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COMMENTARY

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Directions in Accounting Research: NEAR and FAR

The purpose of these remarks is to comment on directions in accounting research: NEAR (Not-so Early Accounting Research) and FAR (Future Accounting Research), focusing on capital market research. The topic provides an opportunity to synthesize recent research trends and to speculate on which are likely to continue and why. As is often the case, the reasons given for expecting certain trends to continue can be more informative than whether they turnout to be accurate.

My comments focus on three areas. First, I review the forces that have influenced accounting research over the last 25 years. Second, a portion of NEAR directions is reviewed using two personal focal points—the set of research papers discussed in the accounting security price research seminar at Stanford and the set of research papers that constitute my current research interests. Third, I discuss the major characteristics of FAR directions, including ingredients which tend to lead to good accounting research, the benefits of generic versus contextual research, and finally the role of "wild card" factors.

FACTORS AFFECTING DIRECTIONS IN ACCOUNTING RESEARCH

For ease of discussion, the forces historically affecting accounting research are divided into exogenous and endogenous factors. I consider three exogenous factors that arise "outside" of the influence of the accounting academic community.

Exogenous Factors

The first factor is applications from other disciplines. Finance, information economics and behavioral sciences have significantly influenced accounting research. This force is likely to continue to affect future accounting research. However, it is not obvious where and when the next "shock" will arrive. While there have not been recent major shifts in accounting research of the order of magnitude that occurred 25 years ago, accounting research has not idly waited for some related discipline to supply the next infusion of insight. Theory and evidence, developed within the context of accounting institutions, has led to significant progress.

The second factor is greater data availability at lower cost, which largely arises because of changes in computer technology. The availability of security price and return data (e.g., CRSP) and financial statement data (e.g., COMPUSTAT) has had a dramatic affect on volume and quality of empirical research in the capital markets area. The availability of analysts' forecasts and recommendations (e.g., I/B/E/S) has stimulated research on analyst behavior. Prospectively, international data bases (e.g., GLOBAL VANTAGE and COMPUSTAT) are likely to facilitate signifi-

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cant empirical research in international accounting. However, there is a limit to the benefits that can be derived from generic data bases. Diminishing marginal returns eventually set in. In the future, outstanding accounting research is likely to include the collection and analysis of distinctive data bases, such as the Barth and McNichols (1994) analysis of environmental liabilities arising out of Superfund sites.

A third exogenous factor is changes in the financial reporting environment that can influence the research questions addressed. One set of events are the FASB Financial Accounting Standards. Foreign currency translation (SFAS Nos. 8 and 52), pensions (SFAS No. 87), other post employment benefits (SFAS No. 106), fair value of financial instruments (SFAS No. 107), and stock option compensation (SFAS No. 123) are recent examples. At one level, an effect of the standards is increased data availability. Numbers reported under these standards permit researchers to empirically address questions previously infeasible because of lack of data. However, at a deeper level, these standards arise because the environment changes, such as the set of events firms face, the transactions in which firms engage, or the nature of the regulatory oversight. These changes in the financial reporting environment provide a significant opportunity for accounting research.

The forces that induce changes in accounting standards and their impact on accounting research is likely to continue. For example, the explosive growth in the use of derivative instruments has made this a significant reporting issue and a significant research issue as well. The derivative and risk management disclosures recently required under SFAS No. 119 are not likely to be the final answer. I believe that this issue is one of the most important financial reporting issue to be addressed over the next five years.

The risk management issue is conceptually important because it calls into question the traditional financial reporting model. Some observers view comprehensive fair value reporting as a solution. However, even under the best of conditions, fair values are reporting *ex post* changes in value and do not address the inherent *ex ante* nature of risk. Financial reporting aspects of risk management raise a number of issues, such as whether some measure of the dispersion of outcomes are to be disclosed, in addition to fair values or historical costs. Risk reporting is conceptually challenging for a number of reasons. Portfolio (firm) dispersion is affected by the covariation as well as the variation in the individual items. The time horizon is critical to risk measurement. Because of the nonlinearities inherent in these instruments, risk does not increase in a simple fashion as function of the time horizon. Risk over a given time horizon is a function of the dynamic strategies used to manage risk, not simply the current position in these instruments. In any event, the prospect that financial reporting could supplement the "one account-one number" format with measures of risk exposure is a change in the financial reporting environment that can provide exciting future research opportunities.

Before I turn to the endogenous factors that affect directions in accounting research, a caveat is order. Treating the financial reporting environment as an exogenous factor is overly simplified. Accounting researchers do provide input into the setting of financial reporting standards as well, but this simplification is a reasonable approximation for the purposes of the current topic. One could raise the question of what is the magnitude of impact of academic research on standard setting. However, that topic would be the subject matter of another commentary.

Endogenous Factors

Endogenous factors are those that largely lie within the influence of the academic accounting community. Many of these are institutional in nature. Examples include journals, conferences, sections and promotion policies. For example, the *Journal of Accounting Research* has had a significant impact on encouraging empirical research in accounting, while the *Journal of Accounting and Economics* has

provided a stimulus to positive accounting theory research. Editorial policies of these journals can have a dramatic influence on the directions of accounting research. Annual conferences, including those sponsored by the journals, provide considerable incentives to conduct research in the topic areas selected. Several sections of the American Accounting Association have active research agendas that include publishing their own journals and encouraging research in particular areas. Promotion policies at colleges and universities can dramatically affect the amount and nature of research conducted. Some have claimed that promotion policies have led accounting researchers to adopt research designs similar to those employed by other disciplines in the business school and university, and these policies are a major force in shaping accounting research.

Not all of the endogenous factors are institutional in nature. A major endogenous factor is the theory and evidence that the accounting research community brings to bear on understanding financial reporting institutions and on explaining the financial reporting phenomena of interest. Research directions are the result of the creative process of talented individuals, which ultimately may be the single most important factor.

NEAR (NOT-SO EARLY ACCOUNTING RESEARCH) DIRECTIONS

Two personal sources are drawn upon to provide examples of NEAR directions. The first is my accounting doctoral seminar on security price research at Stanford. The second is research currently in progress.

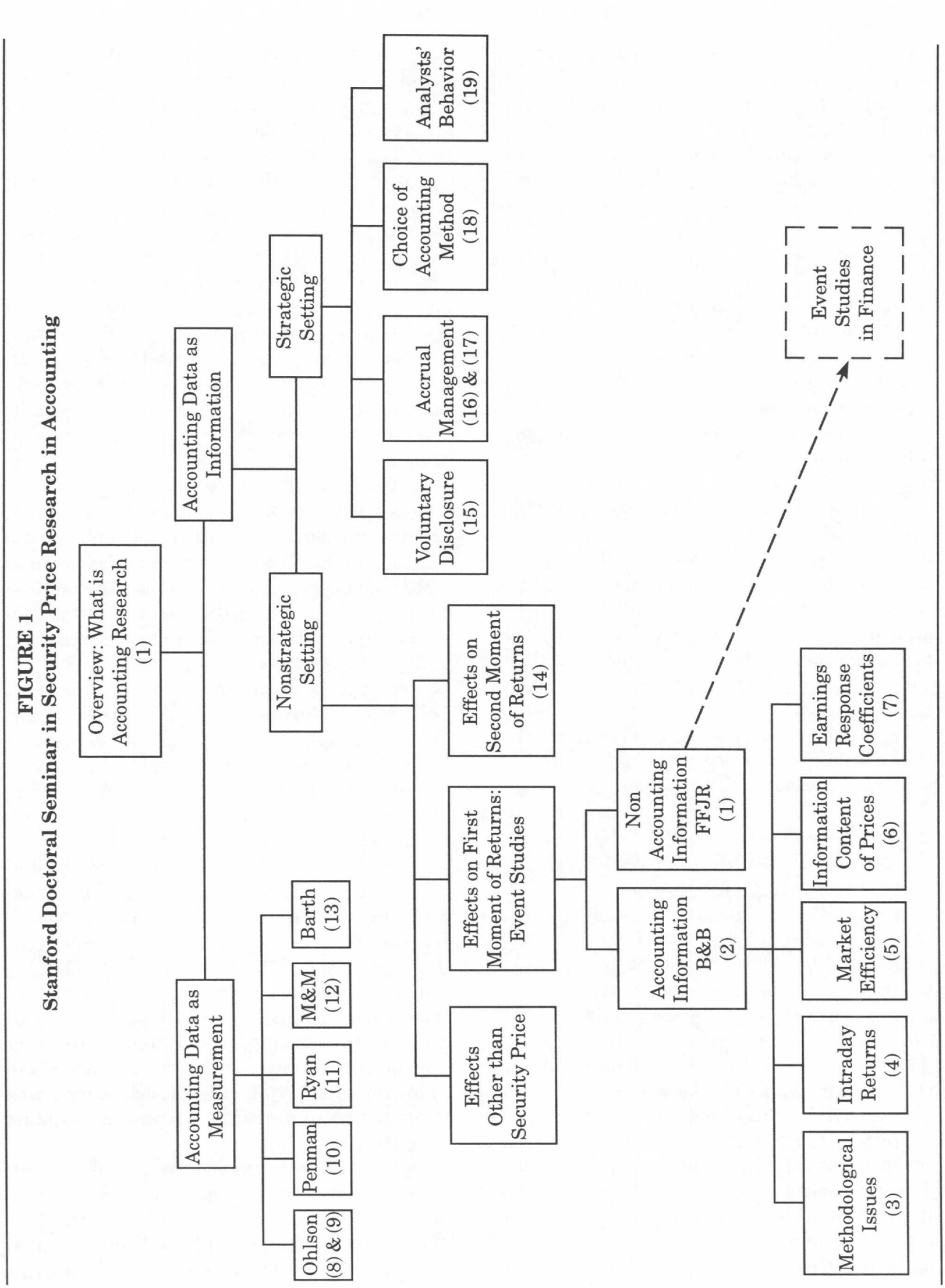
Figure 1 is a diagram of the topics and one view of how they relate to one another. This figure illustrates one perspective on the evolution of past research, and it helps organize thoughts about the developments in and relationships among research directions. It can also form the basis for notions of what directions future research might evolve. Throughout the course, the emphasis is upon issues of research design, rather than findings, and upon why the articles selected are examples of research design that merit discussion. The numbers in parentheses in figure 1 indicate the order in which the topics are covered.

After an introductory discussion of "What is accounting research?", the remainder of the course is divided into two broad categories—accounting data as measurement and accounting data as information. The perspective adopted can affect the research design, as well as the research questions. Within the informational perspective, research is further divided into nonstrategic uses of accounting data and strategic uses of accounting data. Since the course focuses on security prices, rather than bankruptcy, bond ratings, or some other event, the emphasis from an informational perspective is on the effects of an accounting signal on the security return distribution defined over some length of time. The node on the left side of figure 1, "Effects Other than Security Price," reflects the fact there is more to empirical accounting research than security price research.

The primary emphasis in capital market research has been to assess the first moment of the return distribution, conditional upon an information signal. A class of studies whose research design is directed toward these issues is the "event studies." To focus on the major features of an event study, the course begins with a nonaccounting informational context, the announcement of stock splits and dividends investigated by Fama et al. (1969) (session 1). The dotted box to the lower right of Fama et al. (1969) refers to the finance literature that also employs an event study research design. One feature illustrated by the diagram is that the initial study discussed is already four levels deep. The classification helps develop a better sense of perspective than either a chronological or topic-by-topic approach.

The course then turns to the seminal work by Ball and Brown (1968) on earnings announcements (session 2). More than any other work in accounting, the Ball and Brown (1968) study affected the directions of security price

FIGURE 1
Stanford Doctoral Seminar in Security Price Research in Accounting



research over the next 25 years. The study is a seminal contributor to the "information content of earnings" literature. We cover a subset of the extensions of Ball and Brown (1968) in sessions 3 through 7. The methodological issues largely deal with econometric issues associated with the measurement of security returns, such as alternative approaches to extracting market-wide and industry-wide factors (Beaver 1981; Brown and Warner 1985). A second extension is the how the window over which the security return is measured has changed as the research questions change and as finer data become available. At one end of the continuum we have the intraday return study by Patell and Wolfson (1984), and at the other end we have the long window analysis of Easton et al. (1992).

Market efficiency is another extension of Ball and Brown (1968). The studies by Bernard and Thomas (1989a, 1989b) are excellent examples of the application of extensive econometric analyses in an attempt to rule out alternative explanations for the post-earnings announcement drift in returns. The next session addresses the "information content of prices" literature, which inverts the familiar security returns-earnings change relation. The research draws inferences about the nature of the earnings process and interprets the slope coefficient on earnings as an estimate of the earnings response coefficient. Beaver et al. (1980) and Beaver et al. (1987) are used as examples here. The next area of research permits the earnings response coefficients to vary across firms and across time (e.g., Collins and Kothari 1989; Easton and Zmijewski 1989). By now, it is evident that many dials on the research design machine have been turned since the original Ball and Brown (1968) study, and the stream of research provides a basis for a rich discussion of evolution of research design issues.

Another branch of accounting research has explored the relation between accounting data and the second moment of the return distribution. Patell and Wolfson's study (1981) of the use of option prices to infer *ex ante* variances is a clever use of option price data and illustrates the difficulties encountered in analyzing such data.

Having pursued nonstrategic uses of accounting data in an informational setting, we next discuss nonstrategic uses of accounting data in a measurement setting. The measurement perspective, with a strong normative flavor, dominated accounting research in the mid-1960s. Examples are the accounting classics on true income and fair value alternatives to historical costs. After many years in which the informational perspective dominated, a subset of accounting research has returned to a measurement perspective, although without the normative flavor of the early accounting classics. The more recent research models the value of equity (or the firm) in terms of accounting numbers, where measurement error plays a key role.

Examples of this approach include the Ohlson (1995) and Feltham and Ohlson (1995) models, which demonstrate how the clean surplus relation can be exploited to form predictions about the relation between prices, book value and earnings (sessions 8 and 9). The renewed emphasis on valuation and accounting measurement constitutes a major direction taken by recent research. For example, Bernard (1994) and Penman (1992) provide empirical analyses that are directly motivated by the analysis (session 10). Ryan (1995) extends the formal analysis by explicitly modeling the historical cost nature of accounting for depreciable assets and then empirically tests the model's predictions (session 11). Miller and Modigliani (1966) is a key study in the use of accounting data in a measurement setting (session 12). It is a showcase for the research design-econometric issues that arise in this setting and influenced research for the next 25 years. Their use of a two-stage, instrumental variables approach to measurement error in earnings became a standard adopted by subsequent research. Barth (1991) represents a recent addition to the measurement perspective (session 13). This research extends the simple, single variable measured with error framework to one where several variables are measured with error. The Barth

(1991) study applies this richer model to a comparison of accounting alternatives—in particular, alternative measures of pension assets and pension obligations. As discussed later, the measurement perspective can be viewed as more consistent with the motivation of the FASB standards which address issues of recognition, measurement, and disclosure.

The course then shifts to the one of the more recent directions in accounting research—the use of accounting data as information in a strategic setting. The basic notion here is that discretion exists in accounting. As such, discretion influences the numbers reported and the security price reaction to those numbers. Four areas of choice are explored: voluntary disclosure, accrual management, choice of accounting method and analyst behavior (sessions 15 through 19). Models of voluntary disclosure such as Verrecchia (1983) and Trueman (1986) provide a conceptual basis for discussing why discretionary disclosure might exist. McNichols (1989) represents a major contribution to our knowledge of earnings forecasts by management.

The second aspect of discretionary behavior is accrual management. The income smoothing literature illustrates early research in the discretionary accounting choices. However, the early literature typically assumed that there was no attempt to invert the smoothing behavior from observable data, that someone was being "fooled," and often that capital markets were inefficient (Schipper 1989). The more recent approach to discretionary behavior is that discretion occurs, in part, because contracts are written in terms of accounting numbers (e.g., compensation contracts, debt covenants and implicit contracts with regulators). In this setting, the discretionary behavior may simply be the natural manifestation of contracting in a setting of incomplete markets. Here, the party exercising the discretion may be fully expected to do so, conditional upon finding themselves in a particular state of the world. In this setting, no one is necessarily "fooled" by the discretionary behavior, although there may be costs (e.g., agency costs) to such behavior. Watts and Zimmerman (1986) elaborate on the contracting perspective and agency costs in their positive theory of accounting, a major direction in accounting research in the last 15 years. The positive theory of accounting devotes considerable resources to incorporating the institutional features of the financial reporting environment and focuses on accounting choice as a major research question.

Discretionary accruals may be the most important area of discretionary behavior. Management forecasts are provided by only some firms and only in some years. Changes in accounting methods occur relatively infrequently. In contrast, every firm in every year makes a variety of accrual choices where discretion can potentially play a role. One example is Healy's (1985) study of discretionary accruals in the context of compensation contracts (session 16). McNichols and Wilson (1988) provide an important extension by estimating the discretionary and nondiscretionary portions of estimated uncollectibles account (session 17). Other examples are the recent articles on discretionary loan loss accruals in the banking industry.

Research in the choice of accounting method includes Holthausen (1981), which places the choice of accounting methods in the context of contracting theory (session 18). More recently, research in discretionary behavior has turned to the investigation of analysts' forecasts of earnings (O'Brien 1988; Schipper 1989). Discretionary behavior by both management and analysts is likely to be a major direction for future research.

A striking feature of NEAR research is the number of nodes in which research is actively taking place. Also striking is the proportion of research that is taking place in nodes that are subcategories of subcategories. This is a natural consequence of pursuing a given area in depth and reflects maturing of the field. There is an paucity of research that has opened "new" nodes at a higher level in the hierarchy. Among other things, this trend puts a premium on having a perspective that facilitates synthesis, rather than fragmentation. Fragmentation increases the risk of ignoring relevant research in another node.

PERSONAL EXAMPLES OF NEAR

A second source of illustrations of the recent trends in accounting research is research projects in progress. They are: (1) the pricing of discretionary allowance for loan losses in banks, (2) the value-relevance of SFAS No. 107 fair value disclosures, (3) the price-earnings relation, a simultaneous equations approach, (4) the relative importance of the book value and earnings, and (5) the role of conservatism and delayed recognition in accrual accounting.

The Pricing of Discretionary Accruals

Within figure 1, this study falls with the "Accrual Management" node. The research project examines whether the discretionary portion of loan loss accruals is priced by the common equity market differently than the nondiscretionary portion (Beaver and Engel, 1995). As such, it is part of a broader literature on discretionary behavior. The valuation implications of discretionary behavior are important because the nature of, motivations for and effects of discretionary behavior are a function of whether or not the various parties decompose the total accrual into its respective discretionary and nondiscretionary components. Recent empirical research in discretionary behavior is often silent on what assumption is being made about capital market effects, if any. The pricing of discretionary behavior can affect both the incentives and economic consequences associated with discretionary behavior. The valuation evidence is of interest in its own right because it can show whether security prices are affected by discretionary behavior, but also it can serve as a proxy for whether it is likely that other parties are also able to conduct a similar decomposition.

While the interest is in the broader question of discretionary accruals, a particular industry and a particular accrual is chosen. The investigation of a particular context is likely to be an important feature of future research. By focusing the study on banks, the research design is able to examine a sample of firms for which the accrual is likely to be material, the operating and financial characteristics of the sample are relatively homogeneous, and the regulatory setting has the potential to induce discretionary behavior that would have differential valuation implications.

The focus on a particular accrual—loan loss allowances—permits the development of a specific set of conditioning variables for estimating the nondiscretionary portion of the allowance. The use of context-specific variables potentially increases the power and efficiency of estimation. In particular, prior research has shown nonperforming loans are an important indicator of default risk on loans. This research extends the earlier research in nonperforming loans (Beaver et al. 1989) and examines some of the assumptions implicit in that earlier work. The findings indicate that the nondiscretionary portion is negatively priced and, as predicted, the discretionary portion is significantly less negatively priced. Also the role played by nonperforming loans is different from what might be inferred from prior research.

The Value-Relevance of SFAS No. 107 Fair Value Disclosures

The second example falls within "Accounting Data as Measurement" node of figure 1. Barth et al. (1995a) became interested in this research topic because of a long-standing interest in fair value accounting. Earlier work (Beaver and Landsman 1983) explored the incremental value-relevance of SFAS No. 33 replacement cost disclosures with essentially negative results. Negative results are typically difficult to interpret since they may reflect the lack of power of the research design. Subsequent research cited in a current study (Barth et al. 1995a) suggests there may be subsets of firms for which replacement cost data do have explanatory power.

It is not a straightforward exercise to extrapolate from the SFAS No. 33 findings to what can be expected for the SFAS No. 107 disclosures. Fair value disclosures have both similarities to and differences from the (formerly required) replacement cost disclosures. The similarities include:

1) some form of fair value accounting is the subject of the disclosure;

2) the issue if disclosure rather than recognition;
3) neither method had the support of preparers;
4) management can exercise considerable discretion in estimating fair values.

However, differences between the two standards create the potential for SFAS No. 107 fair value estimates to demonstrate greater value-relevance than the SFAS No. 33 data.

1) Unlike SFAS No. 33 data , SFAS No. 107 data are audited, which may increase the reliability of reported amounts, then SFAS No. 107 disclosures.
2) Whereas SFAS No. 33 required disclosure of estimates of current cost and constant dollar cost of inventories and property, plant, and equipment, SFAS No. 107 requires disclosures of fair values of financial instruments. Because many financial instruments are traded in active markets and estimates of others are obtainable from commonly-used valuation models, estimates of their fair values likely are more reliable than those for the assets covered by SFAS No. 33.
3) SFAS No. 33 was an experiment with a five-year sunset provision, providing incentives for managers who did not support the standard to undermine the disclosures' usefulness, thereby ensuring withdrawal of the standard. In contrast, SFAS No. 107 is permanent.
4) SFAS No. 33 disclosures were limited to only two assets, inventories and property, plant and equipment. As a result, studies examining the value-relevance of SFAS No. 33 disclosures likely were subject to correlated omitted variable bias (e.g., fair values on other assets and obligations). The comprehensiveness of SFAS No. 107 disclosures for banks increases the power of the tests, and mitigates the potential correlated omitted variable problem.
5) Although SFAS No. 33 data likely were produced solely to meet the requirements of the standard, many believe financial instruments' fair value estimates already exist and are used for internal decision-making purposes.

The fair value studies are part of the broader research stream on supplemental disclosures, which include recent work on pensions (Barth 1991; Landsman 1986) and on nonperforming loans. The dependent variable is the difference between the market value and the book value of common equity, the cumulative unrecognized gains (or loss) as perceived by the common equity market. The cumulative gain is explained as a sum of the cumulative unrecognized gains and losses implied by the difference between SFAS No. 107 fair value and the respective book values of five categories, investment securities, loans, deposits, long-term debt and off-balance sheet items.

A major research design decision is the selection of a dependent variable where the market value of the common stock is measured at a point in time (a "levels" study). This is in contrast to prior security price research which has adopted an event study approach, which measures changes in market value over small windows of time. Although not mutually exclusive, the levels and events study research designs address fundamentally different questions. The research question of primary interest here is whether fair value estimates are value-relevant incremental to other financial statement information, i.e., book values of assets and liabilities. This perspective is consistent with the FASB's Concepts Statements and the motivation expressed in SFAS No. 107 for the disclosure of fair values as a supplement to historical costs. Whether SFAS No. 107 disclosures are the original or unique source of the value-relevant information is not the primary concern.

In contrast, an events study approach is applicable to addressing the question of whether a particular disclosure provides value-relevant information incremental to all other sources of publicly-available information. Value-relevance is attributed to the particular variable derived from the disclosure, if the security price return measured over a specified event window during which the disclosure is publicly released is statistically as-

sociated with the disclosure. To the extent that information released prior to the disclosure preempts it, there will be less, and in the limit no, price reaction at the time of the disclosure. Because the research question here relates to information reflected in financial statements, the existence of potentially preemptive or contemporaneous nonfinancial statement information is less pertinent. For example, even if research established unequivocally that depreciation expense is preempted completely by other information, it is unlikely the FASB would mandate that depreciation expense be omitted from the measurement of net income. Net income is not a partial listing of revenues and expenses that have not been preempted by other information. Similarly, the balance sheet is not a partial listing of assets and liabilities that have not been preempted by other information.

In some respects, the levels approach is both old and new. It is old in the sense that it follows in the tradition of cross-sectional valuation literature initiated by Miller and Modigliani (1966). It is new in that it employs a more complex measurement error structure and incorporates a detailed analysis of how the accounting data are constructed. Measurement error in accounting numbers is the heart of the analysis. The analysis is intended to address financial reporting issues on the same basis that motivated the FASB to consider the issues of the recognition, measurement and disclosure, and is of academic interest as well. Issues of the structure of measurement error are as intellectually stimulating and challenging as informational issues and are likely to require a nontrivial investment in the institutional setting in which the measurement are mandated. SFAS No. 107 offers a good example of such issues.

The Price-Earnings Relation—A Simultaneous Equations Approach

The next study bridges the gap between two nodes, "Information Content of Prices" and "Earnings Response Coefficients." Beaver et al. (1995) addresses a basic paradox. There are some factors that influence earnings but not prices and some factors that influence prices but not earnings. Moreover, earnings and prices are jointly influenced by a large set of information which is difficult to explicitly specify. A single equation approach which characterizes prices as a function of earnings is going to be subject to bias and, similarly, a "reverse" regression of earnings on prices is also subject to bias.

One way to resolve this paradox is to estimate the coefficients using an simultaneous equations approach. From this perspective, the estimates from a single equation approach are subject to both bias and to under-identification. This viewpoint helps to explain why the earnings response coefficients (ERC) and the return response coefficients (RRC) do not imply similar estimates of the permanent component of earnings.

The challenge here is to apply a new (or at least different) approach to an intriguing aspect of a question that has been around a very long time and hope it produces additional insights. It is becoming increasingly difficult to conduct generic price-earnings relation studies that add to our stock of knowledge. The empirical applications of the Feltham-Ohlson model by Bernard (1994) and Penman (1992) are examples of generic price-earnings research that is informative, in part, because they were motivated by formal modeling.

Relative Importance of Book Value and Earnings

The relative contribution of both a balance sheet and income statement in providing value-relevant numbers is a fundamental issue and also falls within the "Accounting Data as Measurement" node. Motivated by earlier work by Watts (1974, 1977), Barth et al. (1995b) posits that the balance sheet will be relatively more important as financial health declines. The study also posits differences in the relative importance of book value and earnings as a function of industry. This study is in a very preliminary stage but the initial findings indicate that the importance of the balance sheet in explaining valuation increases with financial difficulty and is higher for industries where intangible assets are less likely.

Conservatism and Delayed Recognition in Accrual Accounting

Conservatism and delayed recognition are key features of the financial reporting system. This study extends earlier work by Ryan (1995) which found evidence supporting delayed recognition. The study explains why the current year's book value and earnings can in part be explained as a function of current and lagged values of market value changes. Another key element is conservatism, a feature that can disrupt some the relations predicted by the clean surplus relation. Beaver and Ryan (1995) predict that the ratio of the market value of common equity to book value of common equity (market-to-book ratio) consists of two components. One component is due to delayed recognition which causes both the market-to-book ratio and return on equity to converge toward an overall economy-wide average over time. The second component is due to conservatism which causes the differences in the market-to-book ratio and return on equity to persist and not to converge over time. Empirically, we identify each component and demonstrate that each behaves as predicted.

FEATURES OF FUTURE ACCOUNTING RESEARCH (FAR)

The discussion of NEAR identified several trends in accounting research. I conclude by emphasizing three major factors.

The first is that outstanding accounting research is likely to be a blend of theory, empirical analysis and institutional knowledge. Research that incorporates all three is rare. The work of Scholes and Wolfson (1987) is a fine example of this type of research. Their work relies upon micro-economic theory that blends a variety of factors including taxes, incentives and risk sharing. They have integrated a traditional area of accounting research into a broader scheme of micro-economic behavior. They derive and test several predictions in a series of empirical studies. Their work is not simply a discussion of taxes and institutional arrangements in the abstract but also fully incorporates the rich institutional structure of tax laws and the regulatory environment.

A second factor is the emphasis on contextual rather than generic research. In part, it is implicit in the first factor where there is an emphasis on institutional richness which tends to lead to specific contexts. The value of generic studies is diminishing because prior research has reaped much of those gains and has already addressed the basic, first order questions—e.g., is there a statistical relation between returns and earnings changes? However, as the questions become more demanding or the effects are of a second order, there is an increased premium on increasing the power of the tests. This often dictates particular samples and specific reporting issues. In a related vein, the contextual investigations will often require the collection of distinctive data bases. The banking studies, such as the SFAS No. 107 study, are examples.

A third is what I call the "wild card" factor. The first two factors are extensions and blending of already existing ingredients, and are not likely to lead to dramatic shifts in the nature of accounting research. Those factors imply additional work at very specific nodes in the hierarchy. A wild card factor is a force that can influence future research in a dramatic, unexpected way. The event could be a change in the financial reporting environment. For example, if the regulation of financial reporting were substantially reduced or eliminated, the phenomena of interest and nature of accounting choice could be significantly altered.

Another major wild card factor is the creativity of individual researchers. Perhaps this will involve incorporating some new field into accounting or perhaps it will be the development of a new theory of accounting. As stated earlier, research directions are the result of the creative process of talented individuals, which ultimately may be the single most important factor. Creativity is difficult to manage and its product is difficult to predict. However, a perspective that synthesizes rather than fragments is an important direction to maintain in future accounting research.

The progress of these factors is uncertain. A major challenge to the first factor is simply that this type of research is extremely difficult to do well. It requires a grasp of underlying economic concepts and theories, an expertise in the research design of empirical studies, a command over a rich set of institutional knowledge, and the ability to integrate all of these ingredients. Almost inevitably, such work will be joint research. A key influence on the second and third factors is the editorial policies of the journals, one of the endogenous factors described earlier. If it is to flourish, contextually based research has to be valued in the editorial process. If such research is viewed as having little or no value, it will be a major disincentive. Moving from one industry to another, from one type of accounting standard to another, from one regulatory domain to another represents contextual differences which permits us to learn something from further evidence. Similarly, integration and synthesis must be valued. Research that integrates across nodes is also of value but may require different criteria of evaluation or may be more difficult to evaluate. By pointing out that editorial policies play a major role in future directions, I do not mean to imply that I am pessimistic. In fact, I hold out every hope that editorial policies will facilitate rather than impede the development of such directions in future research.

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