Earnings management research:
Italian convergence towards US

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Abstract

Facing the current convergence of Italian accounting research towards American accounting research, with specific reference to the stream of earnings management, the present paper aims at verifying if this convergence can be read as such institutional homogenization theorized in new institutional sociology (DiMaggio & Powell, 1983). Since accounting research can be viewed as an organizational field, immersed in the institutional setting of universities, the paper analyses the homogenization path of Italian EM research towards American one and detects the isomorphic mechanisms that drove such homogenization. To achieve its aims, the paper develops an historical comparison to highlight differences and similarities in the evolution of Italian and American EM research, according to international comparative accounting history. Such a comparison allows detecting those coercive, mimetic and normative pressures that drove the convergence of Italian EM research towards the dominating American EM research.

Keywords: Accounting research; Earnings management; New institutional sociology; Isomorphism; Italy; US.

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1. Introduction

In recent years, we assisted to a progressive convergence of Italian research in financial accounting towards the American one, especially as far as contents and methodology are concerned.

With a specific focus on earnings management[1] (EM) research, in the last decade Italian studies started to make use of empirical approaches coming from the more mature American research in EM.

This convergence suggests a homogenization process in academic research, which recalled such homogenization or isomorphism process proper of the organizational field studied in new institutional sociology (NIS).

Since it is possible to view academic research as an organizational field, immersed in the institutional setting of universities, we study the evolution of a specific branch inside this field under the lens of NIS. Using institutional theory, we aim at detecting those – if any – isomorphic mechanisms which are driving the progressive homogenization of Italian research on EM towards the American one. To do so, the study performs an historical comparison in the form of a parallel study, according to international comparative accounting history. On one side, the historical perspective is necessary to highlight the development path of both Italian and American EM research streams. On the other side, the comparative prospective is required to give evidence to the progressive isomorphic path in the Italian research stream and to denote the contextual elements of this evolution.

The paper contributes to the literature in several ways. Firstly, it provides insights both for national and international literature about the reasons of the actual convergence of Italian financial accounting research towards more empirical approaches, like those of US financial accounting research. Secondly, it offers an institutional interpretation to the evolution of academic research in accounting, contributing to those few studies which apply NIS in academic research as an organizational field. Thirdly, it contributes to the comparative international accounting history extending the possibilities of this methodology in contexts, like accounting research, other than accounting practices. Finally, by shedding light on the possible determinants of institutional change in academic research, the paper opens to further research in other contexts and/or countries and suggests ways to induce change in research traditions.

[1] EM occurs when managers use judgment in financial reporting and in structuring transactions with the aim to alter financial reports and mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers (Schipper, 1989; Healy & Wahlen, 1999).

To achieve its aims, the paper is organized as follows. Section 2 develops the theoretical framework underpinning the analysis. Section 3 presents the research methodology used in the paper. Section 4 compares the development of EM research in Italy and in US, highlighting the progressive convergence along three different periods. Finally Section 5 discusses the findings and denotes the institutional pressures that drove the convergence according to new institutional theory. The paper ends with pertinent conclusions about the contributions and limitations of the study.

2. Theoretical context: institutionalism in academic research

After the pioneering work of DiMaggio and Powell (1983), new institutional sociology (NIS) has known growing interest in last decades with a proliferation of studies which refer to it as a theoretical framework. According to NIS, organizations are affected by the institutional environment surrounding them, since institutions can shape organizational behaviour (Scott, 1994). These institutional studies are named "new" because they recognized the role of cultural and cognitive models as institutional factors affecting organizational forms, as opposed to previous institutional research which focused only on rule systems and normative controls as organizational forms determinants (DiMaggio & Powell, 1991). The importance of both cognitive and normative elements in affecting organizations is clearly stated by Scott (1994), in his attempt to give a theoretical synthesis to institutional theory. According to the Author, "institutions are symbolic and behavioural systems containing representational, constitutive and normative rules together with regulatory mechanisms that define a common meaning system and give rise to distinctive actors and action routines" (Scott, 1994, p. 68). The consideration of cognitive elements beyond the traditional normative ones constitutes the "new" perspective offered by NIS, which tries to identify those elements that shape organizations, their structures, their forms and their values. In particular, NIS differentiated from modern organizational theory since it focused on the homogeneity of organizations rather than on differences in their structure and behaviour. DiMaggio and Powell (1983) focused on the homogenization process and tried to explain the institutional factors affecting such process in organizations. Actually, DiMaggio and Powell (1983) brought into attention that "there is an inexorable push towards homogenization" in organizations. Both normative pressures and cognitive constrains can make organizations "embrace forms regarded as appropriate or legitimate for organizations of the type to which they belong" (Scott, 1994, p. 74), since organizations need "social acceptability and credibility" for their own survival (Scott, 2001, p. 58).

In explaining homogenization of organizations, DiMaggio and Powell (1983) introduced the concept of isomorphism, which is a "constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (Hawley, 1968). The Authors saw isomorphism as "the modification of the organizational characteristics in the direction of increasing compatibility with environmental characteristics" (DiMaggio & Powell, 1983, p. 149). According to their contributions, isomorphism can have two different natures: competitive and institutional. Competitive isomorphism grows in settings where competitiveness is high and open and affects organizations that are competing for resources and customers. In particular, these organizations are defined as "technical organizations" employing specific technologies and producing measurable outputs and their success is measured on their efficiency to generate high quality outputs (Morphew & Huisman, 2002, p. 495). As opposed, institutional isomorphism, which is the main focus of NIS, exists when competition for resources gives way to legitimization needs (DiMaggio & Powell, 1983, p. 150). Essentially, legitimation is vital in institutional organizations which – as opposed to technical ones – "use ambiguous technologies (e.g. teaching) to produce outputs (e.g. knowledge, very capable students) whose «value» and «quality» are very difficult to determine" (Morphew & Huisman, 2002, p. 495).

In their seminal paper, DiMaggio and Powell (1983) attempted to identify the mechanisms affecting organizational changes towards isomorphism, and denoted three different mechanisms of isomorphism. Such mechanisms can be disentangled in theory, since they originate from different conditions and can lead to different results, but they "intermingle in empirical settings" (DiMaggio & Powell, 1983, p. 150). They are all the results of different kinds of institutional pressures on organizations and are distinguished into coercive, mimetic and normative isomorphism.

Coercive isomorphism is the results of "formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function" (DiMaggio & Powell, 1983, p. 150). Such pressures can be government mandates or law requirements, which can actually affect many aspect of an organization. Mimetic isomorphism is the result of the pressure coming from uncertainty, which is "a powerful force that encourages imitation"

(DiMaggio & Powell, 1983, p. 151). Uncertainty can derive from different causes affecting an organization: ambiguous goals, unclear solutions, and vague paths. To reduce such uncertainty, organizations tend to model themselves on other organizations, which they perceived as more successful, or legitimated (DiMaggio & Powell, 1983, p. 152). Finally, DiMaggio and Powell (1983) recognized a third form of isomorphism, defined as normative. Such isomorphism results from professionalization as a mechanism to establish the necessary conditions to be member of a specific organization. Professionalization provides two sources of isomorphism, as recognized in DiMaggio and Powell (1983, p. 152): “[o]ne is the resting of formal education and of legitimization in a cognitive base produced by university specialists; the second is the growth and elaboration of professional networks that span organizations and across which new models diffuse rapidly”.

Indeed, each isomorphism implies specific institutional pressures which drive the homogenization of the organization to the institutional environment at different levels. In referring to organizations, DiMaggio and Powell (1983) indicate as the appropriate context for the application of institutional theory the organizational field, which comprise different level of organizations and offer a wider context to detect isomorphism (Scott, 1994, p. 70-71).

Actually, according to Powell and DiMaggio (1983, p. 148), an organizational field can be defined as the aggregation of “those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resources and product consumers, regulatory agencies and other organizations that produce similar service and products”. Similarly, these fields are considered by Scott (1994, p. 71) as “communities of organizations that participate in the same meaning systems, are defined by similar symbolic processes, and are subject to common regulatory process”. In consideration of such a broad definition of organizational field, NIS found application in several different settings.

In particular, new institutional theory was found to be suitable in accounting research, especially in those studies concerning the construction and the change of accounting as a social practice (Covaleski & Dirsmith, 1988; Abernethy & Chua, 1996; Rollins & Bremser, 1997; Judge, Li, & Pinsker, 2010). Furthermore, NIS is useful in accounting history studies, in which institutional pressures can give new insights to understand the development of accounting practices in the past and the present (Carmona, Ezzamel, & Gutiérrez, 1998; Carmona & Macias, 2001; Gomes, Carnegie, & Rodrigues, 2008).

Finally, some studies concerning research in accounting make use of new institutional theory to explain changes in research methods and issues. In these works, accounting research forms an organization inside the broader organizational field of academic research, which can be affected by institutional pressures (Dillard, Rigsby, & Goodman 2004; Tuttle & Dillard, 2007; Baker & Barbu, 2007). Actually, universities can constitute an institutional organization, which is judged for its legitimation rather than its efficiency (Morphew & Huisman, 2002) and in which different research branches are immersed. Research in accounting can be analyzed using new institutional theory since it forms an organization inside universities, comprising researchers, professors, valuators, schools, associations, but also rules, traditions and standards, which need to be considered when studying changes in such contexts.

Since institutional theory resulted suitable to study changes and developments in universities, and research (Covaleski & Dirsmith, 1988; Morphew & Huisman, 2002; Tuttle & Dillard, 2007), it is possible to apply it on a peculiar accounting research stream, like EM research. This is, very briefly stated, the purpose of the present work.

As underlined in Lounsbury and Ventresca (2002), new institutional theory can include the study of any area of academic research as an institutionalized field. Such a possibility was exploited by Tuttle and Dillard (2007) in their work on the development of academic accounting research (AAR) in US, since there "are various institutional factors that influence research in the accounting domain" (Tuttle & Dillard, 2007, p. 389). Likely, Baker and Barbu (2007) studied the evolution of research on international accounting harmonization, since it "can be viewed as a subset of international accounting research and it is also a subset of financial accounting research" (Baker & Barbu, 2007, p. 605).

Actually, NIS constitutes a useful tool to detect the factors that can push towards homogenization in academic research among different institutions, even when they pertain to different countries. The theory addresses the forces acting on members of an organizational field and complements and extends economic based explanations of AAR development (Watts & Zimmerman, 1978). Furthermore, even before the publication of DiMaggio and Powell's contribution, homogenization was found to exist in educational contexts. Indeed, Coser, Kadushin, and Powell (1982) demonstrated a progressive homogenization in college textbook publishing, from a wide range of models to only two models, and Rothman (1980) reported the reduction from several competing models to only two approaches in legal education.

In the organizational field of academic research in accounting, it is possible to look for the three mechanisms of isomorphism presented in DiMaggio and Powell (1983). Indeed, coercive mechanisms can be found in those guidelines for the accreditation of research and those standards of valuation of research, which are usually indicated by Universities or by the national education committee and can affect the way research is conducted, leading to a homogenization to research standards and evaluation parameters.

At the same time, mimetic mechanisms can arise from the appearance of new models of research and globalization, which can be perceived by researchers more as a threat than a challenge or an opportunity, causing uncertainty in the path to follow. Such uncertainty can drive the homogenization process also in accounting research.

Finally, also normative mechanisms can drive homogenization in academic research, once professionalization standards and parameters are fixed by Universities or other associations of researchers and professors.

3. Hypothesis and methodology

Facing the actual convergence of Italian accounting research towards American accounting research, with specific reference to the stream of EM, the present paper aims at verifying if such convergence can be read as institutional homogenization theorized in NIS. Since "accounting research is conducted within a social and institutional context which shapes the assumptions, perceptions and intellectual choices of individual researchers" (Panozzo, 1997), accounting research can be viewed as an organizational field, immersed in the institutional setting of universities, which can be studied under the lens of NIS.

To achieve this purpose, the study makes use of an historical comparison between Italian accounting research on EM and American accounting research on EM, since such methodology is helpful to "identify and explain similarities and differences between phenomena in different locations and cultures" (Carnegie & Napier, 2002, p. 691). Actually, this historical comparison extends the traditional approach of the two main streams of comparative research in accounting: comparative international accounting (CIA) and comparative international accounting history (CIAH). Indeed, the subject here differs from the usual subjects of both the streams. On the one hand, while CIA focuses on differences and similarities of accounting practices among countries or continents, this paper makes a comparison between Italy and US in the development of a specific accounting research stream. On the other hand, while CIAH concentrates on differences and similarities of accounting practices in the past, to enhance the "understanding of how accounting came to be what it was in different locations at different points of time" (Carnegie & Napier, 2002, p. 694), the present paper focuses on the past of an accounting research stream to explain its present, without undermining the aims of CIAH, which helps "to understand better the contingent nature of one's own traditions and practices and to assess the impacts of accounting on economy and society" (Carnegie & Napier, 2002, p. 711).

According to the different comparisons available in CIAH, the paper makes a parallel study of the EM research streams of Italy and US along a period of 80 years, comparing academic debates and highlighting the main turning point in both the debates. Such a comparison aims to highlight any signs of homogenization between Italian and American EM research from their foundations up to date, denoting similarities and differences in concepts, frameworks and methodologies.

Once understood the development path and context of the two research streams, it is possible to verify the existence of an actual homogenization of the Italian EM research with the American one through the detection of the isomorphic factors that can drive isomorphism among organizations according to NIS.

4. EM research stream: an historical comparison

In this paragraph, we provide an overview of the evolution in the prevailing Italian academic literature regarding EM from the beginning of last century to the beginning of this century, comparing it to American EM research trends. We agree with Mattei (2006) that organizing such analysis for Italy requires much effort since almost all the Authors who wrote about financial statements had something to say also about EM, and particularly about its lawfulness. Many Authors introduced very specific distinctions and assumed different points of view, which sometimes lead them to very different conclusions. Even if it is quite hard to summarize heterogeneous positions in unitary trends, and it might be not appropriate for the literature, we tried to collect the main contributions to systematize Italian literature on EM for the aims of this work.

Therefore, the comparison highlights the main concepts and methodologies of EM research and gives evidence to differences and similarities between the Italian and the American streams within the context in which such research grow, in order to detect any contextual or institutional factor that could have led to the homogenization of the Italian EM research to the American one.

In particular, the analysis provides a distinction among three different periods of time, characterized by different topics, methodologies and approaches to EM research.

During the first period ('30s – '70s), EM was not condemned, but almost positively regarded by Italian academics, while it was considered a dangerous practice for decision usefulness of financial statement in US, where the topic started to flourish only after the '60s.

In the second period ('70s – 2000s), in particular after 1975, the level of consensus around EM practices suffered a strong reduction in Italy. It was an initial alignment with the conception of EM in US, where in the meanwhile empirical studies on EM were proliferating.

In the third period (2000s – today), Italian EM research shifted towards the models of American EM research not only from a conceptual point of view, but also from a methodological one.

4.1 The beginning of EM research in Italy and US: from '30s to '70s

In the middle of the twentieth century, in Italy, there was still paucity of rigorous accounting principles. Actually, the first regulation on financial statement in Italy dates back to 1882, when the Code of Commerce provided for the periodic preparation of financial statements by limited companies. Notwithstanding the remarkable intent of the Legislator, the regulation resulted not so effective, nor incisive, in the protection of stakeholders (Broglia, 2004, p. 55). No rules were established as far as informative content and evaluation criteria of assets and liabilities were concerned. Great discretion was granted to managers, with the only prohibition of distributing fictitious earnings – and, as a consequence, of watering net capital to the detriment of companies' creditors (Broglia, 2004, p. 56-58). Therefore, accounting research was considered to have a normative and advisory role in providing insights on accounting choices and financial reporting.

In that period, Italian accounting research was dominated by the dogma of Zappa's *Economia Aziendale*[2], a unifying discipline with its own laws, focused on the "*Azienda*", as an independent and holistic system, broader than a business. *Economia Aziendale* covered not only accounting, but also organization and management, using a narrative approach to research (Mattessich, 2007). Researches and studies in *Economia*

[2] Economia Aziendale can be considered as a "unifying discipline of all productive and economic activities for businesses as well as government entities" (Mattessich, 2007, p. 101). For an analysis of the content of *Economia Aziendale* as an academic discipline please refer to Viganò (1996).

Aziendale and pertaining to the accounting sphere were usually normative, in the sense that they aimed at addressing accounting practice, and also narrative, in the sense that they did make use of qualitative and descriptive methodologies.

This approach was adopted also in the stream of EM research, which drew the attention of Italian researchers since the beginning of the 20th century. Over time, contributions highlighted the basic mechanisms for manage earnings, debated on their pros and cons, and discussed their influence on firms' economy and financial markets. As well as all the other issues considered in the broad discipline of *Economia Aziendale*, EM gave rise to debates and theorizations in the field, with normative aims concerning accounting practices and qualitative and descriptive approaches regarding the effects of EM. Furthermore, in the tradition of *Economia Aziendale*, the main contributions consisted in books dealing with the broader topic of the "*Azienda*" or the preparation of financial statement (Amaduzzi, 1939; Onida, 1951; Masini, 1957, 1958, 1970; Cattaneo, 1966; Ferrero, 1968; Poli, 1971; Provasoli, 1974; Amodeo, 1976)[3]. Inside these books, the EM issue was discussed in single chapters and paragraphs.

Unlike Italy, research on EM developed only after the '60s in US, after the appearance of the pioneering works by Ball and Brown (1968) and Copeland (1968) dealing with manipulation of earnings by managers. Like Italy, also in the American setting accounting research in general maintained a normative purpose until the '50s, focusing on accounting choices for the best accounting practices (Mattessich, 2007; Godfrey, Hodgson, Tarca, Hamilton, & Holmes, 2010). After the empirical revolution of the '50s in accounting research (Mattessich, 2007), accounting studies started to make use of empirical models to measure phenomena. At the end of the '60s positive accounting theory (PAT) introduced a "contractual approach" to accounting research (Watts & Zimmermann, 1978).

Actually, PAT underlined the possibility that managers make accounting choices to maximize their own utility, introducing the issue of earnings manipulation (Gordon, 1964; Ball & Brown, 1968; Beaver, 1968; Watts & Zimmermann, 1978). As opposed to Italy, in US the main contributions were published in form of articles in academic and specialist journals.

[3] Publication of books concerning *Economia Aziendale* constitutes a peculiar feature of Italian research tradition, since *Economia Aziendale* "was conceived by Zappa as a unifying discipline of all productive and economic activities for business as well as government entities" (Mattessich, 2007, p. 101).

Looking at the contents, initial contributions in Italy focused on two main mechanisms of accrual EM: *i*) reserves not represented in financial statement and arising from under-evaluation of assets and/or over-evaluation of liabilities; *ii*) watering of capital due to over-evaluation of assets and/or under-evaluation of liabilities. Roggero (1931), in a comment note to parliamentary consultations on criminal law in business, distinguished two kinds of reserves: implicit (or tacit) reserves, as necessary tools against bad events and hidden (or concealed, or secret) reserves, as illegal and dangerous.[4] Likely, Cerutti (1926) and Cassandro (1946) expressed the same position about the use of reserves for EM. In particular, Cassandro (1946) stressed a number of benefits coming from an honest use of implicit reserves. Specifically, he stated that such reserves, making the visible capital less than the "real" capital available to the company, protect the company itself from unexpected losses and also from spiteful shareholders. In one word, the creation of implicit reserves is regarded as a recommended policy.

From these initial works, under-evaluation of assets and over-evaluation of liabilities were regarded as favourable any time they were deputed to improve the company financial strength, by means of net capital maintenance and increase, and preserved the shareholders' right for a constant and appropriate remuneration over time. It has to be noted that no reflections were proposed about the informative function of financial statements for stakeholders. Indeed, at that time financial statements were seen as mere internal informative tools.[5] On the contrary, watering of capital was not considered as favourably as implicit reserves. As discussed in Cerutti (1926) and Damato (1953), insufficient depreciation of assets (i.e., depreciation quotes

[4] Roggero (1931) stated that the motivation for which managers constitute implicit reserves can be found in their sense of responsibility to the company and its stakeholders, which leads managers to maintain, behind financial accounts, those financial strength and flexibility necessary to sustain the company when bad events occur. In other words, implicit reserves shall be regarded as a pride by companies. On the contrary, hidden reserves derive from artificial accounting interventions and are created in order to pay fewer taxes, to sway current value of shares, to manage more or less cunningly in the future. In this case, managers act with the purpose of damaging other subjects, and hiding the real financial position of the company. Therefore, hidden reserved are neither desirable, nor legal. In the same vein, Damato (1957) noted that implicit reserves are sometimes evident, if not in their amount, at least in their existence. This happens when, for reasons related to prudence, current and/or non-current assets are represented in the balance sheet at a value considerably less that the "real" one, or, in the most evident case, all company's tangible assets are valued just 1 lira. Well, according to Damato (1957), implicit reserves are not open to censure. On the contrary, reserves which are voluntarily hidden must be censured, as they falsify and make unclear financial statements, to the detriment of both current shareholders – who lose a part of their dividends to the benefit of future shareholders – and the company itself – as hidden reserves may conceal losses determined by bad management or illegal speculations.

[5] The only valuable exception to the main trend described was the position of Broglia (1922), who underlined that, although truthfulness and clearness of financial statements are unquestionable qualities, there is no possibility to provide them with full operating content. This impossibility gave rise to frequent abuses that affect the fairness of financial statements, being in contrast with principles and good accounting practices. Never mentioning EM, Broglia (1922) actually described behaviours ascribable to income smoothing, income maximization, and classificatory EM. And deplored all said behaviours, as they subtract the financial statement from a fair appreciation.

calculated at the lowest bound possible or lower than real impairment of assets) was already viewed as a dangerous policy, especially when non-current assets must be replaced and the company lacks resources to make the investment necessary to that purpose.

Among the many contributions in *Economia Aziendale* comprising chapters on EM, Amaduzzi (1939) stated that in order to normalize firms' productive life, which is inevitably subject to variability in both internal and external conditions, managers shall distribute over time expenses in accordance with the return of assets, by means of proper EM practices. Such practice led managers to impute more costs in periods when returns were higher and less costs in periods when returns were lower. To that purpose, managers may vary provisions for contingent liabilities, evaluation of inventories, and other accruals. In the end, such practices allow to stabilise year-by-year net earnings and dividends that can be distributed, and thus to reduce firm risk. Similarly, Onida (1951) recognized income smoothing a positive practice to foster the assignment of remuneration to equity capital adequate to enterprise risk, financial market trends and general conditions of the economic system.[6]

The favour to income smoothing by Italian accounting researchers found its reason in the high value attributed to the income as a flow. In particular, since in *Economia Aziendale* it is stated that companies are created in order to continuously generate earnings, and that financial statement represent a conventional interruption in the continuous flow of management, a watchful EM policy aims at containing the consequences produced by the unnatural fragmentation of financial periods. As a consequence, and in more general terms, EM is not necessary a synonym of unconscious manipulation of results, which become false or at least fictional.

Such a consideration of EM practices in Italian *Economia Aziendale* differs deeply from the view provided in American accounting research, where EM practices were condemned and regarded as a threat for the usefulness of financial information (Lev, 1989).[7] Actually, the importance of earnings numbers in

[6] Also several years later, Amodeo (1970) underlined the importance of income smoothing, since income may considerably vary in its amount: periods with high earnings may be followed by one or more periods of low income, or losses. Income smoothing allows to mitigate such changeable earnings trend and to confirm company profitability. More explicitly, the Author underlined that modifying depreciation quotes and provisions for future expenses and risks subordinately to company economic needs is a praiseworthy policy of mid-term income stabilization.

[7] Referring to the "information (communication) theory", Lev (1989) explained the basic idea on which usefulness of information is grounded. He defined information "a message [that] is said to convey information if it causes a change in the receiver's probability distribution of the concerned random variable. Such a change in the probability distribution (beliefs) will trigger an action" (p. 156). In a deductive way, if the action is the result of that information, then the information can be considered useful (Lev, 1989).

investors' decision were clearly stated in the pioneering works on PAT by Ball and Brown (1968), whose work gave "evidence that the information reflected in income numbers is useful" (p. 161), since they observed a link between stock prices and income reports releases. Given the importance of earnings numbers, managers were considered capable of modifying their accounting choices – and even manipulating earnings – to affect investors' decisions (Ball & Brown, 1968; Beaver, 1968; Watts & Zimmemann, 1978; Lev, 1989).

Notwithstanding this opposite view on EM, similarly to Italy, the first contributions in US covered the topic of income smoothing. In particular, we found the methodological works of Copeland (1968) and Copeland and Licastro (1968) on income smoothing. Copeland (1968, p. 101) observes that "corporate managers will use accounting alternatives to "manipulate" profits. […] One manipulating goal widely attributed to management is the desire to smooth reported income. Smoothing moderates year-to-year fluctuations in income by shifting earnings from peak years to less successful periods. This will lower the peaks and support the troughs, making earnings fluctuations less volatile". Since Copeland's work was just one of the first on income smoothing, he underlined the need for further research on "the extent of the smoothing phenomenon in the total economy or in a given industry" and "the economic consequences of smoothing for the economy, the industry, and for the individual firm" (p. 116). In the same vein, Copeland and Licastro (1968, p. 545) suggested that "[f]urther tests of hypotheses concerning income smoothing should incorporate more variables (available techniques for smoothing) and in addition give consideration to as many other facets of the problem as is feasible. Only in this way information concerning management's use of accounting alternatives to smooth reported income can be obtained".

4.2 Early signs of homogenizations: from '70 to 2000s

After the '70s, in Italy, new insights on the usefulness of financial information started to develop. In particular, stakeholders' rights to transparency received more and more attention in accounting research (Cattaneo & Manzonetto, 1997; Broglia, 2004). This affected new approaches in *Economia Aziendale*. For a long time, the possibility to prepare differentiated financial statements to the benefit of specific kinds of stakeholders was admitted. In this period, instead, the principle of the unitary of financial statement found a growing consensus: only one financial statement exists, and it shall offer a minimum and common information to all the stakeholders (Savioli,1999, p. 449).

Furthermore, legal reforms to civil and fiscal laws introduced compulsory external auditing and more stringent accounting principles for companies (Poli, 1975; Mattei, 2006). In fact, "the company law reform (together with the tax law reform) that passed in the 1970s, improved considerably the quality of information supplied in published financial statements, particularly as regards the earnings capacity of an enterprise. Among the many innovation were: (1) the inclusion of a detail income account (of definite format and minimal content) and specific information on associated company shareholdings. […] (2) a register of accounting firms authorized to perform company audits issued by the National Commission for Companies and Stock Exchanges (CONSOB); (3) acceptance of the financial statements for tax purposes, provided they were certified by such a registered audit firm" (Mattessich, 2007, p. 94). Therefore, financial statement became a tool to reach purposes of public interest and assumed a different role in the economic system. More specifically, it became a tool to convey information to both shareholders and other stakeholders. Moreover, such reforms gave way to the influence exerted by jurists in *Economia Aziendale*. Jurists started to contribute to the accounting debates, like Colombo (1965), who stated that financial statement, which shall be a tool to communicate financial data to stakeholders, and not a tool to satisfy specific interests chosen by managers or main shareholders.

Finally, an additional legal reform occurred in the '90s with the Legislative Decree 127/1991 on financial statement preparation, according to the European harmonization project, which further constrained evaluation principles and accounting standards in Italy.

In this context, accounting research maintained its normative and advisory approach, giving insights about the law reforms and the methodology was still qualitative and narrative, even if little empirical works were published at the end of the '90s. As opposed, in US, after the empirical revolution and the affirmation of the contractual perspective of PAT, studies on EM based on empirical approaches considerably grew and became more and more detailed in hypothesis definition, with more and more sophisticated empirical models and bigger samples analysed. It has to be noted that, as opposed to Italy, American research on EM was based exclusively on empirical and statistical methodologies to demonstrate the existence of EM practices in large samples of public firms. While pioneering studies in '70s and '80s focused on quite small samples (some hundreds of observations), extensively used descriptive statistics, and tested a limited number of hypothesis by tests for difference in means or medians, and basic regression models, in the ’90s samples increased in size (also thanks to the growth of data providers) and regression models became more and more complex, with the inclusion of an increasing number of control variables.

Looking at the contents, in Italy, different positions against the past favourable view of EM started to arise, around 1975 researchers’ opinions about EM began to differ significantly.

In particular, while Onida (1974) still looked favourably to EM, but only if legal, other scholars showed their criticism on EM practices.

Onida (1974) underlined that the notions of income and capital do not assume, due to their nature, a unique and true amount, objectively determined and verifiable. On the contrary, they are abstract values, which may assume different amounts according to the hypothesis and conjectures on which assets and liabilities evaluations are based. He also discussed how depreciations, amortizations, provisions for future expenses and risks can be linked to EM practices. Clearly the Author was favourable to proper EM interventions, since they can positively impact on the overall business management by means of an adequate policy of dividends distributions and reserves creation, which may deeply influence the company (not last in terms of cost of capital).[8]

Although accounting literature overall agrees with the idea expressed by Onida (1974) that discretion in financial statement is unavoidable[9], contemporary Authors disagree with his opinion about EM.

In particular, in a more critical vein, Viganò (1973) was concerned about the effects of EM on external disclosure provided by companies[10]. He claimed that the financial statement should not be regarded as a mere informative tool. Indeed, on one side, it is a tool for managers aiming at affecting the investment

[8] However, Onida (1974) condemned the arbitrary and unjustified earnings manipulations deputed to decrease earnings and their distribution, not in the benefit of the company development, but in order to foster unmentionable speculations by dominant groups or hide violations of tax obligations.

[9] In such a sense, Cassandro (1978, p. 155) affirmed that financial statements are always an approximation, and never a mathematical certainty. This is due to the fact that besides objective values coming from transactions already carried out, financial statements are based also on subjective values, arising from hypothesis and conjectures about the future development of business management.

[10] Indeed, in this decade a number of studies focused on the informative power of the financial statement (Capaldo, 1975; Cassandro, 1978). For example, Capaldo (1975) extensively examined the informative system necessary to provide a good external financial information and the different categories of stakeholders interested in financial statements. He also proposed the idea of an “open” financial statement, in which the preparer indicates all the objective values and all the necessary details to estimate subjective values, and each user “closes” the financial statement according to its own informative needs. Such an open financial statement may be considered as a proposal to definitively solve the issue of EM.

choices of external parties. On the other side, it is also a communication tool to inform external parties about the results achieved by the company. Of course, if the financial statement is viewed as a tool available to the management to drive the external stakeholders' behaviour, then EM may serve to this purpose.

Moreover, Bruni's contribution (1975) is illuminating in denoting the change in the view about EM in Italy. He examined in detail a number of accounting choices devoted to EM purposes and expresses high prudence about the possibility of applying them, no regards with their purpose. In his mind, EM must not damage the principle of a clear view of companies' financial position and economic trend that the financial statement is required to provide for. If this is the case, then not only illegal EM is condemned, but any form of earnings manipulation, in that it makes failing the transparency of financial statements.

Therefore, in this phase, EM started to be viewed as a deceiving tool for stakeholders, which on their part had gained attention due to the growing interest – even in the Italian context – for stakeholders' interests. EM thus resulted increasingly incompatible with respect to the rights of stakeholders to receive complete and transparent information about business performance. At the time, Poli (1975) promptly underlined how the attempts to constrain EM arose from the modified function assigned to financial statement. He recognized civil and fiscal reforms as tools to constrain EM: on the one hand, civil regulation passed from generic requirements about the preparation of financial statements to the definition of evaluation criteria of assets and liabilities that must be constant over time; on the other hand, the introduction of external audit in 1975 aimed at granting stakeholders about the truthfulness and accuracy of financial statement.[11]

Along the '80s and the '90s, Italian research maintained the same position about the negative consequences of EM. Cavalieri (1983) claimed that EM is never correct under the informative profile, and they is often illegal, as it is contrary to the principle of the true and fair view of business economics required in financial statements.[12] In the '90s, after the further legal reform on financial statement, accounting

[11] Poli (1975) also underlined that for some decades the shareholders' right to receive complete and transparent information by means of the financial statement has been confused with their right of receiving dividends. As earnings distribution is decided by shareholders, in order to avoid excessive distribution managers tend to determine net incomes compatible with an earnings distribution that does not violate companies' capital needs. If such an instance has been regarded as noteworthy, it leads to the publication of external financial statements different from internal ones, impairing the shareholders' right to acquire a true and fair view about the company trends.

[12] Cavalieri (1983) focused on improper (or false) reserves, i.e., contingent liabilities provided for with the aim of creating a reserve for future investments, and not just to face expected expenses and risks. He underlined that such liabilities are similar to reserves in nature, but are false reserves, as they do not represent saved income and are a technically improper and illegal form of earnings retention.

scholars reconsidered EM according to the new rooms for discretion admitted by the civil code without changing their negative opinion. Di Toro and Ianniello (1996), in analysing the evaluation criteria provided by Legislative Decree 127/1991 and investigating the margins for subjective choices, suggested that the new regulation offered new opportunities for EM. In the same vein, Prosperi (1999a; 1999b) discussed about juridical aspects of EM, particularly with reference to the fraudulent reporting, while Savioli (1999) analysed the parameters to which the judgement about the truthfulness or falseness of financial statement may be referred. Resting on the traditional qualitative methodology of Italian *Economia Aziendale*, Pini (1991) approached EM from a managerial point of view, distinguishing three conception of discretion, and therefore of EM: ideal, ideological, and instrumental.[13] Furthermore, Coronella (1997) defined EM as accounting choices deputed to represent an economic and financial position more or less different from the real one and added that EM may be positively or negatively regarded depending on the specific managerial policy developed.

Besides the several qualitative studies, Frattini (1988) empirically analysed the issue of earnings smoothing with reference to a sample of Italian industrial companies for the decade 1977-1985, and demonstrated that in periods of negative economic trend companies tend to inflate estimated accounting values, so that earnings and dividend smoothing may be preserved. Oricchio (1999) provided an empirical analysis of income smoothing in relation with the Efficient Market Hypothesis and demonstrated, on a sample of 728 companies for the decade 1985-1994, that managers of profitable companies tend to underestimate net earnings in order to create hidden reserves, while managers of unprofitable companies tend to overestimate net earnings (and net capital). Specifically, on average, compared to unprofitable firms, profitable firms capitalize less expenses, apply higher depreciation and amortization rates, and provide for more contingent liabilities. Both contributions, however, adopted just a descriptive approach to data analysis, remaining far from contemporaneous US contributions, which on the contrary were providing more and more empirical contributions and sophisticated models to detect EM practices.

[13] According to Pini (1991), following the ideal approach, managers attempt to achieve the maximum objectivity possible, as absolute objectivity does not exist; although the financial statement may not be true in absolute terms, it shall at least be correct under a methodological point of view. This shall be the purpose of any earnings intervention. The ideological approach leads to a more subjective representation of companies' financial and economic position, as it admits that cultural background, professional experience, and policies already adopted influence managers while estimating accruals, although managers would like (and think) to be objective. When discretion is not used impartially, then the approach to discretion becomes instrumental and is forced to the benefit of managers, controlling shareholders, etc.

Actually, starting from mid ’70s, first studies focusing on earnings manipulation by means of specific accruals started to be published in US. For example, Moore (1973) empirically investigated provisions for bad debt, whose evaluation give managers high degree of discretion in accounting choices. But it was in the ’80s when studies on specific EM techniques – other than total accruals – started to be deepened: McNichols and Wilson (1988) focused on provisions for bad debt, while both Strong and Meyer (1987) and Elliott and Shaw (1988) analysed the recognition of impairment losses of tangible and intangible assets for the purpose of big bath EM. Moses (1987) explored incentives to income smoothing by means of opportunistic accounting changes and tested the relation between income smoothing and a set of explanatory variables (i.e., size, bonus compensation plans, and earnings surprise).

Such a focus on EM techniques continued also in the ’90s, with a proliferation of studies on specific accruals and accounting methods which may serve for EM purposes. Such contributions focused on depreciation of tangible assets and inventories (Zucca & Campbell, 1992; Francis, Hanna, & Vincent, 1996; Rees, Gill, & Gore 1996), bad debt provisions (Teoh, Wong, & Rao, 1998), deferred tax valuation allowances (Miller & Skinner, 1998; Visvanathan, 1998) and extraordinary items adjustments for the purpose of big bath EM (Walsh, Craig, & Clarke, 1991).

Furthermore, in this decade scholars concentrated on possible incentives to EM, both relative to capital markets incentives and contracting motivations.

With reference to capital market incentives, the pioneering contributions by Dye (1988) and Trueman and Titman (1988) developed analytical models detecting contracting frictions that can lead to manage earnings in order to influence the decisions of external capital providers, while the empirical contribution by DeAngelo (1986) focused on EM prior to management buyouts. Later, a number of empirical research examined whether companies manipulate earnings in periods prior to extraordinary transactions, such as initial public offerings (Aharony, Lin, & Loeb, 1993; Friedlan, 1994; Teoh, Welch, & Wong, 1998), seasoned equity offers (Rangan, 1998), mergers and acquisitions (Easterwood, 1998; Erickson & Wang, 1999), and, again, management buyouts (Perry & Williams, 1994; Wu, 1997). In late ’90s, US scholars also focused on EM around thresholds as possible ordinary capital market incentives. Burgstahler and Dichev (1997) and Degeorge, Patel, and Zeckhauser (1999) concentrated on EM to reach the zero thresholds, meet previous year income and meet analysts’ expectations.

With reference to contracting motivations, DeAngelo, DeAngelo, and Skinner (1996) examined whether firms close to dividend constraint change accounting methods, accounting estimates or accruals to avoid cutting dividends or making costly restructuring decisions. Almost in the same years, DeFond and Jiambalvo (1994) and Sweeney (1994) studied EM in connection to the risk of violating covenants. As regards incentives for managers, following the first studies by Healy (1985) and McNichols and Wilson (1988), in the '90s a number of contributions verified whether managers manipulate earnings in order to maximize earnings-based bonus awards (Gaver, Gaver, & Austin, 1995; Holthausen, Larcker, & Sloan, 1995; Guidry, Leone, & Rock, 1999), while DeFond and Park (1997) investigated the probability that managers manipulate earnings in order to keep their job security. Finally, Dechow and Sloan (1991), and Lasalle, Jones, and Jain (1993) tested EM practices in connection to changes in top management.

Similarly to Italy, also American academics investigated the role of audit on EM. In this sense Becker, DeFond, Jiambalvo, and Subramanyam (1998) verified differences in the extent of EM between companies audited by Big Six and non-Big Six audit firms, while DeFond and Subramanyam (1998) examined changes in managers' accounting behaviour in periods close to the switch from an auditor to another one. Dechow, Sloan, and Sweeney (1995) demonstrated that companies which manipulate earnings tend to present some weakness in their corporate governance structure.

Actually, also the problem of measuring and detecting EM can be considered a fundamental topic of research starting from the '90s. In particular, since accruals were considered the main tool to manage earnings, several approaches were defined to measure EM by disentangling the portion of reported earnings that is presumed to be managed (discretionary accruals) and non-discretionary accruals. Among the others, the seminal contribution by Jones (1991), proposing the so called Jones's model for the detection of abnormal accruals, was pivotal in EM literature. Even if the model was then modified by Dechow et al. (1995), it became the main reference for measuring EM in the subsequent EM literature.

4.3 The recent convergence: from 2000s up to date

In recent years, EM research in Italy regained attention after some big financial scandals that hit Italian economy, too. As reported in Melis (2010, p. 255), "last decades have been characterized by several cases of fraudulent financial reporting that have concerned listed companies, including, just to name a few of the most recent cases: Finmatica, Giacomelli Sport, Freedomland and, of course, Parmalat, which represents the most spectacular and important recent case of accounting fraud in Italy". Such scandals caused a further reinforcement of audit and corporate governance regulation (Melis, 2010), and fostered growing attention of Italian accounting researchers on EM practices from an empirical point of view. In the meanwhile, the adoption of the accounting standards issued by the IASB in Italy has been considered as an event of the maximum importance and, at the same, full of contradictions: indeed, on the one hand, a significant earnings quality improvement was expected, in light of the purpose for which the IASB itself was established (i.e., the approval of high quality accounting standards); on the other hand, due to the big novelty in the accounting practices, firms were expected to take advantage from such event and implement earnings manipulations, to the detriment of earnings quality.

Furthermore, in recent years, a significant change in academic research standards was introduced by the Italian education committee. In particular, Italian academics faced new criteria for the evaluation of research products, according to international rather than national – traditional – standards (Riccaboni, 2011). Globalization inevitably affected also the academic environment, since the valuation standards of research result now aligned to global parameters (Riccaboni, 2006). At an overall level, universities are increasingly required to improve research, evaluate it and subordinate funding to the verification of scientific production (Zaninotto, 2006).

This international shift affected significantly the branch of accounting research, which had hold on for decades to the dogma of Zappa's *Economia Aziendale* without confronting with alternative ways of thinking. Italian studies in the branch of *Economia Aziendale* received heavy critics due to the limited international openness documented by a less presence of papers authored by Italian researchers in major international journals, and the risk for a research involution (Zaninotto, 2006). Moreover, it has to be reminded that the success of *Economia Aziendale* in previous years might have induced in the Italian academics a perception of cultural dominance, which led to a general disinterest to foreign accounting research and alternative research methodologies (Mattessich, 2007).

In this context, new Italian contributions were published applying empirical methodologies, instead of the usual narrative and qualitative one.[14] New studies started to make use of the main empirical models available in US literature on EM.

Empirical research on EM carried out by Italian researchers[15] and referred to the Italian context is rapidly growing.[16]

The first empirical contributions focused on EM practices and authored by Italian researchers appeared in 2006, in the form of book chapters written in Italian (Mattei, 2006; Prencipe, 2006). Similarities with the main US contributions on EM were evident. Both the Italian works studied the existence of earnings manipulations around well-known critical thresholds. More specifically, both Mattei (2006) and Prencipe (2006) focused on detection of EM to avoid losses and earnings decreases. The idea on which the studies were based is common to the main contributions available in US on incentives to EM (DeAngelo et al., 1996; Burgstahler & Dichev, 1997; Degeorge et al., 1999) and similarly used analysis of cross-sectional distributions of earnings to detect unusually low frequencies of losses (small earnings decreases) and unusually high frequencies of small positive income (earnings increases), which represent a signal of EM. Following the contributions cited, Ricciardi (2009) investigated EM around critical thresholds by Italian non-listed companies which voluntarily adopted International Financial Reporting Standards (IFRSs).

A second stream of empirical research on EM relates with earnings manipulations by means of discretionary choices allowed by regulation and accounting standards, and subordinately to the existence of incentives to EM. In this case, contributions are partly in the form of book chapter written in Italian (Prencipe, 2006; Florio, 2011) and partly in the form of papers published in international journals

[14] Verona's book (2006) is an exception in the recent Italian EM research because is still based on a qualitative approach but it was inspired by the Italian financial scandals that questioned the validity and usefulness of financial statements. In Verona's contribution (2006), discretion is not always in contrast with financial statements' informative potential, as higher discretion may also improve transparency and effectiveness of financial statements. His contribution provides an historical excursus on discretion within financial statements, discusses various notions of EM and its classification based on the consequences it produces, potential purposes of different kinds of earnings manipulations, and goodwill as a potential reserve.

[15] For Italian researchers we intend researchers hired, at any role, by Italian universities.

[16] In the attempt of providing a brief description of the topics so far covered, also in comparison with US literature, we consider both studies that have already been published as books or journal papers and working papers available on Social Science Research Network or presented to main conferences held in Italy or within the European Union. Of course, our overview is not exhaustive, but reflects only partially the real dynamism of research in EM arose in the Italian context in the last years, as many research papers are still in the form of working papers or papers under submission, and are not yet available to public. Actually, the fact that research contributions are mostly directed to international journals that require a double-blind review process may be interpreted as a further signal of convergence to the prominent way of publishing in the US context.

(Markarian, Pozza, & Prencipe, 2008; Prencipe, Markarian, & Pozza, 2008). Prencipe (2006) and Markarian et al. (2008) aimed at verifying whether Italian firms capitalize R&D costs in order to smooth income or respect debt covenant. Moreover, Prencipe et al. (2008) developed the same analysis on R&D cost comparing family and non-family listed firms. In the same vein of research, Florio (2011) explored the factors determining the decision of recognizing an impairment loss of tangible and/or intangible assets under IAS 36 (Impairment of Assets), which leaves considerable discretion to managers in defining cash generating units, fair value, value in use, etc. In her book chapter, she took into account possible determinants of economic nature, such as change in profitability, cash flow and market-to-book ratio, and determinants related with EM purposes, in the form of income smoothing, big bath, and avoiding covenant violations.

Concerning the IAS/IFRS adoption, a number of research papers developed a comparative analysis of earnings quality, proxied by various measures of EM, in financial periods preceding and following the adoption of IAS/IFRSs. In particular, Paglietti (2009) studied the level of earnings quality on a sample of non-financial listed companies in the period 2002-2007. She measured earnings quality as an opposite measure of EM, as American scholars on EM used to do (Francis, Olsson, & Schipper, 2006). Moreover, Ricciardi (2009) tested whether the voluntary adoption of IAS/IFRSs by private companies affect EM, while Mattei (2006) investigated earnings manipulation by Italian listed companies in the year of transition to IAS/IFRSs, focusing on a discretionary exemption provided for by IFRS 1 (First-time adoption of International Financial Reporting Standards)in order to verify whether managers acted opportunistically when they shifted to fair value or maintained the cost criterion, in accordance with the Italian regulation.

Another stream of Italian EM research focused on the effects of corporate governance regulation on EM, since corporate governance best practices and guidelines are seen as constraints to EM practices. Indeed, “corporate governance literature advances the idea that certain aspects of board of directors’ structure improve monitoring of managerial decisions. Among these ones, the managers’ decision to manage earnings” (Prencipe & Bar-Yosef, 2011, p. 199). In this research area, Marra, Mazzola, and Prencipe (2011) explored the influence of board independence and the existence of an audit committee on EM. The Authors measured EM with abnormal working capital accruals and distribution of frequency of the economic results around zero, indicating the strong reference to EM models widely adopted in the US. Moreover, Prencipe and Bar-Yosef (2011) tested whether strong board independence affects EM, looking at the differences between Italian listed family-controlled companies and listed non-family-controlled companies, while Prencipe, Bar-Yosef, Mazzola, and Pozza (2011) investigated whether the ownership structure affects EM, again distinguishing family-controlled companies and non-family controlled companies. Finally, the working paper by Markarian and Parbonetti (2009, p. 2) examined "financial interlocks between banks and industrial companies, and its relationship to earnings quality" to test whether "bankers perform a monitoring/control role that constrains opportunistic behaviour on behalf of management".

Finally, Di Narzo, Freo, and Mattei (2010) proposed a new accruals estimating technique "which does not rely on industry classifications and mitigates the heterogeneity within the estimation samples" (p. 2), in that contributing to the literature on appropriate research design to detect EM.

While Italian EM literature was shifting towards empirical models pertaining to North-American research, US scholars went on with their main streams of EM research – EM techniques, incentives to EM practices, constraints to EM –, but also enlarged their investigations to more actual issues in accounting, like harmonization and changes in accounting standards.

Studies on EM techniques continued to focus on usual suspects such as provisions for contingent liabilities (Nelson, Elliott, & Tarpley, 2003), impairment of assets (Nelson et al., 2003; Marquardt & Wiedman, 2004), and extraordinary items (Marquardt & Wiedman, 2004). Moreover, other studies focused on changes in accounting practices to the purpose of income smoothing, big bath or avoid covenant violations (Beatty, Ramesh, & Weber, 2002; Beatty & Weber, 2003; Linck, Lopez, & Rees, 2007).

Studies on capital market incentives to EM continued to grow as well. DuCharme, Malatesta, and Sefcik (2001), Fan (2007), and Xiong, Zhou, and Varshney (2010) extended literature on EM in periods close to initial public offerings. Yet, the stream on EM around thresholds was also lively, and this is not surprising considered that Graham, Campbell, and Rajgopal (2005) demonstrated, by means of surveys and interviews with more than 400 Chief Financial Officers, that earnings per share are still perceived as the most important financial data. In such a field, we recall the empirical studies by Burgstahler and Eames (2006) and Jacob and Jorgensen (2007) on zero threshold, Burgstahler and Eames (2006) on the threshold represented by previous year income, and Bartov, Givoli, and Hayn (2002), Kasznik and McNichols (2002), Matsumoto (2002) and Bhojraj, Hribar, Picconi, and McInnis (2009) on EM for meeting or beating analysts' earnings forecasts. Moreover, Durtschi and Easton (2005 and 2009) and Beaver, McNichols, and Nelson

(2007) looked for explanations of discontinuity on earnings distribution different from EM, while Herrmann, Hope, Payne, and Thomas (2010) examined the existence of a hierarchy among thresholds.

Moreover, the studies on contracting motivations incentives to EM were still developing, focusing on equity incentives granted to managers (Cheng & Warfield, 2005), incentives for Chief Executive Officers (Bergstresser & Philippon, 2006; Burns & Kedia, 2006; Armstrong, Jagolinzer, & Larcker, 2010), Chief Financial Officer involvement in material accounting manipulations (Feng, Ge, Luo, & Shevlin, 2011) and covenant violation avoidance (Jaggi & Lee, 2002; Dichev & Skinner, 2002; Beatty & Weber, 2003).

Finally, also the field on the possible constraints to EM was lively in this period, fostered by recent and well-known financial scandals. Nelson, Elliott, and Tarpley (2002) studied the behaviour of both managers and auditors towards income increasing and income decreasing manipulations, while Geiger, North, and O'Connell (2005) verified whether EM is more pronounced in companies where the Chief Executive Officer was previously auditor of the same company. A study on auditing as an effective tool for EM constraint was carried out by Frankel, Johnson, and Nelson (2002).

Given the persistence of the above mentioned main streams, it is interesting to focus on new issues explored by EM research developed in the US. Actually, with reference to such new issues the convergence affecting Italian EM research is even more evident.

In particular, the effects of the introduction of the impairment test for tangible and intangible assets on EM practices constituted a new topic covered, similarly to Italy. Some empirical contributions on this topic (Jordan & Clark, 2004 and 2005; Sevin & Schroeder, 2005; Jordan, Clark, & Vann, 2007; Jarva, 2009) focused on the consequences of the great room for discretion left to managers, with high risk of big bath EM. Moreover, in this last period considered, EM is studied in connection with the wider issue of earnings quality (Dechow, Ge, & Schrand, 2010; DeFond, 2010) and audit quality (Myers, Myers, and Omer, 2003; Nelson et al., 2003). Furthermore, the topic of effects of corporate governance structures in constraining EM knew growing attention. Klein (2002) studied the effects carried out on EM by outside directors, Peasnell, Pope, and Young (2005) on the role carried out by the Audit Committee, and Geiger and North (2006) on the appointment of a new Chief Financial Officer. Moreover, Leuz, Nanda, and Wysocki (2003), Burgstahler, Hail, and Leuz (2006), and Cohen, Dey, and Lys (2008) deepened the effects of Sarbanes-Oxley Act in limiting EM practices.

5. Discussion

The historical comparison shed light on the progressive convergence of Italian financial accounting research about EM towards views and models pertaining to US financial accounting research on EM and also the context in which such convergence developed.

From the first period analyzed, the signs of homogenization increased, indicating an institutional isomorphic trend in the Italian accounting research stream (Baker & Barbu, 2007; Tuttle & Dillard, 2007). Actually, period after period it is possible to identify stronger isomorphic mechanisms driving such homogenization in EM research.

The historical comparison of the first period ('30s – '70s) highlights poor signs of homogenization. While Italy had already a research tradition in EM – since the '30s – US focused on this topic only after the '60s. In its longer tradition, Italian research studied the main mechanisms to manipulate earnings, especially reserves and accruals, but only by means of qualitative and narrative methodologies. Furthermore, in their debate, Italian researchers denoted a positive view of EM practices, as necessary to stabilize income along years and grant constant remuneration to shareholders (Roggero, 1931; Amaduzzi, 1939; Cassandro, 1946). Both methodologies and opinions about EM suggested diversification rather than homogenization with financial accounting research in the US. Indeed, as opposed to Italy, US scholars started to analyze EM with quantitative methodologies – following the "empirical revolution" in American accounting studies – and condemned EM practices for their negative effects on the usefulness of accounting information (Ball & Brown, 1968; Beaver, 1968; Copeland, 1968; Copeland & Licastro 1968).

The comparison found similarities and differences only in the indication of those activities inducing EM (e.g., income smoothing mechanisms), but it found no evidence of the three traditional isomorphic mechanisms indicated by NIS. Rather, it denoted pressures driving diversification between Italian and US financial accounting research. In the Italian setting, there was no interest in looking at foreign research, or questioning the positive view about EM, which corresponded to the main dogmas of *Economia Aziendale*. Furthermore, the confidence in Zappa's thought did not give way to any uncertainty in the research path Italian academics should follow. Researchers remained focused on the dogmas of *Economia Aziendale* as a holistic discipline (Mattessich, 2007). They seemed stuck in "a self-proclaimed superiority […] combined with some hesitation to learn from accounting knowledge abroad. This tendency may possibly have prevented a faster adaptation to the Anglo-America trend" (Mattessich, 2007).

The historical comparison of the second period ('70s – 2000s) shed lights on the first signs of homogenization between the two research streams.

Starting from 1975, while US studies on EM began to flourish, a radical conceptual change occured about EM practices by Italian researchers (Viganò, 1973; Poli, 1975; Bruni, 1975). Indeed, the favourable consideration of EM was gradually substituted by a condemning interpretation of these practices, as factors decreasing the informativeness of financial statements. The first reason behind this mayor change is found in new reflections on the usefulness of financial information for stakeholders and the necessity to grant them transparency, which were new concepts that started to proliferate in Italian accounting research (Cattaneo & Manzonetto, 1997; Broglia, 2004). In this sense, the increased attention to stakeholders constituted a slight opening of *Economia Aziendale* to foreign research dogmas – like "stakeholder theory", for example – which is associated to a mimetic pressure on Italian researcher towards new successful theories, different from Zappa's thought (Mattessich, 2007).

Furthermore, a second reason behind the conceptual change about EM is found in the civil and fiscal law reforms, and in particular in the introduction of compulsory external auditing and more stringent evaluation criteria in financial statement (Poli, 1975; Mattei, 2006). It has to be noted that compulsory auditing already existed in Europe and US, as well as more stringent accounting principles than those existing in Italy. Since accounting scholars still had that advisory role about accounting rules and practices (Broglia, 2004), their opinions about EM shifted from positive to negative, due to such law modifications. Actually, this element resulted as a coercive isomorphic mechanism, since an external pressure – law reforms – induced homogenization in accounting practices, which then affected also accounting research and academics' opinion.

Essentially, the study of the second period denoted that these initial mimetic and coercive isomorphism drove a "conceptual" homogenization of Italian accounting research with the US one, whilst there is no signs of "methodological" homogenization, since all the Italian contribution still rested on qualitative approaches.

A wider homogenization, both from a conceptual and a methodological point of view, is verified in the comparison of the third period (2000s – today).

Italian EM research maintained a condemning position about EM and shifted toward empirical methodologies to conduct its studies (i.a., Mattei, 2006; Prencipe, 2006). Even this methodological shift is still at its dawning, the comparison highlights different institutional factors affecting such homogenization which can be associated to the three traditional isomorphic mechanisms proposed in NIS.

First, a further reinforcement of audit and corporate governance regulations due to financial accounting scandals (Melis, 2010) is found to constitute a coercive pressure over Italian accounting research, which restarted to pay more attention to EM studies.

Second, University reforms by the Italian education committee gave rise to a coercive pressure which is found to have induced a shift towards international research.

Since coercive isomorphic mechanism can be formed by government mandates or law requirement (DiMaggio & Powell, 1983), accounting regulation and academic reforms constituted external pressures which affected the research choices made by accounting scholars. Actually, the new standards for the evaluation of research and the provision of research funds resulted aligned with international valuation standards, thus encouraging a change in academic research towards international methodologies and approaches (Palumbo, 2011). Such an effect influenced heavily accounting research, which had persisted with the normative and holistic approach of *Economia Aziendale* until the 2000s – and still a part of the literature maintains such a perspective (Mattessich, 2007). External pressures extended the homogenization process from the conceptual sphere of the second period, up to the methodological sphere, because Italian research started to align to the American empirical models.

At the same time, also mimetic pressures are found to affect such homogenization process. As indicated in DiMaggio and Powell (1983), this form of pressure comes from uncertainty, which then "encourages imitation" of other successful organizations. Such uncertainty can be recognized also in the Italian research context, where after years of domination of *Economia Aziendale* and its dogmas, researchers faced the existence and the importance of the Anglo-American empirical research in accounting research. Both the globalization and the harmonization process of accounting standards shed light on new interpretation of the usefulness of financial information and new perspectives of accounting research coming from abroad. Therefore, these phenomena worked as a mimetic pressure on Italian accounting research, which questioned *Economia Aziendale* and started to approach the dominating models of accounting research, that is Anglo-American accounting research (Mattessich, 2007).

Finally, as suggested by DiMaggio and Powell (1983), the third form of isomorphism is normative, a mechanism that establishes criteria and conditions for being a member of the "homogenized" organization. Namely, both the organization and the broader institution in which the organization is immersed can establish norms or benchmarks to be members of that organization. In the case of academic research, University itself or academic research communities establish criteria for the academic profession path or for becoming a researcher in a specific stream of research. Indeed, in this case of Italian financial accounting research, such isomorphic pressures are still *in fieri*, since only valuation criteria for research were already established and new rules on academic professional path have just been issued (ANVUR, document 1, June 2011)[17].

The analysis of the progressive homogenization of Italian EM research with the American one found its explanation in the coercive, mimetic and – early – normative isomorphism that NIS traditionally ascribed as the reason of homogenization in organizations. The three isomorphic mechanisms affected the convergence especially in this last decade, but they are expected to strengthen in the future, inducing further homogenization in the field of accounting research.

6. Conclusions

Facing the current convergence of Italian accounting research towards US accounting research, with specific reference to the stream of EM, the present paper demonstrates that such convergence constituted an institutional homogenization as theorized in NIS (DiMaggio & Powell, 1983). Through an historical comparison that covers 80 years of accounting research on EM in Italy and US, the paper shed light on the progressive homogenization of the Italian EM research with the US one and detects those institutional factors that acted as isomorphic pressures on accounting research.

[17] As highlighted in Palumbo and Santini (2011), ANVUR – the national agency for University and research evaluation –, created by the national education committee in 2006, issued criteria and parameters for the evaluation of candidates for the national qualification of academic scholars.

In particular, the paper found that while coercive and mimetic pressures are evident, normative pressures are still *in fieri*, since the homogenization process is on going. Anyhow, the existence of these isomorphic mechanisms confirmed an institutional homogenization of Italian accounting research with the dominating US accounting research.

With its results, the paper contributes to the literature in several ways. Firstly, it gives theoretical explanations about the progressive convergence of Italian accounting research towards the US one, providing new insights about research shifts both for national and international literature. Secondly, it demonstrates the possibilities of NIS in explaining homogenization even in a peculiar context like academic research, confirming the usefulness of such a theory in several kinds of organization. Thirdly, exploiting CIAH, the paper extends the use of this methodology beyond accounting practices, up to accounting research, since the last can be affected by – even not only – accounting practices. Finally, the paper contributes to future research in this field, denoting the determinants that drove homogenization in the Italian context, whose effectiveness can be tested in other countries or even used to drive a research change in those contexts where it is required. Indeed, the research constitutes a starting point for future research developments to determine the existence of similar homogenization paths in other countries and to detect similar or distinctive isomorphic pressures.

Besides the insightful results, it is possible to recognize some limits in the present work. Actually, the review of the Italian and, especially, US literature on EM cannot be considered exhaustive, since we considered the main contributions to the literature to our knowledge. Undoubtedly, a deeper review of the literature shall be useful to find more evidence to institutional homogenization and isomorphic pressures.

Moreover, the paper could benefit from a further analysis of rules and norms concerning the Italian academic reform to better define the normative isomorphism and, to a greater extent, from the investigation of other institutional factors affecting the homogenization in EM research.

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