Earnings Quality and IFRS Research in Africa: Recent Evidence, Issues and Future Direction

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Abstract

This paper review the recent empirical research on IFRS and earnings quality among African studies and show mixed conclusions regarding the impact of IFRS on earnings quality and financial reporting quality in the region. Also, some discussions on factors that led to the growth in the earnings quality African literature over the last decade as well as some challenges in the recent literature, are provided. Also, the study makes several observations regarding IFRS and earnings quality research in Africa and suggests potential directions for future research. The need to (i) understand the recent direction of earnings quality research in Africa, (ii) understand the interaction between policy and earnings quality research, if any, in the African region, and (iii) the need to maintain high-level rigour in earnings quality research while ensuring greater interaction between policy and research, makes this study important. Given the paucity of research on earnings quality in developing countries, this study contributes to the broader earnings quality literature by providing a review of the African earnings quality literature; hence, conclusions based on empirical studies in this review are not intended to be generalised to developed countries but only to developing countries. Finally, while insights in this paper may be informative to the reader, the intended objective is to stimulate debates that would improve the outputs of earnings quality research and the overall quality of accounting disclosure among firms in Africa.

JEL Classification: M40; M41; M48; O55.

Keywords: Earnings quality, Standard setting, Earnings management, IFRS adoption, Accounting quality, Disclosure regulation.

1. Introduction

This paper review the recent empirical evidence on IFRS adoption and earnings quality in Africa, and provides some discussions on several observations in the literature. Recently, few empirical studies have emerged to assess the impact of IFRS on earnings quality (Onalo, 2011; Onalo et al, 2014; Ozili, 2015). In the last decade, IFRS was introduced to some African countries. To date, few African countries adopt full IFRS, other African countries adopt modified IFRS while other African countries refuse to adopt IFRS and prefer to retain their domestic GAAP or the accounting standard (or IAS) that was introduced by their colonial masters[2]. In African countries that adopt IFRS, IFRS adoption is either voluntary or mandatory. So far, the effect of mandatory/voluntary IFRS adoption on earnings quality in Africa depend on perceptions of whether IFRS adoption improves earnings quality compared to domestic GAAP or IAS, while ensuring appropriate enforcement mechanisms. By IFRS, I mean an accounting standard that reduces managerial discretion over accounting choices to discourage all or most known forms of earnings management among firms. If mandatory IFRS adoption across African countries, when appropriately enforced, is perceived to improve earnings quality of firms compared to domestic GAAP or IAS, one would expect improved earnings quality after mandatory IFRS adoption. On the other hand, if mandatory IFRS adoption across African countries, when inappropriately enforced, is perceived to lower earnings quality of firms compared to domestic GAAP or IAS, one would expect lower earnings quality after mandatory IFRS adoption. More so, voluntary IFRS adoption in some African countries is perceived to improve earnings quality, compared to local GAAP or IAS, if firms in Africa voluntarily adopt IFRS for reasons other than earnings manipulation (Buggerman et al, 2013; Ozili, 2015). On the other hand, voluntary IFRS adoption is perceived to lower earnings quality, compared to domestic GAAP or IAS, if African firms voluntarily adopt IFRS to opportunistically manipulate earnings. While practitioners and other commentators in Africa commonly associate voluntary/mandatory IFRS adoption with improved earnings quality if enforcement is ensured, the recent empirical literature do not show consistent evidence to suggest that mandatory/voluntary IFRS adoption improves earnings quality, in fact, the

[2] See Table 1 in Appendix.

findings of the review show mixed evidence for the impact of mandatory/voluntary IFRS on earnings quality. The findings also show that the depth of analysis in the recent empirical literature has less rigour, which also creates some opportunities for further improvements. Furthermore, the paper discuss some observations in the recent literature, and also suggests possible directions for future research. With regard to further avenues for future research, I suggest the need for further research in the African context in order to provide a balanced view on the overall impact of mandatory IFRS adoption on earnings quality in Africa while underlining the need for improved research designs that is able to separate the accounting effect of mandatory IFRS adoption from its non-accounting effects.

The suggestions provided in this paper may be useful to future researchers that want to understand the impact of mandatory IFRS adoption in developing countries. Also, insights in this paper may be useful to local accounting standard-setters that have adopted IFRS in some Africa countries, to help them re-evaluate whether the objectives of IFRS on earnings quality has been achieved, and to re-assess the accounting effects and non-accounting effects of IFRS adoption on firms' financial reporting in the region. This study is also important because it provides additional insights to better understand the state of empirical research on earnings quality in Africa, and to assess whether researchers are simply replicating developed country studies to the African context without paying close attention to several research design issues and other issues commonly associated with developed country studies. Also, because the discussion in this review is limited to African studies that test the impact of IFRS on earnings quality, the observations and remarks in this paper are not intended to be definitive but instead are limited to issues in African earnings quality literature that I find particularly significant to broaden our understanding of disclosure regulation and earnings quality in Africa.
The study makes some contributions to the accounting literature. First, it complements previous review articles on the impact of disclosure regulation on financial reporting quality. Whereas prior review studies focus on the costs and benefits of disclosure regulation on financial reporting in US and Europe, (e.g., Bushman and Landsman, 2010; Defond, 2010; Dechow et al, 2010; Pope and McLeay, 2011; Christensen et al, 2015, etc.,) this study focus on the recent African literature to examine the recent evidence on the impact of mandatory/voluntary IFRS adoption on earnings

quality. To the best of my knowledge, I am not aware of any prior study on this topic. Secondly, the study contributes to the international debate on the harmonization of accounting standards in developing countries. Given the pressure faced by local standard-setters to harmonise or converge to IFRS standards, insights in this study may provide a framework for them to assess the effectiveness of mandatory IFRS adoption on earnings quality in some African countries, and to assess whether the adoption of IFRS achieves its objectives in Africa. Thirdly, the study contribute to the interesting debate on whether the output of earnings quality research informs the decisions of the standard setting process in Africa. I provide a discussion on the importance of earnings quality research to the standard setting process and propose additional reasons why local standard-setters in the region may be more or less inclined to receive inputs from earnings quality academic research by African researchers. Overall, conclusions from the discussion in this study may be generalizable to other developing countries but not to developed countries. To be fair, I base the IFRS analysis in this paper on the improved transparency and comparability that IFRS promises to offer to African standard setters; hence, I do not focus the analysis on the critique of the IASB or local standard-setters, especially the latter, who may be pressured by external parties or lobbyists to adopt IFRS standards locally[3].

The remainder of the paper is organised as follows. Section 2 provides a background on IFRS and earnings quality, the growth in the literature and a discussion of the recent empirical literature. Section 3 provides a discussion on some observations and issues in the recent literature. Section 4 provides a commentary on the gap between earnings quality research, policy making and practice. Section 5 provides potential direction for future research. Section 6 concludes.

[3] Thus, I find it more appropriate to take this approach because the final outcome of IFRS adoption in each African country may shift from its intended objectives due to several modifications made by local accounting standard-setters in each African country arising from the need to adjust IFRS to meet the needs of the business environment in each African country.

2 IFRS and Earning Quality

2.1. Background

The purpose of International Financial Reporting Standard (IFRS) is to ensure high degree of transparency and comparability of financial statements. The harmonisation or convergence to IFRS from domestic GAAP or IAS in some African countries have some impact on the effectiveness of IFRS to improve accounting disclosure and earnings quality in the region. Accounting disclosure quality, itself, is a function of several factors including timely loss recognition, earnings quality, value relevance, quality of legal enforcement, etc. (Dechow et al, 2010). This study isolates earnings quality in order to focus on the impact of IFRS adoption on earnings quality in Africa. By earnings quality, I mean reported earnings that exhibit reduced earning management via lower abnormal discretionary accruals, reduced earnings smoothing, higher earnings informativeness, etc. (Dechow et al, 2008). Earnings quality is a function of several factors and IFRS adoption is one important factor (Dechow et al, 2010); therefore, it is important to isolate IFRS effect on earnings quality from other effects. In addition to IFRS effect, multiple factors also work together to improve the quality of reported earnings among firms such as: strong firm monitoring by equityholders/debtholders and strict investor protection laws (see. Leuz et al, 2003), strong corporate governance mechanisms (see. Shleifer and Vishny, 1997), cash flow content of earnings (see. Ohlson, 2001), multiple decision models, CEO conservatism, etc. However, I do not discuss these factors in order to narrowly focus on earnings quality in relation to IFRS adoption.

2.2. Growth in the literature

Research on earning quality in Africa began in the last decade. One factor that encouraged the growth in the earnings quality literature in Africa was the need to maintain domestic GAAPs in some African countries, in the face of competing international accounting standards. While the development of local GAAPs and frequent revisions to local GAAPs in several African countries did not stimulate intense research on earnings quality in the African region in the last two decades, the pressure to adopt international (or foreign) accounting standards in the last decade have stimulated African researchers to engage in serious intellectual inquiry on the contribution of domestic and foreign accounting standards to earnings quality in the region. A second factor that encouraged the growth in the literature is the world economic stability initiatives in Africa led by International Finance Corporation (IFC), International Monetary Fund (IMF) and the World Bank. The initiative encouraged greater accountability and transparency in the financial reporting process of some African countries through the adoption of international financial reporting standards (IFRS). This initiative motivated researchers to investigate the utility or incremental benefits of IFRS adoption to improve the financial accounting (or earnings) quality in the region (Outa, 2016). Another factor that encouraged the growth in the African literature on earnings quality is the use of the controversial, but widely used, abnormal accruals model in the earnings quality literature (e.g. Dechow et al, 1995; Fudenberg and Tirole, 1995; De Fond, 2010), also known as the Jones (1991) model. Several African studies use this model to test for earnings quality (e.g. Onalo et al, 2014). The Jones model has been criticised in the recent literature and discussions on the limitations of the abnormal accrual approach is beyond the scope of the current study but is comprehensively documented in Dechow et al (2008).

2.3. Review of Extant EQ literature

Studies that investigate the impact of IFRS on earnings quality[4], for instance, Tanko (2012) investigates the effect of IFRS adoption on the performance of some listed firms (banks) in Nigeria, and find that earnings variability is reduced among listed banks in the post-IFRS adoption period, and conclude that the Nigerian SEC should consider full adoption and strict implementation of IFRS to all listed firms in Nigeria. Onalo et al (2014) use the modified Jones (1991) model to investigate the impact of change from local GAAP to IFRS standards on the earnings management behaviour of firms (banks) in Nigeria and Malaysia during the 2009 to 2012 period. They find that convergence from local accounting standards to IFRS improved earnings quality of Nigerian and Malaysian banks, and conclude based on their findings that IFRS should be adopted globally. Outa (2011) investigates whether the adoption of IFRS is associated with improved accounting quality among listed companies

[4] I focus on studies that investigate the impact of IFRS adoption on earnings quality. I do not focus on studies that investigate the impact of IFRS on accounting disclosure quality, such as value relevance, timely loss recognition, etc.

in Kenya, and did not find evidence for improved earnings quality in the post-IFRS period. The study conclude that weak compliance to IFRS rules might be responsible for the observed decline in earnings quality. Interestingly, Mutiso and Kamau (2013) observe that management interference, lack of guidance on the interpretation of financial reports and frequent revision of accounting standards contribute to the increased complexity of financial reporting in Kenya; which also affect earnings quality and accounting disclosure quality among Kenyan firms. Also, Yeboah and Yeboah (2015) investigate whether IFRS adoption improves earnings quality through reduced earnings management. They investigate listed firms in South Africa and find evidence for reduced earnings management in the IFRS adoption period compared to the local GAAP adoption period. Ames (2013), on the other hand, examines listed firms in South Africa and find that earnings quality is not significantly improved after mandatory adoption of IFRS among listed firms. Rao and Warsame (2014) examine the effect of IFRS adoption on listed, cross-listed and unlisted firms in African capital markets. They investigate whether IFRS adoption reduced discretionary earnings management, increased value relevance and increased stock returns. They find that periods of IFRS adoption improved the informativeness of earnings per share, compared to local GAAP adoption periods, after controlling for other factors. They conclude that IFRS adoption improves earnings quality and increase the informativeness of earnings per share. Hessayri and Saihi (2015) investigate whether IFRS adoption complements ownership structure to monitor managers against opportunistic behaviour to manage earnings. They examine listed firms in United Arab Emirates, Morocco, South Africa and the Philippines during an eight-year period. They find no evidence for lower earnings management after the switch to IFRS reporting standards, and suggest that managerial discretion is insensitive to IFRS adoption among firms examined in the study. Ozili (2015) finds that listed firms (banks) in Nigeria overstate or understate loan loss provisions estimates to smooth reported earnings over time during periods of voluntary IFRS adoption, and conclude that IFRS do not matter for earnings quality since it reduces the reliability of loan loss provisions estimates (which is a significant bank accrual). Taken together, these recent evidence show mixed results on the impact of mandatory/voluntary IFRS adoption on earnings quality.

[Insert Table 2 here]

3. Observations in the literature and Suggestions

3.1. Research Design Issues

3.1.1. Earnings Quality Proxy

Some studies in the African context adopt earnings quality proxies that are similar to proxies adopted by developed country studies (e.g. Ames, 2013; Outa, 2011; Ozili, 2015). One critique of such earning quality proxies is that they have construct validity issues, that is, whether the constructs (or proxies) truly measure the underlying theoretical constructs (Dechow et al, 2008); thus, making it difficult to validate the accuracy of predictions made from using such accruals models. Dechow et al (2008), Dechow et al (2010) and Defond (2010) confirms this issue. This research design issue in some African studies, although significant, is not unique to African studies alone but is also common among several developed country studies. Dechow et al (2008) and Dechow et al (2010) provide an extensive study on earnings quality proxies.

3.1.2. IFRS effect and Conditional Compliance

The effect of IFRS adoption reflects the immediate impact of the change to IFRS standards on the properties of earnings of African firms. To date, many African studies commonly test for IFRS effect by simply comparing abnormal accruals before and after IFRS adoption via employing some binary dummy variable that take the value of one for IFRS adoption periods and take the value of zero for local GAAP (or non-IFRS) periods; or by dividing the full firm sample into two sub-samples: the pre-IFRS period sample and post-IFRS period sample (e.g. Tanko, 2012; Outa, 2011; Yeboah and Yeboah, 2015; Ozili, 2015, etc.). If firms examined in such studies are firms that adopt IFRS standards (i.e., IFRS-adopter firms), one weakness of the pre- and post- IFRS approach to test for IFRS effect is that it does not capture periods where 'IFRS-adopter firms' do not comply with IFRS standards when they face unique conditions that makes it difficult for them to comply, thus, requiring them to exercise the ‘explain’ clause in the ‘comply-or explain’ IFRS provisions, if any, in the African country. One approach to appropriately capture mandatory/voluntary IFRS adoption effect is to distinguish between African firms that actually comply with IFRS guidelines in each period from African firms that should comply but provide ‘explanations’ for non-compliance. The apparent paucity of empirical studies that adopt this approach is because it is difficult to identify firms that conditionally comply with IFRS and data for firm’s periodic compliance with IFRS may be unavailable. When data is available, the data need to be hand-collected privately because such data may not be publicly available. The use of pre- and post- IFRS analysis should be adjusted to reflect conditional compliance, where appropriate.

3.1.3. Con-current changes

The research design adopted among recent African studies do not appropriately isolate ‘IFRS effect’ from other concurrent changes taking place at firm-level and country-level during the period of voluntary/mandatory IFRS adoption periods, particularly, when those concurrent changes also have some effect on earnings quality. At country-level, one type of change that could take place concurrently during IFRS adoption is institutional and/or legal changes.[5] There is scant African studies in the earnings quality literature that control for institutional and legal changes that take place during IFRS adoption periods. While controlling for these con-current changes have the advantage of revealing the contribution of institutional/legal factors to earnings quality, it not clear how these changes affect earnings quality, and the direction of the effect on earnings quality and financial reporting quality of firms (Holthausen, 2009). However, it is important to point out that the use of country-level data to control for concurrent institutional changes may introduce a bias into the analysis if these concurrent institutional changes on their own (e.g. strength of investor protection) already have some impact on earnings quality. This would make it difficult to isolate the ‘voluntary/mandatory IFRS adoption effect’ from the ‘institutional effect’ on earnings quality. Furthermore, at firm level, there may be changes in the firm that take place during the period of IFRS

[5] For instance, Outa (2011) retain the same sample in the pre and post adoption but hold all other factors constant including legal factors

adoption. These firm-level changes are often not taken into account in the research designs adopted in the recent empirical African literature. If firm-level concurrent effects are not appropriately controlled for, the results will suffer from serious internal validity issues and the conclusions cannot be claimed to reflect the true impact of voluntary/mandatory IFRS adoption in the study. This view is also consistent with Buggerman et al (2013).

3.1.4. Self-selection bias and Early Adjustment

The recent literature also show a self-selection bias towards listed firms for three possible reasons. One, because mandatory IFRS adoption commonly applies to listed firms in several African countries. Much African studies investigate listed firms rather than non-listed firms. Two, listed African firms are considered to have publicly available information that are more credible and relatively easy to access, compared to the information provided by non-listed firms. Another reason why self-selection bias may persist is because listed firms are generally more visible and are more likely to come under scrutiny by external monitors and regulators. With regard to early adjustment, prior to the date of mandatory IFRS adoption, listed firms are given a six-month or one-year notice (or more) to prepare for a change in accounting procedures. Often, listed firms adjust their financial reporting earlier before the date of mandatory IFRS adoption. Recent African studies do not take into account the possibility that listed firms make early adjustments to their financial reporting prior to the date of mandatory IFRS adoption. This neglect or omission ignores any significant change to earnings quality occurring during listed firm's early adjustment to IFRS which could take a one-year or six-month period or more. Hence, the focus on listed African firms should also consider a lagged time period because the impact of mandatory IFRS adoption may be stronger during periods of early adjustments preceding mandatory IFRS adoption.

3.1.5 Aggregated Data and IFRS effect

Most empirical African studies use aggregated annual data. There is the argument that aggregated data do not fully reveal the change in financial statement disclosures following mandatory IFRS adoption (e.g. Buggerman et al, 2013). This argument suggest that the actual change in earnings quality immediately after mandatory/voluntary IFRS adoption may be hidden in aggregated accounting numbers, and can potentially explain the reason for conflicting conclusions in the empirical earnings quality literature, and also in the African earnings quality literature. Future researchers could re-examine earnings quality with non-aggregated data such as quarterly, half-yearly and other forms of non-aggregated data that can better reveal changes to accounting numbers occurring during and after mandatory/voluntary IFRS adoption.

3.1.6. Financial Statement Users

The review show that most empirical African studies on earnings quality do not use measures/techniques that are relevant to financial statement users in the African region. For instance, empirical studies such as Outa (2011), Ozili (2015) etc., follow the methods of prior literature that use accrual metrics that rely on aggregate data that are either hand collected or available at some commercial database. These metrics may be difficult for non-sophisticated financial statement users to understand and interpret because of the sophisticated econometric language used in the empirical capital-market based accounting research whereas local professional institutions use softer metrics that are much easier to understand by financial statement end-users that have some interest in accounting research output. However, the use of soft metrics in accounting (or earnings quality) research may be considered to be 'too basic' and have 'less rigour', from the academic publishing viewpoint. Therefore, it might be helpful for academic accounting researchers in the African region to consider the trade-offs between using easy-to-understand metrics and sophisticated empirical methods so that financial statement end-users and non-specialist readers of earnings quality research can gain some understanding of how research conclusions are reached.

3.2. Capital Market Incentives

The review also show substantial but inconclusive evidence on the relation between IFRS adoption and earnings quality for listed firms whose financial reporting is influenced by capital market incentives. For instance, Tanko (2012), Yeboah and Yeboah (2015), Rao and Warsame (2014) and Apergis (2015) show that IFRS adoption improves earnings quality that take the form of reduced earnings management among listed firms in Nigeria (Tanko, 2012), South Africa (Yeboah and Yeboah, 2015), Kenya (Outa, 2016), African capital markets (Rao and Warsame, 2014) and the MENA region (Apergis, 2015), respectively; while Outa (2011), Hessayri and Saihi (2015), and Ozili (2015) did not find evidence that IFRS adoption improve earnings quality that take the form of reduced earnings management among listed firms in Kenya, Morocco and South Africa, respectively. Hence, to the extent that mandatory/voluntary IFRS adoption is intended to improve earnings quality and transparent disclosures, recent studies do not show conclusive evidence to support the claim that IFRS adoption improves earnings quality.

3.3. Testable Theories

Most empirical studies lack a theoretical framework that explain and predict the accounting choice of firm managers under certain conditions. Some studies do not provide a theoretical framework while other studies use conceptual and theoretical frameworks that do not make testable predictions (or hypotheses) about the accounting choice that managers might use to influence reported earnings under explicit contracts, such as, bonus plans, proximity to debt-covenant violations, etc. An accounting (or economic) theory in empirical accounting research is one that provides some testable predictions or hypotheses about some phenomena that can be supported or refuted with evidence using real-world data (Watts and Zimmermann, 1986). Often, there is a general lack of such theory or theoretical framework in the recent earnings quality literature, and the hypotheses tested in these studies are often formulated from the research question. Future empirical studies on earnings quality should provide theoretical frameworks or theories that provide testable hypothesis for empirical investigation to earnings quality.

3.4. Earnings Quality?

Another issue is whether the earnings quality question should focus on earnings quality of firms in the post-IFRS period compared to the pre-IFRS period, or whether the focus should be on earnings quality (or earnings management) within or outside the limits permitted by principles-based IFRS. In the latter case, for example, if reported earnings of African firms have low earnings quality due to earnings management practices that fall within the limits of generally acceptable accounting practices, standard-setters may not care much about this because it falls within the limits permitted by domestic GAAP or principles-based IFRS. On the other hand, if reported earnings of African firms have low earnings quality due to earnings management practices that fall outside the limits of generally acceptable accounting practices, standard setters may interpret such evidence as opportunistic behaviour, and would respond accordingly provided the research designs used to reach such conclusions have high internal validity. While it is statistically difficult to capture acceptable accounting practice in order to detect whether observed abnormal accruals fall within or violates the limits allowed by domestic GAAP or principles-based IFRS, the point I am trying to convey here is that it might be helpful for African researchers to ask the right earnings quality question that is of interest to local standard-setters in order to increase the utility and usefulness of African earnings quality research to the standard-setting process.

4. Research vs Policy Gap: A Commentary

Much African studies on earnings quality research make policy implications or recommendations intended to inform policy but there is yet no evidence that the outputs of earnings quality research significantly influence the decisions of local standard setters and lawmakers in the region. For instance, there is hardly any published (and publicly available) regulatory audit report by local standard-setters in Africa (e.g. in Nigeria, Kenya, South Africa and Egypt) that cite at least three to five research outputs on earnings quality or earnings management. This raises some disturbing concern about the usefulness of earnings quality research outputs to the standard-setting process in most African countries because it creates the perception that the output of earnings quality research in the African region have little or no relevance to standard-setting policy making, and may give credence to the view that lobbyists have a stronger impact on the outcome of accounting rules/standards in most African countries compared to academic research on accounting (and earnings) quality in the region. While I note that I may not be aware of all the cases where standard-setters in some African countries have sought informal inputs from indigenous or foreign accounting academics regarding research outputs that could potentially inform proposed or revised accounting standards, however, it is reasonable to suggest that a simple citation of those studies won't hurt at all. The absence of such citations, which is indeed true in most cases, creates the impression that local standard-setters in the region are either not aware of, or undermine the role of African earnings quality research in their policy making process[6]. However, one criticism to citing earnings quality research outputs is that standard-setters could be tempted to regard research outputs published in some 'high-quality' journals and disregard high-quality research outputs published in 'moderate' or 'unpopular' journals, and this is already a sensitive issue among academics to say the least. There are several reasons why the gap between earnings quality research and standard-setting policy continue to persist. One, local standard-setters in some African countries prefer to copy ready-made European IFRS standards with few modifications so that they don't have to use their own resources to formulate a new set standards themselves. When this is case, they will not pay much attention to earnings quality research outputs by accounting academics in the African country/region. Two, local standard setters in some African countries mainly collect and use research conducted and funded by their own commissions or independent research agencies. Three, policy-making across several African countries is generally not research-oriented compared to the US where policy design is strongly informed by academic research. Another contributing factor is the practice among accounting academics of doing research to satisfy the curiosity of academics and not necessarily to satisfy the curiosity of standard-setters. The policy implications or recommendations in several studies do not provide enough direction to guide the decisions of standard-setters. This is a serious concern because there is the need to provide purposeful insights to address the curiosity of local standard setter too. This does not mean that earnings quality research by accounting academics should bow to the needs of local standard-setters in African countries, rather it suggests that earnings quality research should provide rigorous academic insights into topics of interest to local standard-setters and also provide practical steps and

[6] In the case of US, Defond (2010) confirms that US standard setters and law makers often rely on, and make citations to, the output of earnings quality research in the US, thus, signalling the important role of earnings quality research to the US accounting standard-setting process. This is not the case in Africa.

direction to guide standard-setters on how to apply these insights in practice and for policy making purposes.

Another issue is the gap between academic accounting research and practice. Since increased earnings management is associated with lower earnings quality, earnings management would serve as a good example here. The different perceptions about earnings management by accounting academics and practitioners creates a gap. For instance, accounting academics commonly view 'earnings management' as opportunistic earnings manipulation whereas practitioners view earnings management as a way to report earnings to ensure that the firm remain a going-concern in volatile and competitive business environments. The conflict in perceptions about earnings management discourage practitioners from using inputs from African earnings quality research to inform their corporate accounting practices, particularly, if their view of earnings management differ from the accounting academic view of earnings management.[7] How do we solve this problem? One simple way to solve this problem might be to carefully reconsider the definition of earnings management. Every researcher have a working definition of earnings management that shape the way they think about managed earnings. It might be helpful to give thoughtful consideration to what earnings management really is. For example, let's consider the three common academic definitions of earnings management. One, earnings management is the process of taking deliberate steps within the constraints of generally accepted accounting principles to bring about a desired level of reported earnings (Davidson, Stickney and Weil, 1987, cited in Schipper, 1989, p. 92). Two, earnings management is "a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain (as opposed to say, merely facilitating the neutral operation of the process (Schipper, 1989, p. 92). Three, earnings management occur when managers use judgement in financial reporting and in structuring transaction to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend

[7] There is no consensus on whose view on earnings management is more realistic and there is also a need to avoid extremes. Unlike the accounting academic view of earnings management, practitioners view earnings management as a way of firms manage earnings just as a person would manage their personal finance. However, to lend support to the view of academics, six top bank executives in Kenya were fired recently for under provisioning in order to boost earnings upwards to increase their likelihood of receiving bonus while at the same time putting the bank at risk by insufficient provisioning.

on reporting accounting numbers (Healy and Wahlen, 1999, p. 368). The last two definitions associate earnings management with opportunistic or fraudulent behaviour. Studies that follow the view of the last two definition often associate earnings management with opportunistic and fraudulent behaviour while studies that take the first view are less likely to associate earnings management with opportunistic and fraudulent behaviour. This is what I mean by taking a careful consideration to what we think earnings management really is.

Also, I think it is equally important for researchers to also consider what earnings management mean to local standard setters at different point in time because it is not easy to know whether African standard setters associate earnings management within or outside the limits of GAAP as fraudulent behaviour and whether their position on this change over time. For instance, if majority of the standard-setting committee members are academics (or researchers), they are more likely have an 'opportunistic or fraudulent' view on earnings management among firms, and will possibly favour the use of the outputs of earnings quality research because mainstream accounting research predominantly view earnings management as an opportunistic or fraudulent behaviour of firm managers[8]. On the other hand, if majority of the committee members are appointed members of parliament and/or experienced practitioners, they are less likely to have an opportunistic or fraudulent view of earnings management, and may have little interest to use the outputs of earnings quality research. Hence, it is helpful to understand the view of standard setters on earnings quality (or earnings management) at different period of time so that policy implications among earnings quality studies can be tailored to provide specific directions to local standard setters.[9]

[8] This is the case in the US where top accounting researchers are either voted in, appointed or invited to be board members in the standard setting committee of the FASB.

[9] However, I do not suggest that earnings quality research in Africa should be driven by what standard setters want. Rather, I propose that African accounting academics should provide policy implications that are value-relevant to local standard setters, where value-relevance mean the usefulness of information for decision making at a specific time period.

5. Future Direction

One direction for future research is the need to explore other factors that affect the effectiveness of IFRS to improve earnings quality such as the political economy environment, ownership concentration, etc. In most African countries where politicians and the political infrastructure have to approve foreign policies before they are adopted e.g. IFRS, several modifications to IFRS could be made during the political process that might contribute to reduce the effectiveness of IFRS despite mandatory adoption. Future research could address the following questions: does stronger political economy in African countries improve the effectiveness of IFRS to improve earnings quality? Another research question could be to investigate whether African firms with dispersed or concentrated ownership have higher earnings quality. These are interesting questions that have not been explored in the recent African literature.

With regard to research design issues, one area for future direction is the need to explore longer time-series analysis on IFRS adoption and earnings quality. Since mandatory IFRS adoption in several African countries is fairly recent, the sample period in most studies is narrow because of the short history of firm data in the post-IFRS period. Future research should re-examine the effect of mandatory IFRS adoption on earnings quality using longer time-series data while taking into account other research design issues mentioned earlier.

Another fruitful direction for future research to African researchers is the need to disentangle the 'mandatory IFRS' effect on earning quality from the other concurrent changes occurring during IFRS adoption. This would ensure that African researchers are testing the impact of mandatory IFRS adoption on earnings quality. Since there is a considerable amount of study on implementation and recommendation issues in the recent literature, I encourage African researchers to proceed beyond implementation/recommendation issues to investigate more extensively measurement issues in earnings quality research in Africa.

Another direction for future research is the need to gain a better understanding on whether and how earnings quality African literature impacts standard setting policies in Africa. Although I have addressed some of this issue above, it remains unclear whether and how African policy makers and standard setters use the outputs of earnings quality research in Africa. For example, African standard setters and lawmakers could insincerely cite the output of earnings quality research just to appease the accounting academic community or to further some political aims rather than to use make actual policy decisions. The former convey the idea that African standard setters and law makers may refer to the work of academics to create the impression that scholarly contribution has been sought; while the latter is consistent with Watts and Zimmerman (1979)'s argument that academic research could be used to justify the preconceived notions of standard setters and law makers about firm behaviour in some settings. Hence, further research is needed to explore the overlap between earnings quality research output and the interests of policy makers and how it play out in reality.

Another area that is quite under-researched in the recent African earnings quality literature is real earnings management, that is, earnings management through the use of real activities. The review of the recent empirical literature show that there is considerable amount of research on accrual earnings management and no (or few) African studies on real activities-based earnings management. One possible reason for the paucity of research in this area could be because real activities-based earnings management is difficult to detect because it disguises as normal operations hence researchers and external auditors may find it difficult to detect real activities-based earning management behaviour of firm managers that disguise as normal operations (Rowchardury, 2006; Cohen and Zarowin, 2010). Although this issue is not unique to African firms only, however, there is still the need for the emergence of African studies that explore earnings management through the use of real activities techniques. Such studies can help us assess the impact of 'accrual' or 'real' earnings management on earnings quality among firms across African countries

Finally, the need for further cross-country African research on earnings quality and IFRS adoption is important. Such investigation is important because comparison between African countries may reveal similarities that are uniform across African countries that would otherwise not be revealed among studies that compare African countries with countries outside Africa. Such studies may improve our understanding on accounting standards harmonisation, implementation and enforcement.

6. Conclusion

First, this paper review the recent literature on earnings quality and IFRS adoption and find conflicting evidence on the impact of IFRS on earnings quality and well as less rigour in the literature. Accordingly, I advise caution in the interpretation of results because of the research design issues identified in the paper. Second, the paper also provides some discussions of several observations in the recent literature including factors that encouraged the growth in the recent literature, research design issues, commentary on research and standard-setting policy gap and directions for future research. While the African earnings quality literature is recent and emerging, I have focused this review on published studies and did not include substantial evidence from unpublished work because I am unsure if such studies will finally end up making substantial contributions to the published literature. This is not to underestimate the quality and contribution of findings that are not published, rather, my intention is to ensure that the studies reviewed in this paper are verifiable for the purpose of further research on this topic. Finally, whether this paper can provide a basis to assess the effectiveness of the mandatory IFRS adoption in Africa depends on the extent to which standard setters in African countries value the contribution of earnings quality academic research to its standard setting process. Overall, the success of this review paper depend on whether it would stimulate future research to complement our current knowledge on the impact of IFRS adoption and earnings quality.

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Appendix

Table 1				
Countries	IFRS	Local GAAP	Firm compliance	Plan to Converge to full IFRS?
Algeria	No	Yes.	All firms	No
Angola	No	Yes. AAL	All firms	Yes, in 2017
Botswana	Yes	No.	Listed firms	Not Applicable
Cameroun	No	Yes. OHADA	All firms	No
Chad	No	Yes. OHADA	All firms	No
Cote d'Ivoire	No	Yes. OHADA	All firms	No
Democratic Republic of Congo	No	Yes. OHADA, up until 2014.	All firms	Yes, in 2015
Egypt	No	Yes. EAS		No
Equatorial Guinea	No	Yes. OHADA	All firms	No
Gabon	No	Yes	All firms	No
Ghana	Yes	No	Listed firms	Not Applicable
Kenya	Yes	No	Listed firms	Not Applicable
Libya	Yes but strictly enforced	No	Listed firms	No
Madagascar	No	Yes. MG		No
Malawi	Yes	No		Not Applicable
Mauritius	Yes	No	Listed firms	Not Applicable
Morocco	Yes	No	All firms	Yes
Mozambique	Yes	No	Listed firms	Not Applicable
Namibia	Yes	No	Listed firms	Not Applicable
Nigeria	Yes	No	Listed firms	Not Applicable
Republic of Congo	No	Yes. OHAMA	ALL firms	No
Rwanda	Yes		All firms except small firms	Not Applicable
Senegal	No	Yes	All firms	No
South Africa	Yes	No	Listed firms	Not Applicable
Swaziland	Yes	No	Listed firms	Not Applicable
Tanzania	Yes	No	Listed firms	Not Applicable
Tunisia	No	Yes. TG	All firms	No
Uganda	Yes	No	Listed firms	Not Applicable
Zambia	Yes	No	Listed firms	Not Applicable
Zimbabwe	Yes	No	Listed firms	Not Applicable
Source: PWC (2015)				

AAL = 'Angolan Accounting law' accounting framework

OHADA = 'Organization for the Harmonization of Business Law in Africa' accounting framework.

EAS = 'Egyptian Accounting Standards' accounting framework

MG = 'Malagasy GAAP' accounting framework

TG = 'Tunisian GAAP' accounting framework

Table 2: Literature Review								
Study	Sample details				Research Design		Main Findings	
	Adoption Type	# firms	Country	Fiscal year	Accrual measurement	IFRS Measurement	Outcome Variables	IFRS Effects
Tanko (2012)	Voluntary	5 banks	Nigeria	2007-2010	Based on Barth et al (2008)	Pre-IFRS (2007-2008) and Post-IFRS (2009-2010)	Decreased earnings variability after IFRS adoption and improved loss recognition after IFRS adoption	Improved earnings quality
Onalo et al (2014)	Voluntary	23 banks: Malaysia (8) Nigeria (15)	Nigeria and Malaysia	2009-2012	Based on Jones (1991) model	Pre-IFRS (2009-2010) and Post-IFRS (2011-2012)	Improved earnings quality/accounting quality	Improved earnings quality
Outa (2011)	Mandatory	Listed companies in Nairobi Stock Exchange	Kenya	1995-2004	Based on Barth et al (2008)	Firms that adopt IFRS and firms that do not adopt IFRS	IFRS firms smooth earnings more than NIFRS firms	Decline in earnings quality
Yeboah and Yeboah (2015)	Mandatory	181 firms	South Africa	1998-2012	Based on Barth et al (2008), Jones (1991) model	Pre-IFRS (1998-2004) and Post-IFRS (2006-2012)	Reduced earnings smoothing and discretionary accruals during post-IFRS adoption period.	Improved earnings quality
Ames (2013)	Mandatory	Listed companies in South Africa.	South Africa	2000-2011	Based on Barth et al (2008), Morai and Curto (2008)	Pre-IFRS (2000-2004) and Post-IFRS (2005-2011)	Earnings quality is not significantly improved in the post-IFRS adoption period.	Decline in earnings quality
Rao and Warsame (2014)	Mandatory /Voluntary	Listed companies	African stock markets	1995-2005	Based on Kothari et al (2005), Dechow et al (1996), Barth et al (2008).		Improved informativeness of earnings per share (EPS) in the post-IFRS adoption period	Improved earnings quality
Hessayri and Saihi (2015)	Mandatory	Listed companies	UAE, Morocco, South Africa, Philippines	Eight-year period	-	Pre-IFRS and Post-IFRS adoption period	Increased earnings management after IFRS adoption period	Decline in earnings quality
Ozili (2015)	Voluntary	Listed companies	Nigeria	2002-2013	Specific accrual approach (Ahmed et al, 1999)	Pre-IFRS and Post-IFRS adoption period	Increased earnings smoothing during voluntary IFRS adoption period	Decline in earnings quality