



When Are Firms Truly Comparable? A Systematic Literature Review of Firm Heterogeneity, Peer Selection, and Accounting Information Quality

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ABSTRACT. *This study examines when firms can be considered truly comparable by systematically reviewing the literature on firm heterogeneity, peer selection, industry classification, and accounting information quality. Using a qualitative systematic literature review, the study synthesizes prior theoretical and empirical evidence to identify recurring relationships and methodological challenges in measuring firm comparability. The findings indicate that industry membership alone is insufficient to establish meaningful comparability because firms within the same industry may differ substantially in business models, economic characteristics, product markets, and financial structures. Peer selection therefore represents a critical mechanism linking firm heterogeneity to comparability and the quality of accounting information. The review further finds that comparability is purpose-dependent and can be better assessed by combining industry classification with firm-specific, investor-based, product-market, and financial-statement similarity measures. Overall, true comparability exists when firm similarities are sufficiently aligned with the economic dimension and analytical purpose of the comparison.*

Keywords *Firm Heterogeneity; Peer Selection; Financial Statement Comparability; Accounting Information Quality; Industry Classification*

INTRODUCTION

Comparability is a fundamental characteristic of useful financial information because it enables investors, managers, analysts, and other users to identify similarities and differences in firms' economic performance and financial reporting. It is commonly defined as the extent to which similar economic events are represented similarly and dissimilar events differently across firms (De Franco et al., 2011). Higher comparability reduces information acquisition costs, improves the information environment, and facilitates the interpretation and pricing of accounting information (De Franco et al., 2011; Chen & Gong, 2019). However, firms within the same industry may differ substantially in products, business models, size, geographic exposure, and operational complexity, raising the question of when firms are truly comparable.

This issue places firm heterogeneity at the center of accounting comparability and peer selection. Traditional research commonly relies on industry classifications such as SIC, GICS, and NAICS to construct peer groups and estimate accounting models. Bhojraj et al. (2003) show that alternative industry classifications can produce different capital-market research conclusions, while Hrazdil and Scott (2013) demonstrate that classification choices materially affect discretionary accrual estimation. More recent

studies challenge the assumption that firms sharing an industry code are necessarily homogeneous economic peers. Hoberg and Phillips (2016), for example, use text-based measures of product-market similarity to identify firm-specific competitor networks that extend beyond conventional industry boundaries. Ross et al. (2019) similarly show substantial variation in accounting closeness across industries, indicating that industry membership alone may be an insufficient proxy for economic similarity. Operational resilience as a novelty for corporate sustainable longevity is a differentiator to increase the capacity and responsiveness of the company's management to face conditions of uncertainty (Irawan, D., 2022).

Inappropriate peer selection has important implications for accounting information quality. Chen and Gong (2019) find that greater accounting comparability is associated with higher financial reporting quality, better managerial forecasts, and more efficient pricing of accrual information. Conversely, including economically dissimilar firms in the same peer group may generate measurement error and model misspecification. Colas and Brousseau (2025) provide direct evidence by identifying "industry classification misfits," whose economic characteristics differ substantially from industry-core firms. These misfits exhibit higher absolute abnormal accruals and can contaminate abnormal accrual estimation for more homogeneous firms. Combining GICS and SIC classifications can reveal heterogeneity that may remain hidden when either classification is used independently (Colas & Brousseau, 2025). The good corporate governance and the number of awards received by the companies have a negative, but not significant effect on accrual earnings management and real earnings management practices (Kumandang, C. & Hendriyeni, N.S., 2021).

The issue also extends to the broader information environment. Peer selection determines the firms against which economic performance and accounting outcomes are interpreted. Dierynck and Verriest (2020) show that financial reporting quality influences peer-group selection because firms with higher-quality reporting provide more reliable information for evaluating economic similarity. Thus, peer selection and accounting information quality may form a mutually reinforcing relationship rather than independent processes. This perspective challenges the assumption that comparability is uniform across firms within an industry (Chen & Gong, 2019). Capacity development initiatives, such as training programs and educational resources, are essential for enhancing the

understanding and professional competence of accounting professionals in implementing IFRS in Indonesia (Muhammad Rizal & Eri Kusnanto, 2021).

Against this background, this qualitative systematic literature review synthesizes research on firm heterogeneity, peer selection, industry classification, accounting comparability, and accounting information quality. It examines how prior studies conceptualize economic similarity, identify dimensions of comparability, evaluate alternative peer-selection approaches, and explain how peer-group composition affects the measurement and usefulness of accounting information. Particular attention is given to the emerging view that firms within the same conventional industry may represent fundamentally different economic entities and that multiple classification approaches can be complementary rather than substitutive. By integrating these research streams, the review seeks to clarify when firms are truly comparable, identify persistent conceptual and methodological gaps, and provide a framework for future research on firm heterogeneity, peer selection, and accounting information quality.

LITERATURE REVIEW

Firm comparability is central to the usefulness of accounting information because economically similar firms provide meaningful benchmarks for evaluating performance, valuation, and managerial decisions. De Franco et al. (2011) define financial statement comparability as the extent to which similar economic events are represented similarly across firms and show that greater comparability improves analyst following and forecast accuracy while reducing forecast dispersion and information acquisition costs. However, firms within the same industry may differ substantially in their underlying economics, business models, and reporting structures (Bhojraj et al., 2003; Hrazdil & Scott, 2013).

The literature increasingly views comparability as multidimensional rather than determined solely by industry membership. Different classification systems can generate different peer groups and research conclusions (Bhojraj et al., 2003; Krishnan & Press, 2003), while Hrazdil and Scott (2013) show that classification choices affect discretionary-accrual estimation. Firm-specific heterogeneity further challenges industry-based benchmarking (Chun et al., 2008; Cohen & Lou, 2012). Hoberg and Phillips (2016) demonstrate that text-based product-market similarity can identify economically related firms beyond conventional industry boundaries. Thus, firms may exhibit substantial

within-industry heterogeneity while firms in different industries may share meaningful economic similarities.

Peer selection is particularly important for accounting information-quality measurement because abnormal-accrual models depend on appropriate estimation benchmarks (Dechow & Dichev, 2002; Kothari et al., 2005). Ecker et al. (2013) find that size-based estimation samples can perform at least as well as industry-based samples. More recently, Colas and Brousseau (2025) identify industry “misfits” and show that these heterogeneous firms exhibit higher absolute abnormal accruals and can contaminate accounting benchmarks for industry-core firms. Their findings demonstrate that peer-group composition can directly affect measurement error and the reliability of accounting-quality proxies.

The literature identifies increasingly diverse peer-selection approaches, including industry, size, investor-perception, analyst expertise, product-market, and financial-statement similarity (Ecker et al., 2013; Kadan et al., 2012; Lee et al., 2015; Brown et al., 2023; Hoitash et al., 2023). Lee et al. (2015) show that investor co-search peers outperform conventional GICS6 peers in explaining several firm characteristics and market outcomes. Brown et al. (2023) and Hoitash et al. (2023) further demonstrate that financial-statement similarity can identify economically meaningful peer relationships and has implications for regulatory scrutiny, forecasting, and managerial benchmarking.

Overall, the literature indicates that comparability is a multidimensional and potentially dynamic relationship involving economic characteristics, business models, financial-statement structures, investor perceptions, and information environments (Hoberg & Phillips, 2016; Brown et al., 2023; Hoitash et al., 2023). Conventional industry classifications remain useful because they are standardized and scalable, but multiple classification dimensions may be complementary rather than substitutive (Colas & Brousseau, 2025).

Despite substantial progress, these research streams remain fragmented. Existing studies separately examine industry classifications, peer-selection mechanisms, accounting-quality measurement, and information-processing consequences. Few studies integrate these dimensions into a single framework explaining when firms should be considered genuinely comparable. Accordingly, this systematic literature review addresses four interconnected questions: (1) what dimensions generate firm

heterogeneity; (2) how are comparable peers identified; (3) how does peer-group composition affect accounting information-quality measurement; and (4) what consequences arise when economically dissimilar firms are treated as comparable? The review therefore conceptualizes comparability not as simple shared industry membership, but as the degree of economically meaningful similarity relevant to a specific accounting, valuation, governance, or information-processing objective (De Franco et al., 2011; Colas & Brousseau, 2025).

METHODS

This study adopts a qualitative systematic literature review (SLR) to identify, evaluate, integrate, and interpret prior research on firm heterogeneity, peer selection, financial statement comparability, and accounting information quality. An SLR is appropriate for synthesizing fragmented research through an explicit and reproducible process of identification, screening, selection, analysis, and synthesis (Tranfield et al., 2003; Snyder, 2019). A qualitative approach is particularly appropriate because the literature employs diverse conceptualizations, research settings, measurement approaches, and comparability proxies; therefore, the objective is thematic explanation rather than pooled effect-size estimation (Snyder, 2019).

The review follows PRISMA 2020 to enhance transparency and reproducibility in study identification, screening, eligibility assessment, and inclusion (Page et al., 2021). Four research questions guide the review: (1) what dimensions of firm heterogeneity affect the identification of comparable firms; (2) what peer-selection approaches are used and what are their relative strengths and limitations; (3) how do heterogeneity and peer-group composition affect comparability and accounting information quality; and (4) what consequences arise from inappropriate peer selection and misclassification? These questions integrate the conceptual chain firm heterogeneity → peer selection → comparability → accounting information quality → information-processing and capital-market consequences (Tranfield et al., 2003; Snyder, 2019).

The literature search covers firm heterogeneity, industry classification, peer firms, peer selection, benchmarking, financial statement comparability, accounting information quality, accrual quality, earnings management, financial reporting quality, and information processing. Boolean combinations are used to capture studies addressing

different components of the conceptual framework. Priority is given to peer-reviewed English-language articles in accounting, finance, economics, and related disciplines, with predefined inclusion and exclusion criteria to improve consistency and reduce selection bias (Tranfield et al., 2003; Page et al., 2021).

Study selection follows four PRISMA stages: identification, screening, eligibility assessment, and inclusion. Methodological quality is assessed across research clarity, methodological rigor, measurement validity, evidence credibility, and relevance. A standardized data-extraction matrix records study characteristics, theoretical perspectives, research settings, measures of heterogeneity and comparability, peer-selection methods, accounting-quality measures, findings, limitations, and implications (Page et al., 2021; Snyder, 2019).

The extracted evidence is analyzed using thematic synthesis and structured narrative analysis. Studies are mapped and coded into four domains: (1) firm heterogeneity, (2) peer selection and industry classification, (3) comparability and accounting information quality, and (4) information-processing and capital-market consequences. The synthesis examines convergence and divergence regarding industry membership, peer-group heterogeneity, alternative peer-selection methods, accounting comparability, and purpose-dependent peer selection (Snyder, 2019).

The resulting conceptual framework is expressed as: Firm Heterogeneity → Peer Selection → Firm Comparability → Accounting Information Quality → Information Processing and Capital-Market Outcomes.

Firm heterogeneity encompasses differences in business models, products, operating activities, size, complexity, and economic fundamentals; peer selection determines benchmark firms; comparability determines the meaningfulness of cross-firm accounting interpretation; and accounting information quality determines the reliability and usefulness of information (Chun et al., 2008; Hoberg & Phillips, 2016; Ecker et al., 2013; Lee et al., 2015; De Franco et al., 2011). Recent evidence from Colas and Brousseau (2025) further indicates that inappropriate industry peers can distort abnormal-accrual measurement and increase information-processing costs.

The review enhances reliability through predefined search and eligibility criteria, systematic exclusion records, standardized coding, critical appraisal, and PRISMA 2020 reporting (Page et al., 2021; Tranfield et al., 2003). Nevertheless, the qualitative SLR

does not estimate pooled effects or establish causal relationships. Differences in samples, institutional settings, comparability definitions, peer-selection methods, and accounting-quality measures limit statistical aggregation. Publication bias, database coverage, and the restriction to English-language peer-reviewed research may also affect the evidence base (Snyder, 2019; Page et al., 2021).

RESULTS

The qualitative synthesis identifies four interconnected dimensions determining when firms can be considered genuinely comparable: firm heterogeneity, peer-selection mechanisms, financial statement comparability and accounting information quality, and information-processing and capital-market consequences. The literature consistently challenges the assumption that firms sharing the same industry classification are necessarily economically homogeneous (Bhojraj et al., 2003; Hrazdil & Scott, 2013; Hoberg & Phillips, 2016; Colas & Brousseau, 2025). Comparability is therefore better understood as a multidimensional relationship rather than a fixed characteristic based solely on industry membership (De Franco et al., 2011; Brown et al., 2023; Hoitash et al., 2023).

Industry classifications provide useful but incomplete representations of firm similarity. Different classification schemes can generate different peer groups and influence accounting and capital-market conclusions (Bhojraj et al., 2003; Hrazdil & Scott, 2013). Colas and Brousseau (2025) identify approximately 12% of U.S. firm-year observations during 2000–2020 as industry “misfits,” demonstrating substantial within-industry heterogeneity. Firm heterogeneity also arises from differences in product markets, business complexity, operating characteristics, economic fundamentals, and firm-specific shocks (Chun et al., 2008; Cohen & Lou, 2012; Hoberg & Phillips, 2016; Owens et al., 2017). Thus, industry membership is an imperfect proxy for economic comparability.

Peer selection is a fundamental determinant of meaningful benchmarking. Alternative approaches include industry classification, firm characteristics, investor perceptions, product-market similarity, and financial-statement similarity (Ecker et al., 2013; Lee et al., 2015; Hoberg & Phillips, 2016; Brown et al., 2023; Hoitash et al., 2023). Lee et al. (2015) show that investor co-search behavior identifies economically

meaningful peers beyond conventional classifications, while Brown et al. (2023) and Hoitash et al. (2023) demonstrate the usefulness of financial-statement similarity for identifying peer relationships. These findings indicate that the most appropriate peer group depends on the analytical purpose.

Peer-group composition directly affects accounting-quality measurement because abnormal-accrual models depend on appropriate benchmarks (Dechow & Dichev, 2002; Kothari et al., 2005). Economically dissimilar firms may cause legitimate differences in underlying economics to be interpreted as abnormal accounting behavior (Owens et al., 2017). Colas and Brousseau (2025) provide direct evidence that industry misfits exhibit larger absolute abnormal accruals and can contaminate benchmarks for industry-core firms. This highlights an important distinction between poor financial reporting quality and poor measurement of financial reporting quality: inappropriate peers can reduce the validity of accounting-quality proxies even when firms' reporting behavior is not inherently problematic.

Greater comparability facilitates information acquisition and processing. De Franco et al. (2011) find that higher comparability is associated with greater analyst following, more accurate forecasts, and lower forecast dispersion, while Blankespoor et al. (2020) emphasize the importance of disclosure-processing costs for investors' information choices and market outcomes. Consistent with this mechanism, Colas and Brousseau (2025) find higher information-processing costs among industry misfits. Thus, genuine comparability can reduce information-processing frictions, whereas inappropriate peer assignment increases the costs and uncertainty of interpreting accounting information.

The synthesis indicates that there is no universally optimal peer-selection method. Investors, analysts, boards, and regulators may require different dimensions of similarity depending on their objectives (Lee et al., 2015; Hoberg & Phillips, 2016; Brown et al., 2023; Hoitash et al., 2023). Consequently, comparability is conditional, multidimensional, and purpose-dependent rather than binary. Recent evidence also supports combining multiple sources of similarity rather than treating SIC, GICS, product-market, investor-search, and financial-statement measures as mutually exclusive alternatives (Colas & Brousseau, 2025).

The evidence supports the following conceptual relationship: Firm Heterogeneity → Peer Selection / Industry Classification → Degree of True Comparability →

Accounting Measurement Quality → Information Processing → Analyst, Regulatory, Governance, and Capital-Market Outcomes.

Firm heterogeneity is not inherently problematic; the problem arises when economically heterogeneous firms are treated as homogeneous peers for an analytical purpose requiring economic similarity. The central finding is therefore: Firms are truly comparable when their similarity is sufficiently aligned with the economic dimension relevant to the intended comparison, rather than merely when they share a conventional industry classification.

Overall, the review demonstrates that industry classification remains useful as a standardized starting point, but direct and multidimensional measures of economic and financial-statement similarity can provide a more accurate basis for peer selection and accounting-quality assessment (De Franco et al., 2011; Hoberg & Phillips, 2016; Brown et al., 2023; Hoitash et al., 2023; Colas & Brousseau, 2025).

DISCUSSION

The findings of this systematic literature review indicate that firms cannot be considered truly comparable based solely on conventional industry classification. Comparability is multidimensional and purpose-dependent, reflecting differences in firms' underlying economics, business models, financial-statement structures, investor perceptions, and peer-selection mechanisms (Bhojraj et al., 2003; De Franco et al., 2011; Hoberg & Phillips, 2016; Brown et al., 2023). Colas and Brousseau (2025) reinforce this perspective by showing that industry misfits differ from industry-core firms and that their inclusion in peer groups can introduce measurement error into abnormal-accrual estimation.

A key implication concerns the limitations of industry classification. Bhojraj et al. (2003) demonstrate that alternative classification schemes generate different peer groups and can affect capital-market research conclusions, while Hrazdil and Scott (2013) show that classification choice influences discretionary-accrual estimation. Colas and Brousseau (2025) extend these findings by demonstrating that the issue is not simply selecting the “best” classification; combining classifications can instead help identify firms that do not naturally belong to their industry's economic core.

The literature on peer selection further challenges industry-based approaches. Ecker et al. (2013) find that size-based estimation samples can perform at least as effectively as industry-based samples while reducing sample attrition. Lee et al. (2015) show that investor co-search behavior identifies peers that outperform GICS6 peers in explaining several economic characteristics, whereas Hoberg and Phillips (2016) demonstrate that text-based product-market similarity identifies dynamic competitors beyond conventional industry boundaries. These findings indicate that economically meaningful peers can be identified through firm characteristics, investor perceptions, and product-market relationships rather than predetermined industry codes (Ecker et al., 2013; Lee et al., 2015; Hoberg & Phillips, 2016).

Financial-statement comparability provides an additional and more direct dimension of similarity. De Franco et al. (2011) find that greater comparability is associated with greater analyst following, higher forecast accuracy, and lower forecast dispersion, suggesting that comparability reduces information-acquisition costs. Brown et al. (2023) show that financial-statement dissimilarity is associated with greater SEC scrutiny, while Hoitash et al. (2023) find that financial-statement benchmarking corresponds with actual analyst and board peer choices. Together, these studies suggest that observed financial-statement similarity can complement industry and economic measures when constructing meaningful peer relationships.

Taken together, the reviewed studies reveal a progression from industry classification to peer-group construction, economic similarity, and financial-statement similarity. De Franco et al. (2011) establish the benefits of comparability; Ecker et al. (2013) demonstrate the importance of peer-group construction; Lee et al. (2015) and Hoberg and Phillips (2016) highlight alternative measures of economic similarity; and Brown et al. (2023) and Hoitash et al. (2023) provide evidence for financial-statement-based benchmarking. Colas and Brousseau (2025) integrate these perspectives by showing that firm heterogeneity can contaminate accounting-quality estimation when economically inappropriate firms are treated as peers.

The central theoretical implication is that comparability should be conceptualized as relevant economic similarity rather than shared classification. A firm may be comparable to another firm for valuation but not necessarily for accrual estimation, financial-statement benchmarking, executive compensation, or regulatory screening

because each purpose requires different dimensions of similarity (Ecker et al., 2013; Lee et al., 2015; Hoitash et al., 2023). Accordingly, the literature supports an integrated framework of firm heterogeneity → peer selection → comparability → accounting information quality → information-processing outcomes (De Franco et al., 2011; Brown et al., 2023; Colas & Brousseau, 2025).

Overall, firms are truly comparable when their similarity is sufficiently aligned with the economic dimension and analytical purpose of the comparison (Bhojraj et al., 2003; Hoberg & Phillips, 2016; Brown et al., 2023). This perspective suggests that future research should develop dynamic, multidimensional, and purpose-specific peer-selection frameworks rather than relying exclusively on static industry classifications (Hrazdil & Scott, 2013; Lee et al., 2015; Colas & Brousseau, 2025).

CONCLUSION

This systematic literature review finds that firms cannot be considered truly comparable based on industry membership alone. Comparability is multidimensional and shaped by differences in business models, product markets, financial structures, investor perceptions, and peer-selection mechanisms. Conventional classifications may therefore create heterogeneous peer groups and measurement noise in accounting and capital-market analyses (Bhojraj et al., 2003; Hrazdil & Scott, 2013; Colas & Brousseau, 2025).

Peer selection is a central mechanism linking firm heterogeneity to comparability. While industry classifications provide useful benchmarks, firm characteristics, investor perceptions, product-market relationships, and financial-statement similarity can identify economically relevant peers overlooked by conventional classifications (Ecker et al., 2013; Lee et al., 2015; Hoberg & Phillips, 2016; Brown et al., 2023). Comparability is therefore purpose-dependent: peers appropriate for accrual estimation may differ from those relevant for valuation, forecasting, executive benchmarking, or investor decisions (De Franco et al., 2011; Hoitash et al., 2023).

Financial-statement similarity offers a complementary and more direct dimension of comparability. Greater similarity supports meaningful benchmarking and information processing, whereas inappropriate peer selection may cause accounting-quality measures to capture differences in underlying economics rather than reporting behavior. Industry

misclassification can consequently increase abnormal accruals and information-processing costs (Brown et al., 2023; Owens et al., 2017; Colas & Brousseau, 2025).

Overall, the evidence supports an integrated framework: firm heterogeneity → peer selection → comparability → accounting information quality → information-processing outcomes. Firms are truly comparable when their similarity aligns with the economic dimension and analytical purpose of the comparison. Future research should therefore combine industry classification with firm characteristics, product-market relationships, investor-based peer identification, and financial-statement similarity rather than relying exclusively on static industry classifications (Lee et al., 2015; Brown et al., 2023; Colas & Brousseau, 2025).

LIMITATION

This systematic literature review has several limitations. First, its qualitative design synthesizes conceptual and empirical evidence without estimating pooled effect sizes or causal effects (Snyder, 2019; Tranfield et al., 2003). Second, heterogeneity in samples, settings, periods, definitions, and measures limits direct comparison and generalizability, while reliance on published studies may introduce publication bias.

Third, comparability is measured differently across studies, including industry classifications, accounting measures, investor-selected peers, product-market similarity, and financial-statement similarity; these measures capture distinct dimensions and are not fully interchangeable (Bhojraj et al., 2003; Lee et al., 2015; Hoberg & Phillips, 2016; Colas & Brousseau, 2025). Moreover, the literature does not establish a definitive causal chain from firm heterogeneity to peer selection, comparability, and accounting outcomes.

Finally, changing business models and industries may reduce the relevance of static classifications. Thus, comparability should be viewed as a context-sensitive, purpose-dependent construct. Future research should develop dynamic peer-selection models, integrate multiple similarity measures, and test their causal effects on accounting information quality across institutional settings.

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