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BRITISH RESEARCH IN ACCOUNTING AND FINANCE

(2001-2007): THE 2008 RESEARCH ASSESSMENT

EXERCISE

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1 INTRODUCTION

This paper provides an overview of the state of research in the fields of accounting and finance in UK universities over the period 2001-2007, based on the outputs assessed by RAE sub-panel 35 (SP35) in this subject area. It builds, and expands, upon the subject overview report, also written by the members of SP35, which was published on the RAE 2008 website earlier in the year.

By way of introduction and context-setting, 14 units, comprising 161.6 FTE staff, made *direct* submissions to the panel (in comparison to the 20 units with 202.2 FTE staff who submitted directly to the Accounting and Finance panel for the 2001 exercise), with the quality profiles awarded being published. SP35, however, was asked for cross-referral advice by the Business and Management Sub-Panel (SP36) with respect to the evaluation of nearly three times as many outputs as those submitted directly. This can be contrasted with the situation in 2001 where cross-referred outputs were approximately 40% larger in number than those directly submitted. The advice provided was fed into the overall output profiles produced by SP36 for the units submitted to them. Overall, the number of outputs assessed by the sub-panel, whether directly or *via* advice offered to SP36, *increased* by approximately 25% between the 2001 and 2008 RAE exercises.

Given that far more outputs were assessed *via* the cross-referral mechanism than through direct submission to the sub-panel, it would be potentially misleading to concentrate only on those outputs assessed through direct submission when evaluating the state of research activity in accounting and finance in the UK. Hence, it is worth stressing that comments below about the outputs of research activity are based on the

total outputs assessed. In addition, only four items of work for each selected researcher could be included in any submission. Hence, some UK research work is inevitably excluded from this review.¹

In general, it is not possible to make comparisons with previous RAEs, in terms of whether the quality of research in accounting and finance has improved or declined. There are two main reasons why this is the case. First, the members of SP35, whilst having an intentional overlap with, were not identical to, the members of the Accounting and Finance Panel who took part in RAE 2001. Second, the grading mechanism for outputs changed between the 2001 and 2008 RAE's.

2 PROCESS

In generating output assessments, and ensuring a common and shared understanding of the standards to be applied, the sub-panel followed a careful and painstaking process, as detailed below. Once the outputs put forward by units directly submitted to SP35 were made available to the sub-panel, responsibilities for the initial 50% of the directly submitted outputs examined in detail were assigned to individual sub-panel members in January 2008.

Where necessary, arrangements were made to cross-refer outputs to other panels (mainly to SP36 and the Economics and Econometrics Sub-Panel (SP34)). This occurred in a relatively limited number of instances.

¹ It should be noted, however, that statistics produced as part of the RAE process reflect the profiles and sub-profiles for only those units *directly submitted* to the Accounting and Finance sub-panel.

At this stage, a number of the outputs assigned to sub-panel members were deliberately assigned to two sub-panel members. This part of the process highlights an important aspect of the membership of SP35. Sub-panel members all provided a wide range of academic range of expertise such that more than one person was capable of assessing any given output. As a consequence, the sub-panel were rarely reliant upon the views of a single individual for any particular research area included within the remit of the sub-panel.

The outputs assigned for joint initial evaluation effectively formed a set of illustrative case studies to be used in forming a common and shared understanding of how the assessment mechanism was to proceed subsequently. With respect to the case study outputs, sub-panel members were then invited to come to the next meeting of the sub-panel, in March 2008, with individually prepared reports on each of the jointly evaluated outputs, the reports being specifically related not only to how the verbal descriptors of the quality rankings contained in the sub-panel's working methods were being interpreted but also providing a provisional output assessment and how it related to the verbal descriptors. For individual case study outputs, reports and provisional assessments were compared across assessors and, through a process of detailed and lengthy discussion amongst all sub-panel members, arising from consideration of the case studies, a common and shared understanding was arrived at.

After the March 2008 meeting, sub-panel members were then charged with providing recommended output assessments for the 50% of outputs being initially examined in detail (for both the direct submissions to the sub-panel and the outputs cross-referred

for advice by SP36) in time for the July 2008 meeting of the sub-panel. At that meeting, output assessment profiles for each sub-panel member with respect to the outputs examined in detail were then constructed and compared across sub-panel members. *Via* this transparency, sub-panel members were able to confirm that they had no reason to believe that a common and shared understanding of assessment standards was not being applied to all outputs, whether directly submitted or cross-referred for advice.

At the July 2008 meeting, the remaining outputs were assigned to sub-panel members, who then became responsible for providing appropriate output assessments before the penultimate meeting of the sub-panel in September 2008. After the penultimate meeting of the sub-panel, all the output assessment advice asked for by SP36 was provided on an output-by-output basis.²

Although the sub-panel's working methods required only a minimum of 50% of outputs to be examined in detail, no member of the sub-panel felt comfortable with this minimum and *all* outputs directly submitted were examined in detail before output assessments were made. Additionally, *all* of the outputs cross-referred from SP36 were also examined in detail. Thus, in total, the eleven members of the sub-panel examined in detail approximately 2,000 outputs. This constituted a substantial increase in workload for sub-panel members relative to the 2001 exercise.

² All outputs were reported in to the sub-panel secretary directly, who then entered them into the necessary worksheets designed to record the output assessments. Given the limited access of sub-panel members to these worksheets, it was not possible for them to observe the assessments awarded to their own outputs. Sub-panel members with serious enough conflict of interests, as defined by the RAE rules, with respect to assessing the outputs of an institutional submission, or an individual within an institution, were not allowed to assess outputs of that institution or individual. Further, as a general point, other than for the outputs for which they were responsible within a submission, sub-panel members were not privy to the individual output assessments for a submission. Instead, they were aware of the profile of assessments for each submission, when needed and appropriate, at the September 2008 meeting.

Judgements about the environment and esteem sub profiles were made jointly by all members of the sub-panel for each submission to the sub-panel. All elements of environment and esteem, established within the sub-panel's working methods, were taken into account, where relevant, and judgements concerning the sub-profiles awarded for environment and esteem represent the pooled, consensus, views of the sub-panel. Such sub-profiles were arrived at after substantial discussion, and without knowing the sub-profiles awarded for outputs.

Once the sub-panel had provisionally awarded all the sub-profiles for each direct submission, the sub-profiles were aggregated and the overall provisional profiles revealed.³ This occurred at the September 2008 meeting of the sub-panel. The aggregation of the sub-profiles to produce an overall profile used the aggregation algorithm established by the RAE and was not a matter for the judgement of the sub-panel.

Between the penultimate and final meetings of the sub-panel, sub-panel members were invited to reflect on the sub-profiles and overall profiles awarded, and bring up any cases they felt needed to be revisited. At the final meeting of the sub-panel in October 2008, any necessary revisiting took place and the reasoned case to be received by universities for each direct submission was prepared on a consensus basis. The final recommended sub-profiles, overall profiles, and reasoned cases were then forwarded to Main Panel I for approval.

³ Any sub-panel member with a serious enough conflict of interest, as defined by the RAE rules, with respect to an institutional submission was required to withdraw from discussions over the sub-profiles for environment and esteem to be awarded to that institution, and any subsequent discussions over these sub-profiles and overall profile.

The mechanisms described above were highly complex to keep track of. SP35 would have struggled in this respect if we had not had available to us the support services of Georgina Inglis and Alastair Pettigrew to keep us on the straight and narrow. Alastair and Georgina also so acted for the other sub-panels belonging to Main Panel I (MPI) and MPI itself. Their contributions were much appreciated by all members of SP35 throughout the process.

Professor David Otley, the chairperson of MPI, attended at least part of all SP35 meetings, as he did with the meetings of the other sub-panels of MPI. As a consequence, he was able to provide invaluable help in facilitating the work of SP35, including passing on insights into how the other sub-panels within MPI were addressing certain problems in implementing the RAE rules, and feeding the views of SP35 into the process of generating consensus across MPI concerning process and practice.

Further, the meetings of MPI provided opportunities for the discussion of particular case studies, in terms of the overall rankings of outputs across the sub-panels and, at a later stage in the process, the output, environment, esteem and overall profiles being put forward for particular institutions by each sub-panel. Further consensus across the sub-panels in MPI was facilitated *via* such discussions. International and user representatives attended the meetings of MPI and played a full part in the discussions and developing appropriate process for implementing the RAE rules. At the final stage, MPI approved the final set of profiles and sub-profiles for the institutions submitted to each sub-panel within it after appropriate discussion.

3 GENERAL COMMENTS

Some general comments can be made, before moving on below to more detailed comments on specific areas of research within accounting and finance. First, world leading work in accounting and finance was found in a substantial number of units in the UK, and across the sub-areas of research in accounting and finance. On the basis of the output assessments of both directly submitted work and work cross-referred to the sub-panel for advice by SP36, work of world leading quality was present in the outputs of over 35 units. Further, these units varied substantially in their size.

Second, the advice provided to SP36 suggested that the average quality of the cross-referred work was higher than the average quality of the work directly submitted to the sub-panel. As a consequence, any assessment of the overall quality of research in accounting and finance based *solely* on the work *directly* submitted will understate average quality and, as a consequence, will be misleading.⁴

Third, world leading work was not concentrated in a limited number of journals. Indeed, sub-panel members assessed some work in research journals in accounting and finance that might be conventionally considered as of the highest rank as not meeting the standards necessary to be regarded as world leading. Conversely, sub-panel members assessed some work in research journals in accounting and finance that might be conventionally considered as being of lesser rank as meeting the standards necessary to be regarded as world leading. As a consequence, no direct one-to-one mapping emerged from the output assessments awarded by sub-panel

⁴ See footnote 1.

members and any particular perceptions of journal ranks. This suggests that relying on journal ranks to capture research quality in accounting and finance, a practice seemingly on the increase in many UK institutions, and also in the rankings of business school produced by newspapers such as the Financial Times, is likely to be misleading in capturing the real level of research quality in these research areas.

Fourth, relatively little applied work was considered by the sub-panel, whether directly or indirectly. Such work as there was of this type was considered *pari passu* by the sub-panel, using the same criteria as for other outputs.

Fifth, most of the work submitted to SP35, either directly or indirectly through the cross-referral process, was in the form of papers in refereed research journals. Other forms of output included books, reports for professional bodies, and working papers. The form of dissemination of research findings played no part in the evaluation of the quality of outputs. As mentioned, all outputs were individually read and evaluated using the professional judgement of sub-panel members in applying the quality criteria, established by the RAE, relating to originality, significance and rigour.

Sixth, work assessed as being of a lower standard than the highest possible generally had one or more of the following defects: (i) lack of theorisation; (ii) failure to consider possible explanations for observed incidences or associations; (iii) poor data collection procedures; and (iv) lack of conclusions/implications (the ‘so what?’ question – that is, a failure to suitably explicate the purpose of the research endeavour and the implications of the findings arrived at).

Seventh, one particular comment about a specific set of methods of research in accounting and finance can be made. A common failure of survey studies generally (both questionnaire and interview) was the lack of either *ex ante* or *ex post* theorisation (the latter being of key relevance in grounded theory studies). More particularly, a common weakness of studies using questionnaire survey methods was a failure to allow for an inadequate number of respondents (perhaps due to the increased likelihood of potential participants to refuse to take part in such surveys). These failures are disappointing since survey methods, if well executed, have the potential to reveal rich insights into some of the ‘black box’ processes of accounting and finance.

4 FINANCIAL ACCOUNTING AND REPORTING, AUDITING, AND CORPORATE GOVERNANCE AND PROFESSIONALISATION

Submissions read by the panel coming under the general heading of financial accounting and reporting, corporate governance and audit were varied and diverse in scope, indeed at times somewhat eclectic. Inevitably it is very difficult in the limited confines of this paper to do full justice to *inter alia* the range and breadth of research questions investigated, the differing underlying theoretical perspectives employed (for example agency and signalling theory, stakeholder and legitimacy theory, institutional theory, sociological and linguistic theories), and the plethora of methodological approaches (for example, normative, market-based, archival, case study), in the submissions read by the panel members. In this section of paper, however, and at the risk of oversimplification, we identify the main themes in terms of both content and methodology emanating from the submissions.

It can also be noted that there exists potential synergy between leading UK practice and research on a global stage. In particular, there should be considerable US and wider international interest in UK research that sheds light on the introduction of IFRS and ISAs, and reforms in corporate governance where the UK practice was world-leading. This interest could also usefully promote greater international understanding of the wide variety of research approaches and traditions common in the UK.

In terms of financial accounting and reporting, relatively little research which might be categorised as normative theorising came to the attention of the panel – a development in line with the increased popularity of positivist and market-based approaches in academe over the last thirty years. Research which might be considered to fall into this category was predominantly to be found in the context of quasi-historical studies of the appearance of competing modes of thought, the emergence of regulatory and standard setting bodies, and the development of specific accounting standards.

There were a substantial number of papers on market-based accounting research, the overwhelming majority of which were based on residual income models and their extensions. Although most of the submitted work in this area was empirical, there were a few theoretical contributions. Empirical work concentrated on the assumptions, the value relevance of components of accounting items, its use of valuation, while theoretical work concentrated on the structure of valuation models. Market-based research also focused on linkages between changes in standards, or some other event linked to financial reporting, and valuation changes.

Research focusing on specific standards tended to relate to aspects of presentation, leasing, and retirement benefit disclosures. Perhaps surprisingly, little submitted research was directed to the accounting issues relating to mergers and acquisitions, notwithstanding the wealth of research devoted to investigation of their economic impact. There was also relatively little case study-based research analysing the nature of accounting choices made by individual companies.

There were a significant number of studies directed towards aspects of disclosure, with the focus being on the nature of narrative reporting and the presentation of disclosures. These studies covered both mandatory disclosure (in particular, harmonisation and IFRS convergence) and voluntary disclosure. Many of these studies addressed sub-topics of narrative disclosure, for example: (i) forward-looking information; (ii) corporate social reporting; (iii) environmental disclosures; (iv) intellectual capital; and (v) risk. They also included consideration and analysis of specific issues such as: (i) electronic reporting; and (ii) visual presentation within financial statements. In these studies the central research question addressed was generally one of the following: (i) what is reported; (ii) what are the determinants of this disclosure; and (iii) what are the consequences of this disclosure? Methodologies employed focused either on the use of content analysis to collect at least some of the data, combined with statistical analysis (usually regression) or survey methods (questionnaires/interviews) to elicit the views of interested parties (generally preparers or users).

An important subset of the research in financial accounting and reporting related to the public sector context. Studies covered wider aspects of the suitability of the application of the private sector reporting model to the public sector and a developing field of work related to the emergence over the last fifteen years of the Private Finance Initiative (PFI) and its successor, Public Private Partnerships (PPP). These studies were wide ranging in nature but their focus tended to be toward issues of risk sharing and economic outcomes within a wider framework of concepts of accountability and efficiency in the public sector rather than more narrowly on how this was reflected in terms the underlying accounting. In terms of methodology, these studies tended to combine both *a priori* reasoning with archival-based evidence, as with, for example, evidence provided by *ex post* National Audit Office investigations of specific PFI/PPP schemes.

In the audit field, quite a number of studies investigating aspects of market structure and of fee patterns in particular sub-markets within both the private and public sector were submitted. Although building on previous work, these studies extended the scope of previous research (as with, for example, analyses of linkages between audit and non-audit fees), and a number also incorporated methodological improvements (for example, in the use of simultaneous equations regression modelling). Despite the very extensive literature which has developed in this field, however, there may still be scope for questioning the emphasis placed upon the analysis of, normally, cross-sectional data sets within an environment largely devoid of theory and/or incorporation of dynamic aspects of the market structure/pricing model.

There were also welcome signs of a broadening of the focus of auditing research toward studies investigating more directly issues concerning audit methodology and practice, including more than one study in which the researcher observed directly the process by which audit or audit linked decisions were made. The majority of these studies were related to the development in the last decade of the twentieth century of what came to be known as the 'business risk audit'. To an extent overlapping these studies were those which considered more widely the notion of risk management in commercial organisations and the relationships, sometimes symbiotic and sometimes competitive, between audit and other risk management procedures within firms.

The majority of the research related to the external audit of private sector entities audited by private sector auditing firms, but some attention was paid to internal audit and the manner in which it has grown in size and status over the last thirty years, and to audit within the public sector. These latter studies both reflected the competing nature of the two main UK public sector audit entities and also (and here to an extent interrelating with the PFI/PPP studies) the role of audit within the wider New Public Management paradigm.

Corporate governance studies covered a range of issues and a whole variety of methodological approaches were employed. A number of studies provided insights into the manner in which concepts and notions of governance within the UK, and more widely, have evolved over the past twenty years, and how this has been accompanied and/or led by regulatory change. Other studies sought to relate outcomes, whether in terms of performance criteria or market valuations, to the existence or otherwise of particular governance characteristics.

A different stream of research, of a discursive nature, provided a substantial and significant body of work concerned with financial accounting and the rise of the professional service firm, which explores the political economy of accounting and the dynamics of capital markets, focusing on such issues as financialisation, and accumulation under inequality. Studies in the area of financial accounting also sought to examine the development of accounting as a practice involving interactions between regulators, institutes and professional service firms. Some studies focused upon macro-accounting issues, including the influence of USA GAAP on accounting practice in Europe, and the internationalisation of accounting and the accounting profession itself in a variety of socio-political and economic contexts.

Some of this work has a fairly technicist orientation, but there was an emergent trend of work studying interactions between key players in the recent past and the contemporary setting, thus extending our understanding of the dynamics of accounting regulation and professional practice. This range of studies extended from a focus upon the US or European countries and their former colonies to the study of other advanced capitalist countries, such as Japan, and so-called transitional economies such as China and Russia. Often they drew upon a rich vein of archival material, including both primary and secondary sources plus in-depth interviews.

Studies of professionalization included a range of historically informed studies on the often-contested formation of professional bodies in different countries and on the way such pasts shape ongoing presents. There was an emergent stream of such work focusing on the interplay between imperialism and accounting (for example, the

extent of the continuance of imperially-derived accounting practices and institutions in post-colonial societies). Other studies used publicly available information to focus upon examining the costs and benefits of systems of accounting regulation, and the relationship between the accounting/auditing profession and the state, including studies into the ways in which the accounting profession and the state might seek to use accounting as a means of colluding to serve the interests of specific sectors of society. Research into the nature of accounting practice raised significant new issues, not only concerning the relationship between accounting and ethics but also in such areas as accounting and religion or spirituality. There also were studies which drew upon on ideas from literary theory, or the study of literary work, to shed light on the discursive and cultural significance of accounting beyond the professional and academic accounting spheres. A rich variety of economic, social and philosophical theories were mobilised to support this range of research, including actor network theory, discourse theories, macro- and micro-economic theory, Marxist and labour process theories, and the sociology and history of the professions.

5 MANAGEMENT ACCOUNTING

Research assessed by the sub-panel in the area of management accounting was impressive in its overall variation in topic, theoretical orientation and method. It is clear from our assessment of that output that, in certain areas of mainstream research, UK research output is on a par with some of the best research output known internationally, while in other areas, in particular discursive and critical research, UK academics set the research agenda and provide outstanding leadership.

Mainstream research in management accounting covered a wide variety of topics. A prominent set of studies were conducted within the framework of contingency theory, studies mainly using responses from questionnaires, but also employing material drawn from interviews and archival material based on in-depth case studies in manufacturing and service organisations as well as the public sector, to explore a variety of themes germane to this type of research. Familiar past themes continuing to attract attention included those related to costing methods, overhead allocation, and transfer pricing.

One of the key themes was the impact of contingency factors on the design and use of budgeting and management accounting systems, with more recent extensions to the consideration of emerging structural forms such as supply chain relations. A notable group of studies examined the impact of the use of particular management accounting techniques upon organisational performance (particularly profitability), but also included studies on the impact of performance measures in the public sector, and others which examined the impact of contingency factors upon work contexts and in constructing role ambiguity for organisational members. A second theme, represented by only a few studies, explored the design of reward structures and incentive schemes within this contingency framework. A third theme was represented in studies which employed mathematical programming techniques to estimate detailed costs (for example, of outsourcing). A fourth theme extended contingency arguments to corporate or business strategy and sought to develop understandings of how management accounting systems might contribute to organisational functioning becoming more strategically focused.

Collectively, what this body of research suggests is that contingency theory-based studies continue to be a useful avenue for providing generalisations about the impact of contingency factors upon the design of management accounting systems and overall firm performance. We anticipate that this line of research will continue to enrich our understanding of the situational contexts of management accounting practice for decades to come.

Discursive management accounting studies mobilised an impressive array of theories for their analysis of numerous important topics. One key theme was developed in micro-studies of the emergence and functioning of particular accounting practices, often those newly introduced in organisations, which situated their analyses within richly articulated organisational histories and contexts, before focusing on specific issues such as, for example, risk assessment in areas such as supply chain relations and the budgetary process or, in a few cases, organisational susceptibility to risk. Other studies explored the wave of privatisations of previously public utilities and other state institutions and the role of accounting therein. Another strand of this research focused on inter-professional competition between management accountants and other professional groups in a variety of organisational settings. Yet another strand focused upon environmental issues and the role of accounting in sustainability reporting. These studies examined how ‘new’ accounting systems and practices are engaged in by particular organisations, how they are presented to organisational members and introduced into organisations, and how they are received by organisational members. Intellectual capital and the role of accounting technologies in this context also attracted a few studies. Issues of power, disciplinary practices,

identity, subjugation, resistance, strategy, political hegemony, and cultural and political contexts were, variously, emphasised.

A variety of theoretical lenses were adopted to examine these themes, including institutional theories, orthodox Marxist and labour process theories, actor network theory, structuration theory, and poststructuralist theories. A particular stream of poststructuralist theorisation continued to exploit the ideas of researchers such as Foucault and Rorty to examine the impact of the linguistic turn and discourse analysis in this context. Other studies took a macro perspective and examined the development of management accounting technologies, and the networks and alliances that were formed to facilitate their dissemination as global accounting systems, in particular Activity Based Costing. These studies made connections to aspects of wider academic work relating to globalisation *per se*. Some of the research output of this genre is clearly world leading, where UK academics have opened up new opportunities for research, research that are informed by theories other than those typically identified as mainstream in traditional management accounting research.

6 ACCOUNTING HISTORY

Research in accounting history continued to address an expanding range of topics, some of more strictly historical interest and others which sought to shed light on contemporary issues and concerns. Archival-based mainstream research in accounting history covered many issues relating to the commercial and industrial revolutions, and the rise of major modern industries and firms, but also issues relating to the rise from the nineteenth century of the accounting profession in the UK, the US and Europe,

and also in other areas of the world. An increasing stream of research into the relations between accounting and taxation practices also developed.

As in management accounting and narrative financial accounting research, the field manifested considerable theoretical diversity. Some critical research continued to draw upon Marxist or post-Marxist theory to extend understandings of the centrality of the role of accounting in the rise of capitalism, capitalist accountability, and control of the labour process. Other strands of critical research analysed accounting as a set of discursive and non-discursive practices, drawing on material from pre-history and the ancient civilizations, through to more recent periods, using a variety of post-structural theories, including the work of Derrida and Foucault. There was an increasing stream of work, including collaborative work, where scholars from a range of perspectives engaged in re-investigation of key historical issues through a revised scrutiny of primary archival as well as secondary sources, to advance theoretical as well as empirical understandings.

Work informed by accounting history also contributed to contemporary research understandings of financial and management accounting, or more widely of management theory, organizational behaviour, professionalization, and strategy practice. Finally there was some valuable work being undertaken in the field of finance, where collaboration with accounting and economic historians sheds new light on the historical and current practices of finance, from the medieval era as well as from more recent periods.

7 ACCOUNTING EDUCATION

Research in the accounting education area continues to expand and deepen in its scope and theoretical sophistication. There are significant research networks developing studying both academic and professional areas of accounting education and training, with crossover between the two.

On the academic side, there was a major stream of psychology-based work studying teaching and learning techniques and strategies, but also student perceptions of different types of accounting content and pedagogy. A range of psychological theories and traditions were drawn upon, from traditional learning theories to work in the cognition and phenomenographic traditions. There was interesting work on promoting the development of technical and personal skills, on adapting pedagogic tactics to different types and levels of student, and on the development of new or extended forms of assessment. There were also increasing numbers of critical or innovative analyses of the content of academic modules and programmes and its internalisation, including an expanding stream of work on developing ethical understanding.

In the professional training area, there was again a focus on the content of formal syllabuses and training programmes, including studies concerned with developing the ethical professional, plus a continuing concern with improving trainee selection techniques, and on the links between study for examinations and learning in the workplace. There was a considerable overlap here with work emanating from the fields of educational sociology and the sociology and history of the professions,

particularly as concerns the institutionalisation of trainees and the nature of their interactions with managers, partners and professional firm cultures.

8 PUBLIC SERVICES ACCOUNTING

The area of public services accounting remains a distinctive specialist field and, hence, the amount of work submitted for review was significant, although not as extensive as in some other fields. Hence, the area can be seen as an important, if specialist, element of the discipline. As well as being a specific element in the field of accounting and finance, as indicated by reference to studies in this area in certain of the sections above, it is also a distinctive sub-field that links to more general public services management research considered by SP36. Given its significance in the economy, consideration of accounting in the public services remains relatively under-researched. This section provides an overview of what is a broad scope area of research activity.

Approaches to research in the field represented in the outputs submitted were varied and included surveys of practice, more qualitative approaches with case studies of individual organisations or institutional processes, and some rigorous analyses of policy and its implications. A wide range of theoretical positions drawing from the social and political sciences were represented in the outputs, and the best of these were of international standing with rigorous analysis and clear policy implications. In some of the weaker studies there was a tendency for under-theorisation, and some of the work risks being more descriptive than analytical.

Research in the public services was concerned with many of the issues that researchers working in other sectors are involved in exploring. Thus, topics studied included a range of studies of financial, management accounting and auditing issues. The introduction of more financial reporting regulation in the area led to an interest in conceptual issues related to the relevance of GAAP. Researchers were interested in the applicability of the frameworks used in business as a basis for public services reporting.

Accountability was a theme in relation to particular settings and in the context of the changed structures of ownership and control affecting the provision of the public services by the private sector. Related to this theme is the interest in regulation of services that have been moved into private ownership.

Researchers continued to explore the issue of how we can understand cost, particularly in relation to the National Health Service, and some historically focussed work demonstrated the interest is long-term and still not resolved. There was also an interest in the effects of devolution on the provision of public services, with a recognition that differences in the devolved parts of the UK provide the opportunity for valuable comparative studies. PFI/PPP was undoubtedly the key topic of research focus in relation to both financial and management accounting issues within the public sector, and was the best represented theme in the work submitted in the field.

The essence of public services research resides in enquiry as to the extent to which there is a difference between the nature and needs of the public services that demands different accounting information and different modes of management and ownership

structures. This, in turn, leads to a clear interest in policy, and has resulted in a number of significant studies analysing both policy and connected decision-making and applications. The extent of interest in PFI/PPP is related to its importance as a political initiative, perhaps being the most important development in the provision of the public services in the past 15 years. What is less apparent is the extent of research designed to engage in and develop alternative policy suggestions to deal with the perceived problems within the sector. Another omission was research work with an international focus - there was little work in this mode submitted to the exercise.

In many ways the sample of work submitted was too small to draw extensive conclusions other than that the public services area remains under-researched, that the tendency is to undertake qualitative field studies, and that there is less work of an essentially theoretical nature or with a strong quantitative approach. As noted above, PFI/PPP emerges as a topic of huge interest to a significant number of researchers, devolution has provided some interesting comparative work, and changes in financial reporting practices more generally have enhanced interest in financial reporting within the public sector.

9 FINANCE

A major trend over the period of review was the increasing amount and quality of research that has been undertaken in the area of finance. Outputs in the area accounted for nearly 50% of the total work submitted to the sub-panel, reflecting the vibrancy and increased importance of finance as a subject for scholarly investigation in the UK. Demand for research active academics has risen in parallel with the

importance of London as a financial centre and, arguably, has been made possible in part by a considerable growth in the numbers of fee-paying students on MSc finance programmes in the UK.

Research was spread over a wide spectrum of topics including financial markets and asset pricing, derivatives, mathematical finance, banking, corporate finance and governance. Considerable growth was noted in the use of derivatives methodologies, including applications in the area of pensions and credit default. Empirical work featured most prominently in the discipline. Only a relatively small amount of research was submitted in the areas of behavioural finance and emerging markets, notwithstanding their growing importance. Little work was submitted relating to non-banking financial institutions, with the exception of studies focussing on the analysis unit trust/investment trust performance and on a variety of issues relating to pensions.

In general, the panel noted high standards for the typical empirical study in terms of rigour, both as regards the use of econometric techniques, broadly defined, and the use of large databases. This is in part attributable to the increased use of econometric software packages and the availability of an array of extensive databases in many units. The level of econometric analysis in terms of appropriateness of research design, sophistication and robustness that was once the preserve of a few journals has now permeated and influenced the standard of analysis of papers published in many journals. The recognition of the importance of data completeness and the removal, as far as possible, of data biases arising from survivorship and other sources, is also now much more widespread.

Nevertheless, there were still a considerable number of papers that appeared to be straightforward replications of existing, often North American, studies with minimal original contribution, either theoretical or empirical. This was particularly apparent in some of the submitted research applying time series methods, studies which seemed to be motivated more by the availability of software and data than a desire to shed fresh light on significant empirical discrepancies. Such work appeared to make very little contribution to the understanding of issues in finance.

While the majority of submitted studies were empirical in nature, there were also a number of theoretically oriented contributions. The development of theoretical models based on a general equilibrium economic approach were used to explain a number of stylised facts concerning asset market pricing and behaviour, including portfolio choice, bank risk and banking crises, the role of arbitrageurs in price formation, lifecycle modelling and asset allocation, banking crises, and estimating the equity risk premium.

The exploration of financial market data and theoretical constructs remained an area of considerable interest, with large volumes of information easily available. Work on asset pricing ranged from traditional empirical replication studies of the determinants and time series analysis of returns performance to mathematically sophisticated pieces exploring the limitations to arbitrage and inter-temporal asset allocation problems. A significant number of papers investigated the effectiveness of asset valuation, and approaches included consumption-based pricing models and specifications based on macroeconomic and stock-specific characteristics. In general, the empirical work increasingly exploited recent developments of statistical procedures and the power of

econometric packages, while much of the theoretical work reflected the increasing familiarity of finance theorists with stochastic processes. The best papers combined innovative theory with rigorous testing.

There was a growth in the number of outputs submitted in the area of mathematical finance, and specifically of work on stochastic processes and derivatives, where a wide variety of theoretical problems were tackled. This work was frequently conducted by researchers working in collaboration with individuals from mathematics departments, or with mathematical economists. These studies included an increased volume of work on pensions and life cycle planning, with detailed theoretical work on the valuation of non-diversifiable risk, such as labour income, pension defaults and annuities. Several papers developed closed form solutions for pricing and hedging exotic derivatives, and a related stream involved improving the numerical efficiency and accuracy of algorithms for the valuation of complex contingent claims and calculated the sensitivities to various inputs. Risk management emerged as a growing area of research focus over the period under review and, given its importance, as illustrated by recent developments in financial markets, we expect the volume of research in this area to continue to increase.

UK-based researchers remained at the forefront of the development and application of econometric techniques in finance, including the use of regime switching models, density forecast production and evaluation, neural networks, VARs, simulations techniques, modelling the tail behaviour and higher moments of returns, and modelling co-movements between series using copulas. The questions of which models best forecast asset return volatility, how to best estimate realised volatility,

and how to compute value at risk over various horizons, have been exhaustively investigated and, from a purely technical point of view, are now largely resolved. The recent financial crisis has raised questions as to the usefulness of some or all of the techniques studied that, presumably, will lead to further research in the future.

The microstructure of markets was an area which saw considerable growth in research over the assessment period, with UK-based researchers engaged in the study of a broad range of topics, although arguably still trailing those of the US-based researchers in terms of the depth and rigour of the underlying analysis. Developments have focused, in particular, on comparing market structures, modelling bid-ask spreads, the choice of trading venues, the impact of cross-listing, duration modelling, and measuring liquidity.

In the corporate finance arena, a substantial majority of the submitted outputs were empirical, exploring such traditional issues as tax and dividend policy, capital structure, corporate governance and control including mergers and acquisitions, IPOs and agency theory. Corporate bankruptcy and distress continued to be of interest, although there was little work submitted to the sub-panel that extended knowledge of the costs of corporate distress. Many of the pure theory papers concentrated on taxation. However, there were a few papers of the highest standard which combined innovative theory and empirical testing of the models developed.

In terms of the kinds of markets investigated and data employed, equities still featured predominantly, although studies of commodities and foreign exchange were also found, albeit in smaller numbers. The volume of work on bonds, aside from that

taking a corporate finance perspective, was limited and was largely concerned with theoretical work on pricing and default risk using stochastic modelling. The inception and development of new asset classes, such as hedge funds and other alternative investments, encouraged research on those topics, including the pricing of credit instruments. Performance measurement research continued to be popular, with applications relating to hedge funds and other asset portfolios.

Research in behavioural finance was limited in both the number and scope of studies, and that submitted was mainly limited to simple laboratory-based experiments on attitudes to risk and the factors that affect judgemental forecast accuracy. Banking research was concentrated in a small number of centres, although many different aspects of international banking were covered, ranging from work on credit risks and the use of credit derivatives in the transference of risk by US banks to comparisons of banking technologies across Europe. Research also examined the impact of market regulation on market behaviour. Work with an enhanced contemporary relevance focused on the linkages between asset markets and the macro-economy, and on contagion between markets, although much of the research appeared largely data-driven and necessarily used data from periods before the recent turmoil in financial markets around the world.

In summary, the quantity of submitted outputs in finance has increased. The sub-panel felt that, in this area of research, when considering the relative salience of the three aspects of research quality that were explicitly evaluated, a high level of rigour was more commonly achieved than high levels of significance or originality. It is evident that UK-based researchers have a comparative advantage in the more

quantitative sub-fields of finance, relative to other sub-fields. There seemed to be less direct engagement with the financial services industry than might have been expected. It may also be desirable for future finance researchers in the UK to think more imaginatively about not only the design of their research studies, but also the range of topics they investigate.

10 CONCLUSIONS

The material above provides insights into the processes and practices adopted by SP35 within the general RAE rules. Hopefully, it will convince readers of the painstaking work that went into producing evaluations of the submissions made to SP35. It also provides the consensus views of members of SP35 on the research outputs they were asked to evaluate. An increase in outputs submitted to SP35, whether directly or indirectly from SP36, was noted. A particularly large increase in work submitted in the area of finance, widely defined, was a significant part of the overall growth in outputs submitted.

Members of SP35 were encouraged by the overall quality of the work submitted, with a significant proportion of it being assessed as of world leading quality. Further, such work was confined to neither a few institutions nor a few specialist sub-areas of either accounting or finance.

An aspect of the work surveyed above is the eclecticism of the work surveyed. The range of topics studied, and the range of theoretical perspectives adopted, is extremely broad, particularly in accounting research. Arguably, this is a highly desirable feature

that contrasts the UK context with most other countries in which accounting and finance research takes place. Further, it is a feature that should be protected against any more narrow-minded approaches to the evaluation of research.

Since the initial publication of the results for RAE 2008 in December 2008, developments have been taking place over the specific form of the replacement for the RAE, currently known as the Research Excellence Framework (REF). In September 2009, a second consultation document was published on the REF, with comments required by the middle of December 2009 (http://www.hefce.ac.uk/pubs/hefce/2009/09_38/09_38.doc). One of the proposals raised for discussion in this consultation document is the abolition of a separate unit of assessment for Accounting and Finance. The Accounting and Finance unit of assessment would be subsumed within a general Business and Management unit of assessment, possibly with the introduction of sub-groups for other areas of business and management, given that the document states that a Business and Management unit of assessment 'could operate with a relatively large number of members working in informal sub-groups' (p.47).

A first point can be made concerning the proposal described above. The abolition of a separate Accounting and Finance unit of assessment is certainly neither in accordance with the views of the members of SP35, nor those members of the community (Broadbent, Otley and Stark) who were members of the REF Expert Advisory Group, one part of the consultation process that has led to the current document. Second, the inclusion of the word 'informal' in the document raises concerns over the rigour and robustness of the judgements to be reached, given that the formally constituted

nature of the Accounting and Finance unit of assessment has been of the greatest value in ensuring that high levels of care and consideration are maintained across every aspect of the sub-panel's activity (as is hopefully apparent from the above description of the processes followed by SP35).

According to the consultation document, the REF seeks to '(p)roduce and publish quality assessments that are comprehensible, produced by a transparent process, and benchmarked against international standards and which identify the very best HE research wherever this is carried out' (p.6). Leaving aside the level of formality to future sub-groups, there is a separate question as to whether, by producing results for business and management as a whole without regard for the separate and disparate elements that make up research in the broad area of business and management, it will be possible to generate meaningful evaluations of the research in such sub-groups. The value of this to our understanding of the quality of work undertaken in accounting and finance to date has been clear. But the ability to identify, through the REF process, the locations in which high quality work in accounting and finance specifically takes place will not be available under the current proposal.⁵ Further, a degree of transparency with respect to the process *via* which evaluations take place is also likely to be lost, and transparency is likely to decrease the more 'informal' the constitution of sub-groups becomes.

Whether the views of the accounting and finance academic community are in accordance with the proposal with respect to the abolition of a separate Accounting

⁵ I should be noted, however, that such an ability was not a key feature of successive RAE's. given Institutions have, for a long time, had the option of submitting research in accounting and finance to either the Accounting and Finance unit of assessment for explicit evaluation, or the Business and Management unit of assessment for evaluation alongside other disciplines within business and management to produce aggregated evaluations.

and Finance unit of assessment, to be replaced by some form of ‘informal sub-group’, is again not clear. However, the continuing existence of stand-alone accounting and finance departments outside business schools may render this undesirable on institutional grounds, given that their parent organisations would require them to have a separate identity and research ranking, and also on disciplinary grounds, given that there would then be an anomaly in the evaluation of those accounting and finance groups inside Business Schools. Hence, in the absence of a more formally constituted sub-group within a Business and Management unit of assessment, research in accounting and finance would not only inevitably lose visibility, but also its evaluation would arguably lose significant transparency and credibility.

Certainly that possibility has to be set in the context of an apparent decline in demand from Business Schools for such visibility, as is illustrated in the decline in direct submissions to the Accounting and Finance unit of assessment over time. But that decline may itself be due to risk-averse or smoothing behaviour by institutions in putting research submissions together, rather than to any explicit desire to lose transparency. This is therefore an issue which appears to warrant further significant discussion.