'impresa può sperare di ottenere in avvenire, come frutto di capitali suoi, al di sopra dei frutti normali che sogliono dare i capitali nelle imprese congeneri».	«The goodwill exists and is measured as the sum of the resources that the company hopes to achieve in the future, as a result of its capital (investments), higher than the normal profits that are used to be produced by the investments of similar companies».	Complementary asset	La Ragioneria, Libro I 1922: 75
BESTA	«…il valore cui l'impresa prospera ha per sé stessa indipendentemente dai beni suoi, o se vuolsi il maggior valore che acquistano questi beni in quanto trovansi congiunti insieme e impiegati in modo proficuo oltre la misura normale».	«…The value which the thriving entity has itself regardless of its assets, or if willed the greater value that these assets acquire as being joined together and used in a profitable way beyond the normal measure».		La Ragioneria, Libro I 1922: 85
BESTA	«…valore dell'avviamento è essenzialmente pari all'eccesso dei frutti che, nell'ipotesi di una gestione normale retta da energie fisiche, di volere e di intelligenza normali, ordinarie, possono sperarsi o presumersi dai capitali effettivamente investiti in quell'affare o in quell'impresa sui frutti medi che sogliono dare i capitali impiegati con pari sicurezza in altri affari o imprese simili o analoghe, ma in condizioni comuni, non privilegiate».	«…The value of goodwill is essentially equal to the excess of the profits that, assuming a normal management supported by physical energies, of normal, ordinary will and intelligence, can be hoped or assumed from the capital actually invested in that business or in that entity on the average profits that tend to return the capital invested with equivalent safety in other business or in similar or analogous entities, but in common conditions, unprivileged».		La Ragioneria, Libro I, 1922: 422)
ZAPPA	«L'avviamento è un capitale immateriale costituito da quei fattori che concorrono a fare sì che la rimanente porzione del patrimonio di una determinata impresa frutti oltre la misura normale. Tra i principali fattori dell'avviamento può innanzitutto ricordarsi il credito, ossia la reputazione e la fiducia di cui l'azienda gode sul mercato sia per cause soggettive – inerenti agli amministratori suoi, come per cause oggettive quali la qualità o la specialità dei prodotti. (…) (l'avviamento) però non è un'entità economica corrispondente ed equivalente al maggior utile, ma è invece, come già dissi, un capitale, un capitale "effettivo", "vero e proprio" e di importanza talora rilevantissima…».	«Goodwill is an intangible capital made up by those factors that concur to ensure that the residual portion of the equity of a given firm gives a return beyond the normal measure. Among the main factors of goodwill, we can first of all remember the credit, that is the reputation and the confidence the firm enjoys in the market both for subjective causes - related to its directors, as for objective causes, such as the products' quality or specialty. (...) but (the goodwill) is not an economic entity corresponding and equivalent to the higher profit, but is instead, as I said, a capital, an "effective" capital, "real" and sometimes of very considerable importance…».	Immaterial capital	Le valutazioni di bilancio con particolare riguardo ai bilanci delle società per azioni, 1910 (ristampa 1927)
ZAPPA	«…il valore di avviamento di un capitale in funzionamento, che è la più sintetica espressione della redditibilità di una impresa, non può derivarsi dalla composizione dei valori attribuiti agli elementi patrimoniali: un complesso economico non può scindersi quantitativamente in parti costitutive».	«The goodwill in the context of the income-based valuation method is no more considered as an asset, but as observed by Zappa the value of the goodwill of a going-concern company, that is the most concise manifestation of profitability, cannot be derived by the mere composition of the assets values since an economic complex (system) cannot be broken down quantitatively into constituent portions».	Synthetic manifestation of profitability	La determinazione del reddito nelle imprese commerciali, 1920-1929: 583
ZAPPA	«…il cosìdetto costo dell'avviamento non suole essere altro che una porzione, maggiore o minore determinata nelle più bizzarre guisa, del prezzo di apporto di un complesso economico».	«…the so-called cost of goodwill is nothing else than a portion, higher or lower determined in the most bizarre manner, of the price of a conferred economic complex».	Higher/lower price of an economic complex	La determinazione del reddito nelle imprese commerciali, 1920-1929: 670
VIANELLO	«L'avviamento, economicamente considerato è il plusvalore che, in caso di cessione, può attribuirsi a un'impresa commerciale prospera e fiorente di fronte al valore che risulta dalla valutazione delle diverse attività e passività che costituiscono, nella loro somma algebrica, il capitale netto di essa».	«The goodwill, economically considered is the surplus value that, in case of transfer, may be attributed to a prosperous and thriving commercial firm comparing to the value resulting from the evaluation of the different assets and liabilities that constitute, in their algebraic sum, the net assets of it».	Surplus value	Istituzioni di ragioneria generale, 1930: 53

DELLA PENNA	«In fine, gli elementi attivi dell'ultima classe che Fabio Besta ha chiamato complementari, abbracciano principalmente: l'avviamento delle imprese, ossia il valore che l'impresa prospera ha per se stessa indipendentemente dai beni suoi, o se vuolsi il maggior valore che acquistano questi beni in quanto trovansi congiunti insieme e impiegati in modo proficuo oltre la misura normale».	«Finally, the active elements of the last class that Fabio Besta called complementary, mainly embrace: the entity goodwill, which is the value that the thriving entity has itself independently from its assets, or if willed the higher value that have these assets as joint together and used in a profitable way beyond the normal measure».	Similar definition of Besta	I fondamenti della ragioneria, 1931: 123
DELLA PENNA	«La stima dei frutti si applica anche all'avviamento se il valore dell'avviamento di un'impresa è considerato pari alla somma dei valori attuali di tutti i futuri sovraprofitti. Nella pratica, d'ordinario, avviene questo: in vista della cessione di un'azienda e come base del contratto tra cedente e cessionario, fra impresa societaria e socio, si fa l'analisi della sostanza, si considerano cioè distintamente nei loro valori i componenti di essa: tanto, per le merci; tanto altro, per le macchine; ecc. non escludendo l'avviamento, perché l'azienda permane; avviamento che nasce dalla buona organizzazione, dalla solerzia, dalla puntualità del personale, dall'onestà dell'imprenditore, dalla oculata pubblicità, dalla felice ubicazione dei locali, dalle tendenze, dalle abitudini, dalle stravaganze del pubblico; avviamento che si manifesta nel buon nome, che si estrinseca nella clientela, che si risolve in soprarediti futuri».	«The estimate of the profits also applies to the goodwill if the value of the entity goodwill is considered to be equal to the sum of the present values of all the future excess-profits. In practice, ordinarily, it happens what follows: in view of the sale of an entity and as the basis of the contract between the acquiror and acquiree, between company and shareholder (owner), you do the substance analysis, that is considering distinctly in their values the components of the company: for the goods; for machines; etc. not excluding goodwill, because the company remains; goodwill that arises from good organization, diligence, staff punctuality, the honesty of the entrepreneur, the shrewd advertising, the great location of the sites, tendencies, habits, public extravagancies; goodwill that is manifested in reputation, which is expressed in customers, which results in future extra-profits».	Recall to the valuation criteria used by Besta	I fondamenti della ragioneria, 1931: 138
ONIDA	«L'avviamento, dunque, è l'espressione della redditibilità stessa dell'impresa: piuttosto che come un bene a sé, esso può concepirsi come un attuale modo di essere ed un presunto modo di divenire (secondo le possibili previsioni), dell'impresa o, se vuolsi, della coordinazione di tutti i fattori (la dimensione e la qualità degli impianti, l'ubicazione degli stabilimenti e dei negozi di vendita, l'andamento dei mercati, la clientela, la ditta, la qualità delle persone che dirigono l'impresa, l'abilità e la fedeltà delle maestranze; i rapporti dell'azienda con altre, relativi ad acquisti, vendite o "finanziamenti", ecc., ecc.), di tutti i fattori, diciamo, che concorreranno a determinare la "redditibilità dell'impresa"».	«Goodwill, therefore, is an expression of the same firm profitability: rather than as an asset in itself, it can be conceived as a present way of being and a supposed way to become (according to the possible forecasts), of the firm or, if you will, of the coordination of all the factors (the facilities' size and quality, establishments' and shops' location, market trends, customers, the company name, the quality of the people managing the firm, skill and loyalty of the workers, the relationship with other firms, pertaining to purchases, sales or "loans", etc.), of all the factors, let's say, that will help to determine the firm profitability».	A current way of being and a supposed way to become	I finanziamenti iniziali di impresa, 1931: 388
ONIDA	«In vero, se con le suaccennate nozioni si volesse semplicemente esprimere che la "redditività" dell'impresa in funzionamento, e quindi il valore di questa, risultano dal concorso di elementi molteplici, non solo materiali ma anche immateriali, o meglio derivano dalla coordinazione degli uni agli altri e si volesse riserbare il nome di avviamento a questo o a quello degli elementi immateriali, od al complesso di essi, od al risultato della coordinazione di tutti gli elementi, materiali ed immateriali, non vi sarebbe che da discutere	«Actually, if with the above-mentioned notions you simply want to express that the "profitability" of the going-concern firm, and then its value, result from the combination of many elements, not only material but also immaterial, or rather [they] result from the coordination of to each other and want to give the name goodwill to this or that intangible items, or to the complex of them, or the result of the coordination of all the elements, tangible and intangible, there would have to be discussed of the more or less	Immaterial element	I finanziamenti iniziali di impresa, 1931: 380

	sull'uso più o meno appropriato della parola avviamento in questo o in quel senso. Ogni altra disputa verrebbe, peraltro, eliminata quando si dichiarasse il significato che a quella parola si vuol dare».	appropriate use of the word goodwill in this or that way. Every other dispute would, however, eliminated when you declare the meaning you want to give to that word».		
VIANELLO	«L'avere un negozio avviato vuol dire, per un commerciante, guadagnare più degli altri che non si trovano in questa condizione; avere di fronte agli altri commercianti, un profitto o reddito commerciale maggiore; avere cioè un extra reddito o un extraprofitto»	«Having a business with goodwill means, for a trader, earning more than the others that are not in this condition; have compared to other traders, a higher profit or commercial income; that is, to have an extra-income or extra-profit».	Extra-profit; Essential complement	Istituzioni di ragioneria generale, 1932: 49
D'ALVISE	«E veniamo ora ad una aspettativa più discussa, ad una aspettativa generale attiva, che si trova soltanto nelle così dette imprese. Abbiamo notato che esse hanno per fine il lucro. Ora, fino a che il lucro che si aspetta, si giudica non essere superiore alla normalità, non si parla di impresa ben avviata; se invece il lucro è superiore a quello normale dei capitali impiegati nell'ambiente in cui opera l'azienda, allora si dice che l'impresa è ben avviata, ed all'avviamento suo si bada come ad una caratteristica del suo complesso economico».	«And now let's deal with a more discussed expectation, with a general active expectation, which is found only in the so-called firms. We noticed that they have as aim the profit. Now, until the profit we expect, is judged not to be higher than normal, we do not talk about well-started firm; but if the profit is higher than the normal capital invested in the environment in which the firm operates, then it is said that the firm is well-started, and we consider its goodwill [well-started firm] as a feature of the whole economic complex».	Active expectation	Principi e precetti di ragioneria, 1934: 100
DE GOBBIS	«Quando l'azienda è acquistata per una somma superiore di quella che rappresenta il suo netto, l'eccesso del prezzo pagato sul netto rappresenta il costo dell'avviamento. La maggior somma pagata non può dirsi perduta, se l'azienda che possiede una folla di clienti soddisfatti dovrà nell'avvenire, spendere, per pubblicità, meno di quello che dovrebbe spendere, se dovesse costituirsi, faticosamente, a poco a poco, una nuova clientela, se il nuovo proprietario di essa può contare fino dal primo giorno sopra dei redditi verosimilmente sicuri, sui quali non potrebbe contare, forse per molto tempo e forse mai, se avesse proceduto all'impianto di un'azienda nuova».	«When the company is acquired for a sum higher than its equity, the excess of the price paid over the equity is the cost of goodwill. The higher sum paid cannot be said to be lost, if the company that owns a crowd of satisfied customers will have in the future, spending for advertising, less than you would spend if you were to build up, painfully, gradually, a new customers, if the new owner of it can count since the first day on probably safe income, on which it could have not relied on, perhaps for a long time and maybe never, if he proceeded to the establishment of a new company».	Special element	Ragioneria generale. Corso teorico pratico, 1939: 22/23
DE MINICO AMODEO	«Si denomina così il maggior valore che si ritiene abbia l'impresa rispetto a quello che avrebbe in condizioni normali, in conseguenza di alcune circostanze che si reputa avranno influenza sul reddito futuro dell'impresa stessa».	«It is referred to as the higher value that is believed to have the company than it would under normal conditions, as a result of some circumstances which it are believed will have influence on the future income of the same company».	Higher value of the firm	Saggi di economia delle aziende, 1942: 77
DE MINICO	«Il valore attuale, calcolato sulla base di un tasso normale di capitalizzazione, dei soprarediti avvenire risultanti dalle eccedenze dei previsti redditi effettivi d'impresa sui presunti redditi normali, costituirebbe il valore dell'avviamento. La capitalizzazione della corrente effettiva dei redditi avvenire adduce al valore capitale limite; la capitalizzazione della corrente normale di reddito determina il valore del capitale infra-limite; la differenza dei due valori capitali individua il valore attuale dei futuri soprarediti. Sicchè il valore dell'avviamento costituirebbe la fonte del flusso dei soprarediti futuri; il valore del capitale infra-limite quella del flusso di reddito normale avvenire, e il valore capitale limite la fonte della futura	«The present value, calculated on the basis of a normal capitalization rate of the future extra-profits resulting from the higher actual expected income than the predicted normal income, would constitute the goodwill value. The capitalization of the actual future income flow leads to the equity limit-value; the capitalization of the normal income flow determines the equity value interim-limit; the difference between the two equity values identifies the present value of future extra-profits. Hence, the goodwill value would be the source of the future extra-profits flow; the equity value interim-limit would be the source of the normal future income, and the equity value limit the source of the future expected value flow. (...) The will, with an imaginary	Source of the future extra-profits flow	Una picconata all'avviamento, 1946: 11/12

	corrente del valore atteso. (…) Il volere, con una linea immaginaria longitudinale, separare nel corso del tempo il flusso di reddito effettivo in due flussi di reddito componenti, l'uno normale, l'altro dei soprarediti e far derivare, in conseguenza, il valore capitale infra-limite al primo flusso componente e il valore dell'avviamento al secondo, scindendo così in due il valore capitale limite, poggia sulla possibilità di frammentare il reddito e in corrispondenza frantumare il valore capitale».	longitudinal line, to separate over the time the actual income flow into two income flows components, one normal, the other one of the extra-profits and deriving, as a consequence, for the first component the interim-limit equity value and for the second the goodwill value, splitting so in two parts the equity limit-value, is based on the possibility to fragment the income and correspondingly to break up the equity value».		
ONIDA	«L'azienda si dice bene o male avviata a secondo che la sua redditività si giudichi soddisfacente o insoddisfacente; più o meno bene avviata secondo che la sua redditività si presuma più o meno elevata».	«The firm is said well- or bad-started depending on whether its profitability is judged satisfactory or unsatisfactory; more or less well-started depending on whether its profitability is presumed to be higher or lower».	Proportional to profitability	L'avviamento nelle valutazioni di cessione o di liquidazione di azienda, 1949
MASI	«Più specialmente l'avviamento si presenta come la differenza fra due valori: quello speso per rilevare un'azienda avviata e quello che è stato determinato valutando le varie attività e passività rispettivamente in base ai costi che si sosterrebbero per costituirle e al valore dei crediti al netto dei debiti che gravino su di esse».	«More especially the goodwill is presented as the difference between two values: the one spent to acquire a company started and the one that was determined by evaluating the various assets and liabilities, respectively, basing on the costs that would be incurred to establish them and to the value of the receivables net debt which burden on them».	Difference between two values	Ragioneria generale, 1954: 115
AMADUZZI	«Se poniamo noto il valore attribuito al capitale con criterio della presunta liquidazione dei suoi singoli cespiti attivi e passivi, ovvero anche con criterio del presunto realizzo ed estinzione compiuta attraverso il funzionamento aziendale, e chiamiamo C_l o C tale valore; se poniamo altresì noto il valore attribuito , come bene unico in funzione della sua capacità di reddito, al complesso aziendale, e lo chiamiamo C_e; ci domandiamo che cosa rappresenti la differenza, che può essere positiva o negativa tra C_e e C_l o C. Poniamo che C_e sia superiore a C_l prendendo C_l a secondo termine del rapporto. L'eccedenza del valore del capitale economico del complesso, rispetto al valore del capitale delle singole parti patrimoniali che lo compongono, indica di quanto l'insieme vale più della somma delle parti. In termini patrimoniali, l'insieme è un capitale e le parti sono componenti di capitale, ma poiché la categoria economica "capitale" dipende dalla categoria economica "reddito", l'incremento di valore capitale rispetto al valore capitale delle singole sui parti dipende dall'essere il reddito dell'insieme superiore alla somma dei redditi delle singole parti che cooperano alla sua produzione, parti di capitale e di lavoro. D'altronde l'incremento di reddito dell'insieme, rispetto alla somma dei redditi di capitale e di lavoro che confluiscono all'insieme, è il reddito che spetta all'organizzazione, forza creatrice dell'impresa, senza della quale capitale e lavoro non sarebbero fecondi. La differenza fra C_e e C_l nel caso di $C_e > C_l$ costituisce il valore capitale attribuibile – nell'ambito della esistenza del valore del complesso – all'*avviamento* che può dirsi, in riflesso	«If we suppose known the value attributed to the capital with the criterion of the alleged liquidation of its individual assets and liabilities, or also with the criterion of the presumable realization and extinction accomplished through the firm operation, and we call that value C_l or C; if we suppose also known the value attributed, as unique complex in terms of its ability to generate income, to the firm complex, and we call C_e; we wonder what constitutes the difference, which can be positive or negative, between C_e and C_l or C. Suppose C_e exceeds C_l taking C_l as the second term of the relationship. The excess of the equity value of the complex, compared to the value of the economic capital of the individual parts that make it up, indicates how much the whole is worth more than the sum of its parts. In balance sheet terms, the whole is a capital and the parts are components of capital, but as the economic category "capital" depends on the economic category "income", the increase in capital value compared to the capital value of the individual parts depends on being the income of the whole greater than the sum of the income of the individual parts that cooperate in its production, parts of capital and labour. Besides the increase of income of the whole, compared to the sum of the income from capital and labour that flow to the whole, is the income that is up to the organization, creative force of the enterprise, without which capital and labour would not be fruitful. The difference between C_e and C_l in the case of $C_e > C_l$ is the capital value attributable - as part of the existence of the value of the complex – to the *goodwill* that can be said, in reflection of the	Condition that allows the company to obtain profits higher than the sum of the incomes of the parts that flow into the company	Teoria della valutazione dei complessi aziendali e dell'avviamento, Estratto dalla "Rivista di Politica Economica" 1955: 5

	al reddito che il capitale esprime, quella condizione per cui l'impresa (o il complesso) consente un reddito superiore alla somma dei redditi delle parti che vi confluiscono».	income that the capital expresses, that condition for which the enterprise (or complex) allows an income greater than the sum of the incomes of the parts that flow into [the enterprise]».		
AMADUZZI	«La condizione per la quale l'azienda è atta a produrre redditi che significano economicamente profitti; cioè che siano superiori a quelli richiesti dal minimo della convenienza economica; superiori a quella misura che rimuneri capitali, energie personali, grado di rischio economico».	«The condition for which the company is liable to produce income that mean economically profits; that is, that they are higher than those required by the minimum of economic convenience; higher than that extent that rewards the capital, personal energies, level of economic risk».	Condition that allows the company to obtain profits	L'azienda nel suo sistema e nell'ordine delle sue rilevazioni, 1963: 96
D'IPPOLITO	«Più particolarmente, le imprese che consideriamo sono quelle dette in avviamento, od anche avviate. In tali imprese, secondo una definizione per più aspetti criticabile ma utile per un primo chiarimento d'idee, il sistema di operazioni ed in genere l'amministrazione si svolge così favorevolmente, che è possibile conseguire un reddito relativamente superiore a quello che può essere ottenuto da imprese analoghe funzionanti sullo stesso mercato e non ugualmente avviate, o solo all'inizio del processo di avviamento o, comunque un reddito superiore a quello che potrebbe essere la rimunerazione "normale" dei capitali investiti»	«More particularly, the companies that we consider are those called with goodwill, or even [well-]started. In these companies, according to a definition in many respects questionable but useful for a first ideas clarification, the system of operations and in general the administration takes place so favourably, that you can achieve an income relatively higher than the one that can be achieved by similar companies operating in the same market and also equally started, or only at the beginning of the start-up process, or at least a higher income than the remuneration that would be "normal" for the invested capital».	Income relatively higher than the one that can be achieved by similar companies	La valutazione delle aziende in avviamento, 1955: 2. For a similar definition see also: L'avviamento, 1963: 8-9.
D'IPPOLITO	«Qui interessa fermarsi brevemente a identificare il contenuto dell'avviamento, del quale si vorrebbe stimare o "determinare" il prezzo distinto. Tale identificazione in termini non equivoci, ed anche soltanto in termini sufficientemente approssimati per consentire una stima inequivoca, manca nella dottrina economico-aziendale come, del resto, manca in quella giuridica. Si crede di supplire a tale mancanza con l'indicazione dei così detti "fattori di avviamento", con la indicazione cioè delle "cause" che sarebbero o dovrebbero considerarsi diretta fonte dell'avviamento».	«Here it is interesting stopping briefly to identify the contents of goodwill, of which one would like to estimate or "determine" the separate price. This identification in unequivocal terms, and even just in terms sufficiently approximated in order to estimate unequivocally, is lacking in the "*economia-aziendale*" doctrine as, indeed, is lacking in the legal discipline. It is believed to make up for this lack with the indication of the so-called "factors of goodwill", that is with the indication of the "causes" that would or should be considered a direct source of goodwill».	It is not sufficient the indication of the so-called "factors of goodwill"	La valutazione delle aziende in avviamento, 1955: 6

PONZANELLI	«(…) l'avviamento coincide con la notorietà che l'impresa si forma nell'ambiente, affidata in prevalenza alla capacità di chi ha la responsabilità della gestione e pertanto legata ai fattori soggettivi di correttezza, avvedutezza, senso dell'opportunità , facoltà di intuizione e di previsione, percezione degli aspetti delle circostanze, facilità di comprensione degli interessi altrui. (…) L'esistenza di elementi materiali di proprietà dell'impresa quali impianti, attrezzature, strumenti, utensili, materie, magazzini e negozi non ha invece alcuna importanza per l'avviamento dell'impresa». «Ci sembra pertanto di poter affermare che il calcolo del valore di avviamento, ossia del valore dell'elemento astratto vivificatore e valorizzatore di "una coordinazione economica in atto", non debba di necessità essere equiparato al calcolo del valore di quella speciale capacità di un'impresa di offrire profitti superiori a quelli prodotti dalla media delle imprese di quel tipo. Tutte le imprese che non sono giunte al limite della ragione di loro esistenza hanno un valore di avviamento positivo, nullo, o negativo. Se positivo, quel valore sarà ovviamente tanto maggiore quanto più accentuati sono gli effetti della esistenza dello stato di fatto di "impresa avviata", cioè di "impresa già esistente e funzionante", ossia quanto maggiori sono i profitti».	«(...) The goodwill coincides with the reputation that the company forms in the environment, which is entrusted mainly to the ability of those having the management accountability and therefore linked to the subjective factors of fairness, prudence, a sense of opportunity, right insight and foresight skills, perception of the aspects of the circumstances, ease of understanding of the interests of others. (...) The existence of tangible assets owned by the company such as plant, equipment, instruments, tools, materials, stores and shops has not any importance for the goodwill of the company». «There seems therefore to say that the calculation of goodwill, i.e. the value of the abstract life-giving and really-values element of "an economic coordination in place", should not necessarily be equated with the calculation of the value of that special capabilities of a firm to produce profits higher than those produced by the average firms of that type. All companies that have not reached the limit of their existence reason have goodwill positive, null, or negative. If positive, that value will obviously be greater the more pronounced are the effects of the existence of the status quo of "firm with goodwill", that is of "existing and running firm", i.e. the higher the profits».	Company reputation Abstract life-giving and really-values element of "an economic coordination in place"	L'avviamento, bene immateriale, in Note di economia aziendale, Roma, 1955: 7-10
ARDEMANI	«L'avviamento può cioè essere inteso come la prospettiva di durevoli redditi futuri alla luce di fattori economico-finanziari attuali».	«The goodwill can be intended as the prospect of durable future income in light of current economic and financial factors».	Prospect of durable future income	L'avviamento dell'impresa, 1958: 26
PONZANELLI	«Nel caso dell'avviamento, l'attribuzione di valore in occasione della cessione dell'impresa è inscindibile dalla attribuzione di valore all'impresa; anzi, è stato già affermato che il valore dell'uno uguaglia o si avvicina molto al valore dell'altra. Né si tratta di attribuire valore ai possibili lucri futuri, bensì all'organizzazione dell'impresa, per raggiungere la quale furono sostenute, in fase di costituzione, ed oltre, spese non materializzate in alcun oggetto specifico concorrenti a creare e a prolungare nel tempo le migliori condizioni di efficienza. L'identificazione del valore di avviamento colla possibilità di conseguire lucri futuri potrebbe, in sede di determinazione, essere considerata come "vendita di cosa sperata" per conseguire la quale esistono premesse necessarie (…). Il fondamento della valutazione dell'avviamento è quindi nell'esistente organizzazione ceduta coll'impresa».	«In the case of goodwill, the attribution of value upon the disposal of the firm is inseparable from the attribution of value to the firm; indeed, it was stated that the value of one equals or is very close to the value of the other. Nor it deals with attributing value to the possible future gains, but to the firm organization, for which there were incurred, in the constitution phase, expenses not materialized into any specific object useful to create and extend in the time the best efficiency conditions. The identification of the goodwill value with the possibility of achieving future gains could, in the [income] determination phase, be regarded as the "sale of what hoped" to achieve which exist necessary premises (...). The basis of the goodwill evaluation is then in the existing organization sold with the firm».	The basis of the goodwill evaluation is then in the existing organization sold with the firm	Sul problema della esistenza, della determinazione e della contabilizzazione del valore di avviamento nelle imprese, 1959: 441-442
AMODEO	«Si identifichi il valore economico del capitale dell'impresa in esame; si raffronti tale valore al valore «contabile» del capitale di quella, così come appare dedotto negli strumenti contabili suoi: la differenza tra i due valori è il	«Let's identify the equity economic value of the company in question; compare this value to the equity «book» value, as it appears in its accounting tools: the difference between the two values is the goodwill value. A first	Difference between equity economic and	Avviamento e riserva occulta: un accostamento, 1960:

	valore dell'avviamento. Una prima osservazione si presenta spontanea: quella differenza in che andrebbe sintetizzando il valore dell'avviamento può essere positiva o negativa (…)».	observation appears spontaneously: that difference that would synthesize the goodwill value may be positive or negative (…)».	book values	39
AMODEO	«(…) nel capitale vengono a determinarsi, per così dire, due settori o gruppi di valori: l'uno, costituito dai valori di tutti i beni, crediti e debiti della impresa ed espresso sinteticamente nel capitale netto a comporre il quale non abbia concorso il valore di avviamento, ed al quale deve riconoscersi attributo in derivazione il reddito normale; e l'altro, costituito dall'unico valore dell'avviamento, al quale deve ritenersi attributo in derivazione in sopra-reddito. Ciascuno coglie l'assurdo di queste pur naturali conclusioni: perché giammai potrà esser dato di scernere, entro il reddito unitario, quote riferibili a questo o a quell'elemento del capitale».	«(…) in the capital are determined, if we may say, two sectors or groups of values: one, made up by the values of all the assets, receivables and payables of the company and synthetically expressed in the net assets to which did not contributed the goodwill value, and to which must be considered as attribute the derived regular income; and another, made up by the only goodwill value, to which must be considered as attribute derived in the extra-income. Everyone understands the absurdity of these natural conclusions: because it never will be given to distinguish, in the unitary income, portions related to this or that element of capital».	Extra-income	Ragioneria generale delle imprese 1964: 814
CECCHERELLI	«Fra le spese che si comprendono sotto la denominazione di spese d'impianto si usa collocare anche quelle che spesso si sostengono in caso di acquisto, per il maggior valore attribuito ad un'impresa funzionante. Si tratta, come si vede, di una spesa d'impianto di natura particolare, che solo in alcuni casi si verifica e che potrebbe, in questi casi, per maggior chiarezza, formare oggetto di una distinta categoria di valori che opportunamente si potrebbero raccogliere, come spesso si fa, sotto la voce "avviamento"».	«Among the expenses that are included under the name of installation costs we are used to place also those that we often sustain in the case of purchase, for the higher value attributed to a functioning firm. It is, as we can see, of a particular installation expense, which occurs only in some cases and that may, in these cases, for higher clarity, be the subject of a distinct category of values that could be appropriately comprised, as it is often done, under the item "goodwill"».	Particular installation cost	Le istituzioni di ragioneria, 1966: 327
CECCHERELLI	«…economicamente, l'avviamento non è componente patrimoniale che possa disgiungersi o pensarsi separato dal complesso aziendale per assumere una posizione autonoma. Esso fa parte del complesso, non come elemento aggiunto che si possa, quando si voglia, incorporare nel patrimonio, ma nel complesso e nelle sue manifestazioni di vita, trova origine spontanea ed in quanto la forza vitale del complesso stesso sia capace di generarlo».	«The goodwill cannot be thought as an asset, which stands alone from the company complex. The goodwill is part of the company complex and is not an element that can be added in the capital as much as one likes. Hence, the goodwill has a spontaneous origin in the company complex and in the vital power of the same company complex that is able to generate it».	It is not an asset	Le funzioni professionali del commercialista, 1967: 175
GUATRI	«Le discipline economiche già da tempo hanno spiegato, nel modo più elementare, il fenomeno, dimostrando come un insieme di elementi disposti ed organizzati per il raggiungimento di un fine possa avere un valore diverso dalla somma dei valori dei singoli elementi, essendo tale maggiore o minore valore determinato dall'efficienza della coordinazione degli elementi in vista del raggiungimento del fine loro proposto. Il concetto di "avviamento" è dunque strettamente connesso con l'efficienza delle coordinazioni aziendali, cioè con la loro varia attitudine al raggiungimento del fine pel quale sono sorte». «Precisamente l'avviamento può essere definito come la differenza in un dato istante, tra il valore globale dell'impresa ed il valore medio, opportunamente calcolato, della somma algebrica degli elementi attivi e passivi che compongono il capitale d'impresa».	«The economic disciplines already since long time have explained, in the most elementary way, the phenomenon, demonstrating how a set of elements arranged and organized for the attainment of a goal can have a value different from the sum of the values of the individual elements, being such greater or lesser value determined by the efficiency of the elements coordination in the pursuit of their stated purpose. The concept of "goodwill" is therefore closely connected with the efficiency of the firm coordinations, that is, with their varied aptitude to achieve the purpose for which have arisen». "Precisely goodwill can be defined as the difference at a given time, between the global value of the firm and the average value, properly calculated, of the sum of the assets and liabilities that make up the firm capital».	Efficiency of the elements coordination	La misurazione del valore di avviamento nelle imprese, in «Risparmio», 1954-1955-1956

SANTESSO	«La nozione di avviamento […] – come differenza tra il capitale netto a valori correnti e il costo sostenuto dalla società investitrice – non va confusa con il «plusvalore di avviamento» esprimente la relazione che lega il capitale proprio dell'impresa con il valore del suo capitale economico. Proponiamo di denominare il primo concetto "sovraprezzo di avviamento"».	The notion of goodwill [...] – as the difference between the equity at current values and the cost incurred by the investing firm – should not to be confused with the "surplus value of goodwill" expressing the relationship between the equity of the company and the value of its economic capital. We propose to call the first concept "goodwill premium".	Distinction between "surplus value of goodwill" and "goodwill premium"	Valutazione di bilancio: aspetti economico-aziendali e giuridici, 1992
CATTURI	«Se il patrimonio aziendale è un sistema, allora assume rilevanza il disegno combinatorio che presiede alla scelta delle sue singole parti e le modalità seguite nell'aggregazione degli elementi che lo costituiscono, l'efficacia nell'acquisizione di alcuni di essi piuttosto che di altri, l'efficienza nelle modalità d'uso, ma anche il clima che si instaura nella comunità aziendale…i singoli elementi patrimoniali perdono la loro individualità per costituire parte di un sistema unitario, il cui valore si basa su quello contabile, ma che da esso se ne discosta in modo più o meno significativo a seconda dell'importanza che viene attribuita a quegli aspetti di intangibilità».	«The company's equity is a system so it is relevant the combinatorial design that is at the base of the single choices and the modalities followed to aggregate the items that compose the equity, the effectiveness in the acquisition of some resources instead of others, the efficiency in the use of the resources, but also the climate that is established in the company. That way the single item (asset) loses its autonomy and constitutes part of a unitary system, whose value is based on the book value, but it, more or less, moves away from it according to the relevance that have the intangible resources».	The notion of goodwill is underlying the value of intangible resources	Principi di Economia Aziendale, 2012

Source: own elaboration

Notes to Chapter 1

I. It is opportune to acknowledge that all translations must be considered with caution, they are an approximation of the Italian Authors' words and as such they may be contestable. However, the original Italian texts of all the quotations are available on request.

II. In line with other historical studies in certain part of the first chapter I do not translate the term "*Azienda*" because of its peculiarities that does not find a perfectly corresponding translation in English (Sargiacomo et al., 2012; Alexander and Servalli, 2011; Capalbo and Clarke, 2006; Zambon and Zan, 2000; Viganò, 1994). Nonetheless, throughout the chapter I sometimes proxy the term "*Azienda*" by using the words "firm", "company", "concern" or "entity". The foremost exponent of the concept of "*Azienda*" was Gino Zappa (1927) who advanced *Economia Aziendale* as «the science that studies the conditions of existence and manifestations of the life of the "*Azienda"*, the science of the economic administrations of the "*Azienda*", in short, *Economia Aziendale* is our science». The Author defines "*Azienda*" as «the economic coordination established and set up to satisfy human needs» (Zappa, 1927: 54) and as «the economic institute destined to last that, for the satisfaction of human need, organize and carry out in continuous coordination the production or the procurement and the consumption of the wealth» (Zappa, 1956: 37). *Economia Aziendale* is made up by three functions: a) *gestione* (operations), b) *direzione* (management), and c) *controllo* (control). Thus, considering the wide significance of the concept *Economia Aziendale* in line with prior literature I do not translate the concept (e.g. Zan, 1994; Viganò 1994; Sargiacomo et al., 2012).

III. *"Sistema patrimoniale-atomistico*" is translated with atomistic or equity-based system as it refers to the interpretation of events as mere changes in net worth. This approach is sometimes also referred to with worth-based, owner's equity-based, patrimonialistic or proprietorship system and equity-centred accounting system (See Viganò 1994; Galassi and Mattessich, 2004; Sargiacomo et al. 2012).

IV. As the term "*operazioni di gestione*" does not have an equivalent in English, I sometimes do not translate it preferring the Italian term or approximate the translation with "management operations". However, the translation needs some clarification. As underlines Viganò (1994) «*…gestione* presents two aspects: a) "subjective", which refers to the activity and decisions of concern staff, most at a high level. The perspective is the one of the decision-makers, of managers. Its exact translation is "management"; b) "objective", which refers to events occurring in the concern. It deals with facts, to what really occurs daily in the concern. It examines the dynamics of real trends, that is of processes. Its English equivalent could be "operations"».

V. "Capitale di funzionamento" is translated with "total assets" or "net assets", depending on the intention of the Italian Authors, as they sometimes refer to the total investment of the firm or to its equity.

VI. Table 1.1 summarising the main goodwill delineations provided by some of the Italian "*Economisti Aziendali*" have not the intent to enclose diverse Authors within the boundaries of restricted models or classifications. Indeed, the scope of Table 1.1 is to provide a recollection on the main Italian accounting Schools through the evolution on the goodwill conception. Hence, even though the definitions are enclosed within the rigid limits of a table, they should be interpreted as a continuum (or a definite departure) from an Author to another on the goodwill conception and overall, on the logics underlying the equity and income measurements.

Chapter 2.

The research design and methodology

TABLE OF CONTENTS:

2. The research design and methodology

The methodology has to be considered as one of the research key variables. We can define it as a strategic variable because it is able to directly affect the quality of the investigation process by placing it in line with the times of the scientific knowledge and by aligning it with the space and time circumstances with which it is connected.

Ferraris Franceschi, 1998

(…) Accounting is an activity carried out by people and one cannot generate a theory that predicts and explains accounting phenomena by ignoring the incentives of the individuals who account.

Watts and Zimmerman, 1990

2.1. Theoretical framework

In the first chapter I have adopted a constructivist epistemological position as I aimed at interpreting the thought of several past accounting scholars. Through the narrative analysis of Italian accounting textbooks I have attempted to construct the interpretation of the "equity economic value" and "goodwill" of selected Authors. I have then linked these different concepts to the existing concepts of "goodwill" and of "impairment test". The interpretation of these notions might constitute a preliminary basic analysis of some critical matters that arises in our national "*Economia Aziendale*" tradition. This exploration might also help to interpret some topical issues in accounting theory and practice.

In the third chapter, instead, I adopt a positivist epistemological stance. Indeed, the research carried out in the third chapter takes on a deductive approach, investigating the cause-effect relationship between an accounting decision (i.e. the impairment of

goodwill) and the corporate governance system. Hence, starting from an overall theory I develop specific propositions and predictions and then I verify these hypotheses. The theory underlying all my empirical research is the agency theory (Berle and Means, 1932; Jensen and Meckling, 1976; Fama and Jensen, 1983; Eisenhardt, 1989). Since the pivotal work by Jensen and Meckling (1976), the agency theory has been the theoretical basis of most accounting and corporate governance studies (Filatotchev and Wright, 2010). Along with the agency theory to the stipulation of a contract between the firm and any subject (e.g. investors, debt holders, employees, auditors, managers, Chief Executive Officer, Chief Financial Officer, etc.) stems an agency-relation; the contract indeed gives rise to a relation between the "principal" and the "agent". The separation of ownership and control – known also as the separation of management and finance – gives rise to several agency problems (Shleifer and Vishny 1997).

The central objective of the corporate governance is to ensure to the shareholders (ownership) that the return on their investment is maximised by the management. In few words, the shareholders are primarily concerned with the efficiency objective, put it differently they pursue to the firm value maximization.

However, the information asymmetry between the management and finance allows the agent in engaging in self-interested behaviours. The agent, consistently with his/her economic rationality, will seek to maximise his/her personal return through the use of opportunistic behaviour. Since the contracts between the agent and the principal are mostly based on the financial numbers and ratios (e.g. income, leverage and so on), the accounting choices directly affect the agent own interests. Positive accounting theory aims at predicting the agents' accounting choices considering differing incentives.

Given the ample room for flexibility left by the impairment of goodwill, it constitutes a fertile field to investigate in order to verify if this accounting choice is exploited by several corporate governance actors to maximise their own return against the "principal" will.

The agency theory defends the use of corporate governance as a device with which to monitor agents' actions. The goodwill is difficult to value increasing uncertainty for investors. The impairment of goodwill flexibility, which is related to the information asymmetries between management and investors, as well as to the goodwill allocation amongst the CGUs, may originate several agency problems.

2.1.1. The role of corporate governance in financial accounting and in the impairment test of goodwill

The corporate governance system may be the cause of several financial accounting choices and deficiencies (Whittington, 1993). Levitt (1998) underlines that: «The significance of transparent, timely, and reliable financial statements and its importance to investor protection has never been more apparent». We derive the reciprocal interrelations between corporate governance and financial reporting. In the last years both the media and the academic research direct their attentiveness towards the well-known financial scandals (e.g. Enron, Parmalat, WorldCom, etc.) stressing the association between weak corporate governance mechanisms and low financial reporting reliability.

The positive agency theory predicts that the contracts using the accounting numbers are unsuccessful in the alignment of the "agent-principal" interests' leading the agent to exploit the discretion allowed by the accounting standards (Watts and Zimmermann, 1990). A large body of the literature investigates the relation between corporate governance and financial reporting reliability. The low financial reporting reliability has been explicated with earnings management practices (Klein, 2002; Lin and Hwang, 2010; Dechow et al., 2012), financial statement restatements (Romanus et al., 2008; Baber et al., 2012), financial statement frauds (Beasley, 1996; Carcello and Nagy, 2004) and weak controls (Beneish et al., 2008; Jaggi et al., 2014).

The existence of a relationship between corporate governance mechanisms and financial reporting is declared also by several corporate governance codes. For example the Italian Corporate Governance Code (July 2015: 29) stresses the relevance of the internal control and risk management systems in the assurance of information reliability stating that: «It contributes to ensuring the safeguarding of corporate assets, the efficiency and effectiveness of management procedures, the reliability of the information provided to the corporate bodies and to the market and the compliance with laws and regulations, including the by-laws and internal procedures». The UK Corporate Governance Code (September 2014: 9) for instance highlights the relevance of the non-executive directors on the integrity of financial information: «Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial

information and that financial controls and systems of risk management are robust and defensible». Similarly, the USA Principles of Corporate Governance (2012: 9) emphasizes the board role «on the integrity and clarity of the corporation's financial statements and financial reporting». Altogether these examples reveal the high weight that worldwide the corporate governance institutes place on the impact that the corporate governance system has on the financial reporting reliability.

Bushman and Smith (2001) indicate within the agency theory perspective two kinds of corporate control mechanisms: internal mechanisms and external mechanisms. The internal mechanisms comprise managerial incentive plans, director monitoring and the internal labor market while the external mechanisms comprise the outside shareholder or debtholder monitoring, the market for corporate control, competition in the product market, the external managerial labor market, and securities laws.
With a comparable approach Weir et al. (2002) distinguish between internal and external corporate governance mechanisms and include in the first group the board structure variables, the debt financing and the insider ownership and in the second group the market for corporate control as suggested by Jensen (1993)[133].
Cohen et al. (2004) reviews the literature on corporate governance and its effects on financial reporting reliability. The Authors (2004) stress the interplay among the inside and outside forces of the corporate governance in shaping the financial reporting quality.
Gillan (2006) develops an expanded model of the corporate governance system dividing it between internal and external governance. He categorises the internal governance into five main groups: board of directors, managerial incentives, capital structure, bylaw and charter provision and internal control systems. The external governance groups are: law and regulation, markets 1 (capital markets, market for corporate control, labor markets and product markets), markets 2 (providers of market information such as credit, equity and governance analysts), markets 3 (services provided by external subjects as accounting, financial and legal services) and private sources of external oversight (e.g. media, external lawsuits).

[133] According to Jensen (1993): «There are only four control forces operating on the corporation to resolve the problems caused by a divergence between managers' decisions and those that are optimal from society's standpoint. They are the • capital markets, • legal/political/regulatory system, • product and factor markets, and • internal control system headed by the board of directors». The Author (2010) confirms the same four control forces operating on the corporation.

Similarly, Filatotchev and Nakajima (2010) classify amongst the internal corporate governance mechanisms the board composition, the shareholder involvement, the executive incentives and the leadership characteristics.

Brown et al. (2011) classify various corporate governance characteristics as being either internal or external to the firm. Internal characteristics derive from the shareholder decision and board action and include the board of directors and its committees, the ownership structures, the financing arrangements and the executive compensations. Within the external corporate governance characteristics there are the monitoring exercised by the outsiders as blockholders, institutional investors and external auditors.

Overall, we may say that external corporate governance is the system that considers the active stakeholder participation in the governance process defining the roles of the shareholder supervision, in other words it consists in the market for corporate control. The internal corporate governance regards the relations amongst the actors within the firm (i.e. managers, directors, committees, employees) (Jensen, 1993; Shleifer and Vishny, 1997; Bai et al., 2004; Baber et al. 2012; Huyghebaert and Wang, 2012).

Moving from these studies (Bushman and Smith, 2001; Filatotchev and Nakajima, 2010; Brown et al. 2011) I develop a model represented in Illustration 2.1 where I distinguish between the internal and external corporate governance mechanisms that may affect the financial reporting reliability through the income effect of goodwill write-off. Considering the flexibility allowed by the accounting standards I conceived the financial reporting reliability easily influenced by the diverse corporate governance actors, this is why I enclose it with a dotted line. I then separate the internal from the external corporate governance characteristics with a dotted blue line. Above the blue line there are the external corporate governance mechanisms considered in the thesis: financial reporting, state and institutional ownerships, external audit and financial analysts. Under the blue dotted line there are the internal corporate governance systems considered: concentrated and insider ownerships, reporting incentives, board of directors and audit committees and CFOs. Of course, this representation should be carefully construed and embodies only my perspective on the influence of the governance system on the financial reporting reliability. It is also imperative to point out that the list of the considered corporate governance mechanisms is not exhaustive as other relevant corporate governance

characteristics (e.g. legal system, standard settings, stock exchanges, professional bodies, media, shareholder activism, customers, suppliers, network partners, internal control systems, etc.) may affect certain accounting choices as the impairment test, but they are out of the scope of the present thesis. A further limitation is considering each characteristic independent from the other without considering the reciprocal influences leading to endogeneity problems underlying the corporate governance studies (Gillan and Starck, 2003; Harris and Raviv, 2008; Brown et al. 2011).

To sum up, within the internal corporate governance mechanisms, which the empirical chapter investigates in relation to the impairment decision, I include the insider ownership and the ownership concentration, the managerial reporting incentives (i.e. big bath, income smoothing, leverage, bonus and CEO change), the board of directors and audit committee and the Chief Financial Officer (CFO here after). The financial reporting reliability, as said, then might be affected by external corporate governance mechanisms such as the external audit characteristics (i.e. auditor size, audit and non-audit fees, tenure and expertise) and the financial analysts' earnings forecasts.

In the following paragraphs I briefly frame each corporate governance mechanisms within the agency theory theoretical framework and the literature on earnings management.

2.1.2. Internal corporate governance

The principal-agent problem can take different forms according to the diverse internal corporate governance devices employed: board of directors and audit committee, reporting incentives, insider ownership and concentrated ownership, CFOs.

Board of Directors and Audit Committee

The literature on the relationship between the board of directors (and its committee) and the financial reporting reliability is broad. Board of directors is responsible for supervising the information disclosed.

An extensive part of the accounting and corporate governance research has been dedicated to the composition of the board and of its committees.

The bigger the board size the deeper the supervisory activity over the management might be. For instance, Xie et al. (2003) find that the larger the board size the lower the discretionary accruals are. Although, the results are inconclusive as competing studies support that the bigger the board, the more difficult the coordination and communication activities amongst the members might be (Jensen, 1993). In line with this part of the literature, Beasley (1996) finds that as the board size reduces, also the likelihood of financial statement frauds reduces. The mixed results are confirmed also within the same piece of research where Larcker et al. (2005) on the one hand find a positive association between the board size and discretionary accruals and on the other hand they find a negative relationship between the size and the absolute value of accruals. Reading Harris and Raviv (2008) we may explain these differences in the results through the undervaluation of the endogeneity issue which lead to pitfalls of inference as the size may be correlated with other variables.

Beekes et al. (2004) find that UK companies with a higher presence of outside board members are less likely to be engaged in untimely bad news in earnings recognition. Although, another part of the literature maintains that independent outsider directors are less informed about the firm-specific conditions and this restricted knowledge over the firm-specific factors reduces their ability to ensure a higher financial reporting reliability (Bushman et al. 2004; Armstrong and Weber, 2010).

Another part of the literature focuses on the independence of the board and of its committee. For example, Klein (2002) finds that companies moving from a majority-independent to a minority-independent board and audit committee's structure experience an increase in adjusted abnormal accruals in the changing year. Jaggi et al. (2009) find in the Honk Kong context that independent boards is an effective device in restraining earnings management.

Several scholars study the relation between earnings management and some of the board members characteristics. Matsunaga and Yeung (2008) find that CEOs with past experience as CFO are more prone to employ income-decreasing accruals (i.e. conservative accounting choices) and that for those firms' analysts' forecasts are less dispersed and less volatile hence more accurate. On a sample of Chines public firms, Jiang et al. (2013) find that CEOs with financial experience are less oriented to real earnings management practices, but they do not find evidence that they are more

involved in accrual-based earnings management. The literature on the directors' busyness suggests that the directors' level of busyness is positively associated with the firm's market performance (Di Pietra et al., 2008), but also that overcommitted directors have less time to dedicate to the monitoring activities (Core et al. 1999; Shivdasani and Yermack, 1999). The reduced time for the board activities compromises also the ability to detect earnings management policies (Sarkar et al., 2008).

Reporting Incentives

Mangers behaviour may be driven by their incentives[134]. Amongst the most studied managerial reporting incentives we can find: big bath charges, income smoothing, leverage, bonus remuneration, stock option and CEO change.

Often, managers may have incentives to take a big bath[135]. Following the definition of Mulford and Comiskey (2002: 15) a big bath is: «A wholesale write-down of assets and accrual of liabilities in an effort to make the balance sheet conservative so that there will be few expenses to serve as a drag on future earnings».

Managers can have incentives to take a big bath when they do not reach the income threshold fixed in the variable compensation schemes or when they have been just appointed in order to blame the predecessor management for weak performance.

[134] In a speech at the NYU Center for Law and Business on September 28, 1998 the chair of the SEC Arthur Levitt with a biting tone expressed his fear on the erosion of the earnings quality and stated that: «Managing may be giving way to manipulation; integrity may be losing out to illusion. Many in corporate America are just as frustrated and concerned about this trend as we, at the SEC, are. They know how difficult it is to hold the line on good-practices when their competitors operate in the gray area between legitimacy and outright fraud. A gray area where the accounting is being perverted; where managers are cutting corners; and, **where earnings reports reflect the desires of management rather than the underlying financial performance of the company**» (emphasis added).

[135] The first "accounting gimmick" explained by Levitt (1998) is the "big-bath" charge, according to the SEC Chair: «Companies remain competitive by regularly assessing the efficiency and profitability of their operations. Problems arise, however, when we see large charges associated with companies restructuring. These charges help companies "clean up" their balance sheet-giving them a so-called "big bath". Why are companies tempted to overstate these charges? When earnings take a major hit, the theory goes Wall Street will look beyond a onetime loss and focus only on future earnings. And if these charges are conservatively estimated with a little extra cushioning, that so-called conservative estimate is miraculously reborn as income when estimates change or future earnings fall short. When a company decides to restructure, management and employees, investors and creditors, customers and suppliers all want to understand the expected effects. We need, of course, to ensure that financial reporting provides this information. But this should not lead to flushing all the associated costs – and maybe a little extra-through the financial statements».

Income smoothing[136] may be directed to both increase and decrease the income. According to Coffee (2004: 20-21): «Earlier in the decade and during prior decades, earnings management was more a game of "smoothing out" the peaks and valleys in a corporation's income flow in order to reduce the apparent volatility in the corporation's returns. Thus, managements characteristically attempted to hide "excess earnings" in "rainy day reserves" in order to use such funds later to smooth out undesired declines in the firm's earnings».

In high leveraged firms the agency relationship can transfer from the owner-manager to the debtholder-manager. Usually borrowing contracts comprise covenants limiting the dividend distribution in relation to the achievement of specific financial ratios. The violations of the covenants may be costly for the firm and consequently for the manager, encouraging the agent to behave opportunistically leveraging the accounting discretion.

Several studies maintain that the remuneration contracts may lead the management to discretionally reduce (increase) the income when it cannot increase (can increase) its variable compensation (Healy, 1985; Holthausen et al. 1995; Guidry et al., 1999; Godfrey, 2006). More recently Shuto (2007) studying the relationship between discretionary accruals and executive compensation schemes in Japan, finds that managers use of income-decreasing accruals and extraordinary items is more pronounced in firm where managers do not receive bonus. Hence, the alignment effect pursued tying the management compensation to the firm performance may be superseded by a perverse effect. Denis et al. (2006) show a significant positive association between the likelihood of fraud contentions and the measure of executives' stock option. Similarly, Bergstresser and Philippon (2006) find that in firms where CEO's potential total remuneration is highly tied to the value of stock and option the use of discretionary accruals is more marked. Similarly, Burns and Kedia (2006) find evidence that the CEOs are more disposed to misreport when their option portfolio is more sensible to stock price.

The CEO changes may produce a double effect on earnings management. While the departing CEO is interested in income-increasing accruals to get higher bonus and

[136] Levitt (1998) refers to the "income smoothing" practice with the sobriquet of "cookie jar reserves". Specifically, he explains that: «A third illusion played by some companies is using unrealistic assumptions to estimate liabilities for such items as sales returns, loan losses or warranty costs. In doing so, they stash accruals in cookie jars during the good times and reach into them when needed in the bad times».

keep high its CEO reputation, the incoming CEO is incentivised to take big baths to save future earnings while blaming the prior CEO for the poor performance and clean the deck (Wells, 2002). Wilson and Wang (2010) find evidence that CEO changes occurred together with chairperson changes are significantly associated with income-decreasing earnings management in the year of the appointment.

Ownership structures: ownership concentration and insider ownership

In the relation between the owner and the manager, the latter is aware of the efforts needed to run the firm and to obtain certain results but the shareholder is not able to fully understand the manager efforts. In this setting the manager may be induced in expropriation activities against the owner-interest. In order to mitigate this moral hazard the owner introduces interest alignment mechanisms such as variable compensation tied to income or financial reporting variables targets. Although, acting in this way the self-interested manager may have incentives to manage the earnings in order to reach the determined thresholds. Starting from these premises, some studies find that the ownership structures affect the financial reporting reliability.

We can conceive the *insider ownership* as either with a positive or negative effect on the financial reporting quality, appealing to two streams of the literature. Moving from the agency theorists recommendations, the higher the insider ownership the higher the interests' alignment between the shareholder, as principal, and the manager, as agent, is (Jensen and Meckling, 1976; Fama and Jensen, 1983). This is the motivation that favours the issuance of stock options for the management and the directors' remuneration tied to the firm economic and financial performance. A part of the accounting literature finds a reduced earnings management in firms with higher insider ownership (Warfield et al., 1995). On the other hand, these alignment interests' tools might convert into managerial reporting incentives to manage the earnings. A body of the literature in fact argues that higher insider ownership provokes insider directors' entrenchment and lack of market discipline (Dyck and Zingales, 2004; Cornett et al., 2008). Insider directors may be less independent, hold a self-interested behaviour and favour entrenchment (Klein, 1998; DeAngelo and DeAngelo, 2000; Anderson and Reeb, 2004). Huang et al. (2013) demonstrate that

higher insider ownership reduces the power of shareholder rights to limit income-increasing earnings.

Several studies find evidence that *ownership concentration* is positively associated with the use of earnings management practices. Bouvatier et al. (2014) for example show that banks with high ownership concentration achieve income-smoothing objectives through the use of discretionary loan loss provisions. Leuz et al. (2003) show that earnings management is greater in economies with lower investor protection and in the presence of concentrated ownership.

Chief Financial Officer

The CFO plays a fundamental role in the numbers game as this actor supervises the financial reporting process, hence when the firm is involved in earnings management the CFO did not success in its primary supervisory function. The CFO in a certain sense is a spurious actor. While he/she is the right-hand-person of the CEO at the same time he/she is a governance actor when signing the financial statements[137]. Actually, the CFO is very close to the CEO hence the pressure risk to turn a blind eye to earnings management is likely. Thus the CFOs may manage the earnings either for personal-related incentives (e.g. compensation and equity-related incentives) or because he/she undergoes the CEOs wills. We should not undervalue that the CEO is in the position to decide/influence the CFO future with reference e.g. to career advancements, compensations etc. (Feng et al., 2011).

Feng et al. (2011) suggest that CFOs permit earnings management practices because they suffer the CEO pressure. Geiger and North (2006) find evidence that incoming CFOs are negatively associated with discretionary accruals. In a survey aimed at showing the CFOs accounting-related choices Graham et al. (2005) indicate that CFOs manage the financial reporting as they worry about the short-run stock prices. This concern about the short-run stock prices derives from a) the belief it affects the firm's cost of capital; b) it may have a direct impact on their job; c) CFOs are afraid that the labor market evaluates their skills basing on the short-run stock prices; d)

[137] It is sufficient here to recall to the role of the Italian "*dirigente preposto alla redazione dei documenti contabili*" introduced by the law 262/2005 which can be assimilated to the CFO. Indeed, the introduction of the above Italian actor is inspired to the norms introduce in Section 302 od the Sarbanes Oxley Act with reference to the financial reports corporate responsibility. Furthermore, this actor in Italy is appointed by the board of directors and not by the CEO, hence, limited to the role of signing the financial reports, he/she becomes a governance player and does not belong to the management team.

they want to be attractive for a wider analysts coverage of their stock; and e) they try to elude uncomfortable questions by analysts in conference calls. Aier et al. (2005) find that restatements are negatively associated with the financial expertise (more experience as CFOs, MBAs and/or CPAs certifications) of CFOs. The hypothesis on the CFO compensation incentive is tested also by Indjejikian and Matèjka (2009) finding that from 2003 to 2007 public companies reduced the percentage of CFO bonuses conditionally to the financial performance. From this result the Authors (2009) deduce that firms attenuate earnings management and misreporting practices through the containment of the CFO compensation incentives.

2.1.3. External corporate governance

Also with reference to the external corporate governance mechanisms in the oversight of earnings management practices, prior literature finds divergent results. In the thesis I specifically focus on the following external mechanisms: state and institutional ownership, external audit and financial analysts.

Ownership structures: state ownership and institutional ownership

With reference to state and institutional ownerships these are placed within the external corporate governance characteristics (Bushman and Smith, 2001).
In the Chinese context Ding et al. (2007) find that privately held public firms favour earnings increasing practices more than the state-owned firms. Another Chinese study conducted by Xianhui and Liansheng (2009) demonstrates that income boosting earnings management is lower in state-owned firms compared to non-state firms. Besides, both institutional ownership and state-ownership are not associated with income-decreasing earnings management. They (2009) further find that in non-state firms there is a negative association between institutional ownership and income-increasing management. Overall, these results are consistent with the proposition that state ownership act as a mitigating device in the earnings management practices. Although a conflicting perspective on the state-ownership advise that the state may purpose to social and political objective (e.g. higher level of employment, social stability, etc.) in detriment of the firm value maximization (Shleifer and Vishny; 1997; Bai et al. 2004). A related issue is that the government often appoint the member of the board and other committee undermining their

independence (Claessens and Fan, 2002; Young et al., 2008). Consistently with the above assumptions, Huyghebaert and Wang (2012) find that when the state is the controlling shareholder the labor redundancy is exacerbated and that the larger the board the higher is the labor redundancy in state-controlled firms.

Concerning with the institutional ownership, Koh (2003) finds in the Australian setting that short-term oriented institutional ownership proxyied by a lower institutional level is positively associated with discretionary income-increasing accruals. On the contrary, when the level of institutional ownership is high, in line with a long-term-oriented investment perspective, the managerial discretional accruals are limited. In this second case, the institutional ownership behaves as a mitigating actor in the game of earnings management.

Using a sample of 76 mergers and acquisitions Njah and Jarboui (2013) prove that institutional investors are able to constraint earnings management around mergers and acquisitions.

External audit

Many researchers maintain that the financial statements of Big-X clients' are more reliable. The larger the auditor and the smaller the client, the less incentive the auditor has to "cheat" and to behave opportunistically since the risk to loose the other clients becomes greater (DeAngelo, 1981). Watts and Zimmerman (1981) explained the size as surrogate for audit quality appealing to the advantage that bigger auditors have of overseeing individual auditor behaviour. The later literature found evidence that the Earnings Response Coefficient of Big-X clients are higher than non-Big-X clients (Teoh and Wong, 1993), or that Big-X auditors are more effective in constraining discretionary accruals (Becker et al., 1998, Francis and Krishnan, 1999). Kim et al. (2003) found that Big-X auditors can better limit managers' ability to income-increasing accruals (Lys and Watts, 1994), but they are less able to detect income-decreasing accrual choices than non-Big-X auditors. With these findings, they indicate that Big-X auditors actually are more effective just in case their reporting incentives diverge from those of the managers.

A large body of the literature finds a positive association between discretionary accruals and audit fees on the strength of the audit risk model (Frankel et al., 2002; Gul et al., 2003; Srinidhi and Gul, 2007; Hogan and Wilkins, 2008). Alternatively, others indicate that auditors charge lower fee to reliable clients (DeFond et al.,

2012). Several studies suggest that the ratio of non-audit fees to total fees lowers auditor independence and as a consequence the quality of financial reporting (Srinidhi and Gul, 2007). Another stream of literature failed in finding a positive association between non-audit fees and unexpected accruals (Ashbaugh et al., 2003, Chung and Kallapur, 2003).

Auditor rotation in literature has been considered both beneficial and detrimental for the financial reporting quality. It is beneficial with reference to the experience and the client-specific knowledge acquired (Johnson et al., 2002; Chen et al., 2008) but detrimental since it may imply an "excessive familiarity" with the client (Chi and Huang, 2005) reducing its independence. Also, auditor changes have always drawn the attention because they might be caused by managerial opportunism (DeFond and Subramanyam, 1998). As explained by Davidson III et al. (2006) auditor changes can be motivated by two opposite aspirations. On the one hand management might decide to change auditor to improve the firm's performance by reducing expenses or to obtain a more effective new auditors; on the other hand, they might change auditor for opportunistic reasons, entrenchment of management, higher earnings, higher bonus compensation and "friendlier" audit opinions. If auditor changes are caused by opportunism, the level of discretionary accruals would be greater after the substitution.

Another valid constraint for earnings management can be the auditors' industry expertise (Krishnan, 2003). A large body of the literature found that auditors experience in specific industry is associated with a better ability in identifying errors (Bedard and Biggs, 1991; Solomon et al., 1999) or in detecting fraud (Johnson et al., 1991).

Finally, many authors studied the relation between earnings management and modified audit opinions, i.e. qualified or adverse opinion, and again, the evidence is mixed. A part of the literature maintains that modified opinions are positively associated with the level of discretionary accruals (Francis and Krishnan, 1999; Bradshaw et al., 2001). Another part underlines how qualified audit reports are not necessarily associated with abnormal accruals (Butler et al., 2004; Ajona et al., 2008, Nelson et al., 2002).

Financial analysts

Financial analysts are considered governance subjects and gatekeepers, as their primary role is to attenuate the information asymmetry problems between outsiders and insiders (Brennan and Huges, 1991). For example a downward revision of the analyst earnings forecasts after the issuance of the financial reports may indicate deteriorated future conditions of the firm. As a consequence, a large body of the literature studied the stock price reactions to analysts' forecasts revisions (Barry and Jennings, 1992; Abarbanell et al., 1995; Barron et al., 1998; Kothari, 2001; Healy and Palepu, 2001; Francis et al., 2004; Bagnoli et al., 2005; Arya and Mittendorf, 2007). Also it has been found that the information asymmetry is negatively associated with the analysts' coverage (i.e. the number of analysts following a firm) (Brennan and Subrahmanyam, 1995; Louis and Robinson, 2005; Houston et al., 2010). Related to this information asymmetry mitigating role, O'Brien and Bhushan (1990) suggest that institutional investors prefer investing in firms with analyst coverage. At the same time the analysts transfers the market expectations to firms. Hence some studies investigate the impact that analysts' forecasts have on the CEO turnover (Farrell and Whidbee, 2003) and bonus (Bolliger and Kast, 2004). Analysts are mainly focused on the forecasts of the firms' earnings; this is why any earnings management practices might affect their accuracy (or, looking at the other side of the coin, the forecast error). When the earnings management practices are not taken into account, an income-increasing manoeuvre leads to pessimistic earnings forecast, while an income-decreasing manoeuvre leads to optimistic earnings forecasts (Abarbanell and Lehavy, 2003). Competing findings suggest that analysts consider earnings management when doing their forecasts (Brown, 2004; Keung et al., 2010).

The analysts' pay depends on their ability in providing accurate estimates to brokerage and investment banks. Some studies find that analysts' turnover is associated with their performance (Mikhail et al., 1999). Analysts mainly draw from the information provided by the management. It is relevant to recall that brokerages tend to have their own stock portfolio hence they exert pressure on the analysts to issue favourable recommendations on that portfolio of shares (Francis and Philbrick, 1993; Dugar and Nathan, 1996; Lin and McNichols, 1998; Dechow et al. 2000; Lim, 2001; Agrawal and Chen, 2006).

O'Brien et al. (2005) provide evidence that affiliated analysts consider

asymmetrically good and bad news, responding quickly to good news while avoid to issue bad news. In other words, analysts are less timely in downgrading from "Buy" and "Hold" their recommendations compared to the inverse upgrading from "Hold". Conversely, when the analysts are affiliated to firms that provide also underwriting services seem to be less optimistic (Cowen et al., 2006). Following Ronen and Yaari (2008), we can classify the literature debates on analysts in three streams: 1) analysts being gatekeepers limit earnings management (DeGeorge et al., 2004; Frankel and Li, 2004; Lang et al., 2004; Rees and Sivaramakrishnan, 2006); 2) analysts look for the equilibrium of the differing pressures, the maintenance of their reputation and the firm's management desires (Easterbrook and Nutt, 1999; Mest and Plummer, 2003; Agrawal and Chen, 2006); and 3) the collusion between management and analysts threatens analysts' objectivity and independence (Lim, 2001; Abarbanell and Lehavy, 2003; Burgstahler and Eames, 2003; Durtschi and Easton, 2005).

In literature there is wide evidence that firms engage in earnings management to meet or beet the analysts forecasts (market expectations) (Bannister and Newan, 1996; Bange and De-Bondt, 1998; Kasznik, 1999; Matsumoto, 2002; Moherle, 2002; Abarbanell and Lehavy, 2003; Louis, 2004; McVay, 2006; Brown et al., 2006; Barua et al. 2006).

Williams et al. (2006) suggest that the discretionary increasing of earnings adversely affect the firm's future ability to meet or beat the expectations. Consistently with this observation some studies find that the firms that meet or beat the estimates on average perform better (Bartov et al., 2002).

In literature there are already some studies investigating the relation between the impairment of goodwill and certain corporate governance mechanism. However, as far as I know it is still missing a comprehensive study investigating the relation between the impairment of goodwill and most of the subjects involved in the corporate governance puzzle[138]. Grounding on the above theoretical framework in the following paragraph I build my basic research question and advance additional research hypotheses tested or suggested in the empirical chapter.

[138] Cohen et al. (2004) talks about the corporate governance "mosaic" providing a good idea about the reciprocal ties and connections amongst different corporate governance actors.

2.2. Objectives

Prior literature investigates the relation between diverse corporate governance actors and earnings management. In this thesis I narrow down the investigation of the earnings management studying the manipulation of the earnings through the impairment of goodwill. My basic research question is: **Does the corporate governance affect the impairment of goodwill?**

This research question is empirically verified in the third chapter and it is further split into different research propositions and hypotheses. Specifically, in chapter three there are four sections, according to the diverse corporate governance issue related to the impairment: reporting incentives, ownership structures and governance mechanisms, chief financial officer, external auditor and financial analysts. In the first two sections I examine the effects that the internal corporate governance characteristics have on the impairment test. In the last two sections I explore and suggest the effects that the external corporate governance characteristics may have on the impairment test.

The first section (§ 3.1) examines the studies on the earnings management objectives obtained through the manipulation of the impairment of goodwill. In detail, I focus on the literature's contributes on the impairment of goodwill used for the following managerial reporting incentives: big bath, income smoothing, leverage, CEO bonus and CEO change. The paragraph then deals with the empirical research on the impact that certain ownership structures and corporate governance mechanisms have on the impairment of assets in Italy, UK and Germany. This paragraph analyses the corporate governance impact in contexts in which the same accounting standards are adopted, but which present different governance systems and different ownership concentration. This allows appreciating the differences in the impacts. The United Kingdom shows a prevalence of public companies with widespread shareholdings and monistic governance systems (known also as one-tier system for the presence of only one body: the Board of directors), based on a strong presence of independent directors on the Board and on the separation between the office of the CEO and that of the Board Chairman. Italy is featured by concentrated ownership structure (in which the main shareholder is a family or a coalition), presence of shareholders on the Board, potential conflicts of interests with minority shareholders and dualistic

horizontal governance model. The Italian model is also known as the dualistic horizontal model made up by two bodies both of them elected by the shareholders: the board of directors and the board of statutory auditors (*collegio sindacale*). The first is responsible for managing the company while the latter oversees the control of the operations comprising those carried out by the board. Finally, Germany is characterized by mixed-ownership structures and dualistic vertical governance model with a strong employee role in the supervisory board. Specifically, the German model is called dualistic vertical model as it is characterised by the presence of the Supervisory Board elected by the shareholders and of the Management Board appointed by the Supervisory Board. The underlying research question of this paragraph is: Do ownership structures and corporate governance mechanisms affect the impairment of assets in Italy, UK and Germany? This research question is expressly divided into the four following hypotheses:

Hypothesis 1: *Ceteris paribus*, insider shareholding is positively associated to the magnitude of discretionary impairment losses.

Hypothesis 2: *Ceteris paribus*, state ownership is positively associated to the magnitude of discretionary impairment losses.

Hypothesis 3: *Ceteris paribus*, institutional investors ownership is negatively associated to the magnitude of discretionary impairment losses.

Hypothesis 4: *Ceteris paribus*, stronger governance mechanisms are negatively associated to the magnitude of discretionary impairment losses.

In the second section (§ 3.2) I conduct a survey on the CFOs perception on the management of the goodwill write-off under both IFRS/US-GAAP. After asking the information on the organization in which they work and their personal background, I ask CFOs to manifest their perceptions on the impairment of goodwill accounting standard (e.g. if the elimination of the goodwill amortization has introduced greater subjectivity, if the goodwill write-off reflects the macro (micro)-economic conditions, etc.). Then I question their insights on the reasons that may induce management to discretionally use the impairment of goodwill (e.g. to meet analysts forecasts, to save their reputation, to increase their bonuses, etc.), whether certain ownership structures affect the impairment of goodwill (e.g. insider ownership implies underestimated goodwill write off, institutional ownership constraints the use of discretionary goodwill write-off, etc.), on the external audit influence on the

impairment of goodwill (e.g. big-4 auditor and the auditor expertise can better constraint the managerial discretion on goodwill write-off, etc.). I also require answering to questions concerning the difficulties underlying the impairment of goodwill (e.g. the level of difficulty for the external audit and for the CFOs, which procedures do they carry out in ascertain the goodwill impairment test, with whom do they compare their evaluations, etc.). Finally, I ask for suggestions to enforce the reliability of the accounting for goodwill and whether they overall prefer the goodwill impairment test or the amortization of goodwill. From these questions I ensue this specific research question: Do CFOs perceive that managers discretionally use the goodwill write-off under IFRS/US-GAAP?

The third section (§ 3.3) explores the literature on audit quality and financial reporting reliability. Since the literature suggests that the financial reports are a joint statement from the auditors and the managers (Antle and Nalebuff, 1991) the auditors plays a paramount role in the constriction of the discretionary use of goodwill write-offs. Linking the literature on audit characteristics and earnings management I develop a set of proposition on the likely associations between certain auditor characteristics and discretionary goodwill write-offs. Following I list the propositions developed in paragraph 3.3:

Proposition 1: *Ceteris paribus*, Big X auditors are more effective than non-Big X auditors in preventing goodwill write-off understatements but avoid preventing goodwill write-off overstatements.

Proposition 2: *Ceteris paribus*, audit fees are negatively associated with goodwill write-off overstatements.

Proposition 3: *Ceteris paribus*, audit fees are positively associated with goodwill write-off understatements.

Proposition 4a: *Ceteris paribus*, non-audit fees are positively associated with write-off manipulations.

Proposition 4b: *Ceteris paribus*, non-audit fees are negatively associated with write-off manipulations.

Proposition 5a: *Ceteris paribus*, auditors' tenure is negatively associated with write-off manipulations.

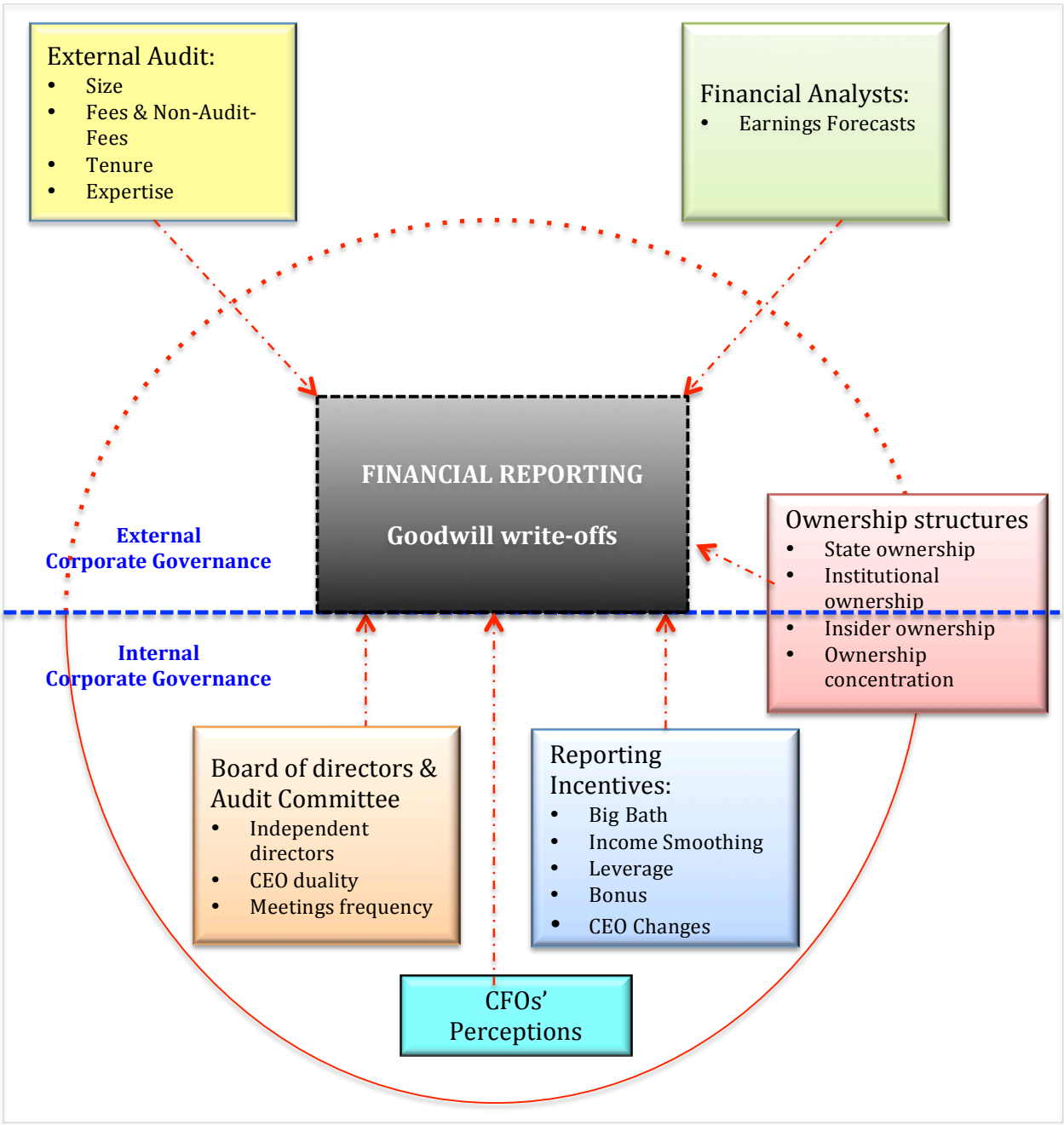
Proposition 5b: *Ceteris paribus*, auditors' tenure is positively associated with write-off manipulations.

Proposition 6: *Ceteris paribus*, auditor expertise is negatively associated with write-off manipulations.

In the last section (§ 3.4) with an exploratory approach I deepen the literature on analysts' forecasts and earnings management. Similarly to the external audit the financial analysts assume a key role in the game of manipulating the earnings. Hence, as in the previous section, basing on prior literature I develop two propositions relating the impairment of goodwill and analysts forecasts:
Proposition 1: *Ceteris paribus*, the goodwill write-offs understatements are positively associated with optimistic financial analysts' earnings forecasts.
Proposition 2: *Ceteris paribus*, the goodwill write-offs overstatements are positively associated with pessimistic financial analysts' earnings forecasts.

In the following page in Illustration 2.1 I confine my research objectives outlining the different associations investigated between the goodwill write-off (hence financial reporting) and determined corporate governance actors (internal and external of the firm).

Illustration 2.1: Impacts of internal and external corporate governance on goodwill write-offs.



2.3. Methods

To explore my overall research question and the specific hypotheses above proposed, I embrace a multiple-methods approach (Hoque et al., 2013). In detail, I adopt the historical method in the first chapter while in the third chapter I mix the critical analysis of the literature (§§ 3.1, 3.3 and 3.4) with archival (§ 3.1) and survey research (§3.2).

2.3.1. Historical method

In the first Chapter I mainly follow a historical method[139]. In particular, I have tried to comparatively analyse the main Italian Accounting Schools from the "*precursors*" to the "*economisti aziendali*" on the issues of goodwill and its evaluation criteria. In addressing past developments of the Italian accounting tradition I propose some relationships between the explored Authors and the current accounting standards on impairment of assets. The emphasis of the chapter is on the Italian context with some hints to the International accounting traditions. Notwithstanding, given the narrow investigation on the International setting, the first chapter cannot be considered as a comparative international accounting history study. Yet, the first chapter is neither a biographic study on prominent Italian accounting scholars as the focus is not on the Authors lives and careers, but on their main pioneering contributions on the matters of goodwill and impairment of assets. This part of my research has been carried out through the critical analysis of some important stages in our discipline on the issues mentioned, trying to contextualise the words of various Authors within different approach, due to different periods and contexts.

Precisely, the first chapter proposes the development on the financial evaluations, with specific focus on goodwill, construed through the Italian accounting

[139] When I talk about the historical method I refer to the method clearly exposed by Giannessi in the posthumous publication (1992) with the title "*Considerazioni introduttive sul metodo storico*". In that publication the Author explains that "acting with method" means using scientific rigour, examining the verifiable interrelations and the causal relationships. Only the logical analysis of the facts and things has scientific relevance.

traditions[140]. Hence, I assume a constructivist epistemological position, trying as much as possible to avoid the objectivism of constraining theoretical classifications as well as the subjectivism accompanying the biography exaltation of singular Authors or Schools[141]. I construe the historical research as a comparative analysis where the past theoretical accounting approaches may be useful to interpret the current accounting practices and, perhaps, to build new financial valuation approaches able to better represent the firm's condition. In comparing different ways of reporting goodwill or evaluating the equity economic value I use the historical method through the analysis of historical books, chapters and other writings in general by past eminent accounting Authors[142].

The diverse equity evaluation approaches and income measurements presented in the first chapter confirm the accounting relativism also within the national boundaries, which as suggest Zambon and Zan (2000: 817) may add «further insights into the interpretation of dissimilar national accounting histories and historiographies».

The motivation to introduce my thesis with an historical chapter can be explained by the following Carnegie and Napier's (2012: 329) statement: «History can inform our appreciation of contemporary accounting thought and practice through its power of unifying past, present and future. Our current activities, when viewed through the lens of history, appear neither eternal nor ephemeral, but are grounded in their past».

2.3.2. Critical literature review

A critical literature review generally constitutes the building foundation of researches using other research methods. However, the systematic and organised literature could be considered a method itself for example when the purpose of the study is exploratory (Robson, 1993). A search of the literature seems key when determining

[140] Giannessi (1992: 26) explicitly says that the researcher uses the results of prior studies, initiating the research from a threshold of science already reached. Wittily, he also says that the speech should be advanced by degrees or with unexpected leaps forward, but always basing on prior knowledge.

[141] The constructivist historiography has been presented by Claudio Lipari in a contribution entitled "*Introduzione alla storia e alla storiografia*" at the "*Scuola di metodologia della ricerca storica*" third edition hosted at Università degli Studi Milano Bicocca, 10th – 12th June, 2015.

[142] See Antonelli and D'Alessio (2011: 468) that with the publication "Summa DB: A research note about an Italian accounting history database": «Enables Italian and international scholars to commence building a bibliography for an accounting history paper by identifying the cluster of publications which are relevant to their particular».

whether a topic should be investigated (Saunders et al., 2009). From a critical literature review the researcher derives not only a ground for its research but also recommendations for further research. It should be acknowledged that certain journals calls for synthetic and rigorous literature review in the form of e.g. synthesis article as well as in the form of commentaries to current issues (e.g. Journal of Accounting Literature). Being aware of the importance of developing a critical literature review, in the thesis (specifically in §§ 3.1, 3.3 and 3.4), I review the studies on the relationships between the impairment and the earnings management (§ 3.1), the impairment and the external auditor (§ 3.3) and the impairment and analyst's estimates (§ 3.4). Even though these relationships have been broadly explored in the past, I have found either some gap in the literature, which might be examined in future research, or divergent results suggesting the need of further investigation.

In details in § 3.3 I carry out a conceptual investigation of whether and how some key attributes of auditors affect the reported goodwill write-offs' reliability. After reviewing the literature on the use of goodwill write-offs as an earnings management tool (§ 3.1), I explore possible relationship with auditors' attributes and financial reporting quality (Stolowy and Breton, 2004; Dechow et al., 2010; Firth et al., 2012). I identify four auditor attributes that affect the audit activity's effectiveness in goodwill write-offs: size, fees, tenure and expertise. Building on agency theory, I discuss how these characteristics shape auditors' incentives when reviewing goodwill write-offs. I develop a set of propositions on how the external auditors' attributes can or cannot contribute to more reliable goodwill write-offs.

Finally, in § 3.4 I explore the literature on financial analysts' forecasts and again I suggest possible relationship to investigate in future studies between analysts forecasts and the impairment of goodwill.

These paragraphs may constitute the fundaments for future literature meta-analysis. Altogether, I find several research opportunities to answer to research questions involving corporate governance and accounting issues.

2.3.3. Archival research

In paragraph 3.1 I analyse collected data. The sources from which I have developed my database are both primary and secondary. Indeed, I have hand-collected certain

data directly form the firms' corporate governance reports and annual reports (primary) while other data (e.g. the economic-financial information) were gathered from secondary sources (e.g. Worldscope Datastream Global Database). This part of my empirical research is based on time-series data – from 2005 to 2010 – hence for the validity of my research I accounted of possible problems associated with secondary data (Foster, 1986; Smith, 2003). Specifically, I controlled that structural changes have not taken place during the period within the sample; also accounting method during the period did not change; and finally I considered possible accounting classification issues. Hence, I ensured that the same companies made up the sample during the whole period. The companies within the sample then are all IAS/IFRS adopters thus during the period 2005-2010 there were not substantial changes in the standards. Furthermore, the hand-collection of certain data (such as the impairment losses amount) ensured that accounting classification issues were under control. The attention on these preliminary issues ensures a higher external validity than e.g. the experimental or simulation approaches as the archival method is anchored to empirical data.

I then explored the data gathered through archival method with statistical analysis, using both univariate and multivariate statistics (see § 3.1 for a deeper explanation of the research design and for the empirical results).

2.3.4. Survey research

A social phenomenon may be studied through direct observation or it may be asked (Corbetta, 2003). Since in § 3.2 I aim at exploring the CFOs' perceptions, attitudes and beliefs on the impairment of goodwill I use the survey method to collect the information. A big benefit of survey data is that they can be used for quantitative analysis and are easily generalizable (Perecman and Curran, 2006).

I decided to conduct a survey on the perceptions of the CFOs because I wanted to tailor the data on specific research questions. The questions I asked to the CFOs can form a sort of conceptual summary of the whole empirical research carried out. Also, these data provides results never before studied with potential new insights on the impairment of goodwill issue.

While conducting a survey, the first matter to consider is the sampling procedure (Kish, 1965). Hence, the pre-survey work consisted in: definition of the sample, questionnaire preparing and piloting the questionnaire. Firstly, I defined the population of interest: the CFOs working in companies adopting IAS/IFRS or US GAAP. Secondly, traditionally in a survey the researcher should draw a list of possible respondents. In this second phase, I have downloaded from Orbis Bureau van Dijk Database a list of full name, e-mail address and type of managerial position within the active companies that adopt the IFRS or US GAAP. Then, I also used the CFOs contacts of the companies' corporate sites of some European listed companies. Finally, I directly searched for the LinkedIn connection with the CFOs. The sample size is an important aspect to be considered (see § 3.2 for the statistical analysis).

Then I made my research question regarding this empirical research apparent (see above § 2.2) and I purposely-built the questionnaire (Roberts, 1999). While drafting the questionnaire I bore in mind to keep it short to increase the likelihood that the respondents maintain the same attention for the entire questionnaire. I worded the questions in English and tried to make them as simpler, neutral and direct as possible as well as familiar to the CFOs expected knowledge and experience. Usually, to evaluate a question it is tested its reliability (in terms of consistency of the responses to the question) and its validity (i.e. the question gauges what is intended to gauge) (Perecman and Curran, 2006) (see § 3.2 for the statistical analysis on the questionnaire). I then uploaded my question on eSurv.org that is a provider of free survey management tools. ESurv.org allows the collection of data online, sending the survey link by email address[143].

To make the time devoted to answer shorter I designed the questionnaire mostly with closed-ended questions (requiring yes/no, Likert-scale responses or tick-a-box type answers) and just the last question is open-ended to eventual suggestions and/or recommendations for the research. In § 3.2 there is a wide description of the questionnaire and Appendix B2 reports the questionnaire sent.

Before beginning to ask CFOs to answer the survey I conducted five pilots testing[144].

[143] According to Smith (2003): «Mail questionnaires allow a large enough sample to reduce sampling error to acceptable levels, at considerably lesser costs than either telephone or face-to-face interviews. In addition, mail surveys provide no opportunity for interviewer bias, a potentially serious problem in both face-to-face and telephone interviews».

[144] I asked to answer to the questionnaire to the following five persons: 1) Full Professor in Accounting; 2) Researcher in Accounting; 3) Ph.D. Student in Statistics; 4) Ph.D. Student in Accounting and Finance; and 5) Chief Professional Accountant.

I revise the questions and finally sent out the questionnaire[145].

I prepared personal email and addressed the survey not to unnamed CFOs but to targeted by both their CFOs position and by their full name (Dillman, 1978); specifically, I sent email to CFOs already connected with my profile on LinkedIn. I prepared a clear cover email where I briefly introduced myself and my research project, ensuring the confidentiality of the responses and the possibility to share the results (see Appendix B1 for a facsimile of the sent emails). The participants then find further details and instructions at the beginning and during the questionnaire (see Appendix B2). Using e.Surv.org provider there is no need to record the answers as the software directly save the responses in the Microsoft excel format.

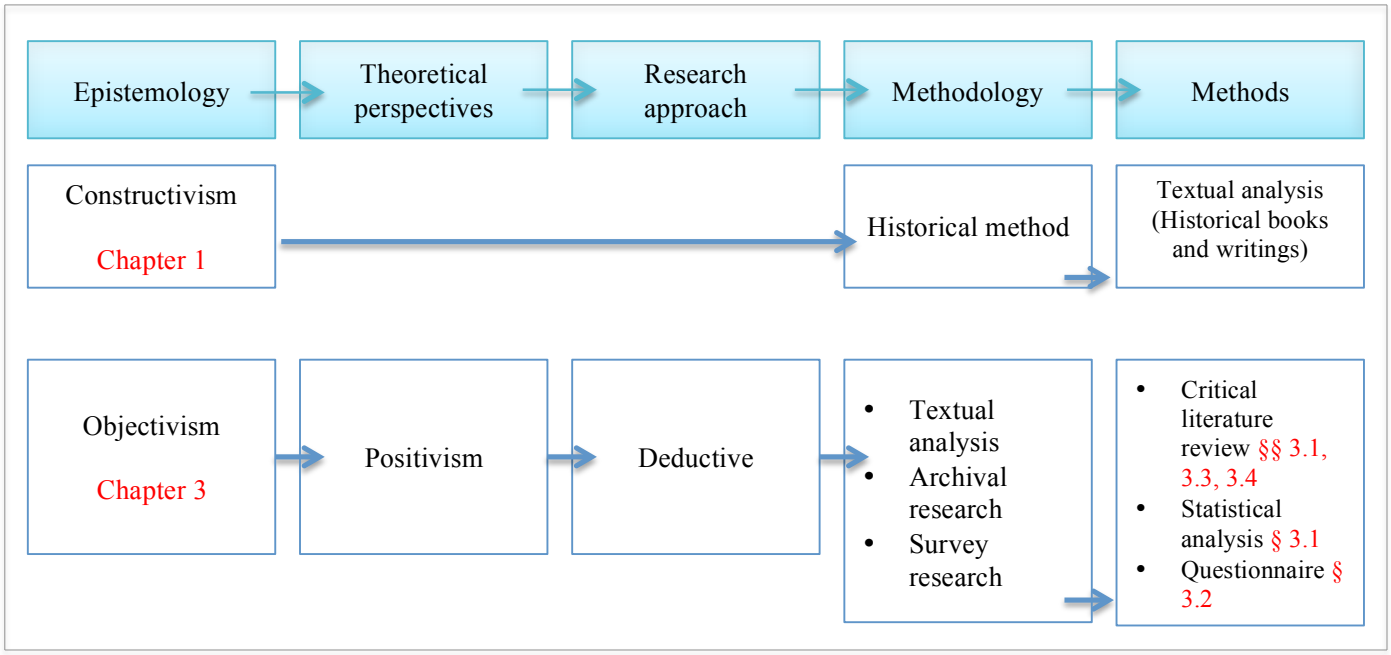
I then analysed the collected data through the survey method with statistical analysis, using descriptive statistics (see § 3.2 for a deeper explanation of the research design and for the empirical results).

The results of the survey may complement a future qualitative study. They allow identifying interesting case studies but also they help to select certain question that might shape interesting discussions within focus groups.

Illustration 2.2 summarises the epistemological position, theoretical perspectives, methodology and methods used in throughout the thesis.

[145] The e.Surv.org provider gives back responses already in anonymous form; hence I could not identify the non-respondents to send them out a reminder email. However, this limitation is partially mitigated by a relatively high rate of response.

Illustration 2.2: The relationship amongst epistemology, theoretical perspectives, research approach, methodologies and methods.



Adapted from: Gray, 2013

To sum up, I adopt multiple-methods including both qualitative approach (critical analysis of the literature), and quantitative approaches. In detail, the quantitative approach used includes both archival and survey researches. Using a "within-method triangulation" offers complementary perspectives on the same phenomenon increasing the validity and reliability of the research (Smith, 2003).

Chapter 3

The empirical researches

TABLE OF CONTENTS:

3. The empirical researches

> *Increasingly, I have become concerned that the motivation to meet Wall Street earnings expectations may be overriding common-sense business practices. Too many corporate managers, auditors, and analysts are participants in a game of nods and winks. In the zeal to satisfy consensus earnings estimates and project a smooth earnings path, wishful thinking may be winning the day over faithful representation.*
> *As a result, I fear that we are witnessing an erosion in the quality of earnings, and therefore, the quality of financial reporting. Managing may be giving way to manipulation; integrity may be losing out to illusion.*
>
> Levitt, 1998

The impairment test is a procedure carried out at different levels within the firm organization, involving in general terms the operational management and the top-management as well as external subjects such as the external auditor. This chapter articulates as follows. Firstly (§ 3.1), I briefly explore the literature on the impairment test and I particularly focus on the literature that studies the impairment test as an earnings management tool. Then, I empirically verify if certain ownership structures (i.e. concentrated ownership, managerial ownership and state ownership) and the firm corporate governance affect the discretionary use of asset-write offs. In paragraph 3.2 I surveyed CFOs to obtain their perception on the use of a hardly verifiable estimate as the goodwill write-off is. It follows (§ 3.3) a conceptual investigation on determined auditor characteristic and their likely association with the discretionary use of goodwill write-offs. Finally in paragraph 3.4 I theoretically explore the relation between financial analysts and the impairment of goodwill.

3.1. Impairment, earnings management, ownership structures and corporate governance

> *I believe we need to embrace nothing less than a cultural change. For corporate managers, remember, the integrity of the* ***numbers*** *in the financial reporting system is directly related to the long-term interests of a corporation. While the temptations are great, and the pressures strong, illusions in* ***numbers*** *are only that – ephemeral, and ultimately self-destructive.*
>
> Levitt, 1998

As highlighted in chapter 2 and as suggested by previous literature owner-manager agency conflicts prompt managers to use write-offs for earnings management purposes. The management exploits the discretion allowed by accounting rules[146] to move future write-offs into current periods for agency-related reasons, such as remuneration concerns and signalling to the financial markets (Riedl, 2004; Ramanna and Watts, 2012). Scott (2003) suggests that earnings management does not have only a "negative" side but it can be used to convey management's private information to the external parts, this way the stock prices adapt to the future perspectives anticipated in the "managed" earnings.

Some studies have found evidence that managers recognize overstated write-offs to report large losses or "big baths" (Riedl, 2004). By doing so, the management: 1) "saves" the future periods from the write-offs, 2) maximizes the probabilities of future earnings-based bonuses and payments (Godfrey, 2006), and 3) signals to the outside that "bad times" are behind and better periods lie ahead (Riedl, 2004).

[146] For example Rockness et al. (2001) following the issuance of SFAS 142 argue that: «The new impairment charges are prime candidates for movable expenses from one period to another to achieve desired earnings targets».

Other researchers have found that managers use unnecessary write-offs to smooth the firm's income (Guler, 2006; AbuGhazaleh et al., 2011). By doing so, managers moderate the overall net income volatility, while keeping the profits above the threshold specified in earnings-based bonus plans (Guler, 2006).

Several studies have suggested that incoming CEOs report large, unnecessary write-offs in their first year of appointment to improve the investors' perception of the firm's future financial performance, exploiting the opportunity to blame the prior management for the write-off (Masters-Stout et al., 2008; Zang, 2008).

Regardless of the managerial aims, overstated write-offs result in income-decreasing manipulations, undervalued assets and clouded future firm profitability perspectives.

Managers can understate write-offs (or even avoid the expected recognition) to protect their target earnings-based bonus compensation, their own share value and/or their reputation (Ramanna and Watts, 2012). Brochet and Welch (2011) find that directors who have more acquisition experience are more sensitive to agency conflicts when it comes to their goodwill write-off decisions, as they are more likely to face higher reputation costs. Ramanna and Watts (2012) find evidence that write-offs are, on average, lower in firms in which the CEO is more sensitive to reputation costs. Managerial shareholding exacerbates the incentive to avoid or understate write-offs. Owner-managers are concerned that asset write-offs directly map into stock prices, affecting their own wealth (Beatty and Weber, 2006; Ramanna, 2008). As the level of ownership grows, owner-managers are more likely to have a long tenure as directors and to be responsible for the original acquisition decision of the impaired assets. Since write-offs suggest that the acquisition price was too high, reputation costs contribute to private wealth concerns, leading to understated write-offs (Beatty and Weber, 2006; Ramanna and Watts, 2012). Regardless of the managerial aims, understated write-offs result in income-increasing manipulations, inflated asset values and clouded future firm profitability perspectives.

3.1.1. Impairment and ownership structures

One of the major consequences of the economic crisis for listed companies is the impairment of long-lived assets (goodwill, PPE and intangibles). Besides affecting the current earnings, the assets write-off discloses to the outside the management's estimation about the firm's future ability to generate cash flows (Zucca and Campbell, 1992). The assets write-off can have several financial consequences including: the reaction of stock markets, the possible subsequent M&A activity, the re-assessment of the firm financial health, as measured by certain key ratios (Zucca and Campbell, 1992; Gu and Lev, 2011). Given the important economic and market implications, this accounting choice is expected to be carefully assessed at the company's top. Ownership structures and corporate governance can thus be potentially intervening variables in impairment decisions (Gu and Lev, 2011).

Prior research on assets impairment focused on earnings management as a primary reason for write-offs (Zucca and Campbell, 1992; Francis et al., 1996). Taking advantage of the discretion allowed by accounting rules, the managers manipulate earnings, either through the timing of impairments and through the determination of the amount recorded as loss. The literature identified reporting incentives related to asset write-offs, such as debt contracting, big bath, income smoothing or management changes (Francis et al., 1996; Riedl, 2004; Beatty and Weber, 2006; Zang, 2008). In a related stream, other researchers suggest that the write-offs are not used for earnings manipulation, but to send credible information to the market about the effective decline in the values of the impaired assets (Rees et al., 1996; Godfrey et al., 2009; Jarva, 2009).

In this part of the empirical research, I study the association between certain ownership structures and selected corporate governance mechanisms on the impairment of long-lived assets, that is PPE, intangibles and goodwill (Rees et al., 1996; Guler, 2006; Chao and Horng, 2012). In line with the most recent researches on assets write-offs, I partition the impairment losses into expected non-discretionary and unexpected discretionary portions. I then explore whether both ownership structures and corporate governance affect the magnitude of discretionary

impairment losses, comparing three different corporate governance environments: United Kingdom, Germany and Italy.

The period 2006-2010 sets the stage for my investigation. This time frame saw the beginning and the development of the world economic crisis and provides an interesting empirical setting to investigate whether and how the ownership types and the governance structures influence the write-off of companies' assets.

Although being all European Countries, UK, Germany and Italy display a significant diversity. The UK setting is featured by large public companies with dispersed ownership, whilst Italy sees the dominance of companies featured by concentrated ownership and high insider shareholding in the board (often by controlling families members). The German setting shows a mix of large companies with more dispersed ownership and companies controlled by large dominant shareholders. The three Countries have also different governance systems: the one-tier system in UK and Italy, the two-tier system in Germany with wider stakeholders representation in the supervisory board (Gregory and Simmelkjaer, 2004; Zattoni and Cuomo, 2009).

Consistently with predictions by agency theory and political theory, I find that ownership types and corporate governance affect the magnitude of discretionary assets write-off. Insider ownership is positively associated to discretionary impairment losses in the UK and in the Italian sample. As expected, state ownership is found to be positively associated to discretionary asset write-off in the Italian sample. Institutional investors ownership is found to constrain the manipulation of assets impairment in the UK and in the German sample. Also, governance mechanisms in UK and German firms contribute to limit discretionary asset write-offs.

This analysis can contribute to prior literature in several ways. Firstly, it provides evidence that ownership types and corporate governance are intervening variables in the accounting decision-making process leading to assets impairment. Secondly, the findings suggest possible interdependencies among ownership structures and corporate governance in influencing the accounting choices. On the one hand, the ownership types influence on discretionary assets write-offs appear to be facilitated or constrained by the legal and the governance context; on the other hand, ownership structures can prevent effective monitoring by governance mechanisms.

3.1.2. Hypotheses development relating to ownership structures and corporate governance

The seminal work by Francis et al. (1996) posed two opposite views on the managerial discretion in recording assets impairment losses. Most of the following research was dedicated on understanding whether the assets impairment losses are guided either by earnings management purposes or by the objective to provide reliable information to the markets. Several studies found evidence that the asset write-offs are associated to managerial incentives like big bath, income smoothing, debt contracting, or CEO changes (Francis et al., 1996; Riedl, 2004; Beatty and Weber, 2006; Zang, 2008). Other studies found evidence that the asset write-offs are appropriate responses to changes in the firms' performance and economic environment, like declines in profitability or declining macro-economic trend (Rees et al., 1996; Godfrey et al., 2009; Jarva, 2009).

A common feature of this literature is the consideration of the impairment losses as either entirely opportunistically determined or entirely credible information. Unlike this literature, I follow the work by Chao and Horng (2012) in partitioning impairment losses into an expected non-discretionary portion and a discretionary portion. The non-discretionary portion captures the expected loss given a set of economic factors like the firm performance and growth opportunities, the industry performance and the macro-economic trend. The discretionary portion captures the impairment loss manipulation, either downward or upward, and its overall magnitude can be influenced by managerial reporting incentives. The lower is the magnitude of the discretionary impairment losses, the more reliable is the asset write-off information disclosed. I investigate if ownership and corporate governance influence the discretionary portion of the impairment losses, across different governance environments.

Insider ownership

The academic literature provides alternative views on the impact of insider ownership (ownership by corporate founders, controlling family members, managers, sitting in the board) on the accounts manipulation. One view is that low insider ownership implies poor alignment of interests between shareholders and managers

(Jensen and Meckling, 1976; Fama and Jensen, 1983). To mitigate agency conflicts, contractual constrains are used, often incorporating accounting-based restrictions on the managerial actions (e.g. debt covenant, bylaws, compensation rules). Corporate management may attempt to adjust accounting numbers to relieve such behavioural constraints (Watts and Zimmerman, 1986; 1990; Warfield et al., 1995). Prior literature found evidence of the management's opportunistic behaviour, such as accrual manipulation, to increase earnings-based compensations, relax contractual constraints or avoid debt covenants (Holthausen et al., 1995). In this perspective, high insider shareholding implies a convergence of interests between insiders and outsiders shareholders (Leftwich et al., 1981; Fama and Jensen, 1983). This convergence of interests reduces the incentive for managers-shareholders to avoid behavioural constraints. Accordingly, prior literature found evidence of lower magnitude of accounts manipulation in companies with high insider ownership (Warfield et al., 1995).

Alternatively, greater insider ownership can result in entrenchment by directors/shareholders and lack of market discipline (Morck et al., 1988; Dyck and Zingales, 2004; Cornett et al., 2008). Insider shareholders may engage in the search for a trade-off between profits and private benefits (Morck et al., 1988). Insiders can try to maximize their own welfare and expropriate wealth from other investors as well as from other stakeholders, i.e. the employees (Fama and Jensen 1983; Shleifer and Vishny, 1997). The entrenchment hypothesis predicts opportunistic behaviour detrimental to the outside shareholders' interests, including extraction of private rents, compensation schemes, related party-transactions, accounts manipulation (Claessens et al. 2000; DeAngelo and DeAngelo 2000; Faccio et al. 2001; Anderson and Reeb, 2004; Dyck and Zingales, 2004).

Following prior literature, I expect that the entrenchment effect will overcome the alignment effect with regard to the manipulation of impairment losses, due to the nature of the insider shareholders concern. Ramanna and Watts (2009) suggest that equity-asset-pricing concern is a key factor influencing impairment manipulation. The accounting choices may take into account, or even try to influence, the stock prices (Fields et al., 2001; Ramanna, 2008). Insiders may be concerned that assets write-offs directly map into stock prices, affecting their own wealth (Ramanna, 2008). The higher insider shareholding is, the greater would be the concern about the effect of asset write-offs. In this situation, insider shareholders may be tempted to put

private benefits ahead of market discipline (Morck et al., 1988; Claessens et al. 2000; DeAngelo and DeAngelo 2000; Faccio et al. 2001; Anderson and Reeb, 2004; Dyck and Zingales, 2004). The equity-asset-pricing concern can thus lead to more discretionary impairment losses.

Also, at high level of ownership, insider shareholders are more likely to have a long tenure as directors and to be responsible for the original acquisition decision of the impaired assets (Beatty and Weber, 2006; Ramanna and Watts, 2009). Since the impairment may suggest that the acquisition price was too high, reputational concern may be added to the equity pricing concern, leading to more discretionary assets write-off (Francis et al., 1996; Beatty and Weber, 2006; Ramanna and Watts, 2009). Given the abovementioned considerations, I formulate the following hypothesis.

Hypothesis 1: *Ceteris paribus*, insider shareholding is positively associated to the magnitude of discretionary impairment losses.

State ownership

State-owned firms are *de facto* under the control of politicians (Shleifer and Vishny, 1997). The key objectives of politicians can diverge from those of external investors and be different from the overall aim of maximizing the firm-value (Shleifer and Vishny, 1994; Huyghebaert and Wang, 2012). The influence of state ownership over financial reporting can be explained basing on two broad views.

The first view can be based on the political theories of North (1990) and Olson (1993), who generally argue that the primary objectives of politicians are staying in power and managing wealth (Shleifer and Vishny, 1994; Bushman and Piotrovskij, 2006). Through the control of enterprises and banks, the politicians may provide employment, subsidies and other benefits to supporters and cronies, who in return provide votes and other contributions, including bribes (La Porta et al., 2002; Bushman and Piotroski, 2006). Bushman et al. (2004) hypothesize that state-owned companies conceal firm specific information to hide expropriation activities by politicians and their cronies. Using a global sample, the Authors find that high state ownership of enterprises and banks is associated with reduced financial transparency. If politicians are interested in concealing the firms' performance and overall financial situation, than the manipulation of the impairment losses can be part of their obfuscation activity.

The second perspective advocates a benevolent view of the state (Gerschenkorn, 1962; Shleifer, 1998). This view argues that government ownership of firms can play a crucial development role, ensure general welfare, or deal with market imperfections, such as externalities (Shleifer, 1998). Even from a "benevolent" view of the state ownership, the pursue of public interest by politicians could be again detrimental to the external investors interests. Politicians may be more concerned by unemployment than by the firm-value maximization (Shleifer, 1998; Ding et al., 2007; Huyghebaert and Wang, 2012). Also, politicians can sponsor local suppliers or keep afloat state-owned firms with financial difficulties (Huyghebaert and Wang, 2012)[147]. These circumstances can lead to impairment losses manipulation, to avoid the economic and market implications of such write-offs.

Both views on the politicians control of firms lead to the hypothesis that state ownership is associated to an increased magnitude of discretionary impairment losses.

Hypothesis 2: *Ceteris paribus*, state ownership is positively associated to the magnitude of discretionary impairment losses.

Institutional investors ownership

Institutional investors have the financial ability and the incentives to be more informed and to exercise stricter control over the firms' performance (Schipper, 1989; Pound, 1992; El Gazzar, 1998; Koh, 2003). Large investors ownership makes option exits more expensive, given the significant discounts related to large share sales (Black and Coffee, 1994; Rajgopal and Venkatachalam, 1998). This implies that as the institutional investors shareholding increases, the cost of being less informed or inactive becomes more relevant (Pound, 1992), whilst the costs of monitoring and being better informed can lower by sharing those activities among joint groups of investors (Hand, 1990; Utama and Cready, 1997; El-Gazzar, 1998; Koh, 2003). Accordingly, the presence of such sophisticated market participants is

[147] The usage of a listed firm as tool to implement public policies is well embodied by the Petrobras case (Economist, 2012). Petrobras and its suppliers account for the 10% of the Brazilian GDP. Petrobras choices, such as the use of local highly expensive suppliers, instead of much cheaper imports, are driven by the state owner. Such choices benefits the local economy in the short term, but are against the interests of the other shareholders (and probably of Brazil in the long term as the Petrobras CEO argues). http://www.economist.com/news/americas/21566645-how-gra%C3%A7a-foster-plans-get-brazils-oil-giant-back-track-perils-petrobras

found to be associated to overall higher quality financial reporting, i.e. reduced earnings management, higher disclosure quality (Bushee, 1998; Bradshaw et al., 2004; Leuz and Wisocki, 2008).

Besides the active control attitude, institutional investors tend to buy stocks in companies whose financial reporting is already believed to have a good level of reliability and quality. So, their presence can be expected in companies with more reliable accounting information (Bushee and Noe, 2000; Leuz and Wisocki, 2008).

Given the abovementioned considerations, I expect that the institutional investors shareholding is negatively associated to the manipulation of impairment losses, as a result of the greater attention paid by such sophisticated market participants to quality financial reporting, as well as of the stricter control exercised over the financial information. I formulate the following hypothesis.

Hypothesis 3: *Ceteris paribus*, institutional investors ownership is negatively associated to the magnitude of discretionary impairment losses.

Corporate governance

Corporate governance is a fundamental device to monitor the managers' opportunistic behaviour. As already said in other parts of this thesis, a key aim of corporate governance is to help investors by aligning the interest of the managers with those of shareholders, as well as by ensuring that reliable information about the company's performance is released to the outside (Watts and Zimmerman, 1986; Fama and Jensen, 1983; Dechow et al., 1996).

Academic's literature prevailing view is that stronger governance mechanisms ensures reliable financial reporting and limit accounts manipulation by managers (Dechow et al., 1996; Core et al., 1999; Klein, 2002; Xie et al., 2003; Karamanou and Vafeas, 2005; DeFond et al*.,* 2005; Gu and Lev, 2011). Empirical research found evidence of several governance mechanisms effective in enhancing the financial reporting quality and constraining accounts manipulation, such as: higher proportion of independent directors in the board (Dechow et al., 1996; Beasley, 1996; Peasnell et al., 2005; Cornett et al., 2008); separation of Chairman and CEO roles (Dechow et al., 1996; Cornett et al., 2009); board and audit committee meeting frequency (Xie et

al., 2003; Karamanou and Vafeas, 2005; Ebrahim, 2007; Cornett et al., 2009; Allegrini and Greco, 2013).

Following this stream of literature, I expect that in weakly governed firms the level of discretionary impairment losses will be higher and vice versa. I formulate the following hypothesis.

Hypothesis 4: *Ceteris paribus*, stronger governance mechanisms are negatively associated to the magnitude of discretionary impairment losses.

3.1.3. Research design: sample selection, ownership structures, corporate governance and discretionary impairment losses estimation

Sample selection

The initial sample includes the UK firms listed in the FTSE 100, the German companies listed in the DAX 100 and the Italian firms listed in the FTSE-MIB 40 and in the FTSE-MID 60 (taken together the two Italian indexes include the first 100 companies per capitalization as the other two indexes). I then discarded the companies not listed continuously in the index in the period 2006-2010 and companies with missing or unavailable data over the period 2006-2010. The final sample is composed by 1,420 firm-year observations (96 UK, 94 German and 94 Italian individual firms). I gathered the ownership and corporate governance data from the firms' websites and from their annual reports. The financial data were downloaded from Worldscope-Datastream. Data on impairment losses were hand-collected from the companies' annual reports.

Discretionary impairment losses estimation

Consistently with prior research, I jointly consider the impairment of long-lived assets, that is PPE, intangibles and goodwill (Rees et al., 1996; Guler, 2006; Chao and Horng, 2012). This choice is also consistent with the IAS 36, that (1) is not applied to assets such as the inventory or the financial assets; (2) requires a substantially unitary impairment procedure through the creation of cash generating units[148].

[148] According to the IAS 36, if it is not possible to estimate the recoverable amount of the individual asset, a company has to determine the recoverable amount of the cash-generating unit to which the

I use a dummy variable (IMPAIR) for the recognition of an impairment loss, 1 if there is an impairment loss on long-lived assets, 0 otherwise. The impairment losses are jointly considered, e.g. the dummy is 1 if both losses on goodwill and PPE are recognized in the year or if there is a loss in the year only on PPE. Another variable (WO%) measures the sum of impairment losses on long-lived assets on total assets, reflected as a *positive* amount (Francis et al., 1996; Riedl, 2004; Godfrey and Koh, 2009).

I estimate the expected discretionary impairment losses by regressing the observed impairment losses on a set of economic factors, identified in prior literature as determinants of assets write-offs (Francis et al, 1996; Riedl, 2004; Beatty and Weber, 2006; Godfrey and Koh, 2009; Chao and Horng, 2012). I then calculate the discretionary impairment losses as the difference among observed impairment losses and expected impairment losses.

Following prior research I use the Heckman two stage selection model on the full sample of impairing and non-impairing firms (Godfrey and Koh, 2009; Chao and Horng, 2012). The first stage models the decision to report a write-off and the second models the amount of impairment loss. This procedure ensures that I take into account the decision to report a loss in the estimation of the discretionary impairment loss, avoiding possible self-selection biases (Beatty and Weber, 2006; Chao and Horng, 2012). Also, the two stage design allows to capture the two sequential choices (that is the decision to impair and the decision about the amount of the loss), without joining them as a single simultaneous choice (Riedl, 2004)[149]. The first step of the Heckman model is a probit regression of Model 1.

Model 1

$$\text{IMPAIR}_{it} = \beta_0 + \beta_1 \Delta\text{ROA}_{it} + \beta_2 \Delta\text{OCF}_{it} + \beta_3 \text{GROWTH}_{it} + \beta_4 \Delta\text{INDROA}_{it} + \beta_5 \text{INDGROWTH}_{it} + \beta_6 \Delta\text{GDP}_{it} + \beta_7 \text{LOSS}_{it} + \beta_8 \text{SIZE}_{it} + \varepsilon_{it}$$

asset belongs. Given the nature of the goodwill and of most assets, the creation of CGUs is a standard procedure. The impairment loss for a CGU is to be allocated primarily to the goodwill and then pro rata to the other assets.

[149] This also reflects the IAS 36 decision pattern. The standard requires an assessment whether there is any indication that an asset may be impaired. If there are any indications, a measurement of the recoverable amount is required.

Where: $IMPAIR_{it}$ = dummy variable, 1 if there is an impairment loss on long-lived assets, 0 otherwise. ΔROA_{it} = firm's *i* change in return on assets from period *t* to *t-1*; ΔOCF_{it} = firm's *i* change in operating cash flows from period *t* to *t-1*; $GROWTH_{it}$ = growth options, proxied by the firm's *i* market-to-book value at time *t*; $\Delta INDROA_{it}$ = the median change in the firm *i* industry return on assets from period *t* to *t-1*; $INDGROWTH_{it}$ = the median market-to-book ratio in firm *i* industry at time *t*; ΔGDP_{it} = change in the national gross domestic product at time *t*; $LOSS_{it}$ = dummy variable, 1 if the firm reported a loss at time *t*; $SIZE_{it}$ = firm' *size,* proxied by the total assets at time *t*.

I include in the equation the economic factors used in prior literature on the determinants of assets write-offs (Francis et al, 1996; Riedl, 2004; Beatty and Weber, 2006; Godfrey and Koh, 2009; Chao and Horng, 2012). I firstly consider three firm-specific economic factors. I use two measures aimed at capturing the firm's performance: the change in the Return on Assets (ΔROA) from period *t* to *t-1* and the change in the operating cash flows from period *t* to *t-1*, divided by the total assets at the end of *t*-1 (ΔOCF). I then consider the firm's growth options. Firms that have lots of growth options will be less likely to record IAS 36 impairment losses because they are less likely to have impaired assets. I use the ratio of the firm's market to book value of assets to proxy for its growth options (Riedl, 2004; Beatty and Weber, 2006).

Two industry-specific variables are added: the median change in the firm *i* industry return on assets from period *t* to *t-1* (ΔINDROA), and the median market-to-book ratio in firm *i* industry at time *t* (INDGROWTH), proxying for the overall growth opportunities in the industry. To capture the changes in the macro-economic environment, I include the yearly change in the gross domestic product (ΔGDP). Finally, I control for the firm *i*'s size, proxied by the total assets at the end of *t* (SIZE), and for a dummy variable (LOSS), indicating 1 if the firm reported a loss and 0 otherwise (Godfrey and Koh, 2009).

The second stage of the Heckman regression models the impairment losses. The regression includes the inverse Mills ratios (MILL) of the first stage probit regression fitted values as additional control variable (Heckman, 1976). Unlike prior literature

(Godfrey and Koh, 2009; Chao and Horng, 2012), I use maximum likelihood estimation in the second regression instead of an OLS model. MLE allows more efficient estimates than least squares and avoids the problems related to the autocorrelation in the residuals of cross sectional time series data (Maddala, 1977; Greene, 1997; Gujarati, 2004).

The second step of the Heckman two stage selection model is Model 2. The dependent variable of the regression is the relative amount of the impairment loss (IMPLOSS), defined above.

Model 2

$$WO\%_{it} = \beta_0 + \beta_1 \Delta ROA_{it} + \beta_2 \Delta OCF_{it} + \beta_3 GROWTH_{it} + \beta_4 \Delta INDROA_{it} + \beta_5 \Delta INDGROWTH_{it} + \beta_6 \Delta GDP_{it} + \beta_7 LOSS_{it} + \beta_8 SIZE_{it} + \beta_9 MILL_{it} + \varepsilon_{it}$$

Where: WO% = firm's *i* reported write-offs in long-lived assets for period *t* (reflected as a *positive* amount), divided by total assets at the end of period *t – 1*; ΔROA_{it} = firm's *i* change in return on assets from period *t* to *t-1*; ΔOCF_{it} = firm's *i* change in operating cash flows from period *t* to *t-1*; $GROWTH_{it}$ = growth options, proxied by the firm's *i* market-to-book value at time *t*; $\Delta INDROA_{it}$ = the median change in the firm *i* industry return on assets from period *t* to *t-1*; $INDGROWTH_{it}$ = the median market-to-book ratio in firm *i* industry at time *t*; ΔGDP_{it} = change in the national gross domestic product at time *t*; $LOSS_{it}$ = dummy variable, 1 if the firm reported a loss at time *t*; $SIZE_{it}$ = firm' *size,* proxied by the total assets at time *t*; $MILL_{it}$ = inverse Mills ratios of the first stage probit regression.

The dependent variable (the magnitude of discretionary impairment losses) is given by the absolute value of the residuals of Model 2.

Ownership structures, corporate governance and discretionary impairment

In this study, I measure insider ownership (INSIDE) as the percentage of ordinary shares held by the firm's directors, regardless of whether they are executive or not (Jensen and Meckling, 1976; McConnel and Servaes, 1990; Klein, 2002; Jiambalvo et al., 2002; Sanchez-Ballesta and Garcia-Meca, 2007; Choi et al., 2012). The government ownership (STATE) is measured by the percentage of ordinary shares

held by the national government, its agencies or by local authorities (Ding et al., 2007; Chen et al., 2008; Huyghebaert and Wang, 2012). The institutional investors ownership (INST) is measured by the percentage of ordinary shares held by professional investors, including banks, investment funds and pension funds (Utama and Cready, 1997; Koh, 2003; Park and Shin, 2004).

To proxy for the strength of governance mechanisms, I use a comprehensive measure (CORPGOV), aimed at capturing the overall firm specific governance environment (Bertrand and Mullainathan 2001; Davila and Penalva 2006; Ruiz-Barbadillo et al. 2007; Chao and Horng, 2012). The comprehensive measure is calculated as the un-weighted average of the standardized value of four variables for the UK and the Italian sample: the proportion of independent directors in the board (Dechow et al., 1996; Beasley, 1996; Peasnell et al., 2005; Cornett et al., 2008); the separation of Chairman and CEO roles (Dechow et al., 1996; Cornett et al., 2009); the board and the audit committee meeting frequency (Xie et al., 2003; Karamanou and Vafeas, 2005; Ebrahim, 2007; Cornett et al., 2009; Greco, 2011). For the German sample, the composite measure is given by the following variables: the proportion of independent directors in the supervisory board (Aste, 1999; Siregar and Utama, 2008; Millet-Reyes and Zhao, 2010), the supervisory board and the audit committee meeting frequency (Xie et al., 2003; Karamanou and Vafeas, 2005; Ebrahim, 2007; Cornett et al., 2009; Greco, 2011).

I also control for ownership concentration (OWNCONC), proxied by the percentage of ordinary shares owned by the larger shareholders. Ownership concentration is used in prior international comparison studies on earnings manipulation (Leuz et al., 2003). This inclusion allows the study of the influences on discretionary assets write-off that are related to the different owner type (insider, state and institutional investors) taking into account the effect of large shareholding (Leuz et al., 2003).

I include in the model proxies for reporting incentives (Rees et al., 1996; Francis et al., 1996; Riedl, 2004; Beatty and Weber, 2006; Zang, 2008; Godfrey et al., 2009; Jarva, 2009). The proxy for big bath reporting (BATH) is equal to the change in the firm's pre-write-off earnings from period *t* to *t-1* divided by the total assets at the end of period *t* -1 when below the median of nonzero negative values, 0 otherwise (Riedl, 2004). The proxy for income smoothing (SMOOTH) is equal to the change in the firm's pre-write-off earnings from period *t* to *t-1* divided by the total assets at the end of period *t* -1 when above the median of nonzero positive values, 0 otherwise (Riedl,

2004). The firm leverage (LEV) is measured by the firm's total debt at time *t*, divided by the total assets. Additionally, we control for the firm's size (SIZE), proxied by the total assets at time *t*.

The following equation shows Model 3, including independent variables and control variables.

Model 3

$$\begin{aligned} DWO_{it} &= \beta_0 + \beta_1 INSIDE_{it} + \beta_2 STATE_{it} + \beta_3 INST_{it} + \beta_4 CORPGOV_{it} \\ &+ \beta_5 OWNCONC_{it} + \beta_6 BATH_{it} + \beta_7 SMOOTH_{it} + \beta_8 LEV_{it} + \beta_9 SIZE_{it} + \varepsilon_{it} \end{aligned}$$

Where: DWO_{it} = discretionary impairment losses (see above); $INSIDE_{it}$ = insider ownership, percentage of ordinary shares held by directors for firm *i*; $STATE_{it}$ = state ownership, percentage of ordinary shares held by the national or local governments or their agencies for firm *i*; $INST_{it}$ = institutional investors ownership, percentage of ordinary shares, held by institutional investors form firm *i*; $CORPGOV_{it}$ = composite measure of the strength of corporate governance mechanisms (see the text above for the details); $OWNCONC_{it}$ = percentage of ordinary share owned by the largest shareholder; $BATH_{it}$ = big bath, equal to the change in the firm's pre-write-off earnings from period *t* to *t-1* divided by the total assets at the end of period *t* -1 when below the median of nonzero negative values, 0 otherwise; $SMOOTH_{it}$ = income smoothing, equal to the change in the firm's pre-write-off earnings from period *t* to *t-1* divided by the total assets at the end of period *t* -1 when above the median of nonzero positive values, 0 otherwise; LEV_{it} = leverage, measured by by the firm's total debt at time *t*, divided by the total assets; $SIZE_{it}$ = firm' *size,* proxied by the total assets at time *t*.

3.1.4. Empirical results on the influence of ownership structures and corporate governance on the discretionary impairment losses

Descriptive statistics

The descriptive statistics for assets impairment in each Country settings are displayed in Table 3. The effect of the economic crisis can be seen in the overall frequency of the assets impairments, as well as in their relative amount. Yet there are differences in each Country. UK shows the smallest number of impairment losses recognised and the highest relative amount. Germany shows the highest number of impairment losses (323 observations) and a steady number per year with the exception of year 2009 when the economic crisis peaked in Europe. In the German sample, the impairment test seems to be made on a regular basis, with changes on the relative amount that follows the economic trend. In the UK sample the number of impairments dramatically increase from the 2008 on, together with the relative amount of impairment losses.

[INSERT Table 3 ABOUT HERE]

The Italian sample displays a different pattern. The number of impairment losses in the Italian firms steadily grows in the period, this may hint that some impairments were delayed. The relative amount follows more closely the economic trend, being smaller on average than in the other two Countries.

Table 4 shows the descriptive statistics for the sample companies. The average size of UK firms is almost the double of the German firms, with the Italian companies being on average the smallest (36 billions € of total assets). Ownership structures appear to be different across settings. Overall, ownership concentration is very high in the Italian companies, where the first shareholder owns on average the 44% of the ordinary shares. UK is the Country with the less concentrated ownership, whilst Germany is in the middle with average ownership concentration of 24,6%. Average insider ownership is 21% in the Italian firms, such type of ownership is significantly smaller in the other two sample: 7,6% for the German sample and 2,5% for the UK sample. Institutional investors ownership is on average slightly above the 20% in German and UK firms, whilst it is 3,8% for the Italian firms. State ownership is present in the Italian setting (average the 5,8%) and in the German setting (2,9%),

whilst it is almost absent in the UK setting. State ownership appears in the UK after the government bailout of some banks that followed the financial crisis.
Overall the statistics show that UK is featured by public companies, with low insider ownership and significant presence of institutional investors. Italy sees smaller public companies with large dominant shareholder and significant presence of insiders and of the state. Germany is somewhat in the middle, with a mix of large public companies with dispersed ownership and firms owned by large shareholders. The institutional investors ownership is high, with a considerable presence of banks (by contrast UK sees a wider presence of investment and pension funds).

[INSERT Table 4 ABOUT HERE]

Discretionary impairment losses estimation

Table 5 shows the Heckman two-stage maximum-likelihood estimation of Model 2 for each sample analyzed. The results show that the determinants of assets impairment are mainly firm-specific. Across panels, the changes in the operating profit (ΔROA) and the growth options (GROWTH) are negatively significantly associated with impairment losses (WO%). Worsening operating profitability and poor growth options are associated to higher impairment losses. Also the impairment losses are positively significantly associated to a loss reported in the income statement (LOSS), with *p-value* <0.001 in all the panels. The industry-level variables are not significant or poorly significant.
Overall, these findings are consistent with prior research (Riedl, 2004; Godfrey and Koh, 2009; Chao and Horng, 2012): the firm-specific conditions affect the impairment losses to a greater extent than the industry-level trend. I can extend this finding to the macro-economic trend that is not significantly associated to impairment losses.
As abovementioned, the discretionary impairment losses (DWO) are given by the absolute value of the residuals of the regressions of Model 2.

[INSERT Table 5 ABOUT HERE]

Impact of ownership types and corporate governance on discretionary assets write-offs

To examine the impact of ownership types and corporate governance on discretionary assets write-offs, I use a Tobit regression of Model 3. The Tobit regression, whose mechanics is based on the method of maximum-likelihood, is widely used in prior research on the impairment of assets (Francis et al., 1996; Riedl, 2004; Godfrey and Koh, 2009; Chao and Horng, 2012)[150].

Table 6 displays the results. The findings show that insider shareholding (INSIDE) is significantly positively associated to discretionary assets write-off in the Italian setting (*p-value* <0.01, Panel B). These findings provide support for HP1: equity-asset-pricing concern and reputation concern can be effective incentives to impairment losses manipulation. As predicted by HP2, state ownership (STATE) is found to be significantly positively associated to a higher magnitude of discretionary impairment losses in the Italian sample. As expected, the politicians' control of listed firms can lead to divergence of interests with the other shareholders and to increased accounts manipulation.

[INSERT Table 6 ABOUT HERE]

The association between institutional investors ownership and discretionary assets write-off is instead not significant in the Italian setting (Panel C).

In the Italian sample the governance mechanisms do not display a significant association with the impairment losses manipulation.

Consistently with prior research, the proxies for the management reporting incentives appear to influence the magnitude of discretionary assets write-off (Rees et al., 1996; Francis et al., 1996; Riedl, 2004; Beatty and Weber, 2006; Zang, 2008; Godfrey and Koh, 2009; Jarva, 2009). Income smoothing (SMOOTH) is a relevant factor associated to increased discretionary asset write-off in the Italian sample (Panel B, *p-value* <0.01) and in the German sample (Panel C, *p-value* <0.05). The leverage (LEV) has a significant positive correlation with discretionary asset write-off in the

[150] The Tobit regression is considered appropriate given the censored nature of the data on impairment. The IAS/IFRS (as the US GAAP in other studies) do not allow reversal of impairment on goodwill. "These unobservable increases are the censored portion of the distribution of the impairment losses that the Tobit model attempts to fill in" (Riedl, 2004, p. 828). Godfrey and Koh (2008) and Chao and Horng (2012) provide further discussion on this point.

Italian sample. Consistently with prior research, more indebted firms appear to be more prone to impairment losses manipulation (Francis et al., 1996; Beatty and Weber, 2006).

3.1.5. Discussion of the findings

Besides affecting the current earnings, the impairment of assets has several financial consequences, such as the reaction of stock markets, the possible subsequent M&A activity, the subsequent increased attention on the financial health of the firm (Zucca and Campbell, 1992; Francis et al., 1996; Riedl, 2004; Gu and Lev, 2011). Some possible governance consequences regard the damages to the reputation of CEOs and executives responsible for the acquisition of the impaired assets and/or for the subsequent management of those assets (Beatty and Weber, 2006; Ramanna and Watts, 2009). Given such relevant implications, I expected in this part of the study that ownership structures and corporate governance affected this accounting choice. Overall, the results are in line with this expectation: the ownership types and the governance mechanisms affect the unexpected discretionary portion of the impairment losses.

The specific ownership types appear to play a relevant role in the accounting decision-making process leading to assets impairment. After controlling for ownership concentration I find that specific owner types are associated to increased or lessened discretionary losses. The international comparison uncovers the complexity of such influence. I found both similarities and differences across the Country settings.

In the UK sample the average insider ownership is much lower than in the Italian sample. However, insider ownership is associated to increased discretionary assets write-off in both cases, suggesting a homogeneous behaviour regardless of the ownership level. This is not confirmed in the German sample. The lack of significant association could be related to the specific German governance environment[151] (Globerman and Shapiro, 2003; Li and Filer, 2007). A key feature of the German governance environment is the monitoring activity by supervisory boards

[151] In this discussion I follow the concept of "governance environment" by Li and Filer (2007). The Authors consider not only the legally established governance system, but also the social, political and economic elements that interplay with governance system in shaping the firm-specific behaviour.

(representing a wide range of important shareholders such as the banks, the investment and pension funds), that play a central role in the German economy (Hutzschenreuter et al., 2012; Du Plessis et al., 2012). The influence on the accounting decisions by insider owners, sitting in the supervisory board and not directly involved in the management board, could be lessened or mediated (Aste, 1999; Millett-Reyes and Zhao, 2010; Hutzschenreuter et al., 2012; Du Plessis et al., 2012).

In the UK sample and in the German sample, ownership by institutional investors is associated to reduced discretionary asset write-offs. As expected, the greater attention paid by such sophisticated market participants to quality financial reporting and the stricter control exercised over the financial information, are associated to a lower magnitude of discretionary write-offs. No significant association is found in the Italian firms. In Italy, concentrated ownership, high risks of wealth expropriation and lack of independence in the board, make more difficult for institutional investors any influence on the decision-making process (Dyck and Zingales, 1994; Shleifer and Vishny, 1997; Mancinelli and Ozkan, 2006; Di Pietra et al., 2008; Allegrini and Greco, 2013). Once reached a minimum shareholding threshold, the Italian law allows the nomination of a "minority" director. If such director nomination is proposed at the general shareholders meeting, the appointment is mandatory. Even with this device, minority directors can have the access to financial information from the inside, but they are still substantially unable to influence the overall strength of governance control mechanisms and any key board decision (Gutierrez Urtiaga and Saez, 2012; D'Onza et al., 2014)[152].

State ownership is associated to higher levels of discretionary impairment losses in the Italian sample. This result is consistent with the political theory expectations about the divergence of interests between controlling politicians and external shareholders. Either driven by the politicians' interests or by "common good objectives", state owned companies have incentives to manipulate assets write-offs. This result is not found in the German sample. Besides monitoring the management, the other key task of the German supervisory board is to reconcile the interests of

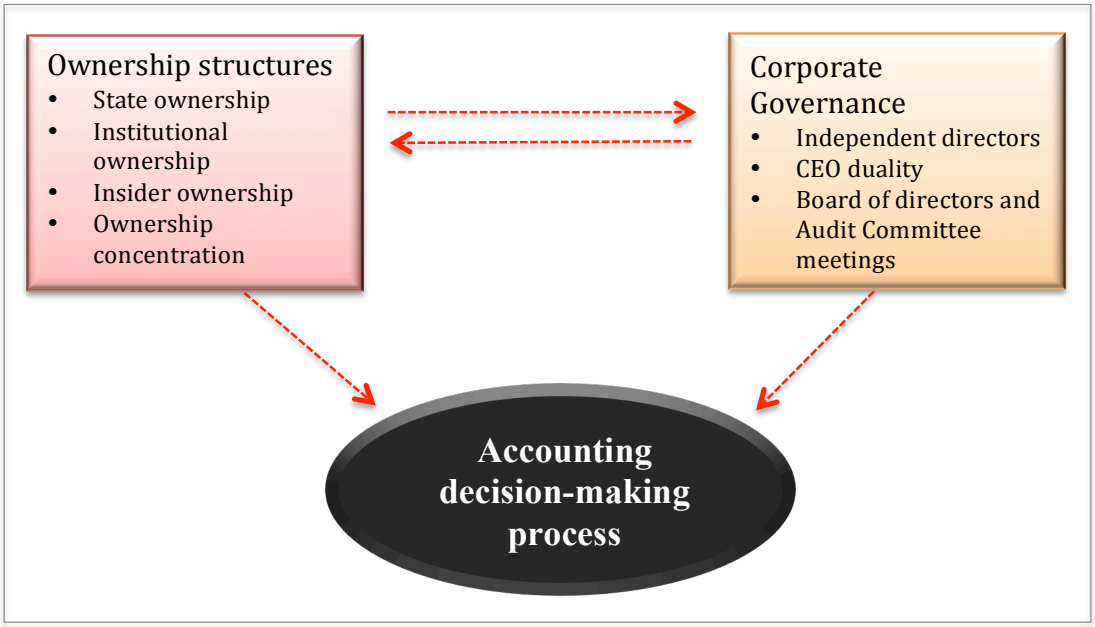
[152] An interesting example episode of minority director "in action" is provided by the Telecom Italia 2010 case. After the recognition of an impairment loss at the end of year 2010, a minority director recommended "further checks" on the carrying value of the goodwill, hinting at a possible underestimation of the loss. Although having access to financial information, he was not able to influence the final accounting decision. (Sole24Ore, 2010; http://archivio-radiocor.ilsole24ore.com/articolo-904406/telecom-svaluta-avviamento/)

different stakeholders in the discussion of key managerial decisions (Hutzschenreuter et al., 2012; Du Plessis et al., 2012). There is no such room for political bargaining among politicians and shareholders, as well as stakeholders, in the one-tier governance system.

The German two-tier system may be functional to the monitoring activity exerted by banks and institutional investors on the decision making process. This could explain why institutional investors ownership is a significant variable affecting discretionary impairment losses unlike the other ownership variables considered. This interpretation is supported by the significant effect of governance mechanisms in constraining impairment manipulation.

Overall, the international comparison undertaken suggests possible interdependencies among ownership structures and corporate governance in influencing the accounting decision-making (Judge, 2011). On the one hand, the governance environment can shape the influence of ownership structures on the accounting decision-making process, as in the German case. On the other hand, the findings on the Italian sample suggest that the prevailing ownership structures affect the effectiveness of governance mechanisms in constraining accounts manipulation. In the Italian context, widespread large insider shareholding prevent efficient board monitoring and professional independent control, as this could limit the exploitation of the private control benefits, including the extraction of private rents (Dyck and Zingales, 1994; Shleifer and Vishny, 1997; Mancinelli and Ozkan, 2006; Di Pietra et al., 2008; Allegrini and Greco, 2013). Within this context, governance mechanisms can hardly influence the accounting decision-making process, leaving it in the hands of dominant owners. Illustration 3.1 sketches the proposed dynamics.

Illustration 3.1 The Relationship between Ownership structures, corporate governance and the accounting decision-making process



3.2. Impairment and CFOs perceptions

> *The fact that the Sarbanes-Oxley Act (SOX) of 2002 requires that the CFO and CEO certify the financial reports of public companies likely elevates the power and importance of CFOs beyond that of other executives.*
>
> Bedard et al. 2014

In the previous sections I investigate the incentives that CEO and the director have to manage the earnings. In this section I aim at considering the role that the Chief Financial Officers (CFOs) assume in the impairment test. While in the past the role of the CFO was mainly associated to the function of "financial record keeping", currently the CFO position evolved and it is considered one of the top management members together with the CEO and the Chief Operating Officer (Copeland, 2001).

The academic literature indicates that there is still little research on the role played by the CFOs on accounting manipulation (Geiger and North, 2006; Feng et al., 2011). As outlined above the literature concentrated on the CEOs or other corporate governance subjects and the earnings management (see Dechow et al., 2010). More recently the literature is wondering on the role of the CFOs in the financial reporting reliability, for example Jiang et al. (2010) entitles their paper as follows: "CFOs and CEOs: Who have the most influence on earnings management?". Considering that CFOs' main accountability is ensuring that the financial reporting process and product are adequate, Jiang et al. (2010) assume and provide evidence that CFOs equity incentives are even more relevant than CEOs equity incentives in constraining (exacerbating) earnings management.

We derive that CFOs equally to CEOs has compensation incentives also from the fact that e.g. the Securities and Exchange Commission laws require disclosure on the compensation paid to CEOs, CFOs and other top-executive officers of public

companies[153].

Furthermore, CFOs may be strongly influenced and pressured by the CEOs. Some studies find that top-management position (including CFOs) is more likely to change after CEOs changes. CFOs have incentives to maintain the CEO in charge; hence, they might adopt earnings management practices to obtain certain income results (e.g. boosting income when performance is low). These studies imply a very close relationship between CEO and CFOs (Mian, 2001; Fee and Hadlock, 2004) and those CFOs are agents and subordinates of the CEO (Graham and Harvey, 2001; Feng et al., 2011).

Geiger and North (2006) empirically demonstrate the pivotal role that CFOs have over the firms financial reporting. They examine the variation in discretionary accruals in the period surrounding the CFO change in a sample of 712 companies. Their results suggest that the CFO change is associated with a decrease in discretionary accruals.

Following this short review of the literature I assume that the theory and logic behind the CEO reporting incentives could also be applied to the CFO position. Might CFOs thoughts on the managerial incentives to manipulate earnings uncover also the incentives that they consider in their accounting choices? This assumption motivates the building of a survey conducted on a sample of CFOs contacted through LinkedIn. However, this question cannot be answered without an underlying solid theory. Hence, the aim of this empirical part on the CFOs is just to receive their feedbacks on the impairment of goodwill, as they certainly are together with the CEO amongst the most influential subject within the firm in the financial reporting process.

As suggested by Graham et al. (2005) the surveys provides opportunities to query to the CFOs precise and qualitative questions about the motivation underlying certain financial reporting decisions. Also, the questionnaire format allows taking into account the views of the subjects involved in the accounting decision, leading to an integrated and multidimensional perspective on accounting choices (Fields et al., 2001) instead of further narrow the research focus on the data gathered from databases. The survey in few words allows obtaining a diverse explanation on

[153] The SEC clearly states that: «Compensation of the principal financial officer is important to shareholders because along with the principal executive officer, the principal financial officer provides the certifications required with the company's periodic reports and has important responsibility for the fair presentation of the company's financial statements and financial information» (SEC, 2006).

phenomena explored with archival data. Inspired also by a recent study by Pajunen and Saastamoinen (2013) on the perceptions' of auditors about earnings management in goodwill accounting under IFRS, I decided to extend their interest with additional questions and with the perceptions of another important group: the CFOs.

3.2.1. Research design and survey delivery

I built the initial questionnaire basing on prior literature on goodwill write-offs and on a recent questionnaire on the subsequent measurement of goodwill available on the website of the European Financial Reporting Advisory Group and of the OIC (*Organismo Italiano di Contabilità*) (EFRAG and OIC, 2014).

Once designed the questionnaire, I conducted five pilot tests soliciting feedbacks on the structure of the survey, its length, wording and some possible omissions or undervalued aspects. The pilot test has been done by five persons: a Full Professor in Accounting, a Researcher whose main interests are on Accounting and Corporate Governance, a Ph.D. Student in Statistics, a Ph.D. Student in Accounting and Finance and a Chief Professional Accountant. To complete the survey the pilot tests lasted between 4 to 18 minutes. I have been recommended to add just a demographic question and few other small editing to the wording and format.

I sent the survey link to my LinkedIn connections with CFOs previously added to my connection network. In August 2015 I send the survey to 1,604 CFOs from all over the world. By the beginnings of January 2016, 441 CFOs responded to the invitation. Given the high rate of responses (27.5%) I did not send the invitation to require the participation of non-respondents. In a sample of 441 respondents, 301 work for an organization adopting the IAS/IFRS, 65 the US-GAAP and the remaining 75 in organizations adopting national accounting standards (neither IAS/IFRS nor US-GAAP). When the CFOs worked for an organization, which does adopt neither IAS/IFRS nor US-GAAP the questionnaire does not proceed; hence the sample reduces to 366 responses (response rate 22.8%). The response rate even reduced by the responses of CFOs working in firms that do not adopt IAS/IFRS or US-GAAP, can be considered still an excellent rate compared to similar researches[154].

[154] Smith (2003: 125) states that in accounting studies are usual response rates lower than 25%. Indjejikian and Matèjka (2009) on a survey of 29,857 members of the American Institute of Certified Public Accountants who are CFOs, CEOs, or other executives obtained a response rate of 6.8%. Graham et al. (2005) emailed 3,174 members of an organization of financial executives. Of the 3,174

I further exclude the responses to the questionnaire when the survey has not been entirely completed by the CFOs (191 partial responses eliminated). The final sample on which I conduct the successive analysis is formed by 175 responses, of which 141 derives from CFOs working in an IAS/IFRS context and 34 in a US-GAAP context.

[INSERT Table 7 ABOUT HERE]

3.2.2. The questionnaire

Five sections make up the questionnaire (see Appendix B2 for the full questionnaire). In the first section I require to answer to personal and background information. Specifically, I ask if they seat in the board as director, their gender and age, the level of education completed and their academic major(s), how many total years they have worked as CFO (or similar position) and where they administratively report.

In the second section of the questionnaire I ask the information about the organization for which the CFO is currently working. I ask information on the location (head office) of the organization[155], about the type of organization (i.e. privately held, publicly traded company, governmental and not-for-profit organization), the broad industry of the organization, the size (in terms of total assets, total employees and total revenues), if the organization is multinational, the ownership structure, who is the external auditor, magnitude of the goodwill and who carries out the impairment test within the organization.

Section three enters in the personal interpretation or perception that the CFOs have about the impairment of goodwill. This section is formed by four main questions for which the responses are of the "star rating" type, allowing participant to rate the question with a seven level Likert-scale. The participants give the rate according to their agreement with the statements proposed (1, strongly disagree; 2, disagree; 3, partially disagree; 4, neutral; 5, partially agree; 6, agree and 7, strongly agree). Thus,

---

surveyed executives, 267 responded leading to a response rate of 8.4%. My result can be favourably compared also with Daugherty and Tervo (2008) that surveyed Audit Committee chairpersons, CEOs and CFOs of the S&P 500 and obtained an overall 5.5% response rate (the response rate on the CFOs was lighter higher, 6.8%), Brav et al., (2005) that obtained a response rate of 16% on financial executives, with Graham and Harvey (2001) that obtained a response rate of nearly 9% on the total 4,440 CFOs faxed out and with Trahan and Gitman (1995) that emailed 700 CFOs and obtained a response rate of the 12%.

[155] The location results are not tabulated: however, there are not significant differences amongst the responses.

higher scores correspond to a higher level of agreement with the question/statement proposed.

The first rate group concerns with CFOs' perceptions on the reliability and relevance of the goodwill impairment testing. The questions asked in this group are well summarised by the doctrinal debate over the discretionary use of the impairment losses (the impairment losses are discretionary used to achieve reporting incentives or to send credible signals to the market). In the second group of questions I specifically ask the CFOs opinion on the managerial incentives to discretionally use the goodwill write-off (e.g. to meet analysts forecasts, to maintain high the CEO reputation, to smooth the earnings, etc.). Then, the following group report the perceptions on the influences that the ownership structures might have on the discretionary use of the goodwill write-off (e.g. managerial ownership reports untimely and undervalued goodwill write-off, institutional investors constraints the use of discretionary goodwill write-off, etc.). Finally, the last group comprehends the perceptions on the influence of certain external auditors characteristics on the impairment of goodwill (e.g. Big-4 or expert auditor are better able to constraint the goodwill write-off manipulation, mandatory auditor rotation helps in detecting the discretionary use of goodwill write-off, etc.).

The last section of the questionnaire includes the overall thought of the CFOs on the accounting for goodwill asking how difficult is assessing the estimates underlying the impairment of goodwill, if they compare their evaluation with other evaluation(s) of subject(s) in other positions, if they believe that other accounting methods should be considered for goodwill and which of a list of suggested methods might enforce the reliability of goodwill (e.g. reintroduction of goodwill amortization, additional disclosure, to offset goodwill against the equity, etc.). At the end of the questionnaire I ask if overall they prefer the impairment test than prior amortization process.

The duration of the survey ranges between 1 to 57 minutes. The questionnaire average time was 17 minutes, while the median time is 13 minutes. The mode is 10 minutes (results not tabulated). The quality of the information of the data collected should be considered good. Indeed, in literature it is suggested that the respondents' attention declines after about 30 minutes (Smith, 2003; Perecman and Curran, 2006).

I assess the internal consistency of the survey by means of Cronbach's alpha to determine whether all the items considered are consistent. Of the total sample of 175 cases, 174 were processed and 1 was excluded (listwise exclusion of cases)(results

not tabulated). The Cronbach's alpha results 0.760 indicating overall good consistency between the 99 items used in the survey[156]. Deleting any of the 99 variables would leave the scale's overall reliability more or less unchanged; hence I retained all the items and proceeded with the following analysis.

3.2.3. Survey results

The results on the demographics of the surveyed CFOs indicate that 45% of the respondents are also member of the board of directors. The respondents are mainly males (96%) and in the 60% of the respondents' age ranges between 36 and 50 years old. The 5.1% of the respondents have an education level lower than the undergraduate diploma and the majors academics indicated are finance, accounting, general business/management, economics and mathematics/statistics. Almost half of the participants CFOs have an experience of more than 10 years in CFOs or similar positions. Almost three out of four CFOs administratively report to the CEO, this is an important issue that might be further investigated through the perspective of the literature on the pressure exerted by CEOs on the CFOs.

[INSERT Table 8 ABOUT HERE]

The frequencies on the demographics of the organizations for which the respondents work indicate that the 54.9% is a non-listed company, while the 42.9% are public companies, only 1.1% public sector companies and another 1.1% other type of organizations. More than a third of the respondents work in the manufacturing industry, 10.9% in the service industry, 9.7% in the finance, insurance and real estate industry, 6.9% in the construction and again 6.9% in the retail trade, the remaining share is split amongst the agriculture, forestry, fishing, mining, transportation and public utilities, wholesale trade and other industries. More than half of the respondents work in organization with more than 1001 employee while in terms of total assets and total revenues more than half of the companies is in the smaller sized class, that is less than 500 millions dollars. However, the majority of the companies

[156] Smith (2003: 127) indicates that: «An alpha of 0.8 is normally deemed to be satisfactory, though figures slightly lower than this may be acceptable». Nunnally (1978) and Nunnally and Bernstein (1994) recommend reliabilities levl of 0.7 or better for basic research and beyond 0.9 when important decision are to be made basing on the scores of the test.

is international/multinational (73.7%). More than 40% of the respondents work in organization whose ownership is mainly familiar, a 30.9% in organization with dispersed ownership, 25.7% in organization with prevalence of managerial ownership and the remaining 2.3% in mainly governmental-owned companies. 80% of the participant financial report are audited by a Big-4 auditor. In terms of relevance of the responses it is important to note that only 27% of the respondents are working in organization with no goodwill recognised in the statement of financial position, while the 20% of the respondents indicate a total value of goodwill higher than the 9.1% to total assets, the remaining half of the respondents have goodwill value in the classes between 0.1% and 9%. It is relevant to see that about 45% of the companies carry out the impairment test internally, more than 20% recur to external experts and audit and a third of the sample companies carry out the impairment test in cooperation between internal and external experts. This last response arise how actually this procedure may involve a large spectre of subjects.

[INSERT Table 9 ABOUT HERE]

Moving the attention to the core of the survey I consider for a more direct interpretation of the results together the scores 5, 6 and 7 as agreement with the statement proposed and the scores 1, 2, 3 jointly as expression of an overall disagreement with my propositions. I do not consider in the interpretation the neutral score of 4.

Starting from the first group of propositions, we can see that overall more than 70% of the respondents agree that the impairment test provide a more faithful representation compared to the amortization. However, at the same time, about the 60% of the respondents believe that the eliminations of the goodwill amortization increased the subjectivity. Also, about 66% of participants think that the valuation based on estimated future cash flows is useful in financial reporting and about the 64% disagree that the management exploits the room for discretion allowed by the accounting standards. Consistently with this last result, more than 70% of the respondents disagree also that management will not recognize goodwill write-offs when the goodwill is impaired and as a consequence about 63% (66%) of the respondents are convinced that the impairment losses on goodwill reflect the underlying macro (micro) conditions in which the company operates. These

responses and percentages are confirmed by the results on the question posed in an inverse manner. Indeed, only 28% of the CFOs believe that management discretionally uses the goodwill write-offs to match with its own incentives or to send credible signals to the outside (about 34%).

The second group of responses indicate that only the 36% of the CFOs agree that in organization with more liquid shares the management is more likely to recognize goodwill write-offs but more than 54% believes that prohibiting goodwill write-offs reversals leads to untimely and/or underestimated write-offs. About 40% of the CFOs agree that the management uses discretionary goodwill write-offs to meet analysts' forecasts. Optimistic analysts earnings forecasts according to CFOs seems to be a more preponderant incentives for management compared to other aspects such as liquidity of the market, personal incentives and signalling to the outside. Also the leverage and the compensation schemes seem strong incentives to manipulate the impairment losses (about 40% of agreement for both of them). Reputation concerns apparently are even more important according to about 46% of the CFOs. As predicted and tested by accounting literature, CEO changes are thought to be relevant incentives (about 42% of respondents agree). Concerning big bath and income smoothing incentives we can see that CFOs are worried about both of them (about 49% and 39% agree).

Regarding the ownership structures (group 3, Table 10) I find that 40% of the CFOs consider managerial ownership risky for untimely and underestimated goodwill write-offs, the concentrated and state ownership also are believed to increase the use of discretionary write-offs (about 41% and 31% agree respectively), while accordingly the institutional ownership are perceived as effective constraining tools in the manipulation of goodwill write-offs (about 49% and 37% respectively agree).

Finally, with reference to the role of the external auditors the CFOs overall agree on their constraining attitude towards managerial discretion in the write-offs and that Big-4 auditors can exert an even higher constraint on this discretion (both agreements are at the level of more than the 62% of the respondents). Opposing to the audit-risk model predicted by the auditing literature (Hogan and Wilkins, 2008), only 25% of the sample CFOs believes that higher audit fees indicate higher audit risk and as a consequence potential untimely or underestimated goodwill write-offs. Also, only 32% believes that higher non-audit-fees weaken the auditor independence increasing discretionary goodwill write-offs. An overall conviction is that both

higher auditor expertise in the industry and in the task of assessing goodwill write-offs limit the discretion in these estimates (agreement of about 65% and 64% respectively). We can read the results on auditor tenure and mandatory auditor rotation jointly as indication that the CFOs although agree on the possibility that long-tenured auditor better detect earnings management (40%) are more convinced that mandatory auditor rotation is helpful in the prevention of goodwill write-offs manipulation (60%), this result might contribute to the literature supporting the mandatory auditor rotation.

[INSERT Table 10 ABOUT HERE]

Ramanna and Watts (2012) argues that the estimates underlying the impairment of goodwill are hardly verifiable and auditable ex-post. The surveyed CFOs believe that for them these estimates are not so hard to assess (about 45% of the CFOs indicate that these estimates are from partially easy to very easy to assess), while they perceive it is more difficult for auditors (almost 50% indicate that these estimates are from partially difficult to very difficult for auditors to assess). This is a significant result which contributes to the above literature and which warns standard setters and regulators.

[INSERT Table 11 ABOUT HERE]

Finally, more than half of the participants use the economic or financial ratios to evaluate the overall reliability of the impairment test, about the 45% consider the organization risks and 40% whether the financial report has been audited. About 37% of the respondents take into account the disclosure and explanations provided for the impairment, 29% whether the impairment test has been delegated to third parties and 27% the company corporate governance system. I did not expect that the 16% do not use any specific measures or procedures to check the reliability of the process. A CFO than specified that he (or she) uses the historic performance of the cash generating unit while another revealed to use the sensitivity analysis disclosed. Again, I did not expect that so many respondents do not compare their evaluation with the evaluation(s) of other subjects (44%), this result may contribute to the behavioural studies on the top-executives overconfidence. Although, 31% of the

participants admit to compare their evaluation with those of the controller, 19% with those of the internal auditor, 17% with those of the process owner, 15% with those of the risk managers and 13% with those of the compliance officer.

More than 53% of the respondents believe that exist other ways to account for goodwill, which might better match the information usefulness objective of financial reporting. When asked to indicate which way they suggest in order to enforce the goodwill reliability more than 47% indicates the requirement of additional disclosure. A wide percentage (37%) believes also that the reintroduction of goodwill amortization and its eventual review for impairment might solve the reliability issues. We can see that also accounting for goodwill as other intangibles (with definite useful life) is perceived as a good solution (27%) as well as to offset goodwill against equity (26%) or to expense it on business combination (23%) or to determine the value of goodwill as the difference between the book value of the equity and the long-term market value of equity. This question raised the interest of some CFOs who for instance recommend as follows: «If no amortisation reintroduction will be possible, then are absolutely important: a) standardisation of mechanism on WACC, g rate and other parameters; b) possibility to reaccount an impaired goodwill in front to different economics conditions; 3) impose very mandatorily all the sensitivities to be done and to be reported in the disclosures», or suggest that the relevance of benchmarks and specialized firms, or the need of standardised test methods considering also the capital market valuation practice or another that firmly states as follows: «I believe the current approach is the best even though it introduces subjectivity».

Purposely, the questionnaire concludes by asking CFOs their overall preference between the impairment test and the amortization process and more than two thirds of the respondents (66%) prefer the impairment test.

[INSERT Table 12 ABOUT HERE]

The survey method is not immune from potential limitations. First, the perceptions of CFOs may diverge from their actual actions. CFOs also may respond replicating what they have learned in business schools and training courses without actually expressing their perceptions. They may indeed believe that I want to hear what they have studied or because they misunderstand some questions. Besides, the CFO that

responded may not represent the population[157]. Still concerning with the sample, I could not avoid the auto-selection bias. It is appropriate to remember that I send the email for participating to the survey only to the CFOs who previously accepted my connection request on LinkedIn. Notwithstanding, I wish to offer unique responses which constitute a starting point for future research to enrich existing theories or on which ground potentially new accounting theories. Also, the results may be significant for practitioners and academics. The responses may indicate when the accounting practice on the impairment of goodwill models on the theory and when they diverge. The questionnaire indicates several areas where regulators and standard setters could meditate. For example, about 54% of the respondent CFOs believes that prohibiting goodwill write-offs reversals leads to untimely and/or underestimated write-offs, so standard setter might ponder for instance to the possibility of considering goodwill as the other intangibles with indefinite useful lives or allow the possibility of reversal under certain specific conditions. Concerning the ownership structures CFOs indicate higher risks when managerial, concentrated or state ownership are prevalent. CFOs internal perspective may suggest when the financial reporting reliability may be weakened and hence where substitute corporate governance mechanisms should be employed or enforced. Another interesting point of view is on the external auditor role. From the responses I infer that CFOs are convinced of the importance of auditor expertise in both the industry and in the task of assessing the write-offs, regulators might hence improve auditor requirement to assess these assessments. Also, CFOs perceive as significantly important in constraining the write-off manipulation the mandatory auditor rotation.

Amongst the responses I find that more than half of the participants reflect on the existence of alternative way to account for goodwill that could provide more useful information and 47% of the respondents indicate also the importance of requiring additional disclosure, this result should be considered pondering the relevance of voluntary vs. mandatory disclosure.

The conclusive question on the CFOs preference between the impairment test and the amortization of goodwill directly answers to the EFRAG recent debate on a possible

[157] To verify the representativeness of my sample I explored within a sample of 281,507 CFOs working in all the active companies located in the OECD downloded from the database Orbis Bureau Van Dijicks if certain characteristics are comparable. Unluckly, some bias should be accounted. E.g., the responses to my survey are only the 4% from woman while the population of CFOs downloaded from Orbis represented by the woman is about the 29%. However this bias may be motivated by the predisposition of response, which might differ between different genders.

reintroduction of the goodwill amortization. Although the difficulties underlined to implement the test, the 66% of the respondents in the main prefer the impairment of goodwill. However, the remaining 34% still prefer the amortization process.

3.2.4. CFOs suggestions and recommendations

I would like to conclude this paragraph with some of the CFOs suggestions and recommendations, which might constitute the case for future investigation. Interestingly a CFO suggests to «review/propose impairment test methods/tools», hence future accounting studies might create a tool to assess the effectiveness of the impairment test. From the above suggestion we might also infer the practitioner need of tools to verify the estimates underlying the goodwill value, confirming in a certain sense the academic literature worries on the unverifiability of the fair value estimates (Ramanna and Watts, 2012).

On the other hand, another CFO points out how actually in liquid and transparent markets the market operators are sufficiently prepared to estimate fair value estimates and that they can adjust their expected cash flows, the fall in the share price as a consequence advances the recognition of the impairment losses. This CFO expresses as follows: «My sense is share price falls after impairment write downs are more sentiment driven and a reflection on the ability of the relevant management to communicate future direction. After all, an impairment is a correction of a past action (an acquisition) and if the market assesses the acquisition won't justify the price paid (i.e. the company has overpaid), it will adjust the share price immediately and not wait for a subsequent impairment». This observation might be corroborated with the literature on the markets reaction to goodwill impairment losses, a linked research question is does the market anticipate or react to goodwill write-offs?

The debate on the goodwill amortization vs. the impairment of goodwill is quite vigorous also amongst CFOs. Moving from the CFOs sustaining the amortization we can read the following observations against the impairment test:

A. «Impairment test is worth to assess at a given period the value of the assets compared to a straight amortisation method. However given high incidence of semi objectives variables in the future cash flows calculations (interest, beta, assumptions) the value can differ significantly and results are often forced to

obtain a given value. A straight depreciation method reflects the original paid value amortisation that should be strengthened by the impairments test»;

B. «Previous amortization process, while not perfect, was a better solution. Impairment test has a tendency to be misused and will hit mostly during downturn economical cycles»;
C. «The old process of amortization was easier to deal with from a forecasting and cost stand point. Impairment has caused hard to forecast changes»;
D. «In my point of view, the impairment test has been using just as a formal process. Without any implications on the company management».

On the other hand, another stream of thought within these professionals asserts that: «Impairment tests are useful in that any projections made one year can be reviewed the following and are more difficult to manipulate. Market values based on DCFs are somewhat subjective but will always be better than accounting/book measures unrelated to market valuations».

Other CFOs warn on the importance of other corporate governance subjects. E.g. one of them suggested to involve in the discussion «a wider public representing CFOs, auditors, consultants, bankers and investment analysts». Another recommended submitting the survey also to audit firms, endorsing the relevance of my subsequent exploratory analysis on the role of the audit firm in the discretionary use of goodwill write-offs.

A CFO recommended studying the relationship between companies owned by private equity fund and the impairment as the equity fund ownership may have proper issues compared to either public or governmental ownership. The same CFO stresses how often the trouble is not the decision to impair or not impair the goodwill but with the measurement of the impairment loss. He/she adds: « The first problem is the uncomplete standardization of schemes, choice of comparables, interest rates, "premium" on cost of capital, WACC, g-rate, perpetuity, etc. which creates a general situation of discretionality. But on top of this the bigger problem in my opinion is volatility. When I take the data of my comparables, they are at a precise closing date (and with different schemes I can't be sure of a perfect comparability), the interest rates and the "premium" for small-medium caps had fluctuated a lot in the past month to month. So we take punctual data of comparables, under a non-complete standardization of methods and schemes, moreover under a very volatile capital market, while we pretend to book in a very definitive way a GWO (in fact non

recourse for a subsequent revaluation of it)». He/she continues suggesting the introduction of the possibility of reversals of goodwill write-offs: «If we have to accept the "principle based" approach (so no mandatory schemes and no real standardisation), and moreover if we have to accept volatility of many data contributing at impairment calculation (especially since 2008 onward), that's OK... but in such a situation, we have then to accept even up and down volatility of Goodwill value as a consequence (so at least revaluation admitted)». A further point raised again the case for goodwill amortization reintroduction arguing as follows: «…I repute as workable the goodwill amortization. It has been quite clearly demonstrated that a healthy industrial cycle has a duration of maximum 30 years (and recently... even shorter and shorter). By creating databases of "healthy economic cycles" sector by sector, in the future could be available standardised methods to amortise Goodwill in a comparable way among comparables». The CFO proposes also an alternative accounting method for goodwill: «An alternative to Goodwill amortization could be a "clever cap" at the goodwill, so that people will obliged to a GWO when exceeding it. For example (free cash flow x 20) = max cap allowed for Goodwill. Something simple and possibly based on data of the applicant itself, so that it can't be so much arguable. I propose the free cash flow because the cash flow scheme in IAS-IFRS is most standardised one and therefore discretionality will be limited "by definition"».

Two competing perspectives from CFOs may condense the conclusion of this paragraph. While a CFO stressed the independence of the directors and senior management stating that: «As a professional Chartered Accountant my integrity is to do the calculation of GWO to the best of my ability. The Directors and senior managers I have worked with would always try and do the right thing. People and companies in general try to do this...there is always one bad apple however that makes your questions fair!»; another CFO argues that companies cannot avoid to use "accounting cosmetics" in a financial world which is not transparent, doing earnings management is a "self-defence action" employed by the companies.

3.3. Impairment and external auditors

> *I don't think it should surprise anyone here that recent headlines of accounting failures have led some people to question the thoroughness of audits. I need not remind auditors they are the public's watchdog in the financial reporting process. We rely on auditors to put something like the Good Housekeeping seal of approval on the information investors receive. The integrity of that information must take priority over a desire for cost efficiencies or competitive advantage in the audit process. High quality auditing requires well-trained, well-focused, and well-supervised auditors.*
>
> Levitt, 1998

> *The financial statements audit is undoubtedly an economic and professional win for the organizations of the catgories, but also a complete mystification of reality. This is due to the widespread belief that the financial statement, once signed corresponds to «truth» (...). The audit, therefore, is very dangerous as it gives to the financial statement a reliability that it cannot have.*
>
> Giannessi, 1978: 475, translated

The auditors should be the gatekeepers for the accuracy of the information disclosed to the outside, nonetheless as suggested by Revsine (1991) not only managers can derive benefits from selective misrepresentation but also auditors can play a relevant role in the game of manipulating the earnings. Auditors for sure want to maintain the client-harmony, on the other hand, they need to reduce the litigation risk with third parties (Stolowy and Breton, 2004); in order to do this they sometimes prefer rigid standards, other times more flexible standards, as IAS 36 and SFAS 142 are. Managers can manipulate write-offs, reporting untimely, excessive or insufficient amounts, for earnings management reasons, to keep inflated asset values in the

balance sheet and to avoid scrutiny on prior investment decisions by investors and lenders (e.g. M&A choices). Even if the primary accountability for disclosing unfairly rests with the management, external audit might be a fundamental mean to ensure that the write-offs are based on sound, coherent and reasonable accounting. Auditors' scepticism over management estimates is a turning point to verify which components of the financial statement were directly valued and which, on the contrary, were valued basing on management hypotheses, internal business models and professional judgements (European Commission, 2010). To assess the objectivity underlying the estimates, auditors should hold an efficient and assiduous communication with directors as well as internal auditors without compromising their independence. In order to increase the rigor to be applied in auditing accounting estimates Standard Settings provide guidance on estimating fair value measurements (IAASB, 2010; American Institute of CPAs, 2012). For instance, in the USA setting the Auditing Standards Board (ASB) issued AU-C Section 540 requiring auditor to obtain «sufficient appropriate audit evidence about whether, in the context of the applicable financial reporting framework a) accounting estimates, including fair value accounting estimates, in the financial statements, whether recognized or disclosed, are reasonable and b) related disclosures in the financial statements are adequate». The mentioned auditing standard is well aware that the evaluation of the entity's fair value measurement depends on the auditor's knowledge of the nature of the business, knowledge that is even more necessary to discover potential write-offs under applicable GAAP. Hence, auditor is accountable in assessing the reasonableness and consistence of management's assumptions underlying assets valuations.

Moving from Ramanna and Watts (2012) suggestion that goodwill fair value estimates are "unauditable", since they are unverifiable ex post, I aim at exploring if higher audit quality is associated to more reliable goodwill write-offs. If so, then these valuations do not threaten the financial reporting's role as management control system when a quality auditor executes the external control. There has been a lot of research on the auditors' value to enhance the credibility of financial reporting and the forcefulness of the auditing function in detecting whichever form of earnings management has been generally associated to its quality.

In this part of the thesis, I discuss whether and how certain key auditors' characteristics shape auditors' incentives when reviewing goodwill write-offs.

Building on agency theory, I develop a set of propositions on the association between goodwill write-off manipulation and auditor size, fees, change, tenure and expertise. I show how these characteristics can encourage auditors to deliver lenient audits on goodwill write-offs. Also, an inclination towards delivering a lenient audit can be aligned with managers' interest to use goodwill write-offs for earnings management purposes.

This part of the thesis, although does not have empirical analysis, contributes to the literature and may have policy implications. To the best of my knowledge, there are not yet studies discussing how auditors' characteristics relate to the audit of goodwill write-offs. Future research can test as hypotheses the proposed set of propositions. This paragraph suggests that leniently audited discretional fair value estimates are likely to compromise the role of auditing (and of financial reporting) as an external control mechanism. Overall, the observations proposed might contribute to the recent debate on the re-introduction of goodwill amortisation.

Indeed, recently regulating authorities have expressed concerns about the use of subjective fair value estimates, such as goodwill write-offs, and about their audits. The European Financial Reporting Advisory Group (EFRAG) issued a report criticizing goodwill write-offs' excessive subjectivity and advocating more research on firms' behaviour and on how to audit write-offs (European Financial Reporting Advisory Group, 2014). The EFRAG also launched a public consultation on the re-introduction of mandatory goodwill amortisation (European Commission, 2014). The US PCAOB called for more research on managers' and the auditors' behaviour when there are goodwill write-offs (Bratten et al., 2013).

Auditing goodwill write-offs is a challenging task that requires independence, competence and experience, as well as proper knowledge of the firm and of its industry (Chambers and Finger, 2011; KPMG, 2014). As already said in prior paragraphs under the IAS/IFRS and the US GAAP, goodwill is not amortised and is subject to a yearly impairment test. The impairment procedure requires managers to undertake write-offs when they believe that the current goodwill book value is higher than its fair value, which is measured as the net present value of the future cash flows. Given the discretion bestowed on managers, external audits are essential to avoid inflated goodwill values and write-offs, which are untimely and/or of inadequate amounts (Bratten et al., 2013). The auditors are required to assess whether business plans, assumptions about the possible scenarios, forecasts about

future cash flows, applied discount rates and sensitivity analyses are sound, reasonable and coherent with the firm's underlying economics, as well as with the industry and macro-economic trends. The auditors are of paramount importance especially in the goodwill context where the following statement by Turner (2001) fits very well: «The lack of meaningful valuation standards coupled with auditors that are not challenging the underlying assumptions and resulting conclusions is a recipe for disaster».

In this part of the thesis, I firstly conduct a conceptual investigation of whether and how some key attributes of auditors might affect the reported goodwill write-offs' reliability. Henceforth, I review the literature on auditors' attributes and financial reporting quality (Stolowy and Breton, 2004; Dechow et al., 2010; Firth et al., 2012). I identify some auditor attributes that might affect the audit activity's effectiveness in goodwill write-offs: size, fees, auditor change, tenure and expertise. Building on agency theory, I discuss how these characteristics shape auditors' incentives when reviewing goodwill write-offs. I develop a set of propositions on how the external auditors' attributes can or cannot contribute to more reliable goodwill write-offs.

3.3.1. Auditors' attributes and financial reporting quality

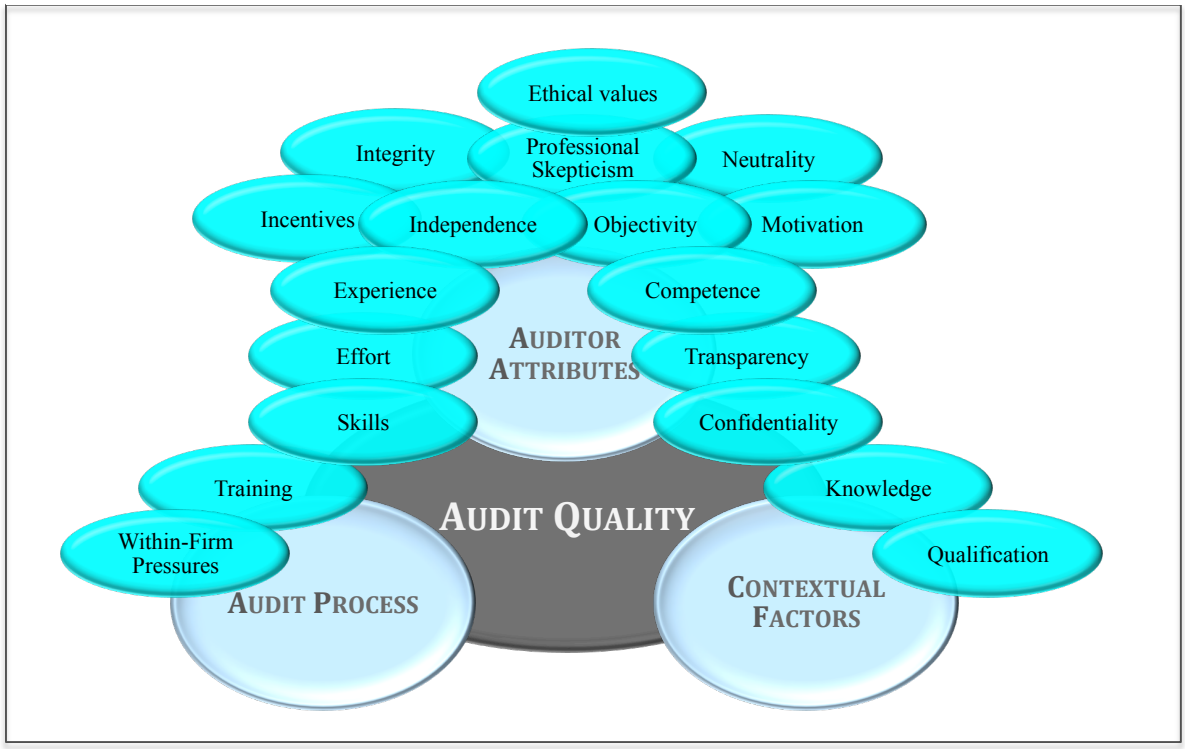
In literature, there is not a unique definition for audit quality; the concept is multi-faceted and complex. However, there are various attributes that can lead to an audit of high or low quality. By "audit quality" I refer to the fairness and reliability assured by professional auditors who ground their "neutral" opinion on high-quality audit principles. A quality audit is likely to result, firstly, from a well-weighted combination of auditor requisites, amongst which we can find: objectivity, independence, competence and experience. Notwithstanding, both literature and profession have not yet reached a consensus on the delineation of these features. At present, there are strong national and international regulations for auditors' qualifications and independence. With reference to the independence issue, the Sarbanes-Oxley Act imposes the audit committees (instead of the management) to appoint auditors and to decide about their pay. In the USA setting e.g. *Rule 2-01 of Regulation S-X* addresses a set of restrictions to safeguard auditor independence both in mind-set and for the compliance with generally accepted standards and processes

(SEC, 2002). The Rule determines constraints to any financial and business relation between the auditor and the audited firm and identifies certain non-audit services as risky for auditors' independence, i.e. bookkeeping, appraisal or valuation services, management functions or human resources and so on. The Sarbanes-Oxley Act requires than that all services (other than minor exceptions) have to be approved in advance by the audit committee and that such approvals are disclosed to investors periodically in public reports. In accordance with the Statements on Auditing Standards, the independent auditor then should be professionally qualified with the education and experience sufficient to ensure that material misstatements are detected and that his/her opinion is based upon reasonable procedures and in accordance with GAAS (American Institute of CPAs, 1972). Nonetheless, individual characteristics are not sufficient to obtain a quality audit (Knechel et al., 2013). A quality audit is affected also by the audit processes' characteristics, that is by the implementation and effectiveness of audit procedures carried out by the personnel (O'Donnell and Schultz, 2003; Caramanis and Lennox, 2008; López and Peters, 2012) as well as by the auditor incentives (e.g. abnormal audit fees, audit tenure) (Carey and Simnett 2006; Hribar et al., 2014).

Francis (2011) maintains that audit quality is simultaneously affected by six units of analysis: audit inputs, audit processes, accounting firms, audit industry and audit markets, institutions, economic consequences of audit outcomes. Moving from this comprehensive understanding, Knechel et al. (2013) propose a "balanced scorecard" to view the different aspect affecting audit quality. The main problem linked with the research on audit quality is that it cannot be measured directly. As a consequence, audit quality cannot be measured neither *ex-ante* nor *in-itinere,* but only after the occurrence of any problems we might be able to judge the audit as of low quality, and even *ex-post,* it is likely that the judgement is based upon indirect indicators of "non-quality".

To wrap up, the concept of audit quality is the result of the interactions amongst contextual factors, audit process and auditor attributes; in Illustration 3.2 I summarise this concept, concentrating in detail on auditors attributes (e.g. independence, competence, experience, etc.).

Illustration 3.2: Audit quality and auditor attributes



Source: own elaboration

Since audit quality can be inferred only *ex-post*, many researchers studied the opposite phenomenon that is when an audit is not highly performed (Francis, 2004). Amongst the proxies for a low audit we can find: restatements (Abbott et al., 2004), SEC investigations or enforcement against the auditor (Dechow et al., 2011), number of some kind of litigation (Palmrose, 1988), client business failure (Lennox, 1999; Geiger et al., 2005). Although, these studies do not consider that the data on the above mentioned "non-quality" proxies might be misleading; in fact, some audit failure might remain undetected or might be resolved with unrevealed penalties (Francis, 2004). Thus, in this study I include only the quality's and its attributes' indirect indicators and abiding by prior literature I consider explicative the following four drivers: the auditor size, the tenure, the expertise and the percentage of non-audit-fees.

One of the major doubts that arise using these proxies is that audit quality should not be viewed as dichotomous, either "high" or "low", but as underlined by several authors, quality is a property that swings on a continuum (Ronen, 2010; Francis, 2011).

The research on external audit as determinant of the financial reporting quality is motivated by the following assumption: higher audit quality constrains earnings management and provides greater credibility to the financial statements (Dechow et al., 2010). Yet, there is no consensus in the literature on: 1) a commonly accepted definition of audit quality, 2) which features of the auditors contribute to higher or lower audit quality (Firth et al., 2012).

Rather than being directly observed, the audit quality is often measured looking at the outcomes of the "non-audit quality": abnormal accruals (Carey & Simnett, 2006), modified opinions (Lennox, 2005), restatements (Abbott et al., 2004), SEC investigations and financial frauds (Dechow et al., 2011), client bankruptcy (Geiger et al., 2005). Since most of the proxies for audit quality can also be measures of the financial reporting quality[158], in some studies the concept of audit quality and financial reporting quality becomes almost interchangeable (Monroe, 2011; Firth et al., 2012).

In the thesis I focus on four key attributes: size, fees, tenure, and expertise. Previous literature uses being a Big-X as a proxy for the auditors' size. Several studies find that firms audited by Big-X auditors have lower discretionary accruals than firms audited by non-Big-X auditors (Francis & Krishnan, 1999; Kim et al., 2003). Other studies find that firms involved in frauds are less likely to have Big-X audit firms (Farber, 2005). Teoh and Wong (1993) find that the Earnings Response Coefficient (ERC) of Big-X clients is higher than that of non-Big-X clients. These findings are consistent with the Big-X auditors' interest in effective monitoring to foster their reputational capital and protect their market position. Some studies find that Big-X auditors provide more effective audit on income-increasing accruals management and more lenient audit on income-decreasing accruals management (Kim et al., 2003). Such asymmetric monitoring is motivated by the Big-X auditors preference for accruals management leading to more conservative financial statements. More conservative financial statements reduce reputation and litigation risks, to which Big-X auditors are more sensitive than non-Big-X auditors due to their size.

[158] Dechow et al. (2010) defines higher financial reporting quality as financial reporting which provides "more information about the features of a firm's financial performance that are relevant to a specific decision made by a specific decision-maker" (Dechow et al., 2010: 344). Hence, financial reporting has a high quality when is conducive of an informative representation of the firm performance relevant for the external decision-makers.

The evidence on the relationship between audit fees and financial reporting quality is mixed and dependent on the type of audit fees. Several studies find a positive association between discretionary accruals and audit fees (Frankel et al., 2002; Srinidhi and Gul, 2007; Hogan and Wilkins, 2008). These findings are consistent with the notion that auditors charge higher fees to client firms more prone to earnings management, due to increased audit risk. Recent research finds that the auditors charge lower fees to more conservative client firms, due to reduced reputation and litigation risks (DeFond et al., 2012).

The non-audit fees are believed to influence the degree of auditors' independence and thus their monitoring effectiveness (Dechow et al., 2010). Consistently, Francis and Ke (2006) find that non-audit fees are negatively related to ERCs. Using a sample of U.K. firms, Ferguson et al. (2004) find a positive association between non-audit fees and restatements.

The auditor's tenure can have a twofold effect on financial reporting quality. On the one hand, longer tenures are likely to be associated to an in-depth firm knowledge of the firm and of its industry. Proper knowledge of the firm and of its industry can lead to more effective audit. Consistently, several studies document a positive association between tenure and lower earnings management (Knechel and Vanstraelen, 2007; Stanley and DeZoort, 2007; Gul et al., 2009). On the other hand, auditors with long tenure are more likely to develop personal ties with the management and lose independence. Some studies find that long tenures are associated to increased earnings management and lower propensity to issue going concern opinions (Chi and Huang, 2005; Davis et al., 2009).

The auditor expertise is key to deliver better monitoring (Krishnan, 2003). Specialist auditors have both the expertise to detect earnings management and the incentives to mitigate it, to protect their reputation as industry-experts (Krishnan, 2005). Prior literature finds that auditors' experience in specific industry is associated with: better ability in identifying errors (Solomon et al., 1999; Owhoso et al., 2002), reduced likelihood of financial fraud (Carcello and Nagy, 2004), more internal control weaknesses reporting (Rose-Green et al., 2011), better audit risk measurement (Hammersley, 2006), greater compliance with auditing standards (O'Keefe et al., 1994). An experimental study examines the quality of auditors' judgement across different levels of expertise and finds that participants possessing higher auditing

experience (audit managers) made sounder quality technical judgements (Martinov-Bennie, 2008).

3.3.2. Auditors' attributes and goodwill write-offs

Big X auditors are often considered a guarantee of an effective audit, as they have more resources to invest in training and in the creation of industry expertise (Francis and Krishnan, 1999). Big X auditors have incentives to deliver high quality audits because they have a good reputation to uphold. Big X auditors also have higher litigation costs than non-Big X auditors. In case of wrong opinions or failure to discover breaches, Big X auditors suffer significant damages to their brand reputation and high litigation costs if sued (DeAngelo, 1981; Becker et al., 1998). Several studies have found that firms audited by Big X auditors have lower discretionary accruals than firms audited by non-Big X auditors (DeFond and Subramanyam, 1998; Kim et al., 2003; Ding and Jia, 2012). Other studies have found that firms involved in fraud are less likely to use Big X audit firms (Farber, 2005) and that the Earnings Response Coefficient (ERC) of Big X clients are higher than that of non-Big X clients (Teoh and Wong, 1993). These findings are consistent with Big X auditors' motivation to foster their reputational capital, protect their market position and avoid risks.

Recent studies have argued that, compared to non-Big X auditors, Big X auditors are effective in constraining the income-increasing accruals, but are less interested in constraining the income-decreasing accruals (Kim et al., 2003). Income-decreasing accruals result in conservative accounting and decrease reputation and litigation risks, for which Big X auditors have less appetite than non-Big X auditors. Big X auditors could be more lenient toward overstating write-offs, which commonly occur when managers want to smooth the income or take big baths or when there are CEO changes (Riedl, 2004; Beatty and Weber, 2006). Overstated write-offs result in reduced income, more conservative goodwill value in the balance sheet and more prudent disclosure about the firm's future perspective. Overstated write-offs reduce Big X auditors' reputation and litigation risks and, at the same time, allow the management to achieve its earnings management objectives. The write-off understatement can benefit managers in multiple ways, for example, with regard to

their target earnings-based bonus compensation, their own share value and/or their reputation. Big X auditors usually steer clear of understated write-offs, as it increases the litigation and reputation risks related to late large goodwill write-offs. Late unexpected write-offs have multiple financial consequences, including a drop in stock prices and increased scrutiny by investors and lenders regarding the firm's financial position.

Given the above suggestions from prior literature I conclude that Big X auditors have incentives to monitor goodwill write-offs asymmetrically. I thus posit the following proposition:

> Proposition 1: *Ceteris paribus*, Big X auditors are more effective than non-Big X auditors in preventing goodwill write-off understatements but avoid preventing goodwill write-off overstatements.

Auditors charge companies that engage more actively in earnings management higher audit fees, due to increased audit risks (Frankel et al., 2002; Hogan and Wilkins, 2008). While the audit risk model can predict that audit firms charge companies more prone to goodwill write-off manipulation higher audit fees, auditors' behaviour can change according to the direction of the goodwill write-off manipulation. If auditors charge more conservative and less risky clients lower fees, they will be more lenient toward opportunistically overstated write-offs (DeFond et al., 2012). In contrast, auditors charge firms that understate their goodwill write-offs higher audit fees, due to the increased risk related to the issuance of financial reports with inflated goodwill values. Inflated goodwill values obscure firms' future perspectives, harming their investors' forecast capabilities. Inflated goodwill values are more likely to result in late, unexpectedly large write-offs. Late large goodwill write-offs increase investors' and lenders' scrutiny of the firm's assets and financial reporting reliability and threaten the auditors' reputation. I posit the following propositions relating the audit fees to the goodwill write-off manipulation:

> Proposition 2: *Ceteris paribus*, audit fees are negatively associated with goodwill write-off overstatements.

> Proposition 3: *Ceteris paribus*, audit fees are positively associated with goodwill write-off understatements.

Non-audit fees can impair auditors' independence and monitoring effectiveness (Abdel-khalik, 2002; Frankel et al., 2002; Ronen, 2010). Non-audit fees can convert the auditor's role from an external independent reviewer to an inside advisor (Francis, 2006). Empirical research has failed to find the "smoking gun" evidence that the provision of non-audit services is associated with audit failures or with higher levels of earnings management (Chung and Kallapur, 2003; Ashbaugh et al., 2003; Asare et al., 2005; Cahan et al., 2008). On an Italian sample in 2007, Ianniello (2012) did not find a statistically significant association between auditor opinion and non-audit fees. Despite the lack of evidence, the provision of non-audit services is still a controversial topic and one that regulators view with scepticism. If the non-audit fees impair auditors' independent monitoring, they should be positively related to goodwill write-off manipulations, regardless of the manipulation's direction (Francis, 2006).

An alternative "benevolent" view is that the non-audit fees compensate for auditors' expert advice on complex issues, such as goodwill write-offs (KPMG, 2014). Hence, non-audit services include advice on business plans and forecasts used in the write-off measurement. The additional advice can lead to more accurate and less manipulated goodwill write-offs. I advance two alternative propositions on the association between non-audit fees and write-off manipulations.

> Proposition 4a: *Ceteris paribus*, non-audit fees are positively associated with write-off manipulations.
>
> Proposition 4b: *Ceteris paribus*, non-audit fees are negatively associated with write-off manipulations.

Auditors' tenure can be either beneficial or detrimental to the goodwill write-off reliability. A long tenure increases the client-specific knowledge of the auditor (Johnson et al., 2002; Beck and Wu, 2006; Chen et al., 2008). An in-depth knowledge of the firm can be very useful in auditing goodwill write-offs in several ways. In-depth knowledge of the firm can help auditors understand when the benefits of acquisitions do not materialize, triggering a write-off. Longitudinal firm-specific knowledge can help auditors understand when the benefits of the goodwill are exhausted, allowing for timely write-offs. Once a loss in the goodwill value is detected, firm-specific knowledge can help auditors measure the write-off with adequate projections, extrapolated from the firm's past performance. Overall, long

tenures develop other relevant client-specific knowledge potentially influencing the impairment procedure, such as changes in management or key directorship, as well as changes in strategy and market positioning. The strategic changes also affect the composition of the cash-generating units and a different goodwill allocation and valuation. A proper firm knowledge can help auditors assess the optimal allocation of goodwill among the cash-generating units.

A long tenure allows auditors to gather wide-ranging information from different client firm offices. A large information basis allows auditors to create a sort of "control panel" for, for example, litigation risks and costs, operations trends, credit access and various financial situations.

Long tenures can be detrimental to auditors' monitoring effectiveness, as they can imply an "excessive familiarity" with the client (Chi and Huang, 2005; Davis et al., 2009). The Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (International Ethics Standards Board for Accountants, 2014) defines familiarity threat to independence as professional accountants' risk of becoming too sympathetic towards clients' or employers' interests or too accommodating due to a long or close relationship with a client or employer. The Code of Professional Conduct issued by the American Institute of CPAs gives a similar definition of the familiarity threat (American Istitute of CPAs, 2014). The academic literature suggests that such familiarity impairs auditors' independence and impartiality (Chi and Huang, 2005). Familiar auditors are more prone to comply with a well-known client, for which they have made investments in various technologies and personnel over years. The familiar auditor is interested in maintaining the client harmony and turning a blind eye to earnings management (Wang and Tuttle, 2009). A very familiar auditor-client relationship thus makes auditors more prone to accept the client firm measurements and to abandon their professional scepticism.

I posit two alternative propositions on the association between auditor tenure and write-off manipulations. On the one hand, a long-lasting firm-specific audit experience can lead to more reliable goodwill write-offs, owing to the auditor's expert advice. On the other hand, the familiarity and the subsequent loss of independence lead to mild audits and to the acceptance of the management's goodwill write-off manipulation.

Proposition 5a: *Ceteris paribus*, auditors' tenure is negatively associated with write-off manipulations.

Proposition 5b: *Ceteris paribus*, auditors' tenure is positively associated with write-off manipulations.

Auditors' industry expertise can constrain the goodwill write-off use as an earnings management device (Krishnan, 2003). Assessing the reliability of the management estimates used in the goodwill impairment test is a complex issue that differs significantly from industry to industry (Benston, 2008). Industry expert auditors might add knowledge and help the client firm provide more accurate goodwill write-offs (Stanley and DeZoort, 2007). Industry-expert auditors provide proficient advice on, for example, industry and market trends, changes in the competitive environments, changes in the industry's political or regulatory environment, as well as the average cost of debt and the cost of capital. Such knowledge is helpful in identifying the goodwill write-offs triggering events (Smith-Lacroix et al., 2012).
Industry expert auditors have incentives to foster an industry proficient reputation and to consolidate their position in the audit market (Dunn and Mayhew, 2004). For this reason, expert auditors ensure that their personnel is properly trained and updated with specific knowledge (Bratten et al., 2013). I suggest that expert auditors' incentives to maintain a good reputation and protect their market position lead to more accurate goodwill write-offs and increase their capability to resist the managerial pressure to manipulate write-offs. I thus posit the following proposition:

Proposition 6: *Ceteris paribus*, auditor expertise is negatively associated with write-off manipulations.

3.3.3. Discussions

To the best of my knowledge, the above propositions are the first attempt to thoroughly investigate how auditors' attributes can contribute to reliable goodwill write-off accounting. This part of the thesis contributes to the literature in several ways. Firstly, it provides a set of propositions that future empirical studies can test as hypotheses. Secondly, it suggests that the use of fair value, inherently subjective estimates, combined with auditors' potential incentives to provide a lenient audit, is

likely to compromise the role of financial reporting and of the external audit as external control mechanisms. I argue that auditors deliver an unbiased and effective audit on goodwill write-offs only when they have incentives to do so. In this respect, this study may sound an alarm bell on the potential malfunctioning of goodwill write-offs under the current accounting standards and audit practices. A malfunction arises when both managers and auditors have incentives to respectively misreport and "mis-"audit the goodwill write-offs.

This part of thesis has also interesting policy implications. It provides arguments supporting the re-introduction of the amortisation of goodwill, currently being discussed in the European Union. The amortisation of goodwill limits the audit effort to the initial recognition and measurement of goodwill, avoiding yearly impairment tests. Amortising goodwill significantly reduces managerial discretion and the use of goodwill write-offs as an earnings management tool. It may suggest the use of industry-expert auditors to audit goodwill write-offs. Regulatory agencies could set specific requirements about the skills and competences auditors need to have to audit fair value estimates, such as goodwill write-offs.

3.4. Impairment and analysts' estimates

> *While the problem of earnings management is not new, it has swelled in a market that is unforgiving of companies that miss their estimates. I recently read of one major U.S. company that failed to meet its so-called "**numbers**" by one penny and lost more than six percent of its stock value in one day.*
> *(…) This is the pattern earnings management creates: Companies try to meet or beat Wall Street earnings projections in order to grow market capitalization and increase the value of stock options. Their ability to do this depends on achieving the earnings expectations of analysts. And analysts seek constant guidance from companies to frame those expectations.*
>
> Levitt, 1998

One of the primary roles attributed to financial analysts is to mitigate the information asymmetry between insiders and outsiders (Brennan and Hughes, 1991). This is why a huge body of the literature investigate the stock market reactions to analysts forecasts revisions (Barry and Jennings, 1992; Abarbanell et al., 1995; Barron et al., 1998; Kothari, 2001; Healy and Palepu, 2001; Francis et al., 2004; Bagnoli et al., 2005; Arya and Mittendorf, 2007). The analysts' coverage then was found to be negatively associated with the information asymmetry (Brennan and Subrahmanyam, 1995; Louis and Robinson, 2005; Houston et al., 2010) and that institutional investors do prefer to invest in firm with higher analysts' coverage (O'Brien and Bhushan, 1990). Analysts forecasts are mainly on the future firm's earnings and any earnings management practices could increase the forecasts' error because when income-boosting earnings management are not considered by the analysts they may provide pessimistic earnings forecasts; equally, when the analysts overlook to income-decreasing earnings management practices they produce optimistic earnings forecasts (Abarbanell and Lehavy, 2003).

An extended body of literature provide evidence that firms manage earnings in order to meet or beat the analysts' earnings forecasts to satisfy the market expectations (Bannister and Newman, 1996; Bange and De-Bondt, 1998; Kasznik, 1999; Matsumoto, 2002; Moehrle, 2002; Abarbanell and Lehavy, 2003; Louis, 2004; McVay, 2006; Brown et al., 2006; Barua et al. 2006).

3.4.1. Earnings estimates and discretionary use of goodwill write-offs

Considering the whole discussion of this thesis, the subjectivity allowed by the technicalities of the impairment procedures may be exploited to meet or beat the analysts' earnings forecasts.

Li et al. (2011) explored the differences in the market reaction following an impairment of goodwill under three distinct reporting regimes: SFAS 121, transition period and SFAS 142. On a sample of firms that announced goodwill impairment over a period of time between 1996-2006, they found that on average, in all the three regimes above-mentioned, the market adjusts the expectations downward after the impairment announcement and basically, these adjustments are linked with the impairment magnitude. The market reaction results to be largely attributed to investors revising their expectations of future sales and operating profits downward on the base of the information conveyed by the impairment losses. In the same study they also found that as a consequence of the impairment announcement even the analysts update the earnings forecasts downward. They found then that the association between goodwill and analysts' forecast revision is stronger with the adoption of SFAS 142, suggesting that the subjectivity exploited by managers is declarative.

Jarva (2012) examined the consequences of SFAS 142 goodwill write-offs according to three different points of view. The first one explores whether the write-offs generate positive "abnormal" returns in the year following the impairment of goodwill, as investors tend to fixate on earnings. The second perspective investigates the association between goodwill write-offs and analyst-forecast accuracy as regards future earnings. The last tested hypothesis refers to audit pricing and it asserts that firms recording goodwill write-offs pay higher audit fees than non-write-offs firms. Consistently with the basics of market efficiency, analyst-forecast rationality and efficient audit pricing, the author concluded that investors and analysts are able to

incorporate the information related to goodwill write-offs and the auditors charge higher fees to balance the greater effort required.

Lawrence et al. (2013) attempt at modelling mandatory asset impairments in order to discern it from discretionary conservatism. With their model they address the likelihood to reach wrong inferences when testing for discretionary conservatism if the researcher doesn't control for mandatorily conservative accounting. They found that there is a negative and nonlinear relation between beginning of period book-to-market (BTM) ratios and asset impairments. Furthermore they found evidence that mandatorily conservative accounting is stronger for firms with BTM ratios greater than one, with a poor recent operating performance and with a higher proportion of intangibles. Kim et al. (2013) tested whether the adoption of SFAS 142 has improved or decreased the ability of accounting earnings to reflect economic earnings. Consistently with Watts (2003), they demonstrate an increase in conservatism in the post-SFAS 142 regime, but they found that the accounting earnings for firms with purchased goodwill become less conservative. André et al. (2013) examined the level of conditional conservatism in the pre- and post-IFRS adoption on an European sample with a time span 2002-2007. They further investigate the role played by impairment tests in the change of degree of conditional conservatism. The European sample confirmed the results obtained by Kim et al. (2013) on the US sample, that is, the firms with intangibles and goodwill become less conditionally conservative after the IFRS adoption, while firms without intangibles neither goodwill are unaffected by any change. In addition they provide evidence that impairment test for intangibles and goodwill after 2005 is more prone to be handled by the management. This brief empirical evidence may arise the following research question: Does management use discretionary write-offs to beat analyst forecasts? Specifically, this research question might be split down in the following two propositions:

> Proposition 1: *Ceteris paribus*, the goodwill write-offs understatements are positively associated with optimistic financial analysts' earnings forecasts.
>
> Proposition 2: *Ceteris paribus*, the goodwill write-offs overstatements are positively associated with pessimistic financial analysts' earnings forecasts.

Future studies might explore this research question relation the discretionary use of goodwill write-offs and analysts' earnings forecasts.

Chapter 4.

Conclusions.

TABLE OF CONTENTS:

4. Conclusions

4.1. Discussion of the thesis concepts and results

The conclusion we can draw basing above all on the first chapter is that the goodwill notion has changed over the time. However, the definition and treatment of goodwill still today are thorny matters and a definite agreement seems hard to be reached.

Moving to the empirical researches I find that the ownership structures and the governance mechanisms affect the unexpected discretionary portion of the impairment losses (see Appendix A for the results). The international comparison reveals the complexity of such effect. Insider ownership is positively associated to discretionary assets write-off suggesting a uniform behaviour regardless of the ownership level, in UK and Italy, while this result is not confirmed for the German sample. Further, I find that in the UK and in the German samples, institutional investors ownership is associated to lower discretionary asset write-offs. This result is consistent with the expectation that institutional investors devote a greater attention to the financial reporting quality exercising a stronger control over the financial information. Nonetheless, this finding is not significant in the Italian sample. I suggest that in Italy the high ownership concentration, risks of wealth expropriation and lack of board independence, limit the institutional investors in influencing the decision-making process. Consistently with the political theory, state ownership is associated to increased discretionary impairment losses in the Italian sample. Either driven by the politicians' interests or by "common good objectives", state owned companies have incentives to manipulate assets write-offs. This result is not confirmed in the German sample where the supervisory board not only monitors the management, but also reconcile the interests of different stakeholders in the discussion of key managerial decisions. The German two-tier system may be efficient for the monitoring activity exerted by institutional investors. This could explain why institutional investors ownership is a significant variable affecting discretionary impairment losses unlike the other ownership variables considered.

Overall, the European comparison indicates possible relations among ownership structures and corporate governance in influencing the accounting decisions. The

governance system and environment lead to a diverse influence of ownership structures on the accounting decision-making process.

I then questioned the CFOs their perceptions on the impairment of goodwill; their responses might be useful for standard setters, regulators, practitioners and academics (see Appendix B3 for the survey results). For example, about 54% of the respondent CFOs believes that the prohibition of goodwill write-offs reversals increases the likelihood of untimely and/or underestimated write-offs, hence, standard setter might consider the possibility of accounting for goodwill as the other intangibles with indefinite useful lives or allowing the reversals under determined conditions. With reference to the ownership structures CFOs perceive higher risks when managerial, concentrated or state ownership are prevalent. CFOs perceptions also may intimate when the financial reporting reliability is weakened and hence where substitute corporate governance mechanisms should play a relevant role in constraining the use of discretionary accounting choices. Another interesting point of view is on the external auditor role. From the CFOs responses I got the reply of the significance of auditor expertise in both the industry and in the task of assessing the write-offs, as a consequence, regulators might require certain skills/expertise from auditor in order to better perform their assessments. Also, CFOs perceive as significantly important in constraining the write-off manipulation the mandatory auditor rotation.

More than half of the participants to the survey reveal that alternative way to account for goodwill could provide more valuable information and 47% of the respondents indicate also the importance of requiring additional disclosure, this result should be considered examining also the importance of voluntary vs. mandatory disclosure.

The final question on the CFOs preference between the impairment test and the amortization of goodwill directly answers to the EFRAG recent debate on the possible reintroduction of the goodwill amortization. Although the difficulties underlined to implement the test, the 66% of the respondents overall prefer the impairment of goodwill. However, it should not be undervalued that the remaining 34% still prefer the amortization process.

After the empirical research on the internal corporate governance influences on the impairment decisions I discuss how certain auditor characteristics can encourage auditors to deliver lenient (“friendly”) audits on goodwill write-offs. Indeed, an inclination towards delivering a lenient audit can be aligned with managers’ interest

to use goodwill write-offs for earnings management purposes. Finally, I briefly examine how the financial analysts' estimates could adversely affect the impairment decision process driving the management to satisfy the market earnings expectations. To sum up the above relations in Table 4.1 I link the earnings management policies with differing incentives related to differing corporate governance subjects. Specifically, in the course of this dissertation I explored the association between overestimated and underestimated impairment losses and the incentives that are associated to these earnings management practices. To outline a final discussion, I enclose amongst the incentives to report underestimated goodwill write-offs the following incentives: big bath, income smoothing, CEO changes, auditor conservatism and pessimistic analysts earnings forecasts in the previous year. Amongst the incentives to report underestimated goodwill write-off I mention the following: debt covenants, bonus-based remuneration scheme, insider ownership, state ownership and institutional ownership, inexpert or inexperienced auditor, non-independent auditor, optimistic earnings forecasts in the year prior to the impairment loss. In certain circumstances, the impairment losses actually reflect the underlying economics of the firm. It might happen that managers' incentives are not preponderant, the auditor is neutral and independent and discover the breach constraining the manipulation and the analysts' earnings forecasts are sufficiently accurate that do not create incentive to beat. Also, certain ownership structures (e.g. institutional and state ownership) might control the financial reporting process and exert pressure for reliable estimates.

Table 4.1: Discretionary use of goodwill write-offs and corporate governance subjects: earnings effects

	EARNINGS EFFECT		
CORPORATE GOVERNANCE SUBJECTS	**OVERESTIMATED WRITE-OFFS**	**"FAIR" WRITE-OFFS**	**UNDERESTIMATED WRITE-OFFS**
MANAGERS	• Big Bath • Income Smoothing • CEO Changes	• No managers incentives	• Debt covenants • Bonus based remuneration
OWNERSHIP TYPES		• State ownership • Institutional ownership	• Insider ownership • State ownership • Institutional ownership
EXTERNAL AUDITOR	• Auditor conservatism	• Neutral auditor	• Inexpert, inexperienced or not-independent auditor
FINANCIAL ANALYSTS	• Pessimistic earnings forecasts in t-1	Earnings forecasts error tend to zero	• Optimistic earnings forecasts in t-1

4.2. The contribution of the study to the field of knowledge

Carnegie and Napier (2012) stress the unifying power of history among past, present and future and the importance of appreciating the contemporary accounting practices through retrospective lens. In this sense, I attempt to contribute to the accounting history studies by providing an historical analysis of the goodwill and impairment test concepts as conceived by several prominent Italian scholars. I also attempt to essentially delineate some similarities and differences that the same concepts assumed among International scholars. Hence, recent discussions over the value of the long-lived assets and over the concept of recoverable amount through their use

(value in use) or their sale (fair value) might be better informed if accountants, regulators and more generally market participants were conscious of the past debates on the issue.

The empirical researches carried out can contribute to prior literature in several ways. Firstly, it is provided evidence that ownership types and corporate governance are intervening variables in the accounting decision-making process leading to assets impairment. Secondly, the findings show possible interdependencies among ownership structures and corporate governance in influencing the accounting choices. On the one hand, the ownership types influence on discretionary assets write-offs appear to be facilitated or constrained by the legal and the governance environment; on the other hand, ownership structures can prevent effective monitoring by governance mechanisms.

This study contributes to the literature by providing the CFOs perceptions on the impairment of goodwill as far as I know till today no prior studies investigated this perspective. Also, the results may be significant for practitioners and academics. The responses indicate that also from a practitioner point of view the impairment of goodwill vs. the amortization is a thorny issue.

The results may be of interest to market participants, policy makers and audit firms, interested in researches about the financial reporting reliability. The findings may contribute to the ongoing debate concerning financial reporting transparency and reliability before and after the economic crisis.

4.3. Limitations

The first limitation of this study concerns with the first chapter where I do not contemplate the perspective of the practitioners and of professional bodies regarding the notion and treatment of goodwill. Nonetheless, this limitation only in part and with reference to the present is attenuated by the empirical results presented in the third chapter. For example, I find that overall nowadays CFOs believes that the impairment test, with all its difficulties and drawbacks, is preferable to the amortization of goodwill.

Then, as already anticipated in the first chapter, the historical excursus on the concept of goodwill should not be considered all-embracing as many other renowned Authors pronounced on the topic and as it is mainly Italian based.

Some limitations have been already presented within the empirical researches.

With reference to the research carried out on the relationship between ownership structures, corporate governance and discretionary impairment of goodwill I have to admit some limitations. The study assumption is that incentives are held constant during the sample period. This assumption may not be valid. For example, is the influence of insider ownership or corporate governance constant across non-crisis and crisis periods?

The goodwill recognized and measured from the 2008 on may be based on more prudential estimates from those of the pre-crisis period. This means that such goodwill could require less impairment in the subsequent years. However, one could argue that most goodwill impaired in the period have been probably acquired before the 2008 crisis and not after.

Concerning the empirical research conducted by means of the survey methods I have to acknowledge some latent pitfalls. The surveyed CFOs may not represent the population. Also, using the LinkedIn social network I was not able to avoid an auto-selection bias, as I could send the invitation to participate to the survey only to those CFOs who previously accepted my connection request. Then, CFOs responses and thoughts may not converge with their actual action. They also may have responded merely replicating what they studied in business schools, masters degree and training courses on the impairment of goodwill.

The whole study is mainly built basing on the agency theory's individual perspective. However there is a strong call for accounting and corporate governance to be analysed from different perspectives, which further may explain my overall research question. Hence, in the following paragraph on the suggestion for future research avenues I recommend also the use differing lens from which investigate my main research question.

4.4. Future research

Most of the limitations described in the above paragraph (§ 4.3.) may be considered also as avenues for future research. First, future studies might explore whether in the past the practitioners' thought on the treatment of goodwill was forestalling the academicians thought or on the contrary the practice followed the academic

literature. For example, this kind of historical study might be based on the comparison between the articles published in the accounting field journals presenting the practitioner perspectives (e.g. The CPA Journal) and other academic accounting peer-reviewed journals (e.g. The Accounting Review). Another possible research outcome may derive from the analysis of the historical evolution in the accounting standards concerning the goodwill and its accounting treatment in terms of definition, recognition, measurement and exhaustion. This vertical exploration through the years might be complemented also by an International comparative accounting analysis, as different contexts would likely result in different professional body approaches through the time. For example, Nobes (1992) identifying several interested parties in the political process of standard setting (managers, auditors, users, governments, etc.) expected a cyclical pattern of standard setting in the UK and with reference to the goodwill treatment the study predicted the issuance of a standard allowing flexibility. More recently Ding et al. (2008) studied the evolution of accounting for goodwill in the USA, Great Britain, Germany and France finding e.g. that the USA was the first to move from the goodwill expensing or charging to reserves model to the amortization first and then to the impairment testing.

Then, the historical exploration presented in the first chapter may be integrated with the introduction of other Authors who contributed to debate on accounting for goodwill both on the National and International scenarios, including *in primis* a more in-depth investigation of the Anglo-Saxon literature.

Another interesting avenue for future research could be to explore whether accounting for other assets or liabilities provides the same challenges of goodwill (e.g. research and development expenses).

Future research could also investigate the US and emerging economies, as well as investigate the relationship between discretionary impairment losses and management's compensation policies. Future research could then explore whether the financial market is able to detect the discretionary impairment losses and/or if there is a difference in the stock market reaction for companies more prone to assets write-off manipulations.

The responses received from the CFOs may constitute a starting point for future research to enrich existing theories or on which ground potentially new, accounting theories.

In this study I contemplate several corporate governance subjects, however the corporate governance puzzle is still incomplete. For example, future studies might complement the analysis by studying whether high quality internal audit may detect the opportunistic use of discretionary write-offs and biased managerial judgments (Prawitt et al., 2009).

As suggested above I investigated the research question relying only on the agency theory.

A major criticism of the agency theory is its entrenchment in the neoclassical assumption of rational behaviour, which maximises the principal and agent's different utilities without considering the social and institutional contexts (Wiseman et al., 2012). The corporate governance literature based on the agency theory undervalues an aspect epitomised by the Latin phrase: "quis custodiet ipsos custodes?" (Who will guard the guards themselves?). Monitors are agents too and those who should be monitored generally elect them (Armstrong, 1991). Further, corporate governance should not be abstracted from the social, economic and cultural environments in which the companies operate (Carruthers, 1995). Following Cuevas-Rodríguez et al.'s (2012) exhortation to expand agency theory with a theoretical framework that includes social and contextual interactions, future research might shift the perspective to institutional theory.

The recent corporate governance movements and enforced mechanisms and the tougher auditor, board, management and CFOs competency requirements are key determinants for companies to achieve legitimacy in the eyes of the communities (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Scott, 1987; Zucker, 1987; Scott, 2001). Thus, institutional theory could complement my analysis, since it is not centred on individual rational behaviour, but on an organisation's determination to achieve legitimacy in compliance with the external expectations. In this sense, corporate governance is a device formally established within an organisation in response to institutional pressures to formalise the expected control over the entire firm practices and specifically over the financial reporting.

The structures and procedures carried out within similar organisations have become isomorphic (Eisenhardt, 1988). Consequently, I suggest that the institutional isomorphism can explain the differences between firms engaging in earnings management practices and non-earnings management firms. The institutional isomorphism concept fits the current context and competitive environment in which

companies currently operate, as companies tend to standardise their behaviour and to homogenise their practices to achieve legitimacy in the eyes of their stakeholders. In turn, companies' need to be eligible for public or private grants and to adapt to norms motivates their desire to fit into administrative categories and to resemble their comparable companies (Meyer and Rowan, 1977; Pfeffer, 1982; DiMaggio and Powell, 1983; Zucker, 1987; Scott, 2001). In public companies than legitimisation is multifaceted (e.g. policy makers, national stock exchanges, financial market supervising authorities, investors, governments, external auditors, public opinion, etc.) and the implementation of high-level corporate governance practices may increase the internal and external approval, thus potentially enhancing a firm's reputation. Generally accepted national and international accounting and auditing standards are incorporated into and institutionalised in a formal structure representing a manifest expression of myth and ceremony (Meyer and Rowan, 1977; Carruthers, 1995). Besides, conforming to socially established procedures and techniques allows companies to free themselves from being considered accountable or negligent when any kind of failure or scandal occurs.

Finally, one can interpret the results in the light of a contingency-based framework (Adams, 2002). Three contextual dimensions – corporate characteristics, general contextual factors and internal contextual factors – may influence companies' corporate governance system. The accounting field has already studied firms' contextual specificities, with reference to their reporting practices and disclosure (Adams, 2002; Ekanayake et al., 2009). Some of the main contextual influences on companies' governance system are the financial industry's characteristics, the level of regulation, the dynamic and complex environment, the professionalization of accounting and auditing and the consideration of multiple interest groups. Structural contingency theory is widely used in organisation studies, while it is uncommon in the accounting or auditing fields; future studies might adapt the contingency literature on internal control systems to the overall corporate governance system (Waterhouse and Tiessen, 1978; Otley, 1980; Donaldson, 1982, 1996, 2001; Van de Ven et al., 2013). A company's characteristics strongly influence the extent of its internal control system. The contingency framework is consistent with several internal control regulations maintaining that the scope of the internal control may vary due to the different corporate characteristics (e.g. COSO). This implies that each company establishes and manages the most appropriate corporate governance

mechanisms, taking its contingency characteristics into consideration (Birnberg et al., 1983; Fisher, 1995, 1998; Chapman, 1997; Chenhall, 2003; Jokipii, 2009). From the contingency theory perspective, companies' corporate governance system is affected on three different levels: the internal organisation, the organisational interface and the external interface. The internal organisation context refers to the firm's specific characteristics, such as its size, industry, business model and performance. The organisational interface relates to contingencies, such as the financial markets, regulatory bodies, governmental agencies, professional organisations, etc. Finally, the external interface refers to all the effects of the political, social, economic and international influences (Ekanayake et al., 2009).

The company size, which is one of the most studied contingency characteristics, seems to suit my analysis on the use of discretionary impairment of goodwill. This is relevant given the underlying contingency studies' supposition that increasing size implies an increasing structural complexity (Gupta et al., 1994). Merchant (1981, 1984) emphasises that the bigger the organisation, the higher the inclination to use formal controls and standardised information flows. As the organisation's size increases, repetitive operations and decisions increase, resulting in formalised, specialised and standardised activities, which might correspond to a higher "operating space" for the management to use discretionary impairment losses. However, larger organisations can and should invest more resources in sophisticated control activities (Bruns and Waterhouse, 1975; Wallace and Kreutzfeldt, 1995; Ezzamel, 1990; Jokipii, 2009), which lead to conclude exactly the opposite, that is they provide more reliable financial information. Some studies have found evidence that environmental uncertainty increases the likelihood of more sophisticated internal controls in order to adapt rapidly to external changes, such as regulation, technologies, competition, etc. (Gordon and Miller, 1976; Chenhall, 2003). Owing to diverse level of complexity in the industry in which each firm operates, the related efforts to control and measure the earnings management risk changes, hence, the uncertainty concept is applicable in order to constitute diverse governance mechanisms (Morgan, 2002; Jin et al., 2013). Although institutional theory is based on the interpretive paradigm and the agency and contingency theories are based on the functionalist paradigm (Burrell and Morgan, 1979), I believe that approaches that can bridge various paradigms may contribute to the overall understanding of the mosaic forming the corporate governance system (Gioia and Pitre, 1990). Both

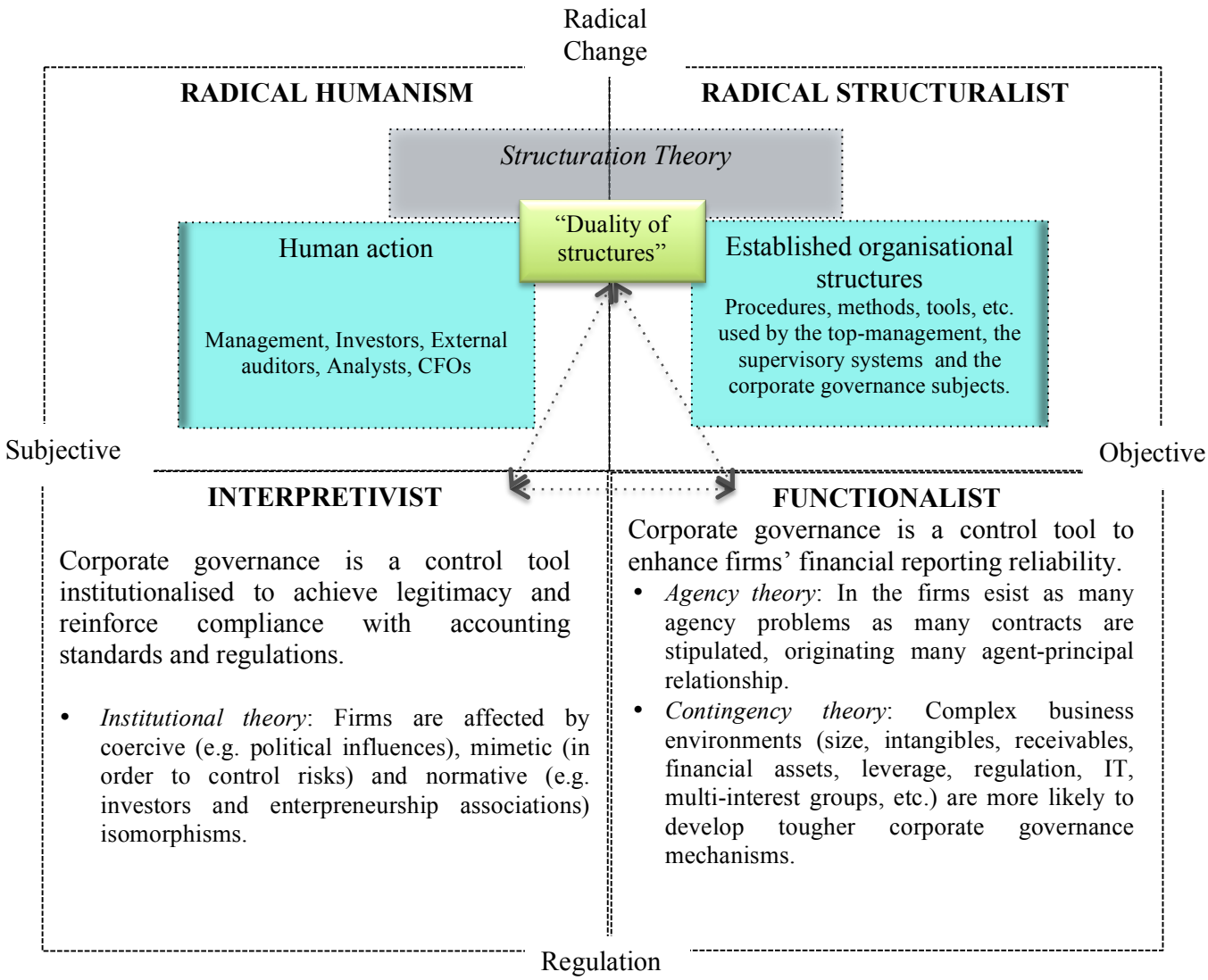
agency and contingency theories stem from the sociology of regulation and approach accounting and corporate governance from an objectivist point of view. Thus, these two theories do not create paradigm inconsistency. Moreover, moving from the functionalist paradigm to the interpretative paradigm of new institutionalism does not create inconsistency. Future research can cross these paradigms by exploiting their unspecified boundaries. Functionalist and interpretive paradigms share a common set of features in terms of their stability (the sociology of regulation), creating a grey area (or transition zone) for mutual integration and combination. Prior literature has exploited structuration theory as the link between the interpretive paradigm's human actions and the functionalist paradigm's established organisational structures (Burrell and Morgan, 1979; Gioia and Pitre, 1990; Willmott, 1993; Weaver and Gioia, 1994).

Although some of the literature defends different paradigms' incommensurability (Kuhn, 1962; Burrell and Morgan, 1979; Jackson and Carter, 1991, 1993), I support the converse of this broad debate, namely that paradigms can have alternatives patterns (Hassard, 1988, 1991; Willmott, 1993; Weaver and Gioia, 1994; Donaldson, 1998). Structuration provides an opportunity to fix the objective functionalist perspective and the subjective interpretive perspective on a continuum. Through their rules and resources, structures are the outcome and medium of interactions; they exist because they are built in social systems and are necessary to successfully interact in social systems (Giddens, 1976, 1979, 1984, 1991; Ranson et al., 1980; Riley, 1983; Barley, 1986; Weaver and Gioia, 1994). Giddens and Dallmayr (1982) introduced structure's duality, stressing the interrelations between purposeful-objectivist human action and the concurrent subjective side of human action, which prevailing social structures affect. Put differently, the agent purposely and intentionally acts in the social system and, simultaneously, the same social system determines its action (Giddens and Dallmayr, 1982; Dillard and Yuthas, 2002). Hence, the functionalist-agency or contingency theories and the interpretive-institutional theory are on the same footing, both useful to explicate organisational phenomena and, specifically, the use of corporate governance as a mitigating device for earnings management.

Several authors who alternatively embrace contingency or institutional approaches to organisations acknowledge the connections between the two theories (Drazin and Van de Ven, 1985; Scott, 1987; Gresov, 1989; Gupta et al., 1994). Drazin and Van de Ven (1985), for instance, maintain that most organisations are constrained to an

isomorphic relationship between their macro and micro levels in order to survive. The macro level tends to require uniformities and prescriptions on the micro level (departments, sub-units and work groups). In this regard, Scott's (1987) suggestion that institutional arguments should be considered complementing and contextualising efficiency arguments is significant because it implicitly supports a multi-paradigm approach. Illustration 4.1 graphically summarises a possible future multi-paradigm approach to explain the corporate governance role in constraining earnings management.

Illustration 4.1: A multi-paradigm approach to the use of corporate governance to constrain earnings management



Adapted from (Burrell and Morgan, 1979; Gioia and Pitre, 1990; Lewis and Grimes, 1999)

Appendices

Appendix A. Findings of § 3.1 Impairment, earnings management, ownership structures and corporate governance.

Table 3 Assets impairment per Country setting

	Number UK	Relative amount UK	Number Italy	Relative amount Italy	Number Germany	Relative amount Germany
2006	29	0,009	37	0,002	61	0,005
2007	27	0,005	47	0,004	64	0,003
2008	47	0,016	50	0,004	64	0,007
2009	47	0,011	53	0,006	71	0,012
2010	41	0,009	55	0,003	63	0,005
Total impairment obs / Average	191	0,011	242	0,004	323	0,006

Table 4 Descriptive statistics per Country setting

	Panel A UK (*n*=480)		Panel B Italy (*n*=470)		Panel C Germany (*n*=470)	
	Mean	SD	Mean	SD	Mean	SD
IMPAIR	0,389	0,490	0,518	0,500	0,687	0,464
WO%	0,011	0,019	0,004	0,014	0,006	0,020
ΔROA	0,010	0,042	0,006	0,035	0,008	0,056
ΔOCF	0,001	0,118	-0,007	0,123	0,003	0,146
GROWTH	2,61	1,568	1,849	1,449	2,18	1,649
ΔINDROA	0,008	0,012	0,005	0,014	0,007	0,015
ΔINDGROWTH	1,962	0,913	1,523	0,712	1,848	0,874
ΔGDP	0,537	3,243	-0,200	2,917	1,323	3,765
LOSS	0,099	0,364	0,079	0,270	0,067	0,254
SIZE (in bn/€)	185,467	541,429	36,868	12,222	96,889	395,972
INSIDE	0,025	0,088	0,210	0,279	0,076	0,147
INST	0,212	0,142	0,038	0,045	0,227	0,256
STATE	0,007	0,006	0,058	0,151	0,029	0,105
CORPGOV	-0,012	0,776	-0,053	0,649	-0,028	0,629
OWNCONC	0,136	0,135	0,447	0,203	0,246	0,196
BATH	-0,011	0,035	-0,007	0,038	-0,05	0,043
SMOOTH	0,013	0,034	0,009	0,023	0,011	0,056
LEV	0,244	0,153	0,310	0,185	0,289	0,165

Table 5 Discretionary assets write-off estimation, Heckman two-stage MLE of Model 2

Dependent variable: WO% (selection variable: IMPAIR)						
	Panel A UK (*n*=480)		Panel B Italy (*n*=470)		Panel C Germany (*n*=470)	
	Coef.	*z-stat*	Coef.	*z-stat*	Coef.	*z-stat*
ΔROA	-0,004***	-3,18	-0,081**	-2,38	-0,049**	-2,61
ΔOCF	-0,000*	-1,79	-0,016	-1,07	-0,008	0,74
GROWTH	-0,014**	-2,37	-0,003***	-3,42	-0,004**	-2,19
ΔINDROA	0,021	0,84	0,0238	0,30	0,003	0,47
ΔINDGROWTH	0,000	0,25	-0,000	-0,13	-0,001	-0,18
ΔGDP	-0,009	-1,28	-0,000	-0,23	-0,009	-0,98
LOSS	0,029***	4,25	0,011***	3,20	0,031***	3,64
SIZE	0,001	1,03	0,000*	1,68	0,000**	2,21
MILLS	0,009***	15,69	0,015***	18,44	0,007***	19,84
const	0,002**	2,13	0,000	0,20	0,000	0,48
Log-likelihood	436,72		408,52		419,91	
Max VIF	2,092		1,871		1,922	

All *p*- values are two-tailed; *** Coefficient is significant at the 0.01 level (two-tailed) ** Coefficient is significant at the 0.05 level (two-tailed), * Coefficient is significant at the 0.10 level. Variables definition: WO% = firm's *i* reported write-offs in long-lived assets for period *t*, divided by total assets at the end of period *t – 1*; ΔROA_{it} = firm's *i* change in return on assets from period *t* to *t-1*; ΔOCF_{it} = firm's *i* change in operating cash flows from period *t* to *t-1*; $GROWTH_{it}$= growth options, proxied by the firm's *i* market-to-book value at time *t*; $\Delta INDROA_{it}$ = the median change in the firm *i* industry return on assets from period *t* to *t-1*; $INDGROWTH_{it}$ = the median market-to-book ratio in firm *i* industry at time *t*; ΔGDP_{it} = change in the national gross domestic product at time *t*; $LOSS_{it}$ = dummy variable, 1 if the firm reported a loss at time *t*; $SIZE_{it}$ = firm' *size,* proxied by the total assets at time *t*; $MILLS_{it}$ = inverse Mills ratios of the first stage probit regression.

Table 6 Ownership structures, corporate governance and discretionary asset write-offs, Tobit regression of Model 3

Dependent variable: DWO						
	Panel A UK (*n*=480)		Panel B Italy (*n*=470)		Panel C Germany (*n*=470)	
	Coef.	*z-stat*	Coef.	*z-stat*	Coef.	*z-stat*
INSIDE	0,0071**	2,39	0,0089***	4,57	0,0004	1,33
STATE	-0,0006	-0,22	0,0169***	6,14	0,0021	0,98
INST	-0,0007**	2,11	0,0134	1,63	-0,0063**	2,46
CORPGOV	-0,0032***	3,58	0,0005	0,55	-0,0005**	2,07
OWNCONC	0,0098	0,21	0,0005	0,17	0,0056	1,47
BA TH	-0,008**	-2,22	-0,0815	-1,37	0,0012	0,81
SMOOTH	0,0012	0,68	0,0468***	3,14	0,0092**	2,35
LEV	0,0671*	1,77	0,0225**	2,57	0,0036**	2,28
SIZE	-0,0050*	1,73	-0,0000***	-5,11	-0,0009	-1,12
const	0,003	0,87	-0,002	-1,11	0,0038**	2,12

Log-likelihood	929,267		975,005		886,166	
Chi-square	151,59		158,29		149,62	
Chi-Square sig.	<0000		<0,000		<0,000	
Max VIF	1,89		1,55		2,01	

All p-values are two-tailed; *** Coefficient is significant at the 0.01 level (two-tailed) ** Coefficient is significant at the 0.05 level (two-tailed) * Coefficient is significant at the 0.10 level (two-tailed) Variables definition: DWO*it* = discretionary impairment losses (see above); INSIDE*it* = insider ownership, percentage of ordinary shares held by directors for firm *i*; STATE*it* = state ownership, percentage of ordinary shares held by the national or local governments or their agencies for firm *i*; INST = institutional investors ownership, percentage of ordinary shares, it held by institutional investors form firm *i*; CORPGOV = composite measure of the strength of corporate governance it mechanisms; OWNCONC*it* = percentage of ordinary share owned by the largest shareholder; BATH*it* = big bath, equal to the change in the firm's pre-write-off earnings from period *t* to *t-1* divided by the total assets at the end of period *t -1* when below the median of nonzero negative values, 0 otherwise; SMOOTH*it* = income smoothing, equal to the change in the firm's pre-write-off earnings from period *t* to *t-1* divided by the total assets at the end of period *t -1* when above the median of nonzero positive values, 0 otherwise; LEV*it* = leverage, measured by the firm's total debt at time *t*, divided by the total assets; SIZE*it* = firm' size, proxied by the total assets at time *t*.

Appendix B1. Facsimile of the email sent to connected CFOs.

Dear Mr Name Surname,

I thank you for accepting my connection request.

I am Silvia Ferramosca a Ph.D. Student at the University of Pisa (Italy) and I am doing a research on accounting standards, in particular those relating to the impairment test of goodwill (IAS 36 and SFAS 142).
In this phase of the research I investigate the perception that CFOs have on the goodwill impairment test.
To this end, it would be very important for me, if you could contribute to my academic research.

Please could you spare a few minutes of your time to complete my survey.
To participate please click the link below or copy it into your web browser.

https://eSurv.org?s=LMENON_5970c0d4

The questionnaire responses are anonymous and will be used only for aggregate data analysis.

The results of the research will be published in a report and shared on LinkedIn or sent on the direct request of participants.

I am at your disposal for any clarification,
Thank you for your time!
Best regards,

Silvia Ferramosca

Appendix B2. CFO's survey: the questionnaire

Do CFOs perceive that managers discretionally use the goodwill write-off under IFRS/US-GAAP?

Dear CFO (Chief Financial Officer),
I thank you to adhere to this research project entitled "Do CFOs perceive that managers discretionally use the goodwill write-off under IFRS/US-GAAP?", realised for my Ph.D. thesis at the University of Pisa, Italy.

The aim of this research is to analyse whether the CFOs or people working in similar positions perceive that goodwill write-offs may be used discretionally. Indeed, both under IAS/IFRS and US GAAP managers may exploit the flexibility of the accounting standards because they have incentives to do so or, conversely, because they signal to investors the company future perspectives.

The findings of the present study will be object of my Ph.D. thesis and of an international publication. It is my care to share the results with you at your request and by posting a summary report on LinkedIn.

The responses of the questionnaire (made up by 4 sections and 30 questions) will be used anonymously for aggregate data analysis. No individual information will be revealed in research reports, publications, etc.

I thank you in advance for your collaboration
Best regards,

The research responsible
Silvia Ferramosca
Ph.D. Student
Department of Economics and Management
University of Pisa, Italy
s.ferramosca@ec.unipi.it
skype: silviafskype

1. The organization for which you work adopts:
- ☐ IAS/IFRS
- ☐ US GAAP
- ☐ Neither the IAS/IFRS nor the US GAAP

SECTION 1- Personal/Background Information

2. Your position in the organization
- ☐ Chief Financial Officer (CFO)
- ☐ Chief Audit Executive (CAE)/Top Audit Position
- ☐ Controller/Financial manager
- ☐ Chief Risk Officer (CRO)
- ☐ Other (please specify)

3. Do you seat on the board as director?
- ☐ Yes
- ☐ No

4. Your gender
- ☐ Female
- ☐ Male

5. Your age
- ☐ 35 years old or younger
- ☐ 36-50 years old
- ☐ 51 years old or older

6. Your highest level of formal education completed
- ☐ Secondary/high school education
- ☐ Undergraduate diploma or associate degree
- ☐ Bachelors
- ☐ Masters
- ☐ Doctoral degree (Ph.D. or higher)

7. Your academics major(s)
(Please, mark all that apply)
- ☐ Accounting
- ☐ Finance
- ☐ Internal auditing
- ☐ External auditing
- ☐ General business/management
- ☐ Economics
- ☐ Law
- ☐ Computer science or information systems

☐ Mathematics/statistics
☐ Engineering
☐ Other science or technical field (e.g. physics, chemistry, geology, biology)
☐ Arts or humanities (e.g. languages, literature, history, psychology)
☐ Other
☐ No degree

8. How many total years have you been CFO or similar positions at your current organization and previous organizations you have worked for?
☐ 3 years or less
☐ 4-9 years
☐ 10 years or more

9. Where do you administratively report in your organization
(Please, mark all that apply)
☐ Chief Executive Director (CEO)
☐ Chief Financial Officer (CFO)
☐ Chief Operating Officer (COO)
☐ Chief Risk Officer (CRO) or equivalent
☐ Chief Audit Executive (CAE)/Top Audit Position
☐ Controller/financial manager
☐ Chairman/Board of Directors
☐ Audit Committee
☐ Other (please specify)

SECTION 2- Your Organization

10. Location (head office) of the organization for which you work:
☐ Argentina
☐ Australia
☐ Austria
☐ Belgium
☐ Brazil
☐ Canada
☐ Chile
☐ Denmark
☐ Finland
☐ France
☐ Germany
☐ Greece
☐ Hong Kong
☐ Italy
☐ Japan

- ☐ Mexico
- ☐ Netherlands
- ☐ New Zealand
- ☐ Norway
- ☐ Poland
- ☐ Portugal
- ☐ Spain
- ☐ Sweden
- ☐ Switzerland
- ☐ Taiwan
- ☐ United Kingdom & Ireland
- ☐ United States
- ☐ Other (please specify) (……..)

11. The type of organization for which you work:
- ☐ Privately held (non-listed) company
- ☐ Publicly-traded (listed) company
- ☐ Public sector/government
- ☐ Not-for-profit organization
- ☐ Other

12. The broad industry classification of the organization for which you work:
- ☐ Agriculture, Forestry, Fishing
- ☐ Mining
- ☐ Construction
- ☐ Manufacturing
- ☐ Transportation and public utilities
- ☐ Wholesale Trade
- ☐ Retail Trade
- ☐ Finance, Insurance, Real Estate
- ☐ Services
- ☐ Public Administration
- ☐ Other

13. Size of the organization for which you work in terms of: Total employees
- ☐ 1-50
- ☐ 51-250
- ☐ 251-1000
- ☐ 1001 or more

14. Size of the organization for which you work in terms of: Total Assets in US dollars
- ☐ $500M or less
- ☐ $500M-$5B

☐ $6B-$25B
☐ $26B or more

15. Size of the organization for which you work in terms of: Total Revenue
☐ $500M or less
☐ $501M-$5B
☐ $6B-$25B
☐ $26B or more

16. Is the organization for which you work:
☐ Local
☐ National
☐ International/multinational

17. The ownership of the organization for which you work is mainly:
3. Dispersed
4. Familiar
5. Managerial
6. Governmental

18. Who is the external auditor in the organization for which you work?
☐ PricewaterhouseCoopers (PwC)
☐ Ernst & Young (E&Y)
☐ Deloitte
☐ KPMG
☐ Other

19. Magnitude of Goodwill: measured as goodwill in percent of total assets
☐ 0%
☐ 0.1% - 0.9%
☐ 1% - 1.5%
☐ 1.6% - 5%
☐ 5.1% - 9%
☐ > 9.1%

20. In the organization for which you work impairment tests are carried out by:
☐ Internal expert(s)
☐ Audit firm
☐ External expert(s) (e.g. Financial advisory; Consulting firm; Chartered Accountant)
☐ Cooperation between internal and external experts

SECTION 3 - Goodwill Accounting

Goodwill accounting standards set the requirements for the recognition and measurement of goodwill.
I aim at investigating whether the accounting standards related to goodwill write-offs (i.e. IAS 36 Impairment of Assets and SFAS 142 Goodwill and Other intangible assets) increase the perception of financial reporting discretion.

Both under IAS 36 and SFAS 142 goodwill is no longer amortised but the management has to test its value at least once a year. When the carrying amount of a cash-generating unit (reporting unit) to which the goodwill is allocated exceeds the recoverable amount of that unit, the management has to recognise an impairment loss (write-off).
The determination of the recoverable amount implies the use of several management estimates (e.g. cash flow projections, discount rate, etc.).

In the following sentences the abbreviation GWO stands for "goodwill write-off".

21. Please, rate the following statements, where
1 (Strongly Disagree), 2 (Disagree), 3 (Partially Disagree), 4 (Neutral), 5 (Partially Agree), 6 (Agree), 7 (Strongly Agree)

	RATE
The impairment test provides a more faithful representation than the amortization process	
The elimination of goodwill amortization has introduced greater subjectivity	
Valuation based on estimated future cash flows in financial reporting is adequate/useful	
Management exploits the flexibility/discretion allowed by IAS 36 (SFAS 142)	
Management does not recognize a GWO even if it is impaired	
GWO reflects the macroeconomic conditions in which the organization operates (e.g. industry, interest rates)	
GWO reflects the microeconomic conditions in which the organization operates (e.g. profitability, market to book value, sales)	
Management discretionally uses GWO because has incentives to do so	
Management discretionally uses GWO to send credible signals to the outside	

22. Please, rate the following statements indicating why management might discretionally use GWO, where

1 (Strongly Disagree), 2 (Disagree), 3 (Partially Disagree), 4 (Neutral), 5 (Partially Agree), 6 (Agree), 7 (Strongly Agree)

	RATE
In organization with more liquid shares (higher volume of trading) management is more likely to recognize GWO	
Prohibiting GWO reversals delays the recognition of GWO or leads to underestimated GWO	
Management discretionally uses GWO to meet analysts earnings forecasts	
The organization leverage (i.e. subjection to stricter covenants) induces management to underestimate the GWO	
Management discretionary use of GWO depends on their compensation schemes (e.g. bonus tied to earnings)	
CEOs do not recognize GWO because of reputation concerns (e.g. mismanagement, acquisition price too high)	
The new CEO overestimates GWO to blame prior CEO and saving earnings for future periods	
Management exploits crisis periods to take large GWO saving future earnings	
Management over/underestimates GWO to smooth the earnings and send to investors a solid image of the organization results	

23. Please, rate the following statements indicating whether different ownership structures affect the GWO, where

1 (Strongly Disagree), 2 (Disagree), 3 (Partially Disagree), 4 (Neutral), 5 (Partially Agree), 6 (Agree), 7 (Strongly Agree)

	RATE
Managerial ownership implies a delay or an underestimation of GWO	
Concentrated ownership increases the use of discretionary GWO	
State ownership increases the use of discretionary GWO	
Institutional investors constrain the use of discretionary GWO	
Family ownership constrains the use of discretionary GWO	

24. Please, rate the following statements indicating whether external auditor features detect the discretionary use of GWO, where

1 (Strongly Disagree), 2 (Disagree), 3 (Partially Disagree), 4 (Neutral), 5 (Partially Agree), 6 (Agree), 7 (Strongly Agree)

	RATE
External audit constrains managerial discretion in GWO	
A Big-4 auditor* better constrains managerial discretion in GWO *Big-4 auditors are: PwC, E&Y, Deloitte and KPMG	
Higher audit fees indicate higher audit risk and thus delayed or undervalued GWO	

Higher non-audit-fees (service related fees) reduces auditors independence increasing the likelihood of discretionary GWO	
External auditor expertise in the industry in which the organization operates better constrains managerial discretion in GWO	
External auditor expertise in the task of assessing GWO better constrains managerial discretion in GWO	
A long-tenured external auditor better constrains managerial discretion in GWO	
External auditor mandatory rotation helps in detecting the manager-auditor implicit agreements on discretionary GWO	

SECTION 4 – Goodwill Accounting Difficulties and Suggestions to Increase Financial Reporting Reliability

25. Please, rate the following questions, where
1 (Very difficult), 2 (Difficult), 3 (Partially Difficult), 4(Neutral), 5(Partially Easy), 6 (Easy), 7 (Very Easy)

	RATE
How difficult is it for external auditors to audit management estimates underlying goodwill impairment test?	
How difficult is it for you to assess management estimates underlying goodwill impairment test?	

26. Do you use specific measures/procedures to evaluate the overall reliability of goodwill impairment test?
(Please, mark all that apply)

- ☐ Whether the impairment test has been delegated to third parties (consultants, valuation professionals…)
- ☐ Whether the organizations' financial reporting has been audited
- ☐ The organization's risks
- ☐ The organization's corporate governance system
- ☐ Economic or financial ratios (EPS, EBITDA, CFO, MTB…)
- ☐ The disclosure and explanations that are provided for the impairment test procedure
- ☐ No, I do not
- ☐ Other (please specify)
  (……..)

27. Do you compare your evaluation with other evaluation(s) of subjects in other positions?
(Please, mark all that apply)

- ☐ Compliance officer
- ☐ Controller

- ☐ Internal audit
- ☐ Process owner(s)
- ☐ Risk managers
- ☐ No, I do not
- ☐ Other (please specify)

  (……)

28. Do you think that exist other ways to account for goodwill that may provide more useful information for users?

- ☐ Yes
- ☐ No

29. Which of the following would you suggest to enforce the reliability of goodwill accounting?

(Please, mark all that apply)

- ☐ The reintroduction of goodwill amortisation and eventually review it for impairment
- ☐ The requirement of additional disclosure
- ☐ To expense goodwill on business combination (resolving the difference between internally generated goodwill and purchased goodwill)
- ☐ To offset goodwill against equity
- ☐ To account for goodwill as other intangible assets (with definite useful life) are accounted
- ☐ The recognition of internally generated goodwill, permitting the offsetting between purchased and internally generated goodwill
- ☐ To determine the value of goodwill as the difference between the book value of the equity (of the entire company) and the (long-term) market value of equity (capitalisation)
- ☐ Other (please specify)

  (……)

30. Overall, do you prefer the impairment test than prior amortization process for goodwill?

- ☐ Yes
- ☐ No

31. Please, indicate eventual suggestions or recommendations for this research. (Not-mandatory field)

(……)

Appendix B3. Survey results

Table 7 Survey responses

The organization for which you work adopts:		
	N	% N
Initial sample, of which	**441**	**100.0**
IAS/IFRS	301	68.3
US GAAP	65	14.7
Neither the IAS/IFRS nor the US GAAP	75	17.0
Less neither the IAS/IFRS nor the US GAAP	-75	
Less not-completed survey	- 191	
Final sample, of which:	**175**	**100.00**
IAS/IFRS	141	80.6
US GAAP	34	19.4

Table 8 Demographics for CFOs' personal/background information

You seat on the board as director	N	% N
No	97	55.4
Yes	78	44.6
Your gender		
Female	7	4.0
Male	168	96.0
Your age		
35 years old or younger	27	15.4
36-50 years old	105	60.0
51 years old or older	43	24.6
Your highest level of formal education completed		
Secondary/high school education	6	3.4
Undergraduate diploma or associate degree	3	1.7
Bachelors	50	28.6
Masters	98	56.0
Doctoral degree (Ph.D. or higher)	18	10.3
Your academics majors (multiple answer allowed)		
Finance	124	70.9
Accounting	107	61.1
General business/management	84	48.0
Economics	75	42.9
Mathematics/statistics	26	14.9
Law	24	13.7
Internal auditing	23	13.1
External auditing	20	11.4
Computer science or information systems	12	6.9
Arts or humanities (e.g. languages, literature, history, psychology)	8	4.6
Other	7	4.0
Engineering	6	3.4
Other science or technical field (e.g. physics, chemistry, geology, biology)	4	2.3

No degree	3	1.7
CFO (similar positions) at current and previous organizations tenure		
3 years or less	26	14.9
4-9 years	66	37.7
10 years or more	83	47.4
Where do you administratively report in your organization (multiple answer allowed)		
Chief Executive Director (CEO)	130	74.3
Chairman/Board of Directors	33	18.9
Chief Financial Officer (CFO)	29	16.6
Audit Committee	10	5.7
Other	9	5.1
Controller/financial manager	8	4.6
Chief Audit Executive (CAE)/Top Audit Position	3	1.7
Chief Operating Officer (COO)	3	1.7
Chief Risk Officer (CRO) or equivalent	1	.6

Table 9 Demographics of the organization

Type of organization	N	%N
Privately held (non-listed) company	96	54.9
Publicly-traded (listed) company	75	42.9
Public sector/government	2	1.1
Other	2	1.1
Broad industry classification of the organization		
Agriculture, Forestry, Fishing	4	2.3
Construction	12	6.9
Finance, Insurance, Real Estate	17	9.7
Manufacturing	60	34.3
Mining	8	4.6
Other	27	15.4
Retail Trade	12	6.9
Services	19	10.9
Transportation and public utilities	5	2.9
Wholesale Trade	11	6.3
Size of the organization in terms of Total employees		
1-50	16	9.1
51-250	32	18.3
251-1000	34	19.4
1001 or more	93	53.1
Size of the organization in terms of Total Assets in US dollars		
$500M or less	91	52.0
$500M-$5B	43	24.6
$6B-$25B	21	12.0
$26B or more	20	11.4
Size of the organization in terms of Total Revenues		
$500M or less	95	54.3
$501M-$5B	51	29.1
$6B-$25B	16	9.1
$26B or more	13	7.4
The organization is		
International/multinational	129	73.7

National	29	16.6
Local	17	9.7
The ownership of the organization is mainly		
Familiar	72	41.1
Dispersed	54	30.9
Managerial	45	25.7
Governmental	4	2.3
The external auditor in the organization for which you work is		
PricewaterhouseCoopers (PwC)	43	24.6
KPMG	38	21.7
Ernst & Young (E&Y)	34	19.4
Deloitte	23	13.1
Other	37	21.1
Magnitude of Goodwill measured as goodwill in percent of total assets		
0%	48	27.4
0.1% - 0.9%	26	14.9
1.6% - 5%	34	19.4
1% - 1.5%	15	8.6
5.1% - 9%	17	9.7
> 9.1%	35	20.0
In the organization impairment tests are carried out by		
Internal expert(s)	78	44.6
Cooperation between internal and external experts	58	33.1
External expert(s) (e.g. Financial advisory; Consulting firm; CPA)	20	11.4
Audit firm	19	10.9

Table 10 CFOs' perceptions on the goodwill accounting discretionality

Rate		1	2	3	4	5	6	7
Group 1								
The impairment test provides a more faithful representation than the amortization process	N	5	9	14	23	43	57	24
	%N	2.9	5.1	8.0	13.1	24.6	32.6	13.7
The elimination of goodwill amortization has introduced greater subjectivity	N	8	18	19	28	41	41	20
	%N	4.6	10.3	10.9	16.0	23.4	23.4	11.4
Valuation based on estimated future cash flows in financial reporting is adequate/useful	N	3	4	17	35	45	46	25
	%N	1.7	2.3	9.7	20.0	25.7	26.3	14.3
Management exploits the flexibility discretion allowed by IAS 36 (SFAS 142)	N	5	14	15	59	39	31	12
	%N	2.9	8.0	8.6	33.7	22.3	17.7	6.9
Management does not recognize a GWO even if it is impaired	N	28	34	24	40	25	19	5
	%N	16.0	19.4	13.7	22.9	14.3	10.9	2.9
GWO reflects the macroeconomic conditions in which the organization operates	N	5	9	15	36	60	38	12
	%N	2.9	5.1	8.6	20.6	34.3	21.7	6.9
GWO reflects the microeconomic conditions in which the organization operates	N	6	6	19	29	52	51	12
	%N	3.4	3.4	10.9	16.6	29.7	29.1	6.9
Management discretionally uses GWO because has incentives to do so	N	32	28	29	36	23	19	8
	%N	18.3	16.0	16.6	20.6	13.1	10.9	4.6
Management discretionally uses GWO to send credible signals to the outside	N	28	22	25	40	33	21	6
	%N	16.0	12.6	14.3	22.9	18.9	12.0	3.4
Group 2								
In organization with more liquid shares management is more likely to recognize GWO	N	10	19	17	66	31	28	4
	%N	5.7	10.9	9.7	37.7	17.7	16.0	2.3
Prohibiting GWO reversals delays the recognition of GWO or leads to underestimated GWO	N	6	12	15	47	49	34	12
	%N	3.4	6.9	8.6	26.9	28.0	19.4	6.9

Management discretionally uses GWO to meet analysts earnings forecasts	N	28	26	15	37	38	25	6
	%N	16.0	14.9	8.6	21.1	21.7	14.3	3.4
The organization leverage induces management to underestimate the GWO	N	19	22	19	44	44	22	5
	%N	10.9	12.6	10.9	25.1	25.1	12.6	2.9
Management discretionary use of GWO depends on their compensation schemes	N	25	22	21	37	38	22	10
	%N	14.3	12.6	12.0	21.1	21.7	12.6	5.7
CEOs do not recognize GWO because of reputation concerns	N	16	21	16	42	36	31	13
	%N	9.1	12.0	9.1	24.0	20.6	17.7	7.4
The new CEO overestimates GWO to blame prior CEO and saving earnings for future periods	N	24	17	19	41	29	27	18
	%N	13.7	9.7	10.9	23.4	16.6	15.4	10.3
Management exploits crisis periods to take large GWO saving future earnings	N	14	17	21	38	44	25	16
	%N	8.0	9.7	12.0	21.7	25.1	14.3	9.1
Management over/underestimates GWO to smooth the earnings and send to investors a solid image	N	15	25	18	49	31	27	10
	%N	8.6	14.3	10.3	28.0	17.7	15.4	5.7
Group 3								
Managerial ownership implies a delay or an underestimation of GW	N	17	18	20	50	31	27	12
	%N	9.7	10.3	11.4	28.6	17.7	15.4	6.9
Concentrated ownership increases the use of discretionary GWO	N	13	16	22	52	32	26	14
	%N	7.4	9.1	12.6	29.7	18.3	14.9	8.0
State ownership increases the use of discretionary GWO	N	19	23	24	55	30	14	10
	%N	10.9	13.1	13.7	31.4	17.1	8.0	5.7
Institutional investors constrain the use of discretionary GWO	N	14	16	16	44	38	36	11
	%N	8.0	9.1	9.1	25.1	21.7	20.6	6.3
Family ownership constrains the use of discretionary GWO	N	17	19	16	59	22	31	11
	%N	9.7	10.9	9.1	33.7	12.6	17.7	6.3
Group 4								
External audit constrains managerial discretion in GWO	N	7	13	12	34	39	48	22
	%N	4.0	7.4	6.9	19.4	22.3	27.4	12.6
A Big-4 auditor better constrains managerial discretion in GWO	N	10	12	13	31	43	38	28
	%N	5.7	6.9	7.4	17.7	24.6	21.7	16.0
Higher audit fees indicate higher audit risk and thus delayed or undervalued GWO	N	29	43	23	37	29	11	3
	%N	16.6	24.6	13.1	21.1	16.6	6.3	1.7
Higher non-audit-fees (service-related-fees) reduces auditors independence increasing the likelihood of discretionary GWO	N	15	37	18	49	25	21	10
	%N	8.6	21.1	10.3	28.0	14.3	12.0	5.7
External auditor expertise in the industry constrains managerial discretion in GWO	N	6	5	13	38	56	43	14
	%N	3.4	2.9	7.4	21.7	32.0	24.6	8.0
External auditor expertise in the task of assessing GWO constrains managerial discretion in GWO	N	6	6	10	42	54	45	12
	%N	3.4	3.4	5.7	24.0	30.9	25.7	6.9
A long tenured external auditor better constrains managerial discretion in GWO	N	9	14	26	57	38	22	9
	%N	5.1	8.0	14.9	32.6	21.7	12.6	5.1
External auditor mandatory rotation helps in detecting the discretionary use of GWO	N	7	9	6	47	44	40	22
	%N	4.0	5.1	3.4	26.9	25.1	22.9	12.6
The statements rate corresponds to the following level of agreement: 1, strongly disagree; 2, disagree; 3, partially disagree; 4, neutral; 5, partially agree; 6, agree and 7, strongly disagree								

Table 11 How difficult is assessing the estimates underlying the impairment test

Rate		1	2	3	4	5	6	7
How difficult is it for external auditors to audit management estimates underlying goodwill impairment test?	N	6	31	49	34	29	20	6
	%N	3.4	17.7	28.0	19.4	16.6	11.4	3.4
How difficult is it for you to assess management estimates underlying goodwill impairment test?	N	2	17	34	43	34	35	10
	%N	1.1	9.7	19.4	24.6	19.4	20.0	5.7
The statements rate corresponds to the following level of agreement: 1, very difficult; 2, difficult; 3, partially difficult; 4, neutral; 5, partially easy; 6, easy and 7, very easy.								

Table 12 Goodwill accounting suggestions to increase financial reporting reliability

Do you use specific measures/procedures to evaluate the overall reliability of goodwill impairment test (multiple answer allowed)	N	% N
Whether the impairment test has been delegated to third parties	51	29.1
Whether the organizations' financial reporting has been audited	71	40.6
The organization's risks	78	44.6
The organization's corporate governance system	47	26.9
Economic or financial ratios (EPS, EBITDA, CFO, MTB…)	91	52.0
The disclosure and explanations that are provided for the impairment test procedure	64	36.6
No, I do not	28	16.0
Other (please specify)	4	2.3
Do you compare your evaluation with other evaluation(s) of subjects in other positions (multiple answer allowed)		
Compliance officer	22	12.6
Controller	55	31.4
Internal audit	33	18.9
Process owner(s)	29	16.6
Risk managers	26	14.9
No, I do not	77	44.0
Other (please specify)	2	1.1
Do you think that exist other ways to account for goodwill that may provide more useful information for users		
No	81	46.3
Yes	94	53.7
Which of the following would you suggest to enforce the reliability of goodwill accounting		
The reintroduction of goodwill amortisation and eventually review it for impairment	65	37.1
The requirement of additional disclosure	83	47.4
To expense goodwill on business combination (resolving the difference between internally generated goodwill and purchased goodwill)	40	22.9
To offset goodwill against equity	46	26.3
To account for goodwill as other intangibles (with definite useful life) are accounted	48	27.4
The recognition of internally generated goodwill, permitting the offsetting between purchased and internally generated goodwill	24	13.7
To determine the value of goodwill as the difference between the book value of the equity (of the entire company) and the (long-term) market value of equity (capitalisation)	40	22.9
Other (please specify)	6	3.4

Overall, do you prefer the impairment test than prior amortization process for goodwill?		
No	60	34.3
Yes	115	65.7

References

ABARBANELL, J. & LEHAVY, R. 2003. Biased forecasts or biased earnings? The role of reported earnings in explaining apparent bias and over/underreaction in analysts' earnings forecasts. *Journal of Accounting and Economics,* 36**,** 105-146.

ABARBANELL, J. S., LANEN, W. N. & VERRECCHIA, R. E. 1995. Analysts' forecasts as proxies for investor beliefs in empirical research. *Journal of Accounting and Economics,* 20**,** 31-60.

ABARBANELL, J. S. & LEHAVY, R. 2003. Can stock recommendations predict earnings management and analysts' earnings forecast errors? *Journal of Accounting Research,* 41**,** 1-31.

ABBOTT, L. J., PARKER, S. & PETERS, G. F. 2004. Audit Committee Characteristics and Restatements. *Auditing: A Journal of Practice & Theory,* 23**,** 69-87.

ABDEL-KHALIK, R. A. 2002. Reforming corporate governance post Enron: Shareholders' Board of Trustees and the auditor. *Journal of Accounting and Public Policy,* 21**,** 97-103.

ABUGHAZALEH, N. M., AL-HARES, O. M. & ROBERTS, C. 2011. Accounting Discretion in Goodwill Impairments: UK Evidence. *Journal of International Financial Management & Accounting,* 22**,** 165-204.

ADAMS, C. A. 2002. Internal organisational factors influencing corporate social and ethical reporting beyond current theorising. *Accounting, Auditing & Accountability Journal,* 15**,** 223-250.

AGRAWAL, A. & CHEN, M. A. 2006. Analysts conflicts and research quality. *Working paper*. University of Alabama and University of Maryland.

AHMED, A. S. & GULER, L. 2007. Evidence on the Effects of SFAS 142 on the Reliability of Goodwill Write-offs. *SSRN* [Online]. [Accessed 29/08/2013].

AIER, J. K., COMPRIX, J., GUNLOCK, M. T. & LEE, D. 2005. The financial expertise of CFOs and accounting restatements. *Accounting Horizons,* 19**,** 123-135.

AJONA, L. A., DALLO, F. L. & ALEGRÍA, S. S. 2008. Discretionary Accruals and Auditor Behaviour in Code-Law Contexts: An Application to Failing Spanish Firms. *European Accounting Review,* 17**,** 641-666.

ALCIATORE, M., DEE, C. C., EASTON, P. & SPEAR, N. 1998. Asset write-downs: A decade of research. *Journal of Accounting Literature,* 17**,** 1-39.

ALEXANDER, D. & SERVALLI, S. 2011. Economia Aziendale and financial valuations in Italy: Some contradictions and insights. *Accounting History,* 16**,** 291-312.

ALEXANDER, S. S. 1950. *Income Measurement in a Dynamic Economy, Five Monographs on Business Income,* New York, Scholars Book Company.

ALFIERI, V. 1908. La valutazione dell'avviamento. *Rivista italiana di ragioneria,* Aprile**,** 155-166.

ALFIERI, V. 1915. La ragioneria dalle antiche alla moderne aziende mercantili. *Rivista italiana di ragioneria*.

ALFIERI, V. 1921. *Ragioneria applicata*, Soc. ed. Dante Alighieri.

ALFIERI, V. 1925. *Osservazioni intorno alle stime*, Colombo Cursi.

ALLEGRINI, M. 2001. *Concetti di reddito e conseguenti logiche di valutazione*, Milano: Giuffrè.

ALLEGRINI, M. 2003. *L'informativa di periodo nella comunicazione economico finanziaria. Principi e contenuti,* Milano: Giuffrè.

ALLEGRINI, M. 2007. *L'adozione degli IAS/IFRS in Italia: impatti sostanziali e formali sul bilancio: operazioni di leasing e fondi per rischi e oneri*, G. Giappichelli.

ALLEGRINI, M. 2011. Risk Reporting e sistemi di controllo. Un'analisi comparata tra Italia e Regno Unito. *In:* ALLEGRINI, M. Ed. Franco Angeli.

ALLEGRINI, M., AZZALI, S., GAETANO, A., PIZZO, M. & QUAGLI, A. 2006. Principi contabili internazionali. Torino: Giappichelli.
ALLEGRINI, M. & BIANCHI MARTINI, S. 2006. *La corporate governance in Italia, Regno Unito e Stati Uniti. Modelli e pratiche a confronto,* MILANO, FrancoAngeli.
ALLEGRINI, M., D'ONZA, G., PAAPE, L., MELVILLE, R. & SARENS, G. 2006. The European literature review on internal auditing. *Managerial Auditing Journal,* 21**,** 845-853.
ALLEGRINI, M. & GRECO, G. 2013. Corporate boards, audit committees and voluntary disclosure: evidence from Italian Listed Companies. *Journal of Management & Governance,* 17**,** 187-216.
AMADUZZI, A. 1955. *Teoria della valutazione dei complessi aziendali e dell'avviamento*, Tipografia delle Terme.
AMADUZZI, A. 1963. L'azienda nel suo sistema e nell'ordine delle sue rilevazioni, (Unione Tipografica-Editrice Torinese, Torino).
AMADUZZI, A. 1978. L'azienda nel suo sistema e nell'ordine delle sue rilevazioni. *Utet, Torino*.
AMERICAN INSTITUTE OF CPAS 1972. Statements on Auditing Standards, AU Section 110; Responsibilities and Functions of the Independent Auditor.
AMERICAN INSTITUTE OF CPAS 2012. Statements on Auditing Standards, AU-C Section 540; Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.
AMERICAN ISTITUTE OF CPAS 2014. AICPA Code of Professional Conduct.
AMODEO, D. 1938. *Contributo alla teoria delle valutazioni nei bilanci d'esercizio*, Napoli.
AMODEO, D. 1943. Di alcune posizioni limite nel campo di una teorica generale dei sistemi. *Rivista italiana di ragioneria*.
AMODEO, D. 1955. Intorno alla Teoria Generale del Bilancio di Esercizio nelle Imprese. *Scritti di Ragioneria, Giannini*.
AMODEO, D. 1960. Avviamento e riserva occulta: un accostamento. *Studi di ragioneria e di tecnica economica*.
AMODEO, D. 1964. *Ragioneria generale delle imprese,* Napoli, Giannini.
AMODEO, D. 1965. *Ragioneria generale delle imprese*, Napoli, Giannini.
AMPRINO, S. 1989. Il compendio di ragioneria di Carlo Ghidiglia. Un pò di storia della contabilità. *Rivista Italiana di Ragioneria e di Economia Aziendale* 1-2**,** 89-95.
ANDERSON, R. C. & REEB, D. M. 2004. Board Composition: Balancing Family Influence in S&P 500 Firms. *Administrative Science Quarterly,* 49**,** 209-237.
ANDRÈ, P., FILIP, A. & PAUGAM, L. 2013. Impact of Mandatory IFRS Adoption on Conditional Conservatism in Europe. *ESSEC Working Paper 1311*.
ANDREI, P. 2004. *Valori storici e valori correnti nel bilancio di esercizio*, Giuffrè.
ANDREI, P. 2006. *L'adozione degli IAS/IFRS in Italia: impatti contabili e profili gestionali*, Giappichelli.
ANSELMI, L. 1984. *Le valutazioni nel pensiero di Vittorio Alfieri*, Edistudio.
ANTLE, R. & NALEBUFF, B. 1991. Conservatism and auditor-client negotiations. *Journal of Accounting Research,* 29**,** 31-54.
ANTONELLI, V. & D'ALESSIO, R. 2011. Summa DB: A research note about an Italian accounting history database. *Accounting History,* 16**,** 459-473.
ARDEMANI, E. 1958. *L'avviamento dell'impresa*, Dott. Carlo Marzorati.
ARMSTRONG, C. S., GUAY, W. R. & WEBER, J. P. 2010. The role of information and financial reporting in corporate governance and debt contracting. *Journal of Accounting and Economics,* 50**,** 179-234.
ARMSTRONG, P. 1991. Contradiction and social dynamics in the capitalist agency relationship. *Accounting, Organizations and Society,* 16**,** 1-25.
ARYA, A. & MITTENDORF, B. 2007. The interaction among disclosure, competition between firms, and analyst following. *Journal of Accounting and Economics,* 43**,** 321-339.
ASARE, S., COHEN, J. & TROMPETER, G. 2005. The effect of non-audit services on

client risk, acceptance and staffing decisions. *Journal of Accounting and Public Policy,* 24**,** 489-520.
ASHBAUGH, H., LAFOND, R. & MAYHEW, B. W. 2003. Do Nonaudit Services Compromise Auditor Independence? Further Evidence. *The Accounting Review,* 78**,** 611-639.
ASTE, L. J. 1999. Reforming French Corporate Governance: A Return to the Two-Tier Board. *The George Washington Journal of International Law and Economics,* 32**,** 1-72.
AZZALI, S. 2002. *Il reddito e il capitale di gruppo: valore e sua determinazione nei gruppi aziendali*, A. Giuffrè.
AZZALI, S. 2005. *L'informativa di bilancio secondo i principi contabili nazionali e internazionali*, G. Giappichelli.
BABER, W. R., LIANG, L. & ZHU, Z. 2012. Associations between Internal and External Corporate Governance Characteristics: Implications for Investigating Financial Accounting Restatements. *Accounting Horizons,* 26**,** 219-237.
BAGNOLI, M., LEVINE, S. & WATTS, S. G. 2005. Analyst estimation revision clusters and corporate events, Part II. *Annals of Finance,* 1**,** 379-393.
BAI, C.-E., LIU, Q., LU, J., SONG, F. M. & ZHANG, J. 2004. Corporate governance and market valuation in China. *Journal of Comparative Economics,* 32**,** 599-616.
BANGE, M. M. & DE-BONDT, W. F. M. 1998. R&D budgets and corporate earnings targets. *Journal of Corporate Finance,* 4**,** 153-184.
BANNISTER, J. W. & NEWMAN, H. A. 1996. Accrual usage to manage earnings toward financial analysts' forecasts. *Review of Quantitative Finance and Accounting,* 7**,** 259-278.
BARLEY, S. R. 1986. Technology as an Occasion for Structuring: Evidence from Observations of CT Scanners and Social Order of Radiology Departments. *Administrative Science Quarterly,* 31**,** 78-108.
BARRON, O., KIM, O., LIM, S. & STEVENS, D. 1998. Using analysts' forecasts to measure properties of analysts' information environment. *The Accounting Review,* 73**,** 421-433.
BARRY, C. B. & JENNINGS, R. H. 1992. Information and diversity of analyst opinion. *Journal of Financial and Quantitative Analysis,* 27**,** 169-183.
BARTON, A. D. 1974. Expectations and Achievements in Income Theory. *The Accounting Review,* 49**,** 664-681.
BARTOV, E., GUL, F. A. & TSUI, J. S. L. 2002. The rewards to meeting or beating earnings expectations. *Journal of Accounting and Economics,* 33**,** 173-204.
BARUA, A., LEGORIA, J. & MOFFITT, J. S. 2006. Accruals Management to Achieve Earnings Benchmarks: A Comparison of Pre-managed Profit and Loss Firms. *Journal of Business Finance,* 33**,** 653-670.
BEASLEY, M. S. 1996. An Empirical Analysis of the Relation between the Board of Director Composition and Financial Statement Fraud. *The Accounting Review,* 71**,** 443-465.
BEATTY, A. & WEBER, J. 2006. Accounting Discretion in Fair Value Estimates: An Examination of SFAS 142 Goodwill Impairments. *Journal of Accounting Research,* 44**,** 257-288.
BECK, P. J. & WU, M. G. H. 2006. Learning by doing and Audit Quality. *Contemporary Accounting Research,* 23**,** 1-30.
BECKER, C. L., DEFOND, M. L., JIAMBALVO, J. & SUBRAMANYAM, K. R. 1998. The Effect of Audit Quality on Earnings Management. *Contemporary Accounting Research,* 15.
BEDARD, J. C. & BIGGS, S. F. 1991. The Effect of Domain-Specific Experience on Evaluation of Management Representations in Analytical Procedures. *Auditing: A Journal of Practice & Theory,* 10**,** 77-90.
BEDARD, J. C., HOITASH, R. & HOITASH, U. 2014. Chief Financial Officers as Inside Directors. *Contemporary Accounting Research,* 31**,** 787-817.

BEDFORD, N. M. & ZIEGLER, R. E. 1975. The Contributions of A. C. Littleton to Accounting Thought and Practice. *The Accounting Review,* 50**,** 435-443.
BEEKES, W., POPE, P. F. & YOUNG, S. 2004. The Link Between Earnings Timeliness, Earnings Conservatism and Board Composition: evidence from the UK. *Corporate Governance: An International Review,* 12**,** 47-59.
BELLINI, C. 1898. Trattato elementare teorico-pratico di ragioneria generale.
BENEISH, M. D., BILLINGS, M. B. & HODDER, L. D. 2008. Internal Control Weaknesses and Information Uncertainty. *The Accounting Review,* 83**,** 665-703.
BENS, D. A., HELTZER, W. & SEGAL, B. 2011. The Information Content of Goodwill Impairments and SFAS 142. *Journal of Accounting, Auditing & Finance,* 26**,** 527-555.
BENSTON, G. J. 2008. The shortcomings of fair-value accounting described in SFAS 157. *Journal of Accounting and Public Policy,* 27**,** 101-114.
BERGSTRESSER, D. & PHILIPPON, T. 2006. CEO incentives and earnings management. *Journal of Financial Economics,* 80**,** 511-529.
BERLE, A. & MEANS, G. 1932. The Modern Corporation and Private Property, New York, World. Inc.
BERTINI, U. 1990. *Il sistema d'azienda: schema di analisi*, Giappichelli.
BERTRAND, M. & MULLAINATHAN, S. 2001. Are CEOs Rewarded for Luck? The Ones without Principals Are. *The Quarterly Journal of Economics,* 116**,** 901-932.
BESTA, F. 1880. *La ragioneria: prolusione letta nella solenne apertura degli studii per l'anno scolastico 1880-81 alla r. Scuola superiore di commercio in Venezia dal prof. Fabio Besta*, Tipografia dell'istituto Coletti.
BESTA, F. 1920. *La ragioneria: Ragioneria generale*, Vallardi.
BESTA, F. 1922. *La ragioneria, Vol. I*, Vallardi, Milano.
BESTA, F. 1922. *La ragioneria, Vol. II*, Vallardi, Milano.
BIANCHI MARTINI, S. 1996. *Interpretazione del concetto di avviamento: analisi dei principali orientamenti della dottrina italiana*, Milano: Giuffrè.
BIRNBERG, J. G., TUROPOLEC, L. & YOUNG, M. S. 1983. The organizational context of accounting. *Accounting, Organizations and Society,* 8**,** 111-129.
BLACK, B. S. & COFFEE, J. C., JR. 1994. Hail Britannia?: Institutional Investor Behavior under Limited Regulation. *The Michigan Law Review,* 92**,** 1997-2087.
BLOOM, M. 2008. *Double accounting for Goodwill: A problem redefined*. Routdledge.
BLOOM, M. 2009. Accounting For Goodwill. *Abacus,* 45**,** 379-389.
BOLLIGER, G. & KAST, M. Executive compensation and analyst guidance: The link between CEO compensation and expectations management. EFA 2003 Annual Conference Paper, 2003.
BONBRIGHT, J. C. 1937. Valuation of property.
BORRÉ, L. 2008. *L'avviamento in aziende con carenza di reddito*, Giuffrè Editore.
BOURNE, J. 1888. Goodwill. *The Accountant,* 9**,** 604-606.
BOUVATIER, V., LEPETIT, L. & STROBEL, F. 2014. Bank income smoothing, ownership concentration and the regulatory environment. *Journal of Banking & Finance,* 41**,** 253-270.
BRADSHAW, M. T., BUSHEE, B. J. & MILLER, G. S. 2004. Accounting Choice, Home Bias, and U.S. Investment in Non-U.S. Firms. *Journal of Accounting Research,* 42**,** 795-841.
BRADSHAW, M. T., RICHARDSON, S. A. & SLOAN, R. G. 2001. Do Analysts and Auditors Use Information in Accruals? *Journal of Accounting Research,* 39**,** 45-74.
BRATTEN, B., GAYNOR, L. M., MCDANIEL, L., MONTAGUE, N. R. & SIERRA, G. E. 2013. The Audit of Fair Values and Other Estimates: The Effects of Underlying Environmental, Task, and Auditor-Specific Factors *Auditing: A Journal of Practice & Theory,* 32**,** 7-44.
BRAV, A., GRAHAM, J. R., HARVEY, C. R. & MICHAELY, R. 2005. Payout policy in the 21st century. *Journal of Financial Economics,* 77**,** 483-527.
BRENNAN, M. J. & HUGHES, P. J. 1991. Stock Prices and the Supply of Information. *The*

Journal of Finance, 46**,** 1665-1691.
BRENNAN, M. J. & SUBRAHMANYAM, A. 1995. Investment analysis and price formation in securities markets. *Journal of Financial Economics,* 38**,** 361-381.
BROCHET, F. & WELCH, K. 2011. Top Executive Background and Financial Reporting Choice Harvard Business School.
BROMWICH, M. 1977. The use of present value valuation models in published accounting reports. *Accounting Review***,** 587-596.
BROWN, L. D. & CAYLOR, M. L. 2006. Corporate governance and firm valuation. *Journal of Accounting and Public Policy,* 25**,** 409-434.
BROWN, P., BEEKES, W. & VERHOEVEN, P. 2011. Corporate governance, accounting and finance: A review. *Accounting & Finance,* 51**,** 96-172.
BROWN, S. 2004. The impact of pension assumptions on firm value. *SSRN* [Online].
BRUNOVS, R. & KIRSCH, R. J. 1991. Goodwill accounting in selected countries and the harmonization of international accounting standards. *Abacus,* 27**,** 135-161.
BRUNS, W. J. & WATERHOUSE, J. H. 1975. Budgetary Control and Organization Structure. *Journal of Accounting Research,* 13**,** 177-203.
BURGSTAHLER, D. C. & EAMES, M. J. 2003. Earnings Management to Avoid Losses and Earnings Decreases: Are Analysts Fooled? *Contemporary Accounting Research* 20**,** 253-294.
BURNS, N. & KEDIA, S. 2006. The impact of performance-based compensation on misreporting. *Journal of Financial Economics,* 79**,** 35-67.
BURRELL, G. & MORGAN, G. 1979. *Sociological Paradigms and Organizational Analysis: Elements of the Sociology of Corporate Life.* London, Heinemann.
BUSHEE, B. J. 1998. The influence of institutional investors in myopic R&D investment behavior. *The Accounting Review,* 73**,** 305-333.
BUSHEE, B. J. & NOE, C. F. 2000. Corporate Disclosure Practices, Institutional Investors, and Stock Return Volatility. *Journal of Accounting Research,* 38**,** 171-202.
BUSHMAN, R., CHEN, Q., ENGEL, E. & SMITH, A. 2004. Financial accounting information, organizational complexity and corporate governance systems. *Journal of Accounting and Economics,* 37**,** 167-201.
BUSHMAN, R. M. & PIOTROSKI, J. D. 2006. Financial reporting incentives for conservative accounting: The influence of legal and political institutions. *Journal of Accounting and Economics,* 42**,** 107-148.
BUSHMAN, R. M., PIOTROSKI, J. D. & SMITH, A. J. 2004. What Determines Corporate Transparency? *Journal of Accounting Research,* 42**,** 207-252.
BUSHMAN, R. M. & SMITH, A. J. 2001. Financial accounting information and corporate governance. *Journal of Accounting & Economics,* 32**,** 237-333.
BUSINESS ROUNDTABLE 2012. Principles of Corporate Governance (USA). *In:* ROUNDTABLE, B. (ed.).
BUTLER, M., LEONE, A. J. & WILLENBORG, M. 2004. An empirical analysis of auditor reporting and its association with abnormal accruals. *Journal of Accounting and Economics,* 37**,** 139-165.
CAHAN, S., EMANUEL, D., HAY, D. & WONG, N. 2008. Non-audit fees, long-term auditor–client relationships and earnings management. *Accounting and Finance,* 48**,** 181-207.
CANNING, J. B. 1929. *Economics of accountancy: A critical analysis of accounting theory*, The Ronald Press Company.
CANZIANI, A. 2007. La ragioneria italiana 1841-1922 da tecnica a scienza. Università degli Studi di Brescia, Dipartimento di Economia Aziendale, *Paper No. 63.*
CANZIANI, A. 2014. Accounting revolutionary. *Twentieth Century Accounting Thinkers (RLE Accounting)***,** 142.
CAPALBO, F. & CLARKE, F. 2006. The Italian Economia Aziendale and Chambers' CoCoA. *Abacus,* 42**,** 66-86.
CAPALDO, P. 1971. *Il "cash flow" e le analisi finanziarie nella gestione d'impresa*, Giuffrè.

CAPALDO, P. 1998. *Reddito, capitale e bilancio di esercizio: una introduzione*, Giuffrè.
CARAMANIS, C. & LENNOX, C. 2008. Audit effort and earnings management. *Journal of Accounting and Economics,* 45**,** 116-138.
CARAMIELLO, C. 1968. *L'azienda nella fase terminale*, C. Cursi.
CARCELLO, J. V. & NAGY, A. L. 2004. Audit Firm Tenure and Fraudolent Financial Reporting. *Auditing: A Journal of Practice & Theory,* 23**,** 55-69.
CAREY, P. J. & SIMNETT, R. 2006. Audit Partner Tenure and Audit Quality. *The Accounting Review,* 81**,** 653-676.
CARLIN, T. M. & FINCH, N. 2007. Towards a theory of goodwill impairment testing choices under IFRS. *The Journal of Theoretical Accounting Research,* 3**,** 74-95.
CARLIN, T. M. & FINCH, N. 2011. Goodwill impairment testing under IFRS: a false impossible shore? *Pacific Accounting Review,* 23**,** 368-392.
CARNEGIE, G. D. & NAPIER, C. J. 2012. Accounting's past, present and future: the unifying power of history. *Accounting, Auditing & Accountability Journal,* 25**,** 328-369.
CARRUTHERS, B. C. 1995. Accounting, ambiguity, and the new institutionalism. *Accounting, Organizations and Society,* 20**,** 313-328.
CARSBERG, B. V. 1966. The Contribution of P. D. Leake to the Theory of Goodwill Valuation. *Journal of Accounting Research,* 4**,** 69-71.
CATTURI, G. 1989. *Teorie contabili e scenari economico aziendali*, Padova: Cedam. 1989.
CATTURI, G. 2012. *Principi di Economia Aziendale. L'Azienda universale: l'idea forza, la morfologia e la fisiologia.* CEDAM.
CECCHERELLI, A. 1956. *Il linguaggio dei bilanci. Formazione e interpretazione dei bilanci commerciali, Le Monnier, Firenze*.
CECCHERELLI, A. 1961. Il linguaggio dei bilanci. *Formazione e interpretazione dei bilanci commerciali, settima edizione, Le Monnier, Firenze*.
CECCHERELLI, A. 1966. *Le istituzioni della ragioneria*, G. De Bono, editore.
CECCHERELLI, A. 1967. *La funzioni professionali del commercialista: ragioneria, tecnica, procedura*, F. Vallardi.
CHALMERS, K. G., GODFREY, J. M. & WEBSTER, J. C. 2011. Does a goodwill impairment regime better reflect the underlying economic attributes of goodwill? *Accounting & Finance,* 51**,** 634-660.
CHAMBERS, D. & FINGER, C. 2011. Goodwill Non-Impairments. *The CPA Journal,* February**,** 38-41.
CHAMBERS, R. J. 1966. *Accounting Evaluation and Economic Behaviour,* Englewood Cliffs, , Prentice Hall.
CHAO, C.-L. & HORNG, S.-M. 2012. Asset write-offs discretion and accruals management in Taiwan: the role of corporate governance. *Review of Quantitative Finance and Accounting,* 40**,** 41-74.
CHAPMAN, C. S. 1997. Reflections on a contingent view of accounting. *Accounting, Organizations and Society,* 22**,** 189-205.
CHAUVIN, K. & HIRSCHEY, M. 1994. Goodwill, Profitability, and the Market Value of the Firm. *Journal of Accounting and Public Policy,* 13**,** 159-180.
CHEN, C., KOHLBECK, M. & WARFIELD, T. 2008. Timeliness of impairment recognition: Evidence from the initial adoption of SFAS 142. *Advances in Accounting,* 24**,** 72-81.
CHEN, C.-Y., LIN, C.-J. & LIN, Y.-C. 2008. Audit Partner Tenure, Audit Firm Tenure, and Discretionary Accruals: Does Long Auditor Tenure Impair Earnings Quality? *Contemporary Accounting Research,* 25**,** 415-445.
CHENHALL, R. H. 2003. Management control systems design within its organizational context: findings from contingency-based research and directions for the future. *Accounting, Organizations and Society,* 28**,** 127-168.
CHI, W. & HUANG, H. 2005. Discretionary Accruals, Audit-Firm Tenure and Audit-Partner Tenure: Empirical Evidence from Taiwan. *Journal of Contemporary Accounting & Economics,* 1**,** 65-92.

CHOI, S. B., PARK, B. I. & HONG, P. 2012. Does Ownership Structure Matter for Firm Technological Innovation Performance? The Case of Korean Firms. *Corporate Governance: An International Review,* 20**,** 267-288.
CHUNG, H. & KALLAPUR, S. 2003. Client Importance, Nonaudit Services, and Abnormal Accruals. *The Accounting Review,* 78**,** 931-955.
CINQUINI, L. 1991. Le 'stime' nel pensiero di Vittorio Alfieri: aspetti di attualità per la valutazione dei beni immateriali. *Rivista Italiana di Ragioneria e di Economia Aziendale,* 9/10.
CINQUINI, L. & MARELLI, A. 2007. Accounting History Research in Italy, 1990–2004: An Introduction. *Accounting, Business & Financial History,* 17**,** 1-9.
CLAESSENS, S., DJANKOV, S. & LANG, L. H. P. 2000. The separation of ownership and control in East Asian Corporations. *Journal of Financial Economics,* 58**,** 81-112.
CLAESSENS, S. & FAN, J. P. H. 2002. Corporate Governance in Asia: A Survey. *International Review of Finance,* 3**,** 71-103.
CODA, V. 1963. *Introduzione alle valutazioni dei capitali economici d'impresa*, Giuffrè.
CODA, V. 1966. *La certificazione dei bilanci d'impresa*, Giuffrè.
CODA, V. & FRATTINI, G. 1986. Valutazioni di bilancio. Venezia.
COFFEE, J. C. 2004. Gatekeeper failure and reform: The challenge of fashioning relevant reforms. *Berkeley Program in Law and Economics, Working Paper Series.*
COHEN, J., KRISHNAMOORTHY, G. & WRIGHT, A. 2004. The corporate governance mosaic and financial reporting quality. *Journal of Accounting Literature,* 23**,** 87-152.
COLOMBO, G. E. 1987. *Il Bilancio d'esercizio: strutture e valutazioni*, Utet.
COMISKEY, E. E. & MULFORD, C. W. 2010. Goodwill, triggering events, and impairment accounting. *Managerial Finance,* 36**,** 746-767.
COMITATO PER LA CORPORATE GOVERNANCE July 2015. Corporate Governance Code. CORPORATE GOVERNANCE COMMITTEE.
COOPER, J. 2007. Debating Accounting Principles and Policies: the Case of Goodwill, 1880–1921. *Accounting, Business & Financial History,* 17**,** 241-264.
COPELAND, T. E. 2001. The expanding role of the CFO. . *SSRN* [Online].
CORBETTA, P. 2003. *Social Research. Theory, Methods and Techniques,* London.
CORE, J. E., HOLTHAUSEN, R. W. & LARCKER, D. F. 1999. Corporate governance, chief executive officer compensation, and firm performance. *Journal of Financial Economics,* 51**,** 371-406.
CORNETT, M., MARCUS, A. & TEHRANIAN, H. 2008. Corporate governance and pay-for-performance: The impact of earnings management. *Journal of Financial Economics,* 87**,** 357-373.
CORNETT, M. M., MCNUTT, J. J. & TEHRANIAN, H. 2009. Corporate governance and earnings management at large U.S. bank holding companies. *Journal of Corporate Finance,* 15**,** 412-430.
CORONELLA, S., SARGIACOMO, M. & WALKER, S. P. 2015. Unification and Dual Closure in the Italian Accountancy Profession, 1861–1906. *European Accounting Review,* 24**,** 167-197.
COURTIS, J. K. 1983. Business goodwill: Conceptual clarification via accounting, legal and etymological perspectives. *The Accounting Historians Journal,* 10**,** 1-38.
COWEN, A., GROYSBERG, B. & HEALY, P. 2006. Which types of analyst firms are more optimistic? *Journal of Accounting and Economics,* 41**,** 119-146.
CUEVAS-RODRÍGUEZ, G., GOMEZ-MEJIA, L. R. & WISEMAN, R. M. 2012. Has Agency Theory Run its Course?: Making the Theory more Flexible to Inform the Management of Reward Systems. *Corporate Governance: An International Review,* 20**,** 526-546.
D'ALVISE, P. 1934. *Principii e precetti di ragioneria per l'amministrazione economica delle aziende*, Cedam.
D'ALVISE, P. 1938. Intorno all'avviamento delle imprese secondo autori italiani. *Rivista italiana di ragioneria,* 1.

D'AMICO, L. & PALUMBO, R. 2011. Fabio Besta e la nascita della Ragioneria moderna. *Contabilità e cultura aziendale,* XI.
D'IPPOLITO, T. 1955. *La valutazione delle aziende in avviamento*, A. Giuffrè.
D'IPPOLITO, T. 1958. *La contabilità in partita doppia a sistema unico e duplice ed il bilancio d'esercizio*, Abbaco.
D'IPPOLITO, T. 1963. *L'avviamento,* Palermo, Abbacco.
D'ONZA, G. 2008. *Il sistema di controllo interno nella prospettiva del risk management*, Giuffrè editore.
D'ONZA, G., MARCHI, L. & ALLEGRINI, M. 2012. L'internal auditing e la corporate governance nelle aziende italiane: scenario attuale e prospettive evolutive. *Aziende di servizi e servizi per le aziende. La ricerca di un percorso di sviluppo sostenibile per superare la crisi.*
D'ONZA, G., GRECO, G. & FERRAMOSCA, S. 2014. Corporate Governance in Italian Listed Companies. *Corporate Governance.* Springer.
DAUGHERTY, B. E. & TERVO, W. A. 2008. Auditor changes and audit satisfaction: Client perceptions in the Sarbanes-Oxley era of legislative restrictions and involuntary auditor change. *Critical Perspectives on Accounting,* 19**,** 931-951.
DAVIDSON III, W. N., JIRAPORN, P. & DADALT, P. J. 2006. Causes and Consequences of Audit Shopping: An Analysis of Auditor Opinions, Earnings Management, and Auditor Changes. *Quarterly Journal of Business and Economics,* 45**,** 69-87.
DAVILA, A. & PENALVA, F. 2006. Governance structure and the weighting of performance measures in CEO compensation. *Review of Accounting Studies,* 11**,** 463-493.
DAVIS, L. R., SOO, B. S. & TROMPETER, G. M. 2009. Auditor Tenure and the Ability to Meet or Beat Earnings Forecasts. *Contemporary Accounting Research,* 26**,** 517-548.
DE DOMINICIS, U. 1950. *La ragioneria quale tecnica dell'economia politica*, Edizioni Ghibaudo.
DE GOBBIS, F. 1925. *Il bilancio delle società anonime*, Soc. ed. Dante Alighieri di Albrighi, Senati.
DE GOBBIS, F. 1926. La integrità del capitale e la solidarietà degli esercizi. *Rivista italiana di ragioneria,* 7-8**,** 289-292.
DE GOBBIS, F. 1939. Ragioneria generale. Corso teorico pratico. Società Editrice Dante Alighieri, Città di Castello.
DE MINICO, L. 1935. *Elasticità e relazioni dinamiche dei costi nelle imprese industriali*, A. Rondinella.
DE MINICO, L. 1944. *Lezioni di ragioneria*. Pironti: Napoli
DE MINICO, L. 1946. Una picconata all'avviamento. *Economia Aziendale,* 3/4/5.
DE MINICO, L. & AMODEO, D. 1942. *Saggi di economia delle aziende*, Giuffré.
DEANGELO, H. & DEANGELO, L. 2000. Controlling stockholders and the disciplinary role of corporate payout policy: a study of the Times Mirror Company. *Journal of Financial Economics,* 56**,** 153-207.
DEANGELO, L. E. 1981. Auditor Independence, 'Low Balling', and Disclosure Regulation. *Journal of Accounting and Economics,* 3**,** 113-127.
DEANGELO, L. E. 1981. Auditor size and audit quality. *Journal of Accounting & Economics,* 3**,** 183-199.
DECHOW, P., GE, W., LARSON, C. R. & SLOAN, R. G. 2011. Predicting Material Accounting Misstatements. *Contemporary Accounting Research,* 28**,** 17-82.
DECHOW, P., GE, W. & SCHRAND, C. 2010. Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics,* 50**,** 344-401.
DECHOW, P., SLOAN, R. G. & SWEENEY, A. P. 1996. Causes and Consequences of Earnings Manipulation: An Analysis of Firms Subject to Enforcement Actions by the SEC. *Contemporary Accounting Research,* 13**,** 1-36.
DECHOW, P. M., HUTTON, A. P., KIM, J. H. & SLOAN, R. G. 2012. Detecting Earnings Management: A New Approach. *Journal of Accounting Research,* 50**,** 275-334.

DECHOW, P. M., HUTTON, A. P. & SLOAN, R. G. 2000. The relation between analysts' forecasts of long-term earnings growth and stock price performance following equity offerings. *Contemporary Accounting Research,* 17**,** 1-32.
DEFOND, M. L., HANN, R. N. & HU, X. 2005. Does the Market Value Financial Expertise on Audit Committees of Boards of Directors? *Journal of Accounting Research,* 43**,** 153-193.
DEFOND, M. L., LIM, C. Y. & ZANG, Y. 2012. Do Auditors Value Client Conservatism? [Accessed 20/03/20124].
DEFOND, M. L. & SUBRAMANYAM, K. R. 1998. Auditor changes and discretionary accruals. *Journal of Accounting & Economics,* 25**,** 35-67.
DEGEORGE, F., DING, Y., JEANJEAN, T. & STOLOWY, H. 2004. Do financial analysts curb earnings management? International evidence. *Working paper*. HEC Paris.
DEL BENE, L. 2006. Dalla contabilità analitica al budgeting ed al reporting. *In:* ANSELMI, L. & LATTANZI, N. (eds.) *Elementi di management e dinamica aziendale.* Torino: Giappichelli.
DELLA PENNA, F. 1931. *I fondamenti della ragioneria*, Casa Editrice Castellani.
DENIS, D. J., HANOUNA, P. & SARIN, A. 2006. Is there a dark side to incentive compensation? *Journal of Corporate Finance,* 12**,** 467-488.
DENSHAM, F. 1898. Depreciation of assets and goodwill of limited companies. *The Accountant,* 24**,** 567-71.
DI PIETRA, R. 2002. Indagine conoscitiva sui comportamenti contabili e di revisione in Italia.
DI PIETRA, R. 2010. *Ragioneria internazionale: dall'armonizzazione contabile al bilancio IFRS*, CEDAM.
DI PIETRA, R. & ALLEGRINI, M. 2011. *Bilancio IFRS. Best practice e casi operativi*, Knowità.
DI PIETRA, R., GRAMBOVAS, C. A., RAONIC, I. & RICCABONI, A. 2008. The effects of board size and 'busy' directors on the market value of Italian companies. *Journal of management & governance,* 12**,** 73-91.
DICKSEE, L. 1897. Goodwill and its Treatment in Accounts. *The Accountant,* 23**,** 40-48.
DILLARD, J. F. & YUTHAS, K. 2002. Ethical Audit Decisions: A Structuration Perspective. *Journal of Business Ethics,* 36**,** 49-64.
DILLMAN, D. A. 1978. *Mail and telephone surveys*, Wiley Interscience.
DIMAGGIO, P. J. & POWELL, W. W. 1983. The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review,* 48**,** 147-160.
DING, R. & JIA, Y. 2012. Auditor mergers, audit quality and audit fees: Evidence from the PricewaterhouseCoopers merger in the UK. *Journal of Accounting and Public Policy,* 31**,** 69-85.
DING, Y., RICHARD, J. & STOLOWY, H. 2008. Towards an understanding of the phases of goodwill accounting in four Western capitalist countries: From stakeholder model to shareholder model. *Accounting, Organizations and Society,* 33**,** 718-755.
DING, Y., ZHANG, H. & ZHANG, J. 2007. Private vs. State Ownership and Earnings Management: evidence from Chinese listed companies. *Corporate Governance: An International Review,* 15**,** 223-238.
DONALDSON, L. 1982. Comments on 'Contingency and Choice in Organization Theory'. *Organization Studies,* 3**,** 65-72.
DONALDSON, L. 1996. *For positivist organization theory*, Sage.
DONALDSON, L. 1998. The Myth of Paradigm Incommensurability in Management Studies: Comments by an Integrationist. *Organization,* 5**,** 267-272.
DONALDSON, L. 2001. *The contingency theory of organizations*, Sage.
DRAZIN, R. & VAN DE VEN, A. H. 1985. Alternative Forms of Fit in Contingency Theory. *Administrative Science Quarterly,* 30**,** 514-539.
DU PLESSIS, J. J., GROSSFELD, B., SAENGER, I. & SANDROCK, O. 2012. An overview of German business or enterprise law and the one-tier and two-tier board

systems contrasted. *In:* SPRINGER (ed.) *German Corporate Governance in International and European Context.*
DUGAR, A. & NATHAN, S. 1996. Analysts' research reports: Caveat emptor. *The Journal of Investing,* 5**,** 13-22.
DUNN, K. A. & MAYHEW, B. W. 2004. Audit Firm Industry Specialization and Client Disclosure Quality. *Review of Accounting Studies,* 9**,** 35-58.
DURTSCHI, C. & EASTON, P. 2005. Earnings Management? The Shapes of the Frequency Distributions of Earnings Metrics Are Not Evidence Ipso Facto. *Journal of Accounting Research,* 43**,** 557-592.
DYCK, A. & ZINGALES, L. 2004. Private Benefits of Control: An International Comparison. *The Journal of Finance,* LIX**,** 537-600.
EASTERBROOK, J. C. & NUTT, S. R. 1999. Inefficiency in analysts' earnings fore- casts: Systematic misreaction or systematic optimism? *Journal of Finance,* 54**,** 1777-1797.
EBRAHIM, A. 2007. Earnings management and board activity: an additional evidence. *Review of Accounting & Finance,* 6**,** 42-58.
EDWARDS, E. & BELL, P. 1961. The theory and management of business income. University of California Press, Berkeley.
EDWARDS, R. S. 1938. The nature and measurement of income. *The Accountant,* 99**,** 22-6.
EISENHARDT, K. M. 1988. Agency- and institutional-theory explanations: The case of retail sales compensation. *Academy of Management Journal,* 31**,** 488-511.
EISENHARDT, K. M. 1989. Agency Theory: An Assessment and Review. *Academy of Management Review,* 14**,** 57-74.
EKANAYAKE, A., PERERA, H. & PERERA, S. 2009. Towards a Framework to Analyse the Role of Accounting in Corporate Governance in the Banking Sector. *Journal of Applied Management Accounting Research,* 7**,** 21-40.
EL-GAZZAR, S. M. 1998. Predisclosure Information and Institutional Ownership: A Cross-Sectional Examination of Market Revaluations During Earnings Announcement Periods. *The Accounting Review,* 73**,** 119-129.
ELLIOT, J. A. & SHAW, W. H. 1988. Write-offs as accounting procedures to manage perception. *Journal of Accounting Research, Vol. 26, pp. 91-119.,* 26**,** 91-119.
EMERY, K. G. 1951. Should Goodwill Be Written off? *Accounting Review,* 26**,** 5560-567.
EUROPEAN COMMISSION 2010. Audit Policy: Lessons from the Crisis.
EUROPEAN FINANCIAL REPORTING ADVISORY GROUP & ORGANISMO ITALIANO DI CONTABILITÀ. 2014. Should goodwill still not be amortised? Accounting and disclosure for goodwill. Available at : http://www.efrag.org/files/Goodwill%20Impairment%20and%20Amortisation/140725_Should_goodwill_still_not_be_amortised_Research_Group_paper.pdf [Accessed 2/04/2015].
EZZAMEL, M. 1990. The impact of environmental uncertainty, managerial autonomy and size on budget characteristics. *Management Accounting Research,* 1**,** 181-197.
FACCIO, M., LARRY, H. P. L. & YOUNG, L. 2001. Dividends and Expropriation. *The American Economic Review,* 91**,** 54-78.
FAMA, E. F. & JENSEN, M. C. 1983. Separation of Ownership and Control. *Journal of Law and Economics,* 26**,** 301-325.
FARBER, D. B. 2005. Restoring Trust after Fraud: Does Corporate Governance Matter? *The Accounting Review,* 80**,** 539-561.
FARRELL, K. A. & WHIDBEE, D. A. 2003. Impact of firm performance expectations on CEO turnover and replacement decisions. *Journal of Accounting and Economics,* 36**,** 165-196.
FEE, C. E. & HADLOCK, C. J. 2004. Management turnover across the corporate hierarchy. *Journal of Accounting and Economics,* 37**,** 3-38.
FENG, M., GE, W., LUO, S. & SHEVLIN, T. 2011. Why do CFOs become involved in material accounting manipulations? *Journal of Accounting and Economics,* 51**,** 21-36.
FERGUSON, M. J., SEOW, G. S. & YOUNG, D. 2004. Nonaudit Services and Eamings

Management: UK Evidence. *Contemporary Accounting Research,* 21**,** 813-841.
FERRERO, G. 1976. I limiti del costo come "criterio base" nelle valutazioni di bilancio. *Rivista dei Dottori Commercialisti***,** 423-436.
FERRERO, G. 1980. *Impresa e management*, Giuffrè.
FERRERO, G. 1988. *La valutazione del capitale di bilancio: logica economico-quantitativa della valutazione legislazione vigente e direttive comunitaire principi contabili*, Giuffrè editore.
FERRERO, M. 1912. Dell'avviamento e della sua valutazione. *Rivista Italiana di Ragioneria*.
FIELDS, T., D., LYS, T., Z. & VINCENT, L. 2001. Empirical research on accounting choice. *Journal of Accounting & Economics,* 31**,** 255-307.
FIERLI, G. 1798. *Del diritto dell'entratura secondo i nostri statuti delle arti*, Firenze : nella stamperia Bonducciana. 1798.
FILATOTCHEV, I. & NAKAJIMA, C. 2010. Internal and External Corporate Governance: An Interface between an Organization and its Environment. *British Journal of Management,* 21**,** 591-606.
FILATOTCHEV, I. & WRIGHT, M. 2010. Agency Perspectives on Corporate Governance of Multinational Enterprises. *Journal of Management Studies.*
FINANCIAL ACCOUNTING STANDARDS BOARD 1999. Exposure Draft, Business Combinations and Intangible Assets.
FINANCIAL ACCOUNTING STANDARDS BOARD 2001. Statement of Financial Accounting Standards No. 142. *Goodwill and Other Intangible Assets.*
FINANCIAL ACCOUNTING STANDARDS BOARD 2001. Statement of Financial Accounting Standards No. 144.
FINANCIAL ACCOUNTING STANDARDS BOARD 2001. Exposure Draft, Business Combinations and Intangible Assets—Accounting for Goodwill.
FINANCIAL ACCOUNTING STANDARDS BOARD 2007. Statement of Financial Accounting Standards No. 141. *Business Combinations.* Financial Accounting Foundation.
FINANCIAL REPORTING COUNCIL, September 2014. The UK Corporate Governance Code.
FIRTH, M., RUI, O. M. & WU, X. 2012. How Do Various Forms of Auditor Rotation Affect Audit Quality? Evidence from China. *The International Journal of Accounting,* 47**,** 109-138.
FISHER, I. 1906. *The nature of capital and income*, The Macmillan Company.
FISHER, I. 1930. *The theory of interest,* New York.
FISHER, J. G. 1995. Contingency-based research on management control systems: categorization by level of complexity. *Journal of Accounting Literature,* 14**,** 24-53.
FISHER, J. G. 1998. Contingency Theory, Management Control Systems and Firm Outcomes: Past Results and Future Directions. *Behavioral Research in Accounting,* 10**,** 47-64.
FLORIO, C. 2011. *La verifica di impairment nella prospettiva delle politiche di earnings management. Profili teorici ed evidenze empiriche*, FrancoAngeli.
FOSTER, G. 1986. *Financial Statement Analysis, 2/e,* Englewood Cliffs, NJ., Pearson Education India.
FRANCESCHI, R. F. 1978. *L'indagine metodologica in economia aziendale*, Giuffrè editore.
FRANCESCHI, R. F. 1998. *Problemi attuali dell'economia aziendale: in prospettiva metodologica*, Giuffrè.
FRANCIS, J., CHEN, Q., PHILBRICK, D. R. & WILLIS, R. H. 2004. Security Analyst Independence. *Research Foundation of CFA Institute.*
FRANCIS, J., HANNA, J. D. & VINCENT, L. 1996. Causes and Effects of Discretionary Asset Write-Offs. *Journal of Accounting Research,* 34**,** 117-134.
FRANCIS, J. & PHILBRICK, D. 1993. Analysts' decisions as a product of a multi-task environment. *Journal of Accounting Research,* 31**,** 216-230.

FRANCIS, J. R. 2004. What do we know about audit quality? *The British Accounting Review,* 36**,** 345-368.
FRANCIS, J. R. 2006. Are Auditors Compromised by Nonaudit Services? Assessing the Evidence. *Contemporary Accounting Research,* 23**,** 747-760.
FRANCIS, J. R. 2011. A Framework for Understanding and Researching Audit Quality. *Auditing: A Journal of Practice & Theory,* 30**,** 125-152.
FRANCIS, J. R. & KE, B. 2006. Disclosure of fees paid to auditors and the market valuation of earnings surprises. *Review of Accounting Studies,* 11**,** 495-523.
FRANCIS, J. R. & KRISHNAN, J. 1999. Accounting Accruals and Auditor Reporting Conservatism. *Contemporary Accounting Research,* 16**,** 135-165.
FRANKEL, R. & LI, X. 2004. Characteristics of a firm's information environment and the information asymmetry between insiders and outsiders. *Journal of Accounting and Economics,* 37**,** 229-259.
FRANKEL, R. M., JOHNSON, M. F. & NELSON, K. K. 2002. The Relation between Auditors' Fees for Nonaudit Services and Earnings Management. *The Accounting Review,* 77**,** 71-105.
FURGA, F. S. 1979. *Le valutazioni di bilancio*, Arnoldo Mondadori.
FURGA, F. S. 1991. *Il bilancio di esercizio italiano secondo la normativa europea*, Giuffrè.
GALASSI, G. & MATTESSICH, R. 2004. Italian Accounting Research in the First Half of the 20th Century. *Review of Accounting and Finance,* 3**,** 62-83.
GEIGER, M. A. & NORTH, D. S. 2006. Does Hiring a New CFO Change Things? An Investigation of Changes in Discretionary Accruals. *The Accounting Review,* 81**,** 781-809.
GEIGER, M. A., RAGHUNANDAN, K. & RAMA, D. V. 2005. Recent Changes in the Association between Bankruptcies and Prior Audit Opinions. *Auditing: A Journal of Practice & Theory,* 24**,** 21-35.
GERSCHENKRON, A. 1962. *Economic backwardness in historical perspective: a book of essays*, Cambridge (Mass.): Belknap press of Harvard university press. 1962.
GHIDIGLIA, C. 1913. *Compendio di ragioneria,* Livorno, Giusti.
GHIDIGLIA, C. 1921. *Compendio di Ragioneria,* Livorno, Giusti.
GIANNESSI, E. 1937. *Il problema dei costi nel pensiero di Alberto Ceccherelli*, Casa ed. della Rivista italiana di ragioneria.
GIANNESSI, E. 1960. *Le aziende di produzione originaria: Le aziende agricole*, C. Cursi.
GIANNESSI, E. 1965. *I Precursori*, Colombo Cursi Editore, Pisa.
GIANNESSI, E. 1978. *Osservazioni intorno al significato dei bilanci*, Giannini Editore.
GIANNESSI, E. 1979. *Appunti di economia aziendale,* Pisa, Pacini.
GIANNESSI, E. 1992. *Considerazioni introduttive sul metodo storico*, Giuffrè.
GIANNETTI, R. 2013. *Dal reddito al valore. Analisi degli indicatori di creazione di valore basati sul reddito residuale. Seconda edizione rivista e ampliata*, Giuffrè.
GIDDENS, A. 1976. New rules of sociological method: a positive critique of interpretative sociologies. *New rules of sociological method: a positive critique of interpretative sociologies*.
GIDDENS, A. 1979. *Central problems in social theory: Action, structure, and contradiction in social analysis*, University of California Press.
GIDDENS, A. 1984. Constitution of Society: Outline of The Theory of Structuration. *Constitution of Society: Outline of The Theory of Structuration*.
GIDDENS, A. 1991. Structuration theory: Past, present and future, Bryant CGA, Jary D., Gidden's theory of structuration: A critical appreciation. Routledge Press, London.
GIDDENS, A. & DALLMAYR, F. R. 1982. *Profiles and critiques in social theory*, University of California Press.
GILLAN, S. L. 2006. Recent Developments in Corporate Governance: An Overview. *Journal of Corporate Finance,* 12**,** 381-402.
GILLAN, S. L. & STARKS, L. T. 2003. Corporate Governance, Corporate Ownership, and the Role of Institutional Investors: A Global Perspective. *Journal of Applied Finance,* 13**,** 4-22.

GIOCOLI, G. 1905. La valutazione dell'avviamento. Tipografia Angelelli.
GIOIA, D. A. & PITRE, E. 1990. Multiparadigm Perspectives on Theory Building. *Academy of Management Review,* 15**,** 584-602.
GIUNTA, F. 2001. Valutazione delle imprese Internet e politiche di bilancio. *Rivista italiana di ragioneria e di economia aziendale***,** 450-471.
GLOBERMAN, S. & SHAPIRO, D. 2003. Governance Infrastructure and US Foreign Direct Investment. *Journal of International Business Studies,* 34**,** 19-39.
GODFREY, J. M. 2006. Bonus-induced accounting. *Critical Perspectives on Accounting,* 17**,** 827.
GODFREY, J. M. & KOH, P.-S. 2009. Goodwill impairment as a reflection of investment opportunities. *Accounting & Finance,* 49**,** 117-140.
GONNELLA, E. 2012. Financial Statement Valuations in Italian Accounting Thought Between the 19th and the 20th Century: From "Exchange Value" to "Historical Cost". *Journal of Modern Accounting and Auditing,* 8**,** 1255-1271.
GORDON, L. A. & MILLER, D. 1976. A contingency framework for the design of accounting information systems. *Accounting, Organizations and Society,* 1**,** 59-69.
GRAHAM, B. & MCGOLRICK, C. 1964. *The interpretation of financial statements,* New York, Harper & Row.
GRAHAM, J. R. & HARVEY, C. R. 2001. The theory and practice of corporate finance: evidence from the field. *Journal of Financial Economics* 60**,** 187–243.
GRAHAM, J. R., HARVEY, C. R. & RAJGOPAL, S. 2005. The economic implications of corporate financial reporting. *Journal of Accounting and Economics,* 40**,** 3-73.
GRECO, G. 2011. Determinants of board and audit committee meeting frequency: Evidence from Italian companies. *Managerial Auditing Journal,* 26**,** 208-229.
GRECO, G. 2015. *Le politiche di bilancio aziendali. Metodi di ricerca e analisi delle determinanti*, FrancoAngeli.
GRECO, G., FERRAMOSCA, S. & ALLEGRINI, M. 2014. Exploring intellectual capital in family firms. An empirical investigation. *International Journal of Learning and Intellectual Capital,* 11**,** 91-106.
GRECO, G., FERRAMOSCA, S. & ALLEGRINI, M. 2015. The Influence of Family Ownership on Long-Lived Asset Write-Offs. *Family Business Review,* 28**,** 355-371.
GRECO, G., FERRAMOSCA, S. & MARCHI, L. 2015. Governance codes and types of issuer: a global study. *International Journal of Business Governance and Ethics,* 10**,** 28-56.
GREENE, W. H. 1997. *Econometric analysis* Upper Saddle River, N.J.: Prentice Hall. 3rd ed.
GREGORY, H. J. & SIMMELKJAER, R. T. 2002. *Comparative Study Of Corporate Governance Codes Relevant to the European Union And Its Member States,* New York: Weil, Gotshal & Manges.
GRESOV, C. 1989. Exploring Fit and Misfit with Multiple Contingencies. *Administrative Science Quarterly,* 34**,** 431-453.
GU, F. & LEV, B. 2011. Overpriced Shares, Ill-Advised Acquisitions, and Goodwill Impairment. *The Accounting Review,* 86**,** 1995-2022.
GUARINI, E., MAGLI, F. & NOBOLO, A. 2013. From Accounting to 'Economia Aziendale': Innovation in the Thought of Gino Zappa (Italy, 1879-1960).
GUATRI, L. 1955. La misurazione del valore di avviamento nelle imprese. *Risparmio*.
GUATRI, L. & BINI, M. 2009. *L'impairment test nell'attuale crisi finanziaria e dei mercati reali*, Egea.
GUIDRY, F., LEONE, A. J. & ROCK, S. 1999. Earnings-based bonus plans and earnings management by business-unit managers. *Journal of Accounting and Economics,* 26**,** 113-142.
GUJARATI, D. N. 2004. *Basic Econometrics,* Boston, MA, McGraw-Hill Publishing.
GUL, F. A., CHEN, C. J. P. & TSUI, J. S. L. 2003. Discretionary Accounting Accruals, Managers' Incentives, and Audit Fees. *Contemporary Accounting Research,* 20**,** 441-464.

GUL, F. A., FUNG, S. Y. K. & JAGGI, B. 2009. Earnings quality: Some evidence on the role of auditor tenure and auditors' industry expertise. *Journal of Accounting and Economics,* 47**,** 265-287.

GULER, L. 2006. *Goodwill Impairment Charges under SFAS no. 142: Role of Executives' Incentives and Corporate Governance.* Texas A&M University

GUPTA, P. P., DIRSMITH, M. W. & FOGARTY, T. J. 1994. Coordination and Control in a Government Agency: Contingency and Institutional Theory Perspectives on GAO Audits. *Administrative Science Quarterly,* 39**,** 264-284.

GUTHRIE, E. 1898. Goodwill. *The Accountant,* 24**,** 425-431.

GUTIÈRREZ URTIAGA, M. & SAÈZ, M. I. 2012. El mito de los consejoros independientes. *Rivista para el analysi del direcho. Available at: http://www.indret.com/es/* [Online]. [Accessed 4th April 2013].

GYNTHER, R. S. 1969. Some "Conceptualizing" on Goodwill. *The Accounting Review,* 44**,** 247-255.

HAMMERSLEY, J. 2006. Pattern Identification and Industry-Specialist Auditors. *The Accounting Review,* 81**,** 309-336.

HAND, J. R. M. 1990. A Test of the Extended Functional Fixation Hypothesis. *The Accounting Review,* 65**,** 740-763.

HARRIS, M. & RAVIV, A. 2008. A theory of board control and size. *Review of Financial Studies,* 21**,** 1797-1832.

HASSARD, J. 1988. Overcoming Hermeticism in Organization Theory: An Alternative to Paradigm Incommensurability. *Human Relations,* 41**,** 247-259.

HASSARD, J. 1991. Multiple paradigms and organizational analysis: A case study. *Organization Studies,* 12**,** 275-299.

HATHERLY, D., NADEAU, L. & THOMAS, L. 1996. Game Theory and the Auditor's Penalty Regime. *Journal of Business Finance & Accounting* 23**,** 29–45.

HEALY, P. M. 1985. The effect of bonus schemes on accounting decisions. *Journal of Accounting & Economics,* 7**,** 85-107.

HEALY, P. M. & PALEPU, K. G. 2001. Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting & Economics,* 31**,** 405-440.

HECKMAN, J. J. 1976. The Common Structure of Statistical Models of Truncation, Sample Selection and Limited Dependent Variables and a Simple Estimator for Such Models. *Annals of Economic and Social Measurement.*

HENNING, S. L., LEWIS, B. L. & SHAW, W. H. 2000. Valuation of the components of purchased goodwill. *Journal of Accounting Research,* 38**,** 375-386.

HICKS, J. R. 1939. The foundations of welfare economics. *The Economic Journal***,** 696-712.

HICKS, J. R. 1950. A Contribution to the Theory of the Trade Cycle.

HOGAN, C. E. & WILKINS, M. S. 2008. Evidence on the Audit Risk Model: Do Auditors Increase Audit Fees in the Presence of Internal Control Deficiencies? *Contemporary Accounting Research,* 25**,** 219-42.

HOLTHAUSEN, R. W., LARCKER, D. F. & SLOAN, R. G. 1995. Annual bonus schemes and the manipulation of earnings. *Journal of Accounting & Economics,* 19**,** 29-74.

HOLTHAUSEN, R. W. & WATTS, R. L. 2001. The Relevance of the Value-Relevance Literature for Financial Accounting Standard Setting *Journal of Accounting and Economics,* 31**,** 3-75.

HOQUE, Z., COVALESKI, M. A. & GOONERATNE, T. N. 2013. Theoretical triangulation and pluralism in research methods in organizational and accounting research. *Accounting, Auditing & Accountability Journal,* 26**,** 1170-1198.

HOUSTON, J. F., LEV, B. & TUCKER, J. W. 2010. To Guide or Not to Guide? Causes and Consequences of Stopping Quarterly Earnings Guidance. *Contemporary Accounting Research,* 27**,** 143-185.

HRIBAR, P., KRAVET, T. & WILSON, R. 2014. A New Measure of Accounting Quality. *Review of Accounting Studies,* 19**,** 506-538.

HUANG, H. H., WANG, W. & ZHOU, J. 2013. Shareholder Rights, Insider Ownership and Earnings Management. *Abacus,* 49**,** 46-73.
HUGHES, H. P. 1982. *Goodwill in accounting: A history of the issues and problems*, Business Pub. Division, College of Business Administration, Georgia State University.
HUNTER, W. 1901. Goodwill. *The Accountants' Magazine***,** 351-372.
HUTZSCHENREUTER, T., METTEN, M. & WEIGAND, J. 2012. How independent are German supervisory boards? *ZEITSCHRIFT FUR BETRIEBSWIRTSCHAFT,* 82**,** 717.
HUYGHEBAERT, N. & WANG, L. 2012. Expropriation of Minority Investors in Chinese Listed Firms: The Role of Internal and External Corporate Governance Mechanisms. *Corporate Governance: An International Review,* 20**,** 308-332.
IANNIELLO, G. 2012. Non-Audit Services and Auditor Independence in the 2007 Italian Regulatory Environment. *International Journal of Auditing,* 16**,** 147-164.
INDJEJIKIAN, R. & MATÈJKA, M. 2009. CFO Fiduciary Responsibilities and Annual Bonus Incentives. *Journal of Accounting Research,* 47**,** 1061-1093.
INTERNATIONAL ACCOUNTING STANDARDS BOARD Basis for Conclusions on International Accounting Standard 36 Impairment of Assets.
INTERNATIONAL ACCOUNTING STANDARDS BOARD 2005. Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations.
INTERNATIONAL ACCOUNTING STANDARDS BOARD 2009. International Accounting Standard 2. Inventories.
INTERNATIONAL ACCOUNTING STANDARDS BOARD 2009. International Accounting Standard 16. Property, Plant and Equipment.
INTERNATIONAL ACCOUNTING STANDARDS BOARD 2010. International Accounting Standard 36. Impairment of Assets.
INTERNATIONAL ACCOUNTING STANDARDS BOARD 2010. International Accounting Standard 38. Intangible Assets.
INTERNATIONAL ACCOUNTING STANDARDS BOARD 2011. International Financial Reporting Standard 3. Business Combinations.
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD 2010. International Standard on Auditing 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures. International Federation of Accountants (IFAC).
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS 2014. Code of Ethics for Professional Accountants. International Federation of Accountants.
JACKSON, N. & CARTER, P. 1991. In defence of Paradigm Incommensurability. *Organization Studies,* 12**,** 109-127.
JACKSON, N. & CARTER, P. 1993. 'Paradigm Wars': A Response to Hugh Willmott. *Organization Studies,* 14**,** 721-725.
JAGGI, B., LEUNG, S. & GUL, F. 2009. Family control, board independence and earnings management: Evidence based on Hong Kong firms. *Journal of Accounting and Public Policy,* 28**,** 281-300.
JAGGI, B., MITRA, S. & HOSSAIN, M. 2014. Earnings quality, internal control weaknesses and industry-specialist audits. *Review of Quantitative Finance and Accounting*.
JARVA, H. 2009. Do Firms Manage Fair Value Estimates? An Examination of SFAS 142 Goodwill Impairments. *Journal of Business Finance & Accounting,* 36**,** 1059-1086.
JARVA, H. 2012. Economic consequences of SFAS 142 goodwill write-offs. *Accounting & Finance*.
JENSEN, M. C. 1983. Organization theory and methodology. . *The Accounting Review,* 58**,** 319–339.
JENSEN, M. C. 1993. The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems. *The Journal of Finance,* XLVIII**,** 831-880.
JENSEN, M. C. 2010. The Modern industrial Revolution, Exit, and the Failure of internal

Control Systems. *Journal of Applied Corporate Finance,* 22**,** 43-58.
JENSEN, M. C. & MECKLING, W. H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics,* 3**,** 305-360.
JIAMBALVO, J., RAJGOPAL, S. & VENKATACHALAM, M. 2002. Is institutional ownership associated with earnings management and the extent to which stock prices reflect future earnings? *Contemporary Accounting Research,* 19**,** 117-136.
JIANG, F., ZHU, B. & HUANG, J. 2013. CEO's financial experience and earnings management. *Journal of Multinational Financial Management,* 23**,** 134-145.
JIANG, J., PETRONI, K. R. & YANYAN WANG, I. 2010. CFOs and CEOs: Who have the most influence on earnings management? *Journal of Financial Economics,* 96**,** 513-526.
JIN, J. Y., KANAGARETNAM, K. & LOBO, G. J. 2013. Unintended consequences of the increased asset threshold for FDICIA internal controls: Evidence from U.S. private banks. *Journal of Banking & Finance,* 37**,** 4879-4892.
JOHNSON, P. E., JAMAL, K. & BERRYMAN, R. G. 1991. Effects of Framing on Auditor Decisions. *Organizational Behavior and Human Decision Processes,* 50**,** 75-105.
JOHNSON, T. L. & PETRONE, K. R. 1998. Is Goodwill an Asset? *Accounting Horizons,* 12**,** 293-303.
JOHNSON, V. E., KHURANA, I. K. & REYNOLDS, K. J. 2002. Audit-Firm Tenure and the Quality of Financial Reports. *Contemporary Accounting Research***,** 4.
JOKIPII, A. 2009. Determinants and consequences of internal control in firms: a contingency theory based analysis. *Journal of Management & Governance,* 14**,** 115-144.
JORDAN, C. E. & CLARK, S., J 2004. Big Bath Earnings Management: The Case Of Goodwill Impairment Under SFAS No. 142. *Journal Of Applied Business Research,* 20**,** 63-70.
JUDGE, W. 2011. The Pivotal Role of Ownership. *Corporate Governance: An International Review,* 19**,** 505-506.
KANER, H. 1938. *A New Theory of Goodwill*. Sir Isaac Pitman and Sons, Ltd.
KARAMANOU, I. & VAFEAS, N. 2005. The Association between Corporate Boards, Audit Committees, and Management Earnings Forecasts: An Empirical Analysis. *Journal of Accounting Research,* 43**,** 453-486.
KASZNIK, R. 1999. On the association between voluntary disclosure and earnings management. *Journal of Accounting Research,* 37**,** 57-81.
KESTER, R. B. 1930. *Accounting Theory and Practice*, Ronald Press Company.
KEUNG, E., LIN, Z.-X. & SHIH, M. 2010. Does the Stock Market See a Zero or Small Positive Earnings Surprise as a Red Flag? *Journal of Accounting Research,* 48**,** 91-121.
KIM, J.-B., CHUNG, R. & FIRTH, M. 2003. Auditor Conservatism, Asymmetric Monitoring, and Earnings Management. *Contemporary Accounting Research,* 20**,** 323-359.
KIM, S., LEE, C. & YOON, S. W. 2013. Goodwill accounting and asymmetric timeliness of earnings. *Review of Accounting & Finance,* 12**,** 112-129.
KISH, L. 1965. Survey sampling.
KLEIN, A. 1998. Firm Performance and Board Committee Structure. *Journal of Law and Economics,* XLI**,** 275-303.
KLEIN, A. 2002. Audit committee, board of director characteristics, and earnings management. *Journal of Accounting & Economics,* 33**,** 375-400.
KNECHEL, W. R., KRISHNAN, G. V., PEVZNER, M., SHEFCHIK, L. B. & VELURY, U. K. 2013. Audit Quality: Insights from the Academic Literature. *Auditing: A Journal of Practice & Theory,* 32**,** 385-421.
KNECHEL, W. R. & VANSTRAELEN, A. 2007. The relationship between auditor tenure and audit quality implied by going concern opinions. *Auditing: A Journal of Practice & Theory,* 26**,** 113-131.
KOH, P.-S. 2003. On the association between institutional ownership and aggressive

corporate earnings management in Australia. *The British Accounting Review,* 35**,** 105-128.
KOTHARI, S. P. 2001. Capital markets research in accounting. *Journal of Accounting and Economics,* 31**,** 105-231.
KPMG. 2014. Who cares about goodwill impairment? [Accessed 13/10/2014].
KRISHNAN, G. V. 2003. Does Big 6 Auditor Industry Expertise Constrain Earnings Management? *Accounting Horizons,* Supplement, 2003.
KRISHNAN, G. V. 2005. The Association Between Big 6 Auditor Industry Expertise and the Asymmetric Timeliness of Earnings. *Journal of Accounting, Auditing & Finance,* 20**,** 209-228.
KUHN, T. S. 1962. The structure of scientific revolutions. *The structure of scientific revolutions.*
LA PORTA, R., LOPEZ-DE-SILANES, F. & SCHLEIFER, A. 2002. Government Ownership of Banks. *The Journal of Finance,* 57**,** 265-301.
LAGHI, E. 1994. *L'ammortamento dell'avviamento: aspetti economici, civilistici e contabili*, Giappichelli.
LAGHI, E., MATTEI, M. & MARCANTONIO, M. D. 2013. Assessing the Value Relevance of Goodwill Impairment Considering Country-Specific Factors: Evidence from EU Listed Companies. *International Journal of Economics and Finance,* 5.
LANG, M. H., LINS, K. V. & MILLER, D. P. 2004. Concentrated control, analyst following, and valuation: Do analysts matter most when investors are protected least? . *Journal of Accounting Research,* 42**,** 589-623.
LARCKER, D. F., RICHARDSON, S. A. & TUNA, A. 2005. How important is corporate governance?
LAWRENCE, A., SLOAN, R. G. & SUN, Y. 2013. Mandatorily Conservative Accounting: Evidence and Implications. *SSRN* [Online]. [Accessed 25/09/2013].
LAZZINI, S. 2006. Il periodo caratterizzato dall'applicazione del metodo della partita doppia: G. Cerboni. *In:* ANSELMI, L. (ed.) *Modelli economico-patrimoniali per il bilancio e la contabilità di Stato.* Milano: Giuffrè.
LEAKE, P. D. 1912. *Depreciation and Wasting Assets and Their Treatment in Assessing Annual Proftit and Loss*, Henry Good & Son.
LEAKE, P. D. 1914. *Goodwill: Its Nature and how to Value it*, Gee & Company.
LEAKE, P. D. 1921. *Commercial goodwill: its history, value, and treatment in accounts*, Sir J. Pitman & sons, ltd.
LEAKE, P. D. 1930. *Commercial Goodwill*, London.
LEAKE, P. D. 1948. Commercial Goodwill: Its History. *Value and Treatment in Accounts, Gee & Co, London*.
LEFTWICH, R. W., WATTS, R. L. & ZIMMERMAN, J. L. 1981. Voluntary Corporate Disclosure: The Case of Interim Reporting. *Journal of Accounting Research,* 19**,** 50-77.
LENNOX, C. 1999. Are large auditors more accurate than small auditors? *Accounting and Business Research,* 29**,** 217-227.
LENNOX, C. 2005. Audit quality and executive officers' affiliations with CPA firms. *Journal of Accounting and Economics,* 39**,** 201-231.
LEUZ, C., NANDA, D. & WYSOCKI, P. D. 2003. Earnings management and investor protection: an international comparison. *Journal of Financial Economics,* 69**,** 505-527.
LEUZ, C. & WYSOCKI, P. D. 2008. Economic Consequences of Financial Reporting and Disclosure Regulation: A Review and Suggestions for Future Research. *Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1105398* [Online]. [Accessed 4th April 2013].
LEVITT JR, A. 1998. The 'Numbers Game'. *CPA Journal,* 68**,** 14.
LEWIS, M. W. & GRIMES, A. J. 1999. Metatriangulation: Building theory from multiple paradigms. *Academy of Management Review,* 24**,** 672-690.

LHAOPADCHAN, S. 2010. Fair value accounting and intangible assets: Goodwill impairment and managerial choice. *Journal of Financial Regulation and Compliance,* 18**,** 120-130.
LI, S. & FILER, L. 2007. The effects of the governance environment on the choice of investment mode and the strategic implications. *Journal of World Business,* 42**,** 80-98.
LI, Z., SHROFF, P. K., VENKATARAMAN, R. & ZHANG, I. X. 2011. Causes and consequences of goodwill impairment losses. *Review of Accounting Studies,* 16**,** 745-778.
LIBERATORE, G. & MAZZI, F. 2010. Goodwill write-off and financial market behaviour: An analysis of possible relationships. *Advances in Accounting,* 26**,** 333-339.
LIM, T. 2001. Rationality and analysts' forecast bias. *Journal of Finance,* 56**,** 369-385.
LIN, H.-W. & MCNICHOLS, M. 1998. Underwriting relationships, analysts' earnings forecasts and investment recommendations. *Journal of Accounting and Economics,* 25**,** 101-127.
LIN, J. W. & HWANG, M. I. 2010. Audit Quality, Corporate Governance, and Earnings Management: A Meta-Analysis. *International Journal of Auditing,* 14**,** 57-77.
LIONZO, A. 2007. *Il giudizio di impairment: profili valutativi e riflessi sui processi organizzativi e gestionali*, FrancoAngeli.
LIPARI, C. Introduzione alla storia e alla storiografia. Scuola di metodologia della ricerca storica, third edition 2015 Università degli Studi Milano Bicocca.
LITTLETON, A. 1952. Significance of invested cost. *Accounting Review***,** 167-173.
LONERGAN, W. 1995. Goodwill and Bad Ideas. *JASSA,* December**,** 2-7.
LÓPEZ, D. M. & PETERS, G. F. 2012. The Effect of Workload Compression on Audit Quality. *Auditing: A Journal of Practice & Theory,* 31**,** 139-165.
LOUIS, H. 2004. Earnings management and the market performance of acquiring firms. *Journal of Financial Economics,* 74**,** 121-148.
LOUIS, H. & ROBINSON, D. 2005. Do managers credibly use accruals to signal private information? Evidence from the pricing of discretionary accruals around stock splits. *Journal of Accounting and Economics,* 39**,** 361-380.
LYS, T., Z. & WATTS, R. L. 1994. Lawsuits against Auditors. *Journal of Accounting Research,* 32**,** 65-93.
MADDALA, G. 1977. Econometrics. New York: McGraw-Hill.
MANCINELLI, L. & OZKAN, A. 2006. Ownership structure and dividend policy: Evidence from Italian firms. *The European Journal of Finance,* 12**,** 265-282.
MARASCA, S. 1999. *Le valutazioni nel bilancio d'esercizio*, G. Giappichelli.
MARCHI, L. 1993. *I sistemi informativi aziendali*, Giuffrè.
MARCHI, L. 2004. Evoluzione dei principi contabili e dei criteri di valutazione: dal costo al fair value. *Revisione Contabile,* 57**,** 13-22.
MARCHI, L. 2012. *Revisione aziendale e sistemi di controllo interno*, Giuffrè Editore.
MARCHI, L. & POTITO, L. 2012. *L'impatto dell'adozione degli IAS/IFRS sui bilanci delle imprese italiane quotate*, FrancoAngeli.
MARTINOV-BENNIE, N. 2008. The Strength of an Accounting Firm's Ethical Environment and the Quality of Auditors' Judgments. *Journal of Business Ethics,* 87**,** 237-253.
MASI, V. 1954. *Ragioneria generale*, Cedam.
MASINI, C. 1957. *I bilanci d'impresa: principi e concetti*, Giuffrè.
MASINI, C. 1963. *La dinamica economica nei sistemi dei valori d'azienda, valutazioni e rivalutazioni*, Giuffrè.
MASSA, G. 1898. *Trattato completo di ragioneria,* Milano.
MASSOUD, M. & RAIBORN, C. 2003. Accounting for Goodwill: Are We Better Off? *Review of Business,* 24**,** 26-32.
MASTERS-STOUT, B., COSTIGAN, M. L. & LOVATA, L. M. 2008. Goodwill impairments and chief executive officer tenure. *Critical Perspectives on Accounting,* 19**,** 1370-1383.

MATSUMOTO, D. 2002. Management's incentives to avoid negative earnings surprises. *The Accounting Review,* 77**,** 483-514.
MATSUNAGA, S. & YEUNG, E. 2008. Evidence on the Impact of a CEO's Financial Experience on the Quality of the Firm's Financial Reports and Disclosures.
MATTESSICH, R. 1970. Perennial misunderstanding of asset measurement by means of present values. *Cost and Management,* 44**,** 29-31.
MATTESSICH, R. 2003. Accounting research and researchers of the nineteenth century and the beginning of the twentieth century: an international survey of authors, ideas and publications. *Accounting, Business & Financial History,* 13**,** 125-170.
MCCONNELL, J. & SERVAES, H. 1990. Additional evidence of equity ownership and corporate value. *Journal of Financial Economics,* 27**,** 595-612.
MCVAY, S. E. 2006. Earnings management using classification shifting: An examination of core earnings and special items. *The Accounting Review,* 81**,** 501-531.
MELVILLE, R. 2003. The Contribution Internal Auditors Make to Strategic Management. *International Journal of Auditing,* 7**,** 209-222.
MERCHANT, K. A. 1981. The Design of the Corporate Budgeting System: Influences on Managerial Behavior and Performance. *The Accounting Review,* 56**,** 813-829.
MERCHANT, K. A. 1984. Influences on departmental budgeting: an empirical examination of a contingency model. *Accounting, Organizations and Society,* 9**,** 291-307.
MEST, D. P. & PLUMMER, E. 2003. Analysts' rationality and forecast bias: Evidence from sales forecasts. *Review of Quantitative Finance and Accounting,* 21**,** 103-122.
MEYER, J. W. & ROWAN, B. 1977. Institutionalized Organizations: Formal Structure as Myth and Ceremony. *American Journal of Sociology,* 83**,** 340-363.
MIAN, S. 2001. On the choice and replacement of chief financial officers. *Journalof Financial Economics,* 60**,** 143-175.
MIKHAIL, M. B., WALTHER, B. R. & WILLIS, R. H. 1999. Does forecast accuracy matter to security analysts? *The Accounting Review,* 74**,** 185-200.
MILLER, M. C. 1973. Goodwill-an aggregation issue. *The Accounting Review,* 48**,** 280-291.
MILLET-REYES, B. & ZHAO, R. A. 2010. A Comparison Between One-Tier and Two-Tier Board Structures in France. *Journal of International Financial Management & Accounting,* 21**,** 279-310.
MINGARELLI , A. 1906. *Di una formula matematica per la Valutazione del capitale d'avviamento in una taberna instructa,* Bologna.
MOEHRLE, S. R. 2002. Do firms use restructuring charge reversals to meet earnings targets? *The Accounting Review,* 77**,** 397-413.
MOMENTÈ, F. 2003. Impairment. La Valutazione degli Intangibili nei Gruppi. Università Bocconi Editore, Milano.
MONROE, G. S. 2011. Financial Reporting and Audit Quality. *Australian Accounting Review,* 21**,** 203.
MORCK, R., SHLEIFER, A. & VISHNY, R. W. 1988. Management ownership and market valuation. An empirical analysis. *Journal of Financial Economics,* 20**,** 293-315.
MORE, F. 1891. Goodwill. *The Accountant,* 17**,** 282-287.
MORGAN, D. P. 2002. Rating banks: Risk and uncertainty in an opaque industry. *American Economic Review,* 92**,** 874-888.
MULFORD, C. W. & COMISKEY, E. E. 2002. The Financial Numbers Game: Detecting Creative Accounting Practices.
NASH, J. 1951. Non-cooperative games. *Annals of Mathematics,* 54**,** 286-295.
NASH, J. 1953. Two-Person Cooperative Games. *Econometrica,* 21**,** 128-140.
NELSON, E. G. 1942. The Relation between the Balance Sheet and the Profit-and-Loss Statement. *The Accounting Review,* 17**,** 132-141.
NELSON, M. W., ELLIOTT, J. A. & TARPLEY, R. L. 2002. Evidence from Auditors about Managers' and Auditors' Earnings Management Decisions. *The Accounting Review,* 77**,** 175-202.
NELSON, R. H. 1953. The Momentum Theory of Goodwill *The Accounting Review,* 28**,** 491-499.

NJAH, M. & JARBOUI, A. 2013. Institutional investors, corporate governance, and earnings management around merger: evidence from French absorbing firms. *Journal Of Economics, Finance And Administra Tive Science,* 18**,** 89-96.
NOBES, C. 1992. A Political History of Goodwill in the U.K.: An Illustration of Cyclical Standard Setting. *Abacus,* 28.
NORRIS, H. 1946. *Accounting Theory*.
NORTH, D. C. 1990. *Institutions, institutional change and economic performance*, Cambridge: University Press. 1990.
NUNNALLY, J. C. 1978. *Psychometric theory (2nd ed.). ,* New York.
NUNNALLY, J. C. & BERNSTEIN, I. H. 1994. *Psychometric theory (3rd ed.),* New York.
O'BRIEN, P. C., MCNICHOLS, M. F. & HSIOU-WEI, L. I. N. 2005. Analyst Impartiality and Investment Banking Relationships. *Journal of Accounting Research,* 43**,** 623-650.
O'DONNELL, E. & SCHULTZ, J. J. J. 2003. The Influence of Business-Process-Focused Audit Support Software on Analytical Procedures Judgments. *Auditing: A Journal of Practice & Theory,* 22**,** 265-279.
O'KEEFE, T. B., KING, R. D. & GAVER, K. M. 1994. Audit fees, industry specialization, and compliance with GAAS reporting standards. *Auditing,* 13**,** 41.
O'BRIEN, P. & BHUSHAN, R. 1990. Analyst following and institutional ownership. *Journal of Accounting Research,* 28**,** 55-82.
OLSON, M. 1993. Dictatorship, Democracy, and Development. *The American Political Sience Review,* 87**,** 567-576.
ONIDA, P. 1931. *I Finanziamenti iniziali d'impresa*, Industrie Grafiche Italiane Stucchi.
ONIDA, P. 1935. Il bilancio delle aziende commerciali. *La determinazione del capitale di bilancio. Milano*.
ONIDA, P. 1937. *Elementi di ragioneria I,* Milano, Giuffré.
ONIDA, P. 1949. L'avviamento nelle valutazioni di cessione o di liquidazione di azienda. *Rivista Italiana di Scienze Commerciali*.
ONIDA, P. 1951. *Il bilancio d'esercizio nelle imprese: Significato economico del bilancio problemi di valutazione*, Giuffrè.
ONIDA, P. 1956. *L'azienda: fondamentali problemi della sua efficienza*, Antonino Giuffrè.
ONIDA, P. 1971. Economia d'azienda. Torino, Utet.
ORGANISMO ITALIANO DI CONTABILITÀ 2015. OIC 24 – Immobilizzazioni immateriali.
OTLEY, D. T. 1980. The contingency theory of management accounting: Achievement and prognosis. *Accounting, Organizations and Society,* 5**,** 413-428.
OWHOSO, V. E., MESSIER, W. F. & LYNCH, J. G. 2002. Error Detection by Industry-Specialized Teams during Sequential Audit Review. *Journal of Accouniting Research,* 40**,** 883-900.
PAJUNEN, K. & SAASTAMOINEN, J. 2013. Do auditors perceive that there exists earnings management in goodwill accounting under IFRS?: Finnish evidence. *Managerial Auditing Journal,* 28**,** 245-260.
PALMROSE, Z.-V. 1988. An Analysis of Auditor Litigation and Audit Service Quality. *The Accounting Review,* LXIII**,** 55-73.
PALUMBO, R. 1999. Spunti di riflessione sul decadimento del paradigma bestano a vantaggio di quello zappiano: il contributo di Vittorio Alfieri. *Rivista Italiana di Ragioneria e di Economia Aziendale,* 99**,** 303-320.
PAOLINI, A., ZIGIOTTI, E. & FRADEANI, A. 2003. *I principi contabili internazionali nelle aggregazioni aziendali: IAS 22, 24, 27, 28 e 31*, Franco Angeli.
PARK, Y. W. & SHIN, H.-H. 2004. Board composition and earnings management in Canada. *Journal of Corporate Finance,* 10**,** 431-457.
PARLAMENTO ITALIANO 2005. Disposizioni per la tutela del risparmio e la disciplina dei mercati finanziari *L. 262/2005* Gazzetta Ufficiale n. 301.
PASSAPONTI, B. 1990. *Il bilancio dell'azienda elettrica: nel quadro dei bilanci a contenuto obbligatorio*, Giuffrè.

PASSAPONTI, B. 1992. Prospettive di cambiamento nel quadro d'assieme dei bilanci-tipo con l'attuazione delle direttive CEE *Rivista dei Dottori Commercialisti,* 6.
PASSAPONTI, B. 1994. *I gruppi e le altre aggregazioni aziendali*, Giuffrè.
PASSAPONTI, B. 1999. Valutazione delle partecipazioni secondo il metodo del patrimonio netto: aspetti del trattamento della differenza con il costo di acquisto. *Rivista dei dottori commercialisti,* 50**,** 829-847.
PATON, W. A. 1922. *Accounting theory, with special reference to the corporate enterprise*, Ronald Press.
PATON, W. A. 1934. Aspects of Asset Valuations. *The Accounting Review,* 9**,** 122-129.
PATON, W. A. & LITTLETON, A. 1940. *An Introduction to Corporate Accounting Standards*
PAYNE, A. 1892. The principles upon which the assets of a joint stock company should be valued for balance sheets. *The Accountant (Feb. 13, 1892)***,** 141-146.
PEASNELL, K. V., POPE, P. F. & YOUNG, S. 2005. Board Monitoring and Earnings Management: Do Outside Directors Influence Abnormal Accruals? *Journal of Business Finance & Accounting,* 32**,** 1311-1346.
PENMAN, S. H. 1970. What Net Asset Value? - An Extension of a Familiar Debate. *The Accounting Review,* 45**,** 333-346.
PERECMAN, E. & CURRAN, S. R. 2006. *A Handbook for Social Science Field Research. Essays & Bibliographic Sources on Research Design and Methods.*
PEROTTA, R. 1983. *Le valutazioni di fusione: problemi di calcolo economico e di rapresentazione*, Guiffrè.
PERRONE, E. 1997. *La ragioneria ed i paradigmi contabili*, Cedam.
PERRONE, E. G. 1986. *La dottrina di Fabio Besta nell'evoluzione della ragioneria*.
PFEFFER, J. 1982. *Organizations and organization theory*, Pitman.
PONZANELLI, G. 1955. L'avviamento, bene immateriale. *Note di economia aziendale, Roma*.
PONZANELLI, G. 1959. *Sul problema della esistenza, della determinazione e della contabilizzazione del valore di avviamento nelle imprese*.
POUND, J. 1992. Raiders, targets, and politics: The history and future of American corporate control. *Journal of Applied Corporate Finance,* 5**,** 6-18.
PRAWITT, D. F., SMITH, J. L. & WOOD, D. A. 2009. Internal Audit Quality and Earnings Management. *The Accounting Review,* 84**,** 1255-1280.
PREINRICH, G. A. D. 1937. Goodwill in Accountancy. *Journal of Accountancy,* 64**,** 28-50.
QUAGLI, A. 2013. *Bilancio di esercizio e principi contabili*, Giappichelli Editore.
RAMANNA, K. 2008. The implications of unverifiable fair-value accounting: Evidence from the political economy of goodwill accounting. *Journal of Accounting and Economics,* 45**,** 253-281.
RAMANNA, K. & WATTS, R. L. 2009. *Evidence from goodwill non-impairments on the effects of using unverifiable estimates in financial reporting*, Harvard Business School Boston, MA.
RAMANNA, K. & WATTS, R. L. 2012. Evidence on the use of unverifiable estimates in required goodwill impairment. *Review of Accounting Studies,* 17**,** 749-780.
RANSON, S., HININGS, C. R. & GREENWOOD, R. 1980. The structuring of organizational structures. Administrative Science Quarterly, 25, 1-17. *Administrative Science Quarterly,* 25**,** 1-17.
RASMUSSEN, E. 1989. Games and Information Oxford. Basil Blackwell.
RATIU, R. V. & TUDOR, A. T. 2013. The Theoretical Foundation of Goodwill - A Chronological Overview. *Procedia - Social and Behavioral Sciences,* 92**,** 784-788.
REES, L., GILL, S. & GORE, R. 1996. An Investigation of Asset Write-Downs and ConcurrentAbnormal Accruals. *Journal of Accounting Research,* 34 157-169.
REES, L. & SIVARAMAKRISHNAN, K. 2007. The Effect of Meeting or Beating Revenue Forecasts on the Association between Quarterly Returns and Earnings Forecast Errors. *Contemporary Accounting Research,* 24**,** 259-290.
REVSINE, L. 1991. The selective financial misrepresentation hypothesis. *Accounting*

Horizons, 5**,** 16-27.
RIEDL, E. J. 2004. An Examination of Long-Lived Asset Impairments. *The Accounting Review,* 79**,** 823-852.
RILEY, P. 1983. A structurationist account of political cultures. Administrative Science Quarterly, 28, 414-437. *Administrative Science Quarterly,* 28**,** 414-437.
ROBERTS, E. S. 1999. In defence of the survey method: An illustration from a study of user information satisfaction. *Accounting and Finance,* 39**,** 53-77.
ROBSON, C. 1993. *Real World Research*.
ROBY, A. 1892. Goodwill. *The Accountant,* 18**,** 288-293.
ROCKNESS, J. W., ROCKNESS, H. O. & INVANCEVICH, S. H. 2001. The M&A Game. *Accounting Regulation,* 17**,** 22-25.
ROMANUS, R., MAHER, J. J. & FLEMING, D. M. 2008. Auditor industry specialization, auditor changes, and accounting restatements. . *Accounting Horizons,* 22**,** 389-413.
RONEN, J. 2010. Corporate Audits and How to Fix Them. *Journal of Economic Perspectives,* 24**,** 189-210.
RONEN, J. & YAARI, V. 2008. *Earnings Management. Emerging Insights in Theory, Practice, and Research,* New York.
ROSE-GREEN, E., HUANG, H.-W. & LEE, C.-C. 2011. The Association between Auditor Industry Specialization and Firms' Disclosure of Internal Control Weaknesses. *International Journal of Auditing,* 15**,** 204-216.
ROSSI, G. 1906. Sulla tassabilità del prezzo di avviamento delle imprese e del sovrapprezzo delle società commerciali e industriali. *Società Tipografica, Modena*.
RUIZ-BARBADILLO, E., BIEDMA-LÓPEZ, E. & GÓMEZ-AGUILAR, N. 2007. Managerial dominance and audit committee independence in Spanish corporate governance. *Journal of management & governance,* 11**,** 311-352.
RUTTEMAN, P. 1987. Where Has All the Goodwill Gone? *Accountancy,* 100**,** 32-35.
RUTTEMAN, P. 1988. Still too weak, still too flexible. *Accountancy,* November.
SALVATORI, A. 1912. L'avviamento *Rivista italiana di ragioneria,* Novembre.
SALZANO, A. 1938. *L'assegnazione di valore al capitale in relazione al reddito futuro*, Napoli: Il Piccolo Marittimo.
SALZANO, A. 1939. *Contributo critico alle analisi di bilancio delle imprese,* Spoleto.
SALZANO, A. 1951. Orientamenti per la determinazione dei risultati di esercizio e per la rilevazione sistematica nelle imprese Ferri Roma.
SALZANO, A. 1961. *Metodologia contabile e determinazione del reddito*.
SALZANO, A. 1961. *Struttura del reddito e rilevazione sistemica nelle imprese*.
SALZANO, A. 1964. *Le Teorie Contabili,* Roma.
SÀNCHEZ-BALLESTA, J. P. & GARCÌA-MECA, E. 2007. Ownership Structure, Discretionary Accruals and the Informativeness of Earnings. *Corporate Governance: An International Review,* 15**,** 677-691.
SANTESSO, E. 1992. *Valutazioni di bilancio: aspetti economico-aziendali e giuridici*, Giappichelli editore.
SARGIACOMO, M., SERVALLI, S. & ANDREI, P. 2012. Fabio Besta: accounting thinker and accounting history pioneer. *Accounting History Review,* 22**,** 249-267.
SARKAR, J., SARKAR, S. & SEN, K. 2008. Board of Directors and Opportunistic Earnings Management: Evidence from India. *Journal of Accounting, Auditing & Finance,* 23**,** 517-551.
SAUNDERS, M., LEWIS, P. & THORNIHILL, A. 2009. *Research methods for business students,* Harlow.
SCHIPPER, K. 1989. Commentary on earnings management. *Accounting Horizons,* 3**,** 91-102.
SCIARELLI, S. 1977. *Il sistema d'impresa: problemi di organizzazione e di gestione*, Cedam.
SCOTT, W. R. 1987. The Adolescence of Institutional Theory. *Administrative Science Quarterly,* 32**,** 493-511.
SCOTT, W. R. 2001. *Institutions and organizations*, Sage.

SCOTT, W. R. 2003. *Financial Accounting Theory*, Prentice Hill.
SECURITIES AND EXCHANGE COMMISSION 2006. Final rule: executive compensation and related person disclosure. *Release No. 33-8732a. File No. s7-03-06.*
SECURITIES EXCHANGE COMMISSION 2002. RegulationS-X. *Rule 2-01.* Washington, DC.
SEED, H. E. 1937. *Goodwill as a Business Asset*, Gee & Company.
SHIVDASANI, A. & YERMACK, D. 1999. CEO Involvement in the Selection of New Board Members: An Empirical Analysis. *The Journal of Finance,* LIV.
SHLEIFER, A. 1998. State versus Private Ownership. *Journal of Economic Perspectives,* 12**,** 133-150.
SHLEIFER, A. & VISHNY, R. 1994. Politicians and Firms. *The Quarterly Journal of Economics,* 109**,** 995-1025.
SHLEIFER, A. & VISHNY, R. 1997. A Survey of Corporate Governance. *The Journal of Finance,* LII**,** 737-783.
SHUTO, A. 2007. Executive compensation and earnings management: Empirical evidence from Japan. *Journal of International Accounting, Auditing and Taxation,* 16**,** 1-26.
SIREGAR, S. V. & UTAMA, S. 2008. Type of earnings management and the effect of ownership structure, firm size, and corporate-governance practices: Evidence from Indonesia. *International Journal of Accounting,* 43**,** 1-27.
SMITH, M. 2003. *Research Methods in Accounting,* London.
SMITH, S. 1904. Depreciation of assets and goodwill of limited companies. *The Accountant (January 1904)***,** 44-52.
SMITH-LACROIX, J.-H., DUROCHER, S. & GENDRON, Y. 2012. The erosion of jurisdiction: Auditing in a market value accounting regime. *Critical Perspectives on Accounting,* 23**,** 36-53.
SOLOMON, I., SHIELDS, M. D. & WHITTINGTON, R. O. 1999. What do Industry-Specialist Auditors Know? *Journal of Accounting Research,* 37**,** 191-208.
SOLOMONS, D. 1961. Economic and accounting concepts of income. *The Accounting Review,* 36**,** 374-383.
SRINIDHI, B. N. & GUL, F. A. 2007. The Differential Effects of Auditors Nonaudit and Audit Fees on Accrual Quality. *Contemporary Accounting Research,* 24**,** 595-629.
STABLER, H. F. & DRESSEL, N. X. 1981. May and Paton: Two giants revisited. *The Accounting Historians Journal,* 8**,** 79-90.
STACY, G. 1987. Goodwill - The Root of the Problem. *Accountancy,* 100**,** 22.
STANLEY, J. & DEZOORT, T. F. 2007. Audit firm tenure and financial restatements: An analysis of industry specialization and fee effects. *Journal of Accounting and Public Policy,* 26**,** 131-159.
STAUBUS, G. J. 1971. The relevance of evidence of cash flows. *Asset Valuation and Income Determination: A Consideration of the Alternatives (Lawrence, KS: Scholars Book Co.)***,** 43-68.
STERLING, R. R. 1970. *Theory of the measurement of enterprise income*, University Press of Kansas.
STOLOWY, H. & BRETON, G. 2004. Accounts Manipulation: A Literature Review and Proposed Conceptual Framework. *Review of Accounting & Finance,* 3**,** 5-92.
STRONG, J. S. & MEYER, J. R. 1987. Asset write-downs: managerial incentives and security returns. *The Journal of Finance,* 42 643-661.
TEARNEY, M.G. 1973. Accounting for Goodwill - A Realistic Approach *Journal of Accountancy,* 136**,** 41-45.
TEOH, S. H. & WONG, T. J. 1993. Perceived auditor quality and the earnings response coefficient. *The Accounting Review,* 68**,** 346-366.
TRAHAN, E. & GITMAN, L. 1995. Bridging the theory-practice gap in corporate finance. A survey of Chief Financial Officers. . *Quarterly Review of Economics and Finance* 35**,** 73–87.
TURNER, L. E. The Times, They Are a-Changing. 33rd Rocky Mountain Securities

Conference, 2001. U.S. Securities and Exchange Commission.
TWEEDIE, D. & BLANCHET, J. 1989. Brands, Goodwill and the Balance Sheet. *Accountancy,* 103**,** 20-22.
UNITED STATES CONGRESS 2002. Sarbanes–Oxley Act. *Pub.L. 107–204.*
UTAMA, S. & CREADY, W. M. 1997. Institutional ownership, differential predisclosure precision and trading volume at announcement dates. *Journal of Accounting & Economics,* 24**,** 129-150.
VAN DE VEN, A. H., GANCO, M. & HININGS, C. R. 2013. Returning to the Frontier of Contingency Theory of Organizational and Institutional Designs. *The Academy of Management Annals,* 7**,** 393-440.
VERONA, R. 2006. *Le politiche di bilancio. Motivazioni e riflessi economico-aziendali*, Giuffrè Editore.
VIANELLO, V. 1930. *Istituzioni di ragioneria generale,* Milano.
VIANELLO, V. 1932. *Istituzioni di ragioneria generale*, Albright, Segati & c.
VIGANÒ, A. 1979. *Le immobilizzazioni tecniche investigate nella dinamica economica d'impresa: (principi e concetti)*, Giuffrè.
VIGANÒ, E. 1967. *La natura del valore economico del capitale di impresa e le sue applicazioni,* Napoli.
VIGANÒ, E. 1994. A Comparative View of Accounting and "Economia Aziendale". *Economia Aziendale,* 13**,** 1-70.
VIGANÒ, E. 1998. Accounting and business economics traditions in Italy. *European Accounting Review,* 7**,** 381-403.
VIGANÒ, E. & MATTESSICH, R. 2007. Accounting research in Italy: second half of the 20th century. *Review of Accounting and Finance,* 6**,** 24-41.
VILLA, F. 1870. *Elementi di amministrazione e contabilita*, Pavia: Bizzoni.
VON NEUMANN, J. & MORGENSTERN, O. 1944. *Theory of games and economic behavior,* PRINCETON, PRINCETON UNIV PR.
WALKER, G. T. 1953. Why purchased goodwill should be amortized on a systematic basis. *Journal of Accountancy,* 95**,** 210.
WALLACE, W. & KREUTZFELDT, R. 1995. The Relation of Inherent and Control Risks to Audit Adjustments. *Journal of Accounting, Auditing & Finance,* 10**,** 459-483.
WALTON, S. 1919. Goodwill - or Speculation. *Journal of Accountancy,* May 1919**,** 379-382.
WANG, K. J. & TUTTLE, B. M. 2009. The impact of auditor rotation on auditor–client negotiation. *Accounting, Organizations and Society,* 34**,** 222-243.
WARFIELD, T. D., WILD, J. J. & WILD, K. L. 1995. Managerial ownership, accounting choices, and informativeness of earnings. *Journal of Accounting & Economics,* 20**,** 61-91.
WATERHOUSE, J. H. & TIESSEN, P. 1978. A contingency framework for management accounting systems research. *Accounting, Organizations and Society,* 3**,** 65-76.
WATTS, R. L. 2003. Conservatism in Accounting Part I: Explanations and Implications. . *Accounting Horizons* 17**,** 207-221.
WATTS, R. L. 2003. Conservatism in Accounting Part II: Evidence and Research Opportunities *Accounting Horizons,* 17**,** 287-301.
WATTS, R. L. & ZIMMERMAN, J. L. 1981. The markets for independence and independent auditors. *Unpublished manuscript, University of Rochester.* Rochester.
WATTS, R. L. & ZIMMERMAN, J. L. 1986. *Positive accounting theory*, Upper Saddle River: Prentice-Hall. c1986.
WATTS, R. L. & ZIMMERMAN, J. L. 1990. Positive Accounting Theory: A Ten Year Perspective. *The Accounting Review,* 65**,** 131-156.
WEAVER, G. R. & GIOIA, D. A. 1994. Paradigms Lost: Incommensurability vs. Structurationist Inquiry *Organization Studies,* 15**,** 565-590.
WEIR, C., LAING, D. & MCKNIGHT, P. J. 2002. Internal and External Governance Mechanisms: Their Impact on the Performance of Large UK Public Companies. *Journal of Business Finance and Accounting,* 29**,** 579-611.

WELLS, P. 2002. Earnings management surrounding CEO changes. *Accounting & Finance,* 42**,** 169-193.
WESTPHAL, J. D. & ZAJAC, E. J. 2001. Decoupling Policy from Practice: The Case of Stock Repurchase Programs. *Administrative Science Quarterly,* 46**,** 202-228.
WHITTINGTON, G. 1993. Corporate Governance and the Regulation of Financial Reporting. *Accounting and Business Research,* 23**,** 311-319.
WILLIAMS, J., DADALT, P., SUN, H.-L. & VARDA, Y. 2006. *Has regulation changed the market's reward for meeting or beating expectations?*
WILLMOTT, H. 1993. Breaking the paradigm mentality. *Organization Studies,* 14**,** 681-719.
WILLMOTT, H. 1993. Paradigm gridlock: A reply. *Organization Studies,* 14**,** 727-730.
WILSON, M. & WANG, L. W. 2009. Earnings management following chief executive officer changes: the effect of contemporaneous chairperson and chief financial officer appointments. *Accounting & Finance,* 50**,** 447-480.
WISEMAN, R. M., CUEVAS-RODRÍGUEZ, G. & GOMEZ-MEJIA, L. R. 2012. Towards a Social Theory of Agency. *Journal of Management Studies,* 49**,** 202-222.
WOOLF, E. 1990. Arguments in the goodwill debate. *Accountancy (London),* 105**,** 92-93.
WRIGHT, A. W. 1955. *An examination of goodwill as shown on balance sheets of United States corporations for fiscal years ending in 1953*.
XIANHUI, B. & LIANSHENG, W. 2009. The Governance Roles of State-owned Controlling and Institutional Investors: A Perspective of Earnings Management. *Economic Research Journal,* 2**,** 008.
XIE, B., DAVIDSON III, W. N. & DADALT, P. J. 2003. Earnings management and corporate governance: the role of the board and the audit committee. *Journal of Corporate Finance,* 9**,** 295-316.
YANG, J. M. 1927. The valuation of intangibles. *Accounting Review***,** 223-231.
YOUNG, M., PENG, M. W., BRUTON, D. & JIANG, D. 2008. Corporate governance in emerging economies: A review of the principal– principal perspective. *Journal of Management Studies,* 45**,** 196-220.
ZAMBON, S. & ZAN, L. 2000. Accounting relativism: the unstable relationship between income measurement and theories of the firm. *Accounting Organizations and Society,* 25**,** 799-822.
ZAN, L. 1994. Toward a history of accounting histories. *The European Accounting Review,* 3**,** 255-307.
ZANG, Y. 2008. Discretionary behavior with respect to the adoption of SFAS no. 142 and the behavior of security prices. *Review of Accounting & Finance,* 7**,** 38-68.
ZAPPA, G. 1910. *Le valutazioni di bilancio con particolare riguardo al bilanci delle società per azioni*, La Litotipo Editrice Universitaria.
ZAPPA, G. 1926/1927. *Tendenze nuove negli studi di ragioneria: discorso*, Istituto editoriale scientifico.
ZAPPA, G. 1927. Le valutazioni di bilancio. Società Editrice Libraria, Milano.
ZAPPA, G. 1929. *La determinazione del reddito nelle imprese commerciali,* Genova, Anonima Libreria Italiana.
ZAPPA, G. 1937. Il reddito d'impresa (tomo I). Giuffrè, Milano.
ZAPPA, G. 1946. *Il reddito d'impresa.* Giuffrè, Milano.
ZAPPA, G. 1950. *Il reddito di impresa: Scritture doppie, conti e bilanci di aziende commerciali*, Giuffrè, Milano.
ZAPPA, G. 1956. Le produzioni nell'economia delle imprese. *Tomo I, Giuffrè, Milano,* 1957.
ZATTONI, A. & CUOMO, F. 2008. Why Adopt Codes of Good Governance? A Comparison of Institutional and Efficiency Perspectives. *Corporate Governance: An International Review,* 16**,** 1-15.
ZEFF, S. A. 1964. The Balance Sheet and Income Statement - Analytically Coordinate. *National Association of Accountants,* 45**,** 27.
ZUCCA, L. J. & CAMPBELL, D. R. 1992. A Closer Look at Discretionary Writedowns of

Impaired Assets. *Accounting Horizons,* 6**,** 30-41.
ZUCKER, L. G. 1987. Institutional theories of organization. *Annual Review of Sociology,* 13**,** 443-464.

Acknowledgments

At the end of my doctoral course I would like to thank the people who gave me the chance to conclude it and who supported me during this "travel". Of course, I completely assume the responsibility of what is written.

The first person I want to give my deepest and heartfelt thanks is Professor **Marco Allegrini**. Thank you for being my supervisor, my mentor and my first referee. This thesis would have not been possible without your constant and patient guide. Your help and teachings have been invaluable and your ideas have inspired most of my work. Your precision, experience and inestimable knowledge always challenge me to deepen and to demand more from me. It has been an immense honour for me to be your Ph.D. Student.

I am extremely grateful for the opportunity to Professor **Luciano Marchi**. Your full dedication to the Ph.D. Programme in Business studies and Management of the University of Pisa, Firenze and Siena helped me in never losing my bearings. It has been an immense pleasure to be welcomed in this programme; I really appreciated all the lectures, seminars and academic exchanges organised during the entire Ph.D. period.

I am very thankful to Professor **Giulio Greco.** Thank you for your relentless guidance and devotion, but above all, sorry for being worrying you about my doubts since the beginning of my studies. This course of research would not have been minimally imaginable without your insights, valuable observations, collaboration and discussion, sharing your time with me!

A profound thank you goes to Professor **Giuseppe D'Onza**. I thank you for the immeasurable dynamism, interest and enthusiasm you continually transfer. Doing research with you has been a privilege for me given your thoughtful and rigorous knowledge always accompanied by an enjoyable attitude.

Altogether, I will never forget your recommendations; for sure all of them have contributed to both my academic and personal growth!

A special thanks to Professor **Robert Melville** for having me hosted at the Cass Business School in London during a part of my second Ph.D. year. I have a wonderful remember of those moments and of the beautiful welcome I received. Thank you Rob for your enlightening feedback and for making me approach with such passion to the corporate governance studies.

This thesis would not have been complete without the participating Chief Financial Officers. Thank you all! I am beyond grateful for sharing your precious time to respond to my questionnaire.

I am thankful for the helpful comments to the Faculty and Participants at the EAA 29th Doctoral Colloquium in Accounting as well as to the Participants at the 11th and 12th European Ph.D. Workshops on Internal Audit and Corporate Governance. Fundamental in the development of the thesis methodology and methods have been also the participation to the following Schools: Summer School on "Metodologie per la Ricerca Sociale (Analisi econometriche)", Aidea Capri Summer School and Scuola di Metodologia della Ricerca Storica (SISR).

One person who has been of substantial importance since the beginning of my Ph.D. studies is **Sara Trucco**. Besides the academic give-and-take that we had during these years, thank you for becoming one of my best friends, being present and always raising up my mood. Thank you for our impressive laughs! Significantly important has been also **Giovanni Riccardi** and my other colleagues. Giovanni, thank you for sharing ideas, comments, jokes as well as the desks with me for so many years! Also, my other colleagues in Pisa have been vital during these years. All of them have been the best persons with whom to share the office and the break time, and each of them with their own behaviour and words managed to cheer up and to lighten days of intense study.

Last but not least, I would like to sincerely and deeply thank my **Mum** and my **Sister**. Thank you both for always believing in my decisions, encouraging me and helping me to overcome my weaknesses. I thank you for your immense love, unconditional patience and endless support. I love you!