# Risky Business: Accounting in Times of Uncertainty

# Une aventure risquée : comptabiliser en temps d'incertitude

## Accepted and Presented Papers
## Communications acceptés et présentés

Presentations : June 5, 2020 Séances de présentation : le 5 juin, 2020

CAAA THE CANADIAN ACADEMIC ACCOUNTING ASSOCIATION ACPC L'ASSOCIATION CANADIENNE DES PROFESSEURS DE COMPTABILITÉ

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**Research Sessions 1.1: Audit Quality and Standard Setting**

**Supported by:**

**1.1.1 Empirical Assessment of Auditor Quality in the IPO Market (Starting @ 9:45 AM CST Saskatoon / 11:45 AM EDT / GMT-6)**

Auditors play a critical role in the U.S. capital market. Audit and assurance service facilitate capital formation, helping entrepreneurs raise capital that fuels growth and innovation. For a sample of 2003-2017 IPOs, we find a strong association between auditor quality and IPO firms' risk profile. Furthermore, our study documents that high-quality auditors play an instrumental role in facilitating the timely production and communication of financial information to investors and other capital market participants. High-quality auditors require higher audit fees to reward their quality services; but more importantly, higher audit fees are compensations for tremendous risks assumed by high-quality auditors. Overall, our results are consistent with Datar, Feltham, and Hughes (1991)'s risk-based explanation for demand for high-quality audit in the IPO market. Our results also provide empirical evidence for the model proposed by Johnstone (2000): auditors make client-acceptance decisions by evaluating client risk characteristics and adapting to the client-acceptance risk through audit fee adjustment.

**Authors:**

***Tina Wang, University of Texas Austin**
Brent Lao, Illinois State University

**Moderator: Leslie Berger, Wilfrid Laurier University**

**1.1.2 Evidence-Informed Audit Standard Setting: Exploring Evidence Use and Knowledge Transfer in Development of the Group Audit Standard (Starting @ 9:45 AM CST Saskatoon / 11:45 AM EDT / GMT-6)**

Academics and practitioners agree that there are substantial barriers to systematically transferring audit research knowledge to policymakers. We employ a design science research approach to investigate the efficacy of a research synthesis to transfer knowledge to audit standard setters, in which we conduct a real-time simulation with former standard setters. The simulation is based on an standard setting board withdrew the first exposure draft due to resistance in the practice community. We provide evidence that the then-extant research knowledge was not used by standard setters. Specifically, we document that no attempt had been made to transfer extant research, rather than standard setters not using research out of concern for costs and benefits or quality of research. Hence, we employ this simulation setting as a “typical” instantiation representing the knowledge transfer problem in auditing to investigate our proposed improvement to the process, a research synthesis. Following design science prescriptions, we evaluate the pragmatic validity of the synthesis creation process and the resultant synthesis report. We provide strong initial evidence that the research synthesis is a valid approach that can be effectively and efficiently used by academics to systematically transfer audit research knowledge to audit standard setters. Among the implications of our research is that the focus on the individual research article as the principal unit of knowledge transfer to practice is misguided. Rather, individual articles need to be seen as building blocks for syntheses in order for systematic knowledge transfer to occur in policymaking.

**Authors:**

***Yi Luo, Queen's University**
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Kris Hoang, University of Alabama

**Moderator: Leslie Berger, Wilfrid Laurier University**

**1.1.3 Auditor Regulatory Oversight, Private Information Flow, and Return Predictability: Evidence from PCAOB International Inspection Program (Starting @ 9:45 AM CST Saskatoon / 11:45 AM EDT / GMT-6)**

This study examines the effect of auditor regulatory oversight on short selling and return predictability in the international setting. Utilizing a difference-in-difference research design, we document robust evidence that PCAOB international inspection reduces the ability of outward shifts in shorting demand to predict future returns, suggesting a decrease of private information flow in a firm's information environment. This effect is stronger for countries with more opaque information environment and for countries with lower audit quality prior to PCAOB inspection. Our study highlights the externality effect of PCAOB inspection on reducing private information flow in the non-U.S. markets.

**Authors:**

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**Moderator: Leslie Berger, Wilfrid Laurier University**

## Research Sessions 1.2: Research in Managerial Ability

**1.2.1 A Statistical Foundation for the Measurement of Managerial Ability (Starting @ 9:45 AM CST Saskatoon / 11:45 AM EDT / GMT-6)**

Accounting and finance literature extensively use a DEA-based measure of managerial ability by Demerjian, Lev, and McVay (2012). Adding to the empirical validity of the measure, we provide a statistical foundation, such as the consistency of the estimate, and examine how model choices affect Type-I-Error rate and statistical power of the inference. Not only a correctly specified model of firm efficiency outperforms, but it also guarantees the existence of the lower and upper bounds of managerial ability measure coefficient that includes the true coefficient value, allowing a researcher to assess the magnitude of the effect. An over-fitted firm efficiency model may prevent Type-I-Error in the presence of misspecification of third-stage models that use the measure as an independent variable. We also provide evidence that an industry-specific firm efficiency model may result in more precise managerial ability measures, reducing Type-I-Error of a moderately misspecified third-stage model for the industry.

**Authors:**

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**Moderator: Glen Kobussen, University of Saskatchewan**

### 1.2.2 Managerial Ability and Labour Investment (Starting @ 9:45 AM CST Saskatoon / 11:45 AM EDT / GMT-6)

Using a measure of managerial ability derived using data envelopment analysis (DEA), we investigate whether higher ability managers attain better performance outcomes through labour investment. We build on previous research that predicts expected labour investment (net hiring) based on economic factors and demonstrates that deviations from expected labour investment negatively affect future performance. Accordingly, higher ability managers may positively affect firm performance through labour investment in two ways: (1) by making labour investment decisions that deviate less from expected net hiring and (2) by reducing the negative effects of deviations from expected net hiring. We document that deviations from expected net hiring are, on average, smaller for higher ability managers. In this regard, we find that higher ability managers avoid both over-investment and under-investment in labour. We also find that managerial ability mitigates the negative effects of deviations from expected hiring on future firm performance. This latter result holds whether deviations from expected hiring are positive or negative. Together, our results support the prediction that higher ability managers achieve better performance outcomes through labour investment.

**Authors:**

***Dongning Yu, University of Calgary**
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**Moderator: Glen Kobussen, University of Saskatchewan**

### 1.2.3 How Gamification Can Harness Boredom and Improve Performance (Starting @ 9:45 AM CST Saskatoon / 11:45 AM EDT / GMT-6)

Boredom is likely to happen when a work process stimulates employees' brains in an extremely predictive manner. Boredom can bring a range of negative outcomes to employees and firms, including increased errors and accidents, decreased productivity and morale, and low job satisfaction. In this study, I examine whether a game element, loot, can be used as a process control to help employees stay engaged in a repetitive work task that often leads to employee boredom. Loot is a type of unpredictable, spontaneous reward used to motivate completion of small, repetitive tasks in video games. In a two-part lab experiment, I measure individuals' boredom proneness and gamify a repetitive, real effort decoding task by adding predictable (or fixed) vs. unpredictable (or loot) virtual point rewards. I hypothesize that individuals with high boredom proneness will experience less disengagement when they are rewarded with loot points than when they are rewarded with fixed points of the equivalent amount, and the reduced disengagement will lead to higher performance. Results support my hypotheses. Overall, I find that loot points are effective in mitigating boredom and improving performance among individuals with high boredom proneness. Theoretical and practical implications of this study are discussed.

**Author:**

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**Moderator: Glen Kobussen, University of Saskatchewan**

**Research Sessions 1.3: Information and Financial Markets**

### 1.3.1 CEO Turnover Announcements and Information Frictions (Starting @ 9:45 AM CST Saskatoon / 11:45 AM EDT / GMT-6)

This paper analyzes the market reaction to CEO turnover announcements in the presence of information frictions. We find that the market reaction to forced CEO turnover announcements is negatively related to the level of asymmetric information between a firm and its investors. No such relation exists for voluntary turnovers. We also find that in cases where information frictions are high, companies attempt to present forced turnover as voluntary and this behavior leads to a less negative market response. Overall, our results suggest that firms act strategically when disclosing information about CEO turnover to avoid a negative market reaction

**Authors:**

***Christine Liu, University of Toronto**
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Xu Tian, University of Toronto
Haofei Zhang, Nankai University

**Moderator: Chima Mbagwu, Wilfrid Laurier University**

### 1.3.2 Do Mutual Funds Trade on Earnings News? The Information Content of Large Active Trades (Starting @ 9:45 AM CST Saskatoon / 11:45 AM EDT / GMT-6)

Using monthly holdings data, we show that while mutual funds generally trade in the direction of earnings surprises, mutual fund trades in aggregate do not have predictive power for future earnings once we control for past firm performance and stock returns. We identify active trades by mutual funds, i.e., trades not passively driven by fund flows, and find that large active trades by mutual funds contain information on future earnings. Moreover, we show that large active mutual fund trades not only significantly increase market responses to earnings announcements but also help incorporate future earnings information into current stock prices. Furthermore, we show that large active mutual fund trades prior to earnings announcements have superior abnormal returns. Finally, we show evidence that mutual fund managers that actively trade on future earnings news are skilled; the top quintile skilled funds on average outperform those in the bottom quintile by 127 bps in four-factor alpha over the subsequent four quarters.

**Authors:**

***Linda H. Chen, University of Idaho**
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George J. Jiang, Washington State University

**Moderator: Chima Mbagwu, Wilfrid Laurier University**

### 1.3.3 Financial statement comparability and the usefulness of earnings: Some Canadian Evidence (Starting @ 9:45 AM CST Saskatoon / 11:45 AM EDT / GMT-6)

Building on the comparability construct developed by De Franco, Kothari, and Verdi (2011), we examine whether the comparability enhances the usefulness – relevance and reliability – of earnings, as suggested in the International Financial Reporting Standards (IFRS) Conceptual Framework. Thus far, researchers have examined the benefits of comparability from the users’ perspective. However, the role of comparability in improving the usefulness of earnings has not been directly examined. Our study is motivated to address such a question using Canadian firms' data in the post-IFRS period. The findings are consistent with our prediction, indicating that comparability enhances the decision-usefulness of earnings. These results are robust to several control factors, including industry membership, firm profitability, firm size, and leverage.

**Authors:**

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**Research Sessions 1.4: Topics in Corporate Responsibility**

**Supported by:**

**1.4.1 Examining the CSR Valuation Paradox using Canadian Public Companies (Starting @ 9:45 AM CST Saskatoon / 11:45 AM EDT / GMT-6)**

The impact of corporate social responsibility ("CSR") on business valuations is subject to debate. The traditional, neoclassical approach to CSR suggests that the additional costs incurred for environmental and social activities are not in the best interest of maximizing shareholder wealth. However, CSR may also lead to financial benefits in the form of reduced costs and valuable intangible assets. This debate has led to a CSR Valuation Paradox. Our results do not reveal any relationship between CSR measures and one-year ahead future firm performance or stock price crash risk. We discuss the implications these findings for business valuators.

**Authors:**

***Camillo Lento, Lakehead University**
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**Moderator: Suresh Kalagnanam, University of Saskatchewan**

**1.4.2 Do Foreign Institutions Avoid Investing in Poorly CSR-Performing (Starting @ 9:45 AM CST Saskatoon / 11:45 AM EDT / GMT-6)**

We examine the behavior of foreign institutional investors with respect to Corporate Social Responsibility (CSR). Using foreign portfolio holdings and CSR performance scores of 734 companies from 21 emerging markets during the period 2002-2016, we find that weak CSR policies deter foreign institutional investors. Results on cross-sectional analysis show that international institutions exhibit an aversion to poor CSR performance only when the company reside in countries with low investor protection and disclosure. Evidence on quasi-natural experiment suggests that CSR shocks exacerbate the perceived risk of non-CSR firms. Our main results are robust to alternative CSR measures and foreign institutional investor classification.

**Authors:**

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**1.4.3 CEO Personality and Language Use in CSR Reporting (Starting @ 9:45 AM CST Saskatoon / 11:45 AM EDT / GMT-6)**

Stakeholders' perception of organizational legitimacy relates to survival. In the modern environment, CSR reporting represents the key areas of both legitimacy and potential CEO influence. In particular, CEO personality may affect stakeholders' access to CSR information through report' readability. This paper explores the relationship between CEO personality traits and CSR reporting. The theoretical grounding, upper echelons theory, indicates that top organizational managers' values, experiences and personalities influence their organization's strategic decisions and effectiveness. We utilize the IBM Watson Personality Insights service (a linguistic software) to infer CEOs' personality traits based on their responses to questions raised by analysts during year-end conference calls. We obtain data on the Big Five personality traits – openness, conscientiousness, extraversion, agreeableness, and neuroticism (OCEAN) – from which we compute a measure of CEOs' risk tolerance.

**Authors:**

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**Research Sessions 2.1: The Evaluation and Impact of Labour Performance**

**Supported by:**

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School of Business & Economics
WILFRID LAURIER UNIVERSITY

In this paper, I examine how firms adjust their labour in response to business downturns, how firm-specific labour adjustment practices influence firm performance, and what factors drive firms' labour adjustment practices. I identify and contrast two broad types of labour strategies that manifest themselves in downturns. A stable or sticky labour strategy means that companies retain excess employees in downturns. A flexible or non-sticky labour strategy means that firms adjust their labour along with the movement of the business cycle. Using data provided by Statistics Canada, I find that companies with more flexible labour adjustment strategies outperform, in terms of return on assets, companies with stable or moderate labour adjustment strategies. Using DuPont analysis, I find that underperformance of stable companies is due to lower efficiency (asset turnover). However, companies that follow stable labour adjustment strategies earn higher profit margins than companies with flexible or moderate labour adjustment strategies, consistent with earning a premium on human capital investment. The overall advantage of companies with flexible labour strategies comes from a combination of asset turnover and profit margin, suggesting higher productivity. I also find that higher labour stickiness is associated with lower earnings volatility, and lower labour stickiness or higher flexibility is associated with less likelihood of exit in future periods. Firms that are older, that have lower leverage and that have proportionately less tangible assets exhibit more labour stickiness.

**Author:**

***Dongning Yu, University of Calgary**

**Moderator: Ganesh Vaidyanathan, University of Saskatchewan**

### 2.1.2 Subjective Evaluation of Professional Employees: Work-Day Duration as a Heuristic to Evaluate Output (Starting @ 10:45 AM CST Saskatoon / 12:45 PM EDT / GMT-6)

In a setting where employees are professionals, I examine the joint effects of work-day duration and performance reward type on quality evaluations of subjective output. I use an experiment (Study 1) where participants are required to evaluate good quality subjective output of a professional employee. I manipulate whether the professional employee works a short or equal work-day duration relative to other employees and whether the evaluation will help to determine a bonus or a promotion. When the purpose of the evaluation is to help determine a bonus, evaluations of subjective quality are lower for short work-day duration professional employees. However, when the purpose of the evaluation is to help determine a promotion, evaluations of subjective quality are higher for short work-day duration employees. I perform a second study (Study 2) to examine whether the effects persist for moderate quality subjective output. Results of the second experiment differ from the first. When the purpose of the performance reward is a bonus, evaluations of subjective quality are lower for short work-day duration professional employees. However, when the purpose of the performance reward is promotion, evaluations of subjective quality are not higher for short work-day duration professional employees. Results identify that in settings where there is no direct relationship between work-day duration and quality of subjective output, work-day duration is used as an informational cue in the evaluation of subjective quality.

**Author:**

***Sara Wick, Wilfrid Laurier University**

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### 2.1.3 Employee Engagement and Performance in Fast Food Restaurants: The Effects of Team-Based Recognition (Starting @ 10:45 AM CST Saskatoon / 12:45 PM EDT / GMT-6)

We conduct a field experiment at six fast-food franchise restaurant locations to investigate the effects of a formal, team-based recognition program on employee engagement, employee effort and restaurant-level performance. Firms have long used recognition programs to engage and motivate employees. However, minimal research has tested their effectiveness in a field setting and to our knowledge no study has examined (1) the effect of team-based recognition, or (2) the effects of a recognition program within the fast food industry, known to have chronic problems with employee engagement and turnover. We predict and find that adoption of a recognition program leads to significant improvement in employee engagement, employee effort, and restaurant-level measures of customer satisfaction and sales performance. Collectively, our results support the use of a formal, team-based recognition program as an effective control to increase employee engagement and motivation.

**Authors:**

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Alan Webb, University of Waterloo

**Moderator: Ganesh Vaidyanathan, University of Saskatchewan**

**Research Sessions 2.2: Impact of Media and Public Perception on Financial Reporting**

**2.2.1 Product Recalls and Audit Production (Starting @ 10:45 AM CST Saskatoon / 12:45 PM EDT / GMT-6)**

Using hand-collected product recall data, we examine the effect a product recall has on audit quality and audit pricing. We expect a positive association between recalls and quality; auditing standards suggest product recalls increase risk and necessitate greater audit effort. We also expect a product recall to inject countervailing pressures into fee negotiations; upward pressure from the auditor's need to recoup costs, and downward pressure from the client's desire to cut costs. Our results provide evidence product recalls are associated with greater audit quality. Specifically, firm–years with a product recall have a lower likelihood of being subsequently restated and lower levels of accrual error. Our results also provide evidence product recalls are associated with lower audit fees, suggesting auditors acquiesce to downward fee pressure. These results are robust to controls for client and auditor characteristics and endogeneity controls including a changes analyses and propensity score matching. Our results contribute to the extant literature by identifying a firm-specific event associated with higher audit quality but not higher audit fees.

**Authors:**

Kevin Kim, University of Memphis
***Jonathan Nash, University of New Hampshire**
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**Moderator: Duane Kennedy, University of Waterloo**

**2.2.2 Advertising and Firm Market Value: How Advertising Media Vehicles Make a Difference (Starting @ 10:45 AM CST Saskatoon / 12:45 PM EDT / GMT-6)**

This research aims to advance the literature by identifying how five advertising media vehicles (Internet, press, outdoor, cinema, television) influence firm value. Previous research highlights the influence of advertising on firm value but does not delve into the effects of advertising media vehicles. Employing primary data which details the monthly advertising expenditures of 49 publicly traded companies over 11 years, we empirically test and show a positive association between firm value, and Internet, cinema and television advertising expenditures but indicate a negative association between firm value and press advertising expenditures. We do not find any significant results between outdoor advertising and firm value. We investigate the moderating effect of financial visibility and show that both positive and negative associations between advertising expenditures and firm value weaken when interacting with financial visibility. We discuss industry effects and sensitivity tests and offer suggestions for the future.

**Authors:**

***Seda Oz, University of Waterloo**
Doga Istanbulluoglu, University of Birmingham

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**2.2.3 The Office Effects of Audit Time Pressure: The Acceleration of the 10-K Filing Deadlines (Starting @ 10:45 AM CST Saskatoon / 12:45 PM EDT / GMT-6)**

This study examines the audit office effects of changes in client time pressure, using the acceleration of 10-K filing deadlines as the research setting. The extant literature provides evidence that increased client time pressure adversely affects the timing and quality of individual engagements. We argue that because audit offices possess finite resources and production capacity, client pressure can have intra- and inter- office effects. We document intra-office differences related to changes in audit timeliness; within the same audit office, clients with no pressure (with pressure) post-acceleration experience an increase (a decrease) in audit report lag. This evidence suggests auditors alter the timing of concurrent engagements in response to client pressure and clients of the same office are not uniformly affected by changes in time pressure. We also document inter-office effects related to (audit and filing) timeliness and audit quality; clients of audit offices with more time pressure across the entire client portfolio have a greater increase in audit delay, are more likely to file late, and experience lower audit quality. Taken as a whole, our results are consistent with auditors' response to increased resource constraints allowing client pressure to produce office effects. These results should be informative to regulators and practitioners concerned with the consequences of audit office resource constraints.

**Authors:**

***Jonathan Nash, University of New Hampshire**
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**Moderator:**
**Duane Kennedy, University of Waterloo**

**Research Sessions 2.3: Audit Issues in Practice**

**Supported by:**

**2.3.1 Public Accounting as a Calling: Navigating the Compromises Arising from Deeply Meaningful Work (Starting @ 10:45 AM CST Saskatoon / 12:45 PM EDT / GMT-6)**

In an effort to explore the potential of work to provide deep personal meaning, management scholars have begun to explore work as personal calling. Meanwhile, there has been little interest into how public accountants relate to work as a calling. Drawing on the literature of deeply meaningful work and narrative interviews with twenty Tunisian auditors, we explore how public accountants relate to their work as a calling and the impact this has on the judgment and actions they take vis-a-vis their clients. We find that when public accountants relate to their work as a calling, it has the potential to provide deep personal satisfaction despite considerable personal sacrifice. When this identity is threatened, public accountants react by reorienting their conception of the profession and redefining to whom they owe a duty of care. In so doing, an auditor switches from trying to detect errors to carefully re-writing a client's financial position for the client's benefit. As a result, the audit report becomes an artefact of the conflicting objectives an auditor faces between being independent and their allegiance to their client. This study makes three main contributions to the literature. Firstly, we explore the potential for public accounting to be a calling. Secondly, we offer a complementary explanation for the reason why auditors might adopt a commercialism mindset over a professionalism mindset. Thirdly, we explore the audit report as an artefact of competing claims on an auditor.

**Authors:**

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**Moderator: Kenneth A. Fox, University of Saskatchewan**

**2.3.2 When Doing Good for Society is Good for Shareholders: Importance of Alignment between Generic Strategy and Corporate Social Responsibility. (Starting @ 10:45 AM CST Saskatoon / 12:45 PM EDT / GMT-6)**

This paper investigates whether firms' generic strategies are aligned with their performance in terms of Corporate Social Responsibility (CSR) and whether such an alignment of their generic strategy and CSR is beneficial to their shareholders. We express generic strategies in terms of value propositions of product leadership, customer intimacy and operational excellence. We argue that due to their contingencies (i.e., focus on R&D), product leaders use CSR as a way to demonstrate their shared values (i.e., clan control mechanism) with society and to gain a Social License to Operate (SLO) from society. We use textual measures of value propositions from 10-K filings and CSR data from the Kinder, Lydenberg & Domini (KLD) social performance indicators, resulting in a sample of 2,887 U.S firms and 19,621 firm-year observations from the fiscal years 1995 to 2015. As expected, we find that product leadership is positively associated with CSR and that R&D mediates this positive association. Moreover, we find that product leaders who invest more in CSR improve their financial performance.

**Authors:**

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**2.3.3 Differences in the Life Cycles of Public Accounting Firms of Different Sizes in an Uncertain Audit Market (Starting @ 10:45 AM CST Saskatoon / 12:45 PM EDT / GMT-6)**

The global audit market has undergone dramatic changes in recent years, and accounting firms currently face rapidly increasing uncertainty and risk in the audit market. The study used a translog revenue function to estimate the industry life cycle curves of accounting firms of different sizes and investigated the differences in these curves to better measure and manage risks, thereby reducing the uncertainty of the audit market. This study performed an empirical analysis of 12,134 sample datasets for accounting firms in Taiwan during the period from 2004 to 2017. The empirical results indicated that the sources of human capital accumulated by large firms and small/medium firms were chiefly education and experience, respectively, and the human resources of the firms had an interactive effect on their business revenue. From the perspective of the life cycle curve of the public accounting industry, accounting firms with different life cycles have different revenue growth rates, and the revenue of large accounting firms grows at a relatively moderate rate and enters the decline stage at an earlier time.

**Authors:**

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**Research Sessions 2.4: International Reporting: CSR and Behavioral Investigations**

**Supported by:**

Ryerson University    TED ROGERS SCHOOL OF MANAGEMENT

**2.4.1 Corporate Governance Reforms Around the World: The Effect on Corporate Social Responsibility (Starting @ 10:45 AM CST Saskatoon / 12:45 PM EDT / GMT-6)**

This study examines the effect of major corporate governance reforms on corporate social responsibility (CSR) in countries around the world. Using a difference-in-differences design, we find robust evidence that worldwide corporate governance reforms result in an increase in CSR performance in both the environmental and social dimensions. Relative to countries with comply-or-explain reforms, countries with rule-based reforms tend to experience a greater increase in CSR performance post-reform. In addition, the effect of reforms on CSR performance is more pronounced for firms with higher levels of institutional ownership or lower levels of insider ownership and in countries with weaker CSR awareness and a more stringent legal and regulatory environment. Further analyses show that the reforms strengthen the relation between CSR and future financial performance. Collectively, our evidence suggests that increases in substantive CSR investment represent a potential channel through which corporate governance reforms can increase shareholder value and that the effectiveness of reforms varies with both firm- and country-level characteristics related to the relative influence of external shareholders.

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**Moderator: Gary Entwistle, University of Saskatchewan**

**2.4.2 Investor Reaction to Firms' Emissions Management Strategy and CSR Performance in Presence vs. Absence of an Industry Target (Starting @ 10:45 AM CST Saskatoon / 12:45 PM EDT / GMT-6)**

This study examines how a firm's Corporate Social Responsibility (CSR) emissions management strategy and its relative CSR performance jointly influence investors' willingness to invest in the firm in presence vs. absence of a CSR industry target. We also examine whether the firm's CSR performance, as a CSR leader or a CSR laggard, moderates investors' reaction to a firm's emissions management strategy. We then examine how the presence of an external CSR target affects investors' reaction to these CSR strategies. We conduct an experiment in which participants evaluate the CSR emissions management strategy of either a clean (CSR leader) or dirty (CSR laggard) firm, and in the absence or presence of an industry-wide emissions target. Consistent with predictions, we find that when the firm is a CSR laggard, investors are more willing to invest when the firm's emissions management strategy is to produce green energy, compared to when their strategy is to purchase green energy. Our results also indicate that the change in investors' willingness to invest is at the lowest level when an industry target is present, and the emissions management strategy is to purchase. However, industry target has no effect when the emissions management strategy is to produce, and industry target is absent. In this case, investors' willingness to invest remains at the same level for both strategies. Results of our structural equations model, including a measure of the extent to which investors perceive the firm as socially responsible, adds additional insights into the mechanism for these findings.

**Authors:**

***Adam Vitalis, University of Waterloo**
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Donald Young, Indiana University

**Moderator: Gary Entwistle, University of Saskatchewan**

**2.4.3 "Knock on wood": Loss Aversion and Accounting Conservatism (Starting @ 10:45 AM CST Saskatoon / 12:45 PM EDT / GMT-6)**

The paper provides first empirical evidence that individuals have endogenous preferences for accounting conservatism due to intrinsic loss aversion. Conservatism avoids disappointment by anticipating possible future losses. Our findings suggest that in a judgment context based on innate loss aversion, individuals value conservatism more highly than neutrality in accounting, indicating a higher willingness to invest in economically valuable ventures. We further provide evidence that individuals also show explicit preferences for conservative vs. neutral accounting in a choice setting. The study contributes to the ongoing discussion on accounting conservatism by establishing that conservative accounting helps individuals mentally process unsuccessful events and avoid disappointment.

**Authors:**

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**Moderator: Gary Entwistle, University of Saskatchewan**

## Research Sessions 3.1: Financial Reporting and Debt Contracting

### 3.1.1 The Treatment of Accounting Changes in Covenants and Debt Contracting Efficiency (Starting @ 1 PM CST Saskatoon / 3 PM EDT / GMT-6)

Debt contracts contain accounting-based covenants that could be affected by generally accepted accounting principles (GAAP) changes. There are three types of contractual treatment of GAAP changes: excluding GAAP changes (frozen GAAP); incorporating GAAP changes (floating GAAP); and incorporating changes unless either the borrower or the lenders request a freeze (frozen-on-request GAAP). Motivated by the recent increase and current prevalence of frozen-on-request GAAP, I examine whether this type is more useful in promoting debt contracting efficiency than the other two by using a large sample of private debt contracts. I use the probabilities of false positives and false negatives as proxies for debt contracting efficiency and find lower probabilities of false positives and false negatives under frozen-on-request GAAP than under frozen and floating GAAP after controlling for self-selection bias. The reductions are more evident when significant accounting changes relevant for covenants occur and when compared to unconditionally frozen GAAP. My study provides new evidence on the role of accounting standards and GAAP provision designs in improving debt contracting efficiency.

**Author:**

***Chunmei Zhu, University of Waterloo**

**Moderator: Chima Mbagwu, Wilfrid Laurier University**

### 3.1.2 - Natural Disasters, Loan Loss Accounting and Subsequent Lending (Starting @ 1 PM CST Saskatoon / 3 PM EDT / GMT-6)

This paper examines the impact of disasters on banks' loan loss accounting, and the impact of loan loss accounting on banks' ability to respond to disaster-related increases in demand for loans. We identify banks affected by natural disasters, and match banks that are enjoying relatively calm lending environments. We implement a difference–in–difference research strategy and first show loan loss provisions reflect an increasing weight on current and lagged loan loss indicators during the four quarters that encompass the disaster. For large banks, the loan loss provisions reflect a higher weighting on forward looking estimates of non–performing loans post the disaster. This finding for large banks raises a concern that disasters impact loan loss provisions in such a way that they confound the interpretation of provisioning–timeliness measures which have been used in prior research. We then examine whether banks that use either more conservative, or more timely provisioning practices, in periods preceding disasters, are able to respond more quickly to new loan demands created by disasters. Our results suggest that smaller banks, which have conservative provisions (i.e., over-reserve) during non-disaster periods, demonstrate greater loan growth following a disaster. However, we find that an increased role for Tier 1 capital in the post-disaster period, subsumes this relationship between provisioning-conservatism and lending. Finally, we fail to find evidence that provisioning– timeliness plays any role in stimulating lending in post-disaster periods.

**Authors:**

***Yuxiang Zheng, University of British Columbia**
Sandra L. Chamberlain, University of British Columbia

Rajesh Vijayaraghavan, University of British Columbia

**Moderator: Chima Mbagwu, Wilfrid Laurier University**

### 3.1.3 The Implications of Bank Mergers for Financial Statement Comparability: Evidence from Borrowing Companies (Starting @ 1 PM CST Saskatoon / 3 PM EDT / GMT-6)

Applying a difference-in-differences approach to explore the impact of bank mergers on financial statement comparability, first, we document a decrease in financial statement comparability among borrowers of the target bank in post bank merger, consistent with protecting proprietary information hypothesis. Second, in post bank merger, there is an increase in financial statement comparability between borrowers of the target bank and borrowers of the acquiring bank, as well as industry peers, conditional on borrowers not switching lenders. These findings are consistent with relationship building hypothesis. These findings show that borrowers engage in strategic financial reporting behavior in post bank mergers.

**Authors:**

Rachel Tang, University of Waterloo
***Seda Oz, University of Waterloo**
Rachel Tang, University of Waterloo

**Moderator: Chima Mbagwu, Wilfrid Laurier University**

## Research Sessions 3.2: Problèmes courants en comptabilité 1 (Séance en français)

### 3.2.1 Compétence des analystes financiers et information non financière (Starting @ 1 PM CST Saskatoon / 3 PM EDT / GMT-6)

L'information non financière (INF) occupe une place croissante dans l'évaluation d'entreprise et dans les décisions de placement. Cela s'explique par les impacts financiers potentiellement importants d'enjeux environnementaux, sociaux et de gouvernance, ainsi que par l'intégration de pratiques d'investissement responsable. Or, l'utilisation de l'INF soulève des enjeux de compétences pour les analystes financiers, compte tenu notamment de la nature de l'INF surtout qualitative, peu standardisée, ainsi que de la variabilité dans sa disponibilité et sa qualité. À partir d'entrevues semi-dirigées avec des analystes financiers et autres professionnels travaillant en société d'investissement, certains se spécialisant dans l'analyse d'INF, la présente étude décrit et analyse la nature de ces compétences. De plus, les études empiriques actuelles documentent des associations positives entre certains facteurs (ex. spécialisation par industrie, expérience générale) et la précision des prévisions financières des analystes financiers. Nos résultats contribuent à démontrer comment ces facteurs peuvent se concrétiser en pratique à partir de compétences spécifiques à l'utilisation d'INF.

**Auteur(e)s :**

***Lionel Bahl, Université de Sherbrooke**
Aurélie Desfleurs, Université de Sherbrooke

**Modérateur : Bertrand Malsch, Queen's University**

**3.2.2 L'étendue de l'information extra-financière est-elle prise en compte par le marché ? (Starting @ 1 PM CST Saskatoon / 3 PM EDT / GMT-6)**

La divulgation en responsabilité sociétale des entreprises est aujourd'hui scrutée à la loupe par les agences de notation extra-financière. Ces évaluations des pratiques en responsabilité sociétale sont rendues accessibles aux investisseurs via des sites web ou des plateformes spécialisées. Dans un contexte où les investisseurs utilisent cette information pour appliquer des principes d'investissement socialement responsable, il est pertinent de se demander si la divulgation d'informations extra financières est prise en compte par le marché. Notre recherche examine le lien entre l'étendue de l'information extra-financière divulguée et la valeur au marché des entreprises cotées à la Bourse de Toronto. Nos résultats démontrent que l'étendue de l'information extra-financière a un impact sur la valeur au marché des entreprises canadiennes. Nos résultats témoignent en faveur de la divulgation d'informations extra-financières par les entreprises afin qu'elles soient interprétées par les agences dénotation.

**Auteurs(e) :**

***Vincent Gagné, Université de Sherbrooke**
Lionel Bahl, Université de Sherbrooke
Marianne Perry, Université de Sherbrooke

**Modérateur : Bertrand Malsch, Queen's University**

**3.2.3 Reporting durable volontaire: La perception des gestionnaires de grandes entreprises canadiennes (Starting @ 1 PM CST Saskatoon / 3 PM EDT / GMT-6)**

Cette étude a pour objectif d'examiner la perception des gestionnaires de grandes entreprises canadiennes à l'égard d'une normalisation éventuelle des divulgations en développement durable (DD). Pour atteindre cet objectif, une enquête a été réalisée auprès de 10 grandes sociétés canadiennes. Des entrevues semi-structurées avec des gestionnaires ont été menées afin de déterminer leur perception à l'égard d'une normalisation éventuelle du contenu, du format et de la vérification du reporting durable. L'analyse des entrevues démontrent que les gestionnaires ont des opinions partagées quant au soutien éventuel des normalisateurs et/ou des régulateurs. Certains sont favorables au maintien du statut volontaire en reporting durable, tandis que d'autres sont plutôt favorables à la mise en place d'une normalisation. De plus, cette étude relève des défis et des pistes de solution partagées par les gestionnaires dans la perspective d'une amélioration des divulgations. La méthodologie utilisée permet d'ajouter aux connaissances actuelles entourant le reporting durable en relevant notamment des facteurs clés de la réalité interne des entreprises. Les résultats de cette étude apportent également des observations empiriques qui pourront servir de référence au normalisateur et/ou régulateur dans toutes initiatives d'amélioration de la qualité de l'information divulguée par les entreprises canadiennes en matière de DD.

**Auteures :**

Vicky Therrien, Université de Moncton
Sylvie Berthelot, Université de Sherbrooke

**Modérateur : Bertrand Malsch, Queen's University**

## Research Sessions 3.3: Topics in Management Accounting

### 3.3.1 Idiosyncratic Costs (Starting @ 1 PM CST Saskatoon / 3 PM EDT / GMT-6)

Recent studies document the difficulty that capital market participants experience in understanding the characteristics of firms' costs. The variation in a firm's costs is shaped by industry- and market-related factors (such as input prices and market trends), as well as, by managerial decisions unique to a firm that are discretionary and proprietary in nature (i.e., firm-specific factors). In this study, we refer to costs whose variation is driven by firm-specific factors as "idiosyncratic costs" and develop an empirical measure of firms' idiosyncratic costs. We examine the drivers of idiosyncratic costs and investigate the impact of idiosyncratic costs on information asymmetry between firms and external information users. We find that idiosyncratic costs are driven by resource intangibility, product market competition, agency costs and other firm characteristics such as business complexity, cost structure, financial leverage and financial distress. Our results also show that firms with greater idiosyncratic costs exhibit lower analyst forecast accuracy and greater forecast dispersion, consistent with our expectation that idiosyncratic costs lead to greater information asymmetry.

**Authors:**

Mark Anderson, University of Calgary
Raj Mashruwala, University of Calgary
***Ye Wang, University of Calgary**
Rong Zhao, University of Calgary

**Moderator: Han-Up Park, University of Saskatchewan**

### 3.3.2 Exploring Internal Auditors' Voice in Environmental Issues: Evidence from China (Starting @ 1 PM CST Saskatoon / 3 PM EDT / GMT-6)

The purpose of this paper is to explore three antecedents of internal auditors' voice in environmental-related issues. Using 226 responses from internal auditors and their immediate supervisors from China, we found that internal auditors perceived organizational environmental orientation and their individual environmental orientation were significantly related to both their promotive and prohibitive voice in environmental issues. Internal auditors perceived supervisory support for the environment was also significantly related to their promotive voice in environmental issues. Moreover, internal auditors' environment commitment mediated the relationships between the three antecedents and their prohibitive voice in environmental issues. Our findings provide insights for researchers, practitioners, and regulators.

**Authors:**

***Xin Liu, Pacific Lutheran University**
Wei Li, Kent State University
Kristine Parsons, Pacific Lutheran University

**Moderator: Han-Up Park, University of Saskatchewan**

### 3.3.3 Internalities of Disclosure Choice: Evidence from SG&A Cost Management Decisions (Starting @ 1 PM CST Saskatoon / 3 PM EDT / GMT-6)

This study examines the relation between complexity of annual reports and SG&A cost adjustments. Using a pooled analysis supplemented with a quasi-natural shock to disclosure complexity, we document that the stickiness of the SG&A costs is lower in the period after firms issue a complex annual report. We further document that the cost of borrowing mediates this relationship, suggesting that the reduction in SG&A cost stickiness is to offset the constraining effect of an increase in the cost of borrowing stemming from the complexity of annual reports. We next document that the intent of SG&A cost stickiness reduction is to fund investments, as the propensity to under-invest reduces in the post period. We substantiate the main finding and this interpretation further by showing that the increase in the stickiness of SG&A costs is higher for firms that are financially constrained, and firms with poor ex-ante information environment. Lastly, we find that managers reduce the SG&A resources that do not contribute to future value of the firm and the reduction in unused resources is stronger in under-invested firms. Our findings are robust to alternate measures of disclosure complexity and instrumental variable approach in addition to the quasi-natural experimental setting. We contribute to the literature on both disclosure complexity and cost management by providing evidence of the impact of disclosure complexity on managerial decision making

**Authors:**

***Abdul Mohi Khizer, Indian School of Business**
Nishant Agarwal, University of Western AustraliaSiva Nathan, Georgia State University

**Moderator: Han-Up Park, University of Saskatchewan**

**Research Sessions 3.4: Current Issues in Auditing**

**3.4.1 Audit Committee Interlocking and Internal Controls over Financial Reporting: an Examination of Different Audit Committee Roles (Starting @ 1 PM CST Saskatoon / 3 PM EDT / GMT-6)**

This study investigates the relationship between audit committee (AC) interlocking and the effectiveness of internal controls over financial reporting (ICFR) while differentiating between chair and non-chair connections. Chen et al. (2017) point out that the effect of corporate governance on the system of internal controls has been largely overlooked by extant research. Khemakhem & Fontaine (2019) discuss the fact that the audit committee chair role, while key in corporate governance, is largely ignored by researchers. The results show that the effects of interlocks vary based on the interlocking medium, where companies are more likely to have effective ICFR if they are interlocked through the AC chair with other companies that have effective ICFR. No significant results are observed for interlocks through the non-chair members. Furthermore, the results do not show a significant relationship for interlocks with companies with ineffective controls.

**Authors:**

Ahmad Hammami, Concordia University
***Alexey Lyubimov, Concordia University**

**Moderator: Leslie Berger, Wilfrid Laurier University**

**3.4.2 Abnormal Audit Fees and Stock Price Crash Risk (Starting @ 1 PM CST Saskatoon / 3 PM EDT / GMT-6)**

This study examines the association between abnormal audit fees and stock price crash risk. Despite the growing research on abnormal audit fee, prior studies paid little attention to the association between abnormal audit fee and stock price crash risk. Furthermore, prior studies provide mixed explanations (“economic bonding argument”, "high audit cost argument" and “auditor effort argument”) for the implication of abnormal audit fees on audit quality. Using a large sample (18,498 firm-year observations) of U.S. firms, we find that abnormal audit fee is positively associated with stock price crash risk. The positive association appears to be stronger for clients with industry specialist auditors, when auditors are less dependent on clients in terms of fee revenues, and when external monitoring by institutional investors and product market competition is stronger. These results are consistent with “high audit cost argument” rather than two other views. Overall, our results suggest that abnormal audit fees contain risk premium for the future stock price crashes and auditor’s extra efforts to detect hidden bad news, which leads to subsequent stock price crashes.

**Authors:**

***Jong Park, University of South Florida**
Hakjoon Song, California State University, Dominguez Hills
Sang Mook Lee, Pennsylvania State University, Great Valley
Hongmin Chun, Chungbuk National University

**Moderator: Leslie Berger, Wilfrid Laurier University**

**3.4.3 Mandatory Disclosure of Audit Engagement Partners: Insight from Practice (Starting @ 1 PM CST Saskatoon / 3 PM EDT / GMT-6)**

Through semi-structured interviews with practicing Canadian audit partners, our study provides insights into partners’ perceptions of accountability and implications for audit quality that the new mandate requiring public identification of audit engagement partners in Canada and the United States. We find partners believe they are reaching or already at a ceiling level of accountability. The partners do not believe that the transparency of publicly identifying them as audit engagement partners will increase audit quality. Further, the partners express less concern over managing external reputations than managing internal reputations, which they believe have a more direct impact on their careers. Our study suggests regulators and researchers should consider the aggregate impact of multidimensional accountability pressures and highlights the need for future research to better understand boundary conditions between accountability and audit quality.

**Authors:**

***Adam Vitalis, University of Waterloo**
Veena L. Brown, University of Wisconsin-Milwaukee
Jodi L. Gissel, University of Wisconsin-Whitewater

**Moderator: Leslie Berger, Wilfrid Laurier University**

## Research Sessions 4.1: Accounting Research in Information Technology and Innovation

**Supported by:**

### 4.1.1 Does Industry Classification Matter? Evidence from IT Budgets (Starting @ 2 PM CST Saskatoon / 4 PM EDT / GMT-6)

Studies that examine the financial accounting and/or market implications of information technology (IT) often control for industry structure using proxies from one of the common industry classifications (e.g., SIC, NAICS) and selecting a level of aggregation within this classification (e.g., SIC2 or SIC3). This research study extends the analysis of IT budgets (Kobelsky et al., 2008) to examine the impact of choice of industry classification method and level of aggregation on estimation of coefficients in regression models. The results show the coefficient estimates are sensitive to classification method and level of aggregation.

**Authors:**

Theo Stratopoulos, University of Waterloo
***Duane Kennedy, University of Waterloo**
Kevin Kobelsky, University of Michigan-Dearborn
Byron Song, Hong-Kong Baptist University

**Moderator: Samir Trabelsi, Brock University**

### 4.1.2 Systemizing the Challenges of Auditing Blockchain-Based Assets (Starting @ 2 PM CST Saskatoon / 4 PM EDT / GMT-6)

Firms transacting using blockchain-based assets and liabilities have begun to enter capital markets in search for funding. Historically, firms have been able to raise substantial funding without an audited financial statement, however we project that in the future, audits will become a common requirement given increased competition among firms, increased scrutiny from regulators, past instances of fraud, and firms seeking an IPO. At the time of writing, accounting firms are hesitant to accept mandates from companies that hold a significant amount of crypto assets primarily because the blockchain market introduces novel, technically sophisticated, and risky propositions that auditors are unequipped to handle. Through interviews with senior accounting professionals and structured brainstorming meetings with a multidisciplinary team of accountants and blockchain experts, we critically analyze the purported roadblocks to auditing blockchain firms and map them to traditional auditing practices, demonstrating that providing an audit opinion is challenging but not insurmountable.

**Authors:**

***Erica Pimentel, Concordia University**
Emilio Boulianne, Concordia University
Shayan Eskandari, Concordia University
Jeremy Clark, Concordia University

**Moderator: Samir Trabelsi, Brock University**

### 4.1.3 Voluntary Disclosure and Innovation: International Evidence from Management Earnings Forecasts (Starting @ 2 PM CST Saskatoon / 4 PM EDT / GMT-6)

This study examines the relation between voluntary disclosure and corporate innovation. Using a unique set of management earnings forecast data hand-collected from the original text of earnings forecasts issued by firms from 27 countries, this study finds that firms that provide better management earnings forecasts, as measured by higher frequency and greater disaggregation, exhibit more patents granted and citations received. Results from additional cross-sectional analyses further indicate that the relation between management earnings forecasts and corporate innovation varies with (1) CEOs' personal characteristics, such as work experience and educational background, (2) firm characteristics, such as the choice of a big four auditor and the level of institutional ownership, and (3) country-level institutional characteristics, such as stringency of shareholder protections and rule of law. Finally, our results also indicate that firms with a greater level of R&D capital are likely to exhibit a more positive association between voluntary disclosure and corporate innovation. Collectively, evidence from this study supports the conjecture that future-oriented CEOs are likely to signal their ability to manage the uncertainties associated with innovation investment and thereby achieve innovation success by committing to forward-looking voluntary disclosure practices.

**Author:**

***Ziyao San, York University**

**Moderator: Samir Trabelsi, Brock University**

**Research Sessions 4.2: Extraordinary Events and Accounting**

**4.2.1 Analyst transitions and knowledge spillover (Starting @ 2 PM CST Saskatoon / 4 PM EDT / GMT-6)**

This study examines the impact of a common sell-side analyst transition (i.e., switching between brokerage houses) on incumbent analysts' subsequent forecasting performance in terms of accuracy and timeliness. Employing a difference-in-differences research design and comparing incumbent analysts of different groups within the same broker, we find that incumbents who cover at least one common industry as the transiting analyst (i.e., affected incumbents) issue more accurate and timely forecasts after a transiting analyst arrives than incumbents who cover different industries (i.e., unaffected incumbents). In contrast, affected incumbents' issue less accurate forecasts after a transiting analyst departs than unaffected incumbents. Furthermore, consistent with the knowledge hierarchy theory, we show that the knowledge spillover effect is more salient when the transiting analyst has more experience, switches from a larger brokerage house, or exhibits higher performance. These results support the primary idea that incumbent analysts in the new (old) broker will improve (decrease) forecasting performance via knowledge spillover after a transiting analyst joins (leaves) the broker.

**Authors:**

Ole-Kristian Hope, University of Toronto
***Xijiang Su, University of Toronto**

**Moderator: Gary Entwistle, University of Saskatchewan**

**4.2.2 The Causes and Real Consequences of Derivative Litigation (Starting @ 2 PM CST Saskatoon / 4 PM EDT / GMT-6)**

We investigate if derivative litigation is filed to discipline managers and that empirical findings from securities class actions are directly applicable to derivative lawsuits. Using derivative lawsuits filed against public companies from 2005 to 2017, we fail to find empirical supports for these arguments. We find that managerial entrenchment is positively associated with the risk of securities class actions but negatively associated with the risk of derivative lawsuits. More opportunistic insider selling is associated with more securities class actions but not significantly associated with the incidence of derivative lawsuits. Although firms increase executive and director turnover and decrease opportunistic insider selling after they are sued in securities class actions, we do not find the same results for derivative suits except an increase in director turnover. Moreover, the higher director turnover after derivative suits is not accompanied by a change in board characteristics or a decrease in CEO-chair duality. Our results hold regardless of whether a firm is incorporated in a Universal Demand law state. Our study casts doubt on the efficacy of derivative litigation as a governance mechanism and the extent to which inferences based on securities class actions can be extrapolated to derivative lawsuits.

**Authors:**

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Ping-Sheng Koh, ESSEC Business School

**Moderator: Gary Entwistle, University of Saskatchewan**

**4.2.3 Does the Takeover Market Deter Opportunistic Non-GAAP Reporting? (Starting @ 2 PM CST Saskatoon / 4 PM EDT / GMT-6)**

We exploit the Foreign Investment and National Security Act (FINSA) to examine the effect of an important managerial disciplining mechanism, the takeover market, on the quality of non-GAAP reporting. FINSA significantly reduced the likelihood of takeover for a large fraction of the CRSP-Compustat universe. We draw inferences using a difference-in-differences research design by contrasting non-GAAP disclosures by FINSA affected firms with those of unaffected firms, before and after FINSA. We find that FINSA-affected firms more often exclude recurring expenses, more often exclude expenses incremental to those excluded by analysts, and more often use non-GAAP earnings to meet or beat analysts' forecasts, after FINSA. This effect accentuates predictably with the extent to which non-GAAP earnings determine manager compensation. We conclude by documenting a decline in non-GAAP earnings persistence and the value-relevance of non-GAAP earnings after FINSA. Our evidence demonstrates the role of the takeover market in curbing opportunistic non-GAAP reporting.

**Authors:**

David Godsell, University of Illinois at Urbana-Champaign
***Luke Phelps, Queen's University**

**Moderator: Gary Entwistle, University of Saskatchewan**

**Research Sessions 4.3: Issues in Corporate Governance**

**Supported by:**

Research continues to explore the growing use of Corporate Social Responsibility (CSR) performance-based incentives in executive compensation contracts. This paper examines one possible motive for such use: whether managers use their power to obtain excess cash compensation by including CSR performance-based incentives in the executive compensation contract. On the one hand, efficient contracting would suggest that no excess compensation should be obtained in the course of using such incentives since contracts are efficient. Conversely, the managerial hegemony perspective suggests that managers do wield their power for their own benefit; additionally, management are subject to demands from numerous stakeholders which may lead to organized hypocrisy in decision making. Results indicate that managers with power who use CSR performance-based incentives obtain excess bonus cash compensation about 18% higher than would otherwise be expected. Additionally, this research finds that these results are not driven by environmentally sensitive industries and appear to be mitigated by the presence of a CSR committee or long-term view shareholders, though further research is necessary. This research contributes to the growing body of research on the use of CSR performance-based incentives by exploring the association with excess compensation and the corporate governance mechanisms that may mitigate this relationship. This work will be of interest to boards of directors or regulators seeking better oversight of the use of such incentives as well as shareholders and other stakeholders seeking to understand their use.

**Author:**

***Leanne Keddie, Concordia University**

**Moderator: Naqi Sayed, Lakehead University**

### 4.3.2 - Disclosure Committees: Implications for Financial Reporting Quality, Readability and Timeliness (Starting @ 2 PM CST Saskatoon / 4 PM EDT / GMT-6)

To help companies comply with the certification requirements under Section 302 of SOX, the SEC recommends issuers form a disclosure committee, "for considering the materiality of information and determining disclosure obligations on a timely basis" (SEC 2002a). While not required, the presence of disclosure committees has been persistent post-SOX, and practitioners describe these committees as integral components of corporate governance. However, no academic research has examined disclosure committees. In this study, we examine the effects of disclosure committees on financial reporting quality, readability and timeliness. We find that the presence of disclosure committees is associated with better financial reporting quality, more readable financial reports and more timely financial reporting. These results are distinct from the effects of other corporate governance mechanisms documented in the literature and robust to the use of different endogeneity controls including changes analyses and propensity score matching. In additional analyses, we provide evidence that the benefits of disclosure committees are not concentrated in a limited subset of industries and the benefits on financial reporting quality and readability increase with committee tenure. Collectively these results suggest disclosure committees are not merely "window dressing", a conclusion with implications for practitioners, regulators, and academics interested in improving corporate disclosure practice.

**Authors:**

***Jonathan Nash, University of New Hampshire**
Cristina Bailey, University of New Mexico
Emily Xu, University of New Hampshire

**Moderator: Naqi Sayed, Lakehead University**

### 4.3.3 - Behavioral Risk-Taking Incentives under Uncertain, Deferred Bonus Payments (Starting @ 2 PM CST Saskatoon / 4 PM EDT / GMT-6)

I examine the impact of uncertain, deferred bonus payments on managers' risk-taking behavior. Bonus deferral and bonus recovery, that impose conditions for the payment of deferred bonuses, are important elements in modern incentive schemes designed to motivate managers to act in the best interest of the firm. Drawing on loss aversion, I propose that uncertain, deferred bonus payments increase managers' willingness to expose their firm to excessive risk when previously awarded bonuses are at stake. I conduct a paper-and-pencil study to examine these propositions and find that risk taking increases in periods of substandard performance as managers attempt to achieve performance targets and receive a bonus. Uncertain, deferred bonus payments encourage higher additional risk taking when a firm slogan increases awareness of moral values, while moral priming on average results in lower (additional) risk taking. Excessive risk taking depends on the interaction between the compensation scheme and individual loss aversion. My study contributes to the understanding of the incentive properties of uncertain, deferred bonus payments by showing that bonus deferral and bonus recovery reverse the effect of moral priming.

**Authors:**

***Maria Assel, University of Augsburg**
Mandy M. Cheng, University of New South Wales Sydney
Tami Dinh, University of St. Gallen
Wolfgang Schultze, University of Augsburg

**Moderator: Naqi Sayed, Lakehead University**

## Research Sessions 4.4: Discovery Through Unique Settings in Managerial Accounting Research

### 4.4.1 - Discipline and Governmentality at a Distance: Internal Controls at the Isthmus Lockstation, Rideau Canal, 1832 – 1854 (Starting @ 2 PM CST Saskatoon / 4 PM EDT / GMT-6)

The emergence of an internal control system to guide operations along the Rideau Canal in Canada beginning in 1832 is evident through an analysis of a book of directives (an Order Book) maintained by the lockmaster at the Isthmus lockstation. We classify the orders in accordance with present day professional accounting internal control guidance. Orders observed include those related to establishing an appropriate control environment and control activities. Orders for maintaining adequate documents and records, physical control over assets and records, and proper authorization of activities were common. The orders in the Order Book are seen as efforts by the British Royal Engineers to discipline lockmasters and their activities; and to encourage lockmasters to govern themselves and their own actions, while geographically removed from the oversight of the Rideau Canal Office. We conclude that internal control principles that emerged early in the 19th century have had a lasting influence, despite changes in the technologies by which controls are implemented.

**Authors:**

***Bruce McConomy, Wilfrid Laurier University**
Merridee Bujaki, Carleton University

**Moderator: Ganesh Vaidyanathan, University of Saskatchewan**

### 4.4.2 Allocation as a Management Control Tool: The Case of Canada's Equalization Program (Starting @ 2 PM CST Saskatoon / 4 PM EDT / GMT-6)

Using a management control lens this paper describes and assesses resource allocation systems, using the Government of Canada's Equalization program as the primary vehicle for our analysis. This study was conducted using a mixed methods approach. Data was collected and analyzed in two distinct stages. The first stage utilized semi-structured interviews which was combined with an extensive document analysis, both of which were rooted entirely in grounded theory. The second stage employed features borrowed from auditing profession's concept of analytic procedures which was merged with the use of "data analytics" to investigate a number of equalization related questions using over 500,000 data points that spanned approximately 19 years. The first part of our analysis, based on qualitative date, revealed four high-level categories, pertaining to the Equalization program: objectives, formula, impact on decision making and the notion of controls. With respect to the impact on decision making, our analysis suggests that equalization influences policy and budgeting in that provincial-level decision makers certainly do not ignore it. The common themes and related sub-categories provided a common or consistent language and set of terms, that we used to inform and shape both the analytical procedures and the data analytics, and their subsequent analysis. An important learning from the quantitative analysis was that examining a complex allocation system via the lens of management control allows the researcher (analyst) to experiment with the formula, in an attempt to uncover anomalies and identify behavioural implications such as potential opportunities for managing the allocation base.

**Authors:**

***Glen Kobussen, University of Saskatchewan**
Whitney Loerzel, University of Saskatchewan
Suresh Kalagnanam, University of Saskatchewan

**Moderator: Ganesh Vaidyanathan, University of Saskatchewan**

### 4.4.3 Do Firms Bog Down Investors to Deter Shareholder Litigation? Evidence from a Quasi-Natural Experiment (Starting @ 2 PM CST Saskatoon / 4 PM EDT / GMT-6)

This study examines the causal effect of litigation risk on the readability of corporate financial reporting using the 1999 Silicon Graphics Inc. court ruling, which unexpectedly reduced the litigation risk of firms located in the states of the Ninth Circuit Court (treated firms). Our difference-in-differences result suggests that the treated firms increase the readability of their financial reports after the ruling, relative to the control firms located in other states. The result is stronger for firms with bad news and firms with reduced earnings forecasts following the ruling. It is also more pronounced for firms with greater financial constraints, higher ex ante litigation risk, and higher risk of frivolous lawsuits. In addition, investors find the 10-K reports of the treated firms more informative since the court ruling, especially for firms with low pre-ruling 10-K readability. Collectively, our findings support the notion that litigation risk contributes to low reporting readability.

**Authors:**

***Siwen Fu, City university of Hong Kong**
Ke Wang, University of Alberta
Liandong Zhang, Singapore Management University
Liu Zheng, City University of Hong Kong

**Moderator: Ganesh Vaidyanathan, University of Saskatchewan**

**Research Sessions 4.5: Problèmes courants en comptabilité 2 (Séance en français)**

**4.5.1 Le pilotage des processus d'innovation de rupture : un « Lego » créatif d'outils et de pratiques comme garde-fou (Starting @ 2 PM CST Saskatoon / 4 PM EDT / GMT-6)**

La littérature ne met pas en avant des préconisations générales et acceptées sur les outils de contrôle de gestion permettant de piloter l'innovation. Pour certains auteurs, le pilotage de ces processus avec des outils de contrôle de gestion est nécessaire alors que pour d'autres ils risquent d'entraver l'innovation. Les études terrain semblent mettre en évidence que les outils formels sont largement utilisés, toutefois il apparait que beaucoup de décisions sont basés sur les pratiques informels. Dans ce travail, nous étudions trois innovations de rupture dans trois organisations différentes. Il en ressort que le pilotage des processus d'innovation peut s'apparenter à un « Lego » créatif qui assemble des outils formels et de pratiques informelles avec un rôle de garde-fou.

**Auteure :**

***Sophie Bollinger, Université de Strasbourg**

**Modérateur : Bertrand Malsch, Queen's University**

**4.5.2 Impact du conseil d'administration sur la performance durable des entreprises canadiennes (Starting @ 2 PM CST Saskatoon / 4 PM EDT / GMT-6)**

L'objectif de la présente recherche consiste dans l'étude de l'impact des caractéristiques du conseil d'administration soit la taille, l'indépendance des membres du conseil d'administration et la diversité de genre sur la performance durable des entreprises, dans un contexte canadien. Dans le cadre de cette recherche, la performance durable représente une mesure tridimensionnelle, l'analyse de la performance est segmentée selon les trois dimensions de la performance : financière, sociale et environnementale. Trois modèles de régression linéaire sont utilisés afin de tester les hypothèses de l'étude pour chaque type de la performance. Les résultats révèlent que la taille du conseil d'administration est associée positivement avec toutes les dimensions de la performance durable. L'indépendance du conseil d'administration est négativement associée à la dimension financière, tandis qu'elle est positivement associée aux dimensions environnemental et sociale de la performance durable. Nous constatons que toutes les caractéristiques du conseil d'administration ont une influence positive sur les dimensions sociale et environnementale de la performance. Notre étude montre un impact positif de la diversité sur les dimensions sociale et environnementale de la performance durable et aucun impact sur la performance financière. Les femmes semblent amener dans les CA des préoccupations plus larges que celles financières, avec des effets positifs sur la performance durable, sans nuire à la performance financière de l'entreprise.

**Auteures :**

***Camélia Radu, Université du Québec à Montréal**
Nadia Smaili, Université du Québec à Montréal
Adela Constantinescu, Université du Québec à Montréal

**Modérateur : Bertrand Malsch, Queen's University**

**Research Sessions 5.1: Studies in Regulations and Enforcement**

**Moderator: Devan Mescall, University of Saskatchewan**

### 5.1.1 - Corporate Responsibility (CR) & Corporate Misbehavior: Are CR Reporting Firms Indeed Responsible? (Starting @ 3 PM CST Saskatoon / 5 PM EDT / GMT-6)

This paper studies whether firms that voluntarily issue corporate responsibility (CR) reports indeed act responsibly. Signaling theory argues that firms use CR reporting to signal their CR commitment. In contrast, socio-political legitimacy theory maintains that firms use CR reporting to legitimize misbehavior and to improve public reputation. We revisit these two competing explanations of firm behavior from a new perspective. We analyze corporate misbehavior as a cause and a consequence of CR reporting. We use the Corporate Critic Research Database to identify cases of corporate misbehavior and the Sustainability Disclosure Database of the Global Reporting Initiative for stand-alone CR reports. Analyzing Fortune Global 500 firms between 2003 and 2013, we find that CR reporting positively relates to the likelihood of future misbehavior. We validate these findings in an additional difference-in- differences analysis in the textile industry surrounding the Rana Plaza disaster. In line with legitimacy theory, our results indicate that voluntary CR disclosure is not a true signal of responsible behavior but serves impression management purposes. We also find that past misbehavior is positively associated with the likelihood of CR reporting, consistent with firms' using CR reporting after misbehavior for purposes of greenwashing.

**Authors:**

***Christine Reitmaier, University of Augsburg**
Julia Hagelschuer, University of Augsburg
Wolfgang Schultze, University of Augsburg

### 5.1.2 The Effect of Enforcement on Auditor Conservatism (Starting @ 3 PM CST Saskatoon / 5 PM EDT / GMT-6)

This paper provides a new perspective on the effect of enforcement on auditor behavior and overall financial reporting quality by considering auditor conservatism as a strategy towards uncertainty which might arise during the audit procedure. As an enforcement error finding reveals not only misconduct by the manager but also audit failures, the auditor in our theoretical model has incentive to carefully examine a managerial report in order to reveal and correct a potential manipulation (informative effort). Whenever facing insufficient audit evidence, however, the auditor can require downward adjustments of the items in doubt which shelters her from impending enforcement penalties (auditor conservatism). Given a manipulating manager, we show that stricter enforcement increases both, informative as well as conservative effort. While informative effort enhances the correctness of the audited accounting signals, auditor conservatism introduces a downward bias into the published reports. Although a tightening of enforcement strictness prevents overstated reports, financial reporting quality is therefore not necessarily increased. Stricter enforcement enhances conformity of published reports with applicable accounting standards in environments of high manipulation risk. In environments of low manipulation risk, however, it depends on the relation of informative and conservative effort whether increased enforcement strictness improves the overall conformity of financial reporting with accounting standards.

**Authors:**

Mareike Peters-Olbrich, University of Cologne
***Selina Orthaus, University of Cologne**

**Moderator: Devan Mescall, University of Saskatchewan**

### 5.1.3 Tax Evasion Punishment and Observers' Tax Compliance: An Experimental Investigation (Starting @ 3 PM CST Saskatoon / 5 PM EDT / GMT-6)

We experimentally investigate how a tax evader's successful or unsuccessful conviction influences other taxpayers' compliance decisions. Using insights from the retributive justice, affective events, and organizational trust literatures, we propose and find evidence for a moderated mediation model of tax compliance. We find conditional indirect effects of punishment deservingness on taxpayers' compliance intentions through affective reactions such that when punishment occurs (does not occur), there is a significant and positive (negative) indirect effect of deservingness on compliance. Moreover, this moderated mediation effect is in turn conditional on perceptions of trust in a tax authority, such that these two indirect effects are only significant when taxpayers have high levels of trust in the tax authority. These results suggest that trust in a tax authority is very important for tax evasion punishment to have any significant spillover effects on observers' compliance. These results have implications for tax authorities who publicize information about successful tax convictions, as well as for tax authorities who are unable to convict tax evaders, or who choose not to pursue a conviction.

**Authors:**

***Tisha King, Wilfrid Laurier University**
Jonathan Farrar, Wilfrid Laurier University

**Moderator: Devan Mescall, University of Saskatchewan**

## Research Sessions 5.2: Manager Attributes and Financial Reporting

### 5.2.1 Optimistic Management Earnings Forecasts and Performance-Vesting Provisions in Executive Compensation (Starting @ 3 PM CST Saskatoon / 5 PM EDT / GMT-6)

We study whether managers strategically release earnings forecasts when approaching a market-based performance evaluation period end to meet price hurdles. We find that the management earnings forecasts convey more favorable news when the CEOs are approaching their market-based performance evaluation period end. The compensation-induced incentive to issue positive management forecasts is mitigated by more favorable past stock performance and monitoring from institutional. We find that the investors fail to see through the optimism initially and do not fully unravel in the following month. Our paper documents a direct link between firms' voluntary disclosure behavior with the CEO compensation scheme and uncovers a potential cost for using market-based performance metrics in managers' compensation contracts.

**Authors:**

***Lingyi Zheng, Hong Kong Polytechnic University**
Agnes Cheng, Hong Kong Polytechnic University
Jing Xie, Hong Kong Polytechnic University

**Moderator: Han-Up Park, University of Saskatchewan**

**5.2.2 Managerial Ability and Accounting Conservatism (Starting @ 3 PM CST Saskatoon / 5 PM EDT / GMT-6)**

In addition to the traditional view that accounting conservatism serves as a mechanism for corporate governance, recent studies also provide evidence that accounting conservatism is a natural response to ambiguity as it helps robust decision-making. In addition, recent literature has documented an association between managerial ability and accounting quality. This paper examines the association between managerial ability and accounting conservatism. We hypothesize that companies with higher-ability managers are associated with lower levels of uncertainty, which in turn reduces the need for accounting conservatism. As both managerial ability and conservatism are positively associated with investment efficiency, we also hypothesize that the joint effect of managerial ability and accounting conservatism adds value to company performance. The empirical results support the hypotheses. Overall, our findings provide a link and explanation for the association between managerial ability and accounting conservatism.

**Authors:**

***Chia-Chun Hsieh, National Chung Cheng University**
Yan-Yi Chiou, National Defense University

**Moderator: Han-Up Park, University of Saskatchewan**

**5.2.3 How Managerial Ability Moderates the Relationship Between Customer Concentration and Firm Performance (Starting @ 3 PM CST Saskatoon / 5 PM EDT / GMT-6)**

The concentration of exchanges in buyer-supplier relationships represents an important aspect of a supplier firm's competitive strategy. Using a strategy that employs high customer concentration has been found in the literature to positively impact firm performance (Patatoukas 2012) or negatively impact firm performance (Saboo et al. 2017; Hui et al. 2019) depending on modeling choices. We seek to resolve these conflicting findings by considering whether the relationship is moderated by managerial ability. We find that managerial ability moderates the relationship such that for low (high) ability managers, high customer concentration is associated with worse (better) firm performance. Our paper highlights the complex interaction between supply chain strategies and firm performance.

**Authors:**

***Darren Henderson, Wilfrid Laurier University**
Yoon Hee Kim, Kennesaw State University

**Moderator: Han-Up Park, University of Saskatchewan**

**Research Sessions 5.3: Research in Governance Reporting**

**5.3.1 Reporting on Environment and Climate in Canadian Governments' Annual Financial Reports (Starting @ 3 PM CST Saskatoon / 5 PM EDT / GMT-6)**

This paper reports on a exploratory study of the environment and climate information that Canadian governments are providing in their main annual financial reporting documents. This study is at a very preliminary stage and involves examining the environment and climate information contained in financial reports of the federal and provincial governments and three cities for the fiscal years from 2013 to 2019. We developed a checklist of recommended environment and climate disclosure items and examined the extent to which governments are providing this information to the public in their main annual financial reporting document. The checklist draws on relevant Canadian Public Sector Accounting Boards (PSAB) standards, along with environmental reporting guidelines of the Global Reporting Initiative (GRI), guidance issued by the Task Force on Climate-related Financial Disclosure (TCFD) and the FTSE-Russell Climate Risk Government Bond Index methodology. The preliminary findings indicate there has little reporting of environment and climate related information beyond those required by PSAB accounting standards for most of the government entities studied, though climate related disclosure have begun to appear more often in 2018 and 2019

**Authors:**

***Kathryn Bewley, Ryerson University**
Thomas Schneider, Ryerson University

**Moderator: Rebecca Villmann, CPA Canada**

**5.3.2 Government Transparency and Firm-Level Operational Efficiency"? (Starting @ 3 PM CST Saskatoon / 5 PM EDT / GMT-6)**

We examine whether transparency in government disclosures about country-level economic and business conditions helps improve the efficiency of operating and investment decisions made by private firms in those countries. We argue that transparency in such aggregate economic information is particularly useful in emerging economies where institutions are less evolved compared to developed countries. Similarly, we posit that government transparency is ex ante particularly useful for private firms that have a weaker information environment relative to publicly traded firms. Our empirical analyses show that government transparency is positively associated with firm-level measures of operational and investment efficiency, including capacity utilization and total factor productivity. We further report a negative relation between government transparency and external financing obstacles, suggesting that government transparency helps external capital providers to better assess their investment opportunities. Several cross-sectional analyses corroborate our main findings. We find that the role of government transparency is muted for firms with reliable firm-level information (i.e., audited firms) and in countries with well-developed public stock markets that serve as an alternative and possibly timelier source of business information. We also find a reduced effect of government transparency in countries with better-developed credit markets that facilitate capital allocation and production efficiency. Additional analyses using the World Bank-supported Open Government Data initiative as a plausibly exogenous and staggered shock to government transparency provides further support to the main results. Overall, our paper sheds light on the important role played by governments in emerging markets in aggregating and disseminating economic information.

**Authors:**

Ole-Kristian Hope, University of Toronto
***Shushu Jiang, University of Toronto**
Dushyantkumar Vyas, University of Toronto

**Moderator: Rebecca Villmann, CPA Canada**

**5.3.3 Mapping Stakeholder Expectations from a Municipality: A Balanced Scorecard Perspective (Starting @ 3 PM CST Saskatoon / 5 PM EDT / GMT-6)**

Performance management tools have gained substantial grounds over the last two decades following increasing calls for accountability. Although developed for the private sector, performance management tools are now making inroads into public sector with the Balanced Scorecard (BSC) being among the most popular. Municipalities around the world have adopted the BSC approach with mixed results. Some of the reasons for modest success of the BSC approach, and consequential low adoption rate, includes lack of understanding of the BSC and an unstructured approach to its adoption and implementation. This study attempts to demonstrate applicability of the BSC by using a structured approach in a municipality setting. Interviews with key stakeholders were conducted to determine Key Success Factors (KSFs). Surveys with a broad stakeholder base were then used to determine the importance of KSFs and their multidimensional causal relationships using Decision-Making Trial and Evaluation Laboratory (DEMATEL) method. We find that the financial perspective, related mainly to increase in overall tax base, is of critical importance in the municipal sector. This could be due to recent government cutbacks and general fiscal constraints. We also find that stakeholders have high expectations of city management/leadership in terms of the critical role they can play to affect all other KSFs.

**Authors:**

***Naqi Sayed, Lakehead University**
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Michelle Henderson, Lakehead University

**Moderator: Rebecca Villmann, CPA Canada**

**Research Sessions 5.4: Studies in Financial Reporting**

**5.4.1 Evolution in Value Relevance of Accounting Information (Starting @ 3 PM CST Saskatoon / 5 PM EDT / GMT-6)**

We address how value relevance of accounting information evolved as the new economy developed. Prior research concludes accounting information—primarily earnings—has lost relevance. We consider more accounting amounts and find no decline in combined value relevance from 1962 to 2014. We assess evolution in each amount's value relevance and find increases, most notably for amounts related to intangible assets, growth opportunities, and alternative performance measures, which are important in the new economy. The number of relevant amounts also increases. We also consider separately new economy, non-new economy profit, and non-new economy loss firms. The relevance trends are more pronounced for, but extend beyond, new economy firms. We base inferences on a non-parametric approach that automatically incorporates nonlinearities and interactions, thereby unconstraining the valuation relation. Taken together, our findings reveal a more nuanced, but not declining, relation between share price and accounting information that reflects the new economy.

**Authors:**

***Ken Li, McMaster University**
Mary Barth, Stanford University
Charles McClure, University of Chicago

**Moderator: Duane Kennedy, University of Waterloo**

**5.4.2 Should Negative Goodwill Be Recognized as Income? —Evidence from Japan— (Starting @ 3 PM CST Saskatoon / 5 PM EDT / GMT-6)**

The International Financial Reporting Standards (IFRS), the Generally Accepted Accounting Principles in the United States (U.S. GAAP), and Japanese GAAP (JGAAP) currently require that negative goodwill be immediately recognized as a gain. This procedure is based on the assumption that negative goodwill is a gain arising through mergers and acquisitions (M&A) where the value of the acquired assets exceeds the acquisition price. However, prior literature does not fully support this premise. The present study examines an alternative explanation stating that negative goodwill arises from the negative excess earning power of acquired firms, thus having a detrimental impact on the profitability of acquiring (combined) firms in the long term. An analysis based on 97 transactions made by Japanese listed firms indicates that in the transactions generating negative goodwill, the acquired firms have lower profitability than the industry average, the profitability of the acquiring (combined) firms decreases for three years, and immediate recognition of negative goodwill helps to increase their earnings only in the year of the transactions. The results imply that periodic amortization of negative goodwill would be more consistent with its nature than would immediate recognition.

**Author:**

***Yoshiaki Amano, Kyoto University**

**Moderator: Duane Kennedy, University of Waterloo**

**5.4.3 Non-Traditional Banking Activities and Bank Financial Reporting Quality (Starting @ 3 PM CST Saskatoon / 5 PM EDT / GMT-6)**

We examine whether and how non-traditional banking activities affect the quality of banks' financial reporting. We find that a bank's ratio of non-interest income (derived from nontraditional activities) to total operating income is positively and significantly associated with the magnitude of discretionary loan loss provisions, our main proxy for financial reporting quality. The positive relationship holds for both income-increasing and income-decreasing accruals. For the financial crisis period (2007–2009), we find that engaging in more non-traditional activities decreases banks' accounting conservatism.

**Authors:**

***Yi Liu, Trent University**
Justin Jin, McMaster University
Khalid Nainar, McMaster University

**Moderator: Duane Kennedy, University of Waterloo**

## Research Sessions 6.1: Financial Statement Comparability and Risk

**6.1.1 Does Fundamental Performance Matter? The Impact of Business Risk on Financial Statement Comparability (Starting @ 4 PM CST Saskatoon / 6 PM EDT / GMT-6)**

I examine how inherent business risk, an important property of firm fundamental performance, affects financial statement comparability. I find that, conditional on similar accounting practices, firms display lower degree of comparability when having higher business risk. This study responds to

Dechow, Ge and Shcrand's (2010) call for further distinguishing between the impact of fundamental performance and accounting system on financial reporting quality. The results are robust to a battery of sensitivity tests, including a "matching" approach which exploits the second-order nature of comparability to further separate the effect of business risk from that of accounting system. Further analyses uncover that the determining effect of business risk is more pronounced when firms are operating in more dynamic environment, and less pronounced for firms with high initial comparability base. I also document evidence that business risk moderates the positive association between comparability and analyst forecast performance. Overall, this study offers initial evidence that properties of firm fundamental performance (i.e., business risk) affect financial statement comparability, which adds to the literature on financial reporting quality.

**Authors:**

***Jiancheng Liu, Guangdong University of Finance and Economics**

**Moderator: Devan Mescall, University of Saskatchewan**

### 6.1.2 Systematic Risk in Earnings and Expected Stock Returns (Starting @ 4 PM CST Saskatoon / 6 PM EDT / GMT-6)

We propose a measure of systematic risk in corporate earnings, i.e., earnings beta, based on excess covariance between stock returns and market returns at the earnings announcement window. We show evidence that earnings risk is priced, but only when investors receive and trade on new information. Specifically, we find that earnings beta does not predict stock returns for the whole sample of stocks, but significantly and persistently predicts future stock returns for firms with earnings or M&A announcements. A trading strategy long (short) stocks in high (low) beta quintiles among announcing firms earns an annualized 10.2% Fama-French five-factor alpha. Moreover, we find that the premium of earnings risk is largely accrued around the date of earnings or M&A announcement, and the results are stronger for firms with high earnings uncertainty, high trading activity, earlier announcements in an earnings cycle, and on-time announcements. Finally, we show that the premium of earnings risk also spillovers to non-announcing connected firms. The finding documented in our study appeals to an asset pricing theory somewhere between a simple behavioral model and a fully rational model.

**Authors:**

George Jiang, Washington State University
Jingjing Chen, Washington State University
***Linda H. Chen, University of Idaho**

**Moderator: Devan Mescall, University of Saskatchewan**

### 6.1.3 The relevance of risk disclosure and the role of readability and comparability (Starting @ 4 PM CST Saskatoon / 6 PM EDT / GMT-6)

In this study, we analyse whether risk disclosure is relevant and if so, whether it increases or decreases investors' risk perception for a sample of U.K. listed companies from 2005 to 2017. We further study the effect of systematic and idiosyncratic risk disclosure on systematic and idiosyncratic perceived firm risk. We find that risk disclosures in general and more specifically idiosyncratic risk disclosure are relevant and increase the perceived risk. We further find that, if the risk disclosures are difficult to read, that is, if managers employ complex language in describing their risk exposure, the firm is perceived to be even riskier.

**Authors:**

***Véronique Weber, University of Luxembourg**
Anke Müßig, University of Luxembourg

**Moderator: Devan Mescall, University of Saskatchewan**

**Research Sessions 6.2: Research Into Say on Pay**

**6.2.1 No More Quiet Life: Proxy Advisors' Role in Non-Say-on-Pay Vote-Years (Starting @ 4 PM CST Saskatoon / 6 PM EDT / GMT-6)**

In spite of the anecdotal evidence of a strong demand from shareholders that the Say-on-Pay (SOP) vote be held annually, a large group of firms adopted a lower voting frequency, potentially giving firm executives room for pursuing a quiet life in non-SOP years. We examine the role of proxy advisors in non-SOP years and find that they employ the voting recommendations on director elections as an alternative channel for monitoring. Relative to SOP vote-years, proxy advisors are 7% more likely to issue a negative recommendation for re-electing a compensation committee member in non-SOP years. Shareholders are significantly more likely to vote against these directors in non-SOP years, though there is evidence that they do not blindly follow the suggestions. The results are stronger in firms with greater institutional ownership and thus a stronger demand for scrutiny. We further find that proxy advisors are more likely to employ this non-SOP channel in firms in which they have negative opinions on executive pay. Our results suggest that proxy advisors and shareholders make efforts to address the issue of excessive compensation even in the non-SOP years, which also reflects their strong demand for annual SOP voting.

**Authors:**

***Xucheng Shi, HEC Paris**
Han Wu, HEC Paris

**Moderator: Rebecca Villman, CPA Canada**

**6.2.2 Spillover Effects of the Mandated Say-on-pay Votes (Starting @ 4 PM CST Saskatoon / 6 PM EDT / GMT-6)**

In accordance with the Dodd-Frank Act, the SEC requires public firms to hold say-on-pay (SOP) votes regularly starting from 2011. Although the relatively small percentage of voting failure raises questions on the effectiveness of the SOP rule, we posit that the rule can generate regulatory benefits through contagion of negative voting threat among peers. Using Incentive Lab's compensation benchmarking data, we find that firms more susceptible to shareholder pressure, as proxied by adverse market reactions at the time of their compensation peers' voting failure, are more likely to drop the peers concerned and to reduce total and excess CEO pay in the subsequent year. We also find that the decisions of peer removal and pay reduction are interdependent and substitutive. We further show that the improvement in pay practices (by dropping peers and decreasing pay) is more prominent in firms with stronger corporate governance, higher quality of compensation consultants, and higher prior-year pay level. This study documents the spillover effect of the SEC's mandated SOP votes, thus complementing the literature on traditional shareholder activism channels such as shareholder proposals on executive compensation. The findings are informative to the regulators regarding the deterrence effect of SOP and the factors influencing the extent of such regulatory benefit.

**Authors:**

Feng Tang, University of Macau
C.S. Agnes Cheng, Hong Kong Polytechnic University
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Feng Tang, University of Macau

**6.2.3 The effect of Say-on-Pay on Non-GAAP reporting (Starting @ 4 PM CST Saskatoon / 6 PM EDT / GMT-6)**

Say-on-Pay, a globally accepted governance mechanism practiced through different forms, provides shareholders the right to vote on executive compensation. In the U.S., the Securities and Exchange Commission requires that not less frequently than once every 3 years, a non-binding shareholder vote to approve the compensation of executives, along with a non-binding vote on the frequency of future Say-on-Pay votes, be submitted in the proxy statement. Based on the window-dressing perspective, this study aims to examine whether the mandatory adoption of Say-on-Pay is associated with the opportunistic nature of non-GAAP reporting to mislead shareholders about firm's performance and avoid shareholder dissatisfaction against executive compensation. The sample comprises U.S. Fortune 250 firms, from 2003 until 2017. Results show that managers increasingly disclose non-GAAP earnings and exclude more recurring items after the mandatory adoption of Say-on-Pay regulation. Also, managers' exclusion choice of recurring items and the frequency of reporting non-GAAP metrics are more pronounced during years when the firm is subject to a vote. The findings shed some light on the unintended consequences of Say-on-Pay, especially when the ethical concerns about non-GAAP reporting are raised.

**Authors:**

***Karen Naaman, Concordia University**
Michel Magnan, Concordia University

**Moderator: Rebecca Villman, CPA Canada**

**Research Sessions 6.3: Management Accounting Using Behavioral Research**

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**6.3.1 Self-Serving Biases in Team Member Communication: The Effects of Voluntary Communication and Rationale (Starting @ 4 PM CST Saskatoon / 6 PM EDT / GMT-6)**

One significant challenge of evaluating knowledge-based employees is that the individual performance of each employee is difficult to measure. This is because knowledge-based employees often work in teams where the manager is unable to observe individual contributions. In this setting, managers often seek private communication from employees about each team members' performance (team member communication, or TMC) to help them assess employees individually. While TMC provides managers with useful insights that allow them to better link individual rewards with contributions, observations from practice suggest that TMC can be fraught with intentional, self-serving biases that limit TMC's value. We study the effects of two practice-relevant attributes of TMC on self-serving biases and individual efforts: (1) whether the communication is mandatory or voluntary, and (2) whether or not explanations for the TMC are required. Consistent with our expectations, experimental results suggest that low-ability team members provide more biased TMC and less effort when the TMC is voluntary than when it is mandatory. We also find that when TMC is voluntary, the requirement of explanation not only reduces low-ability team members' biases and increases their effort, but also leads to higher quality bonus allocation decisions and greater team output.

**Authors:**

Leslie Berger, Wilfrid Laurier University
Lan Guo, Wilfrid Laurier University
Kelsey Kirbyson, Wilfrid Laurier University
***Chris Wong, Wilfrid Laurier University**

**Moderator: Julie Tsui, University of Saskatchewan**

### 6.3.2 Employees' Expectations of Supervisors' Use of Managerial Discretion in Performance Evaluations (Starting @ 4 PM CST Saskatoon / 6 PM EDT / GMT-6)

Organizations enable supervisors to make discretionary adjustments to employees' performance evaluations in order to increase employee motivation and to decrease compensation risk. However, prior studies have not examined the use of discretionary adjustments from the employees' perspective. This study examines employees' expectations of their supervisors' use of discretionary adjustments and their reactions to a lack of discretionary adjustments. Using an online experiment, I study the effects of event likelihood (high vs. low) and compensation interdependence (present vs. absent) on employees' discretionary adjustment expectations and reactions. Participants assume the role of an employee whose bonus is negatively affected by an uncontrollable event and their supervisor forgoes making a discretionary adjustment to their bonus. I hypothesize and find that employees' discretionary adjustment expectations are higher when event likelihood is low than when it is high, and the effect of event likelihood becomes insignificant when compensation interdependence is present. Further, I hypothesize and find that when supervisors fail to meet employees' discretionary adjustment expectations, employees are more likely to negotiate a discretionary adjustment. This study contributes to the accounting research on subjectivity in performance evaluations by studying the employees' perspective which suggests that employees, and not just their supervisors, play a critical role in determining evaluation outcomes.

**Author:**

***Joanna Andrejkow, Wilfrid Laurier University**

**Moderator: Julie Tsui, University of Saskatchewan**

### 6.3.4 The effect of sanction target on managers' compliance with regulations (Starting @ 4 PM CST Saskatoon / 6 PM EDT / GMT-6)

Regulators rely on sanctions to compel compliance with protective regulations. In practice, regulatory sanctions sometimes target individual violating managers but sometimes target entire violating organizations. Relying on moral disengagement theory (Bandura 1999), we predict that targeting organizations with sanctions will cue a need to protect coworkers from penalties, raising compliance rates but at the same time reducing managers' willingness to act altruistically on behalf of the other key stakeholders. We test this prediction using a modified three-person dictator game with a regulation that imposes an allocation standard on the dictator's decision. We assign participants to one of three roles: a decision-making manager and two passive participants, co-worker an investor. Managers in our stylized game may fully comply (i.e. 'spirit of the law' compliance), minimally comply (i.e. 'letter of the law' compliance) or violate the regulation. We find that, compared to targeting individual managers with sanctions, firm-targeted sanctions (imposing costs on both the manager and the innocent coworkers) lower full compliance rates, resulting in lower quality compliance. This effect is mediated by increased concerns for the coworkers, who is served by avoiding penalties rather than complying fully per se. We do not find statistically significant evidence that combined compliance rates (including both full and minimal compliance) increased as a result of targeting the firm. We further observe that coworkers and investors incorrectly expect firm-targeted sanctions to result in greater compliance and higher quality compliance, suggesting that external parties may incorrectly anticipate the link between non-financial sanctions and compliance. In practice, our research suggests that regulatory regimes targeting firms may inadvertently reduce managers' willingness to comply with the "spirit" of the law, leading to lower compliance quality.

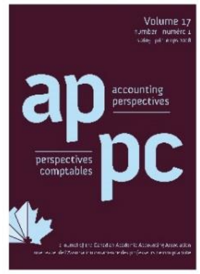
**Authors:**

Kun Huo, Western University
***Matthew Sooy, Western University**

**Moderator: Julie Tsui, University of Saskatchewan**

**Research Sessions 6.4: Accounting Research in the Canadian Landscape**

**Supported by:**




**6.4.1 A Critical Review of Indigenous Peoples in the Accounting Literature (Starting @ 4 PM CST Saskatoon / 6 PM EDT / GMT-6)**

The research exploring the intersection of accounting and Indigenous Peoples began in 1995 and has since attracted the attention of researchers across the globe. To date, we identified 59 articles that have been conducted across a broad spectrum of topics that include, but are not limited to, the role of accounting as a tool of European imperialism, the marginalization of Indigenous Peoples within the accounting profession, Indigenous culture as a lens to redefine accounting standards, and barriers to accounting education for Indigenous students. Although prior literature reviews have been conducted in this general area, our study is first to undertake a systematic methodology to provide new insights and recommendations for ways forward based upon a broad-based citation and thematic analysis.

**Authors:**

***Camillo Lento, Lakehead University**
Irfan Butt, Lakehead University

**Moderator: Suresh Kalagnanam, University of Saskatchewan**

### 6.4.2 Constructing the Identity of Canada's Merged Accounting Profession through Pre- and Post-Merger National Accounting Magazine Cover Images (Starting @ 4 PM CST Saskatoon / 6 PM EDT / GMT-6)

Canada's three professional bodies - CA, CMA, CGA – merged in 2014 to create the Chartered Professional Accountant (CPA) designation. Prior to the merger, each professional association published its own member-focused magazine: CAmagazine, CMA Magazine, CGA Magazine. After the merger, CPA Magazine replaced the previous publications. We build on previous literature that has explored professional association mergers, and identity and diversity issues in accounting, and argue that the images used on the magazine covers both construct and reflect professional identity. We compare cover images from the last three years' CA, CMA and CGA Magazines (2011-2013) and the first three years' CPA Magazines (2014-2016). We find a particular visual style prevailed for each magazine and that, visually, the style of CGA Magazine translated most directly to CPA Magazine. CGA Magazine's covers were almost exclusively photographic and thus presented a clear-cut image of Certified General Accountants. In most of its covers CPA Magazine adopted this photographic approach, suggesting the merged profession sought to construct a clear professional identity using images of members of the merged profession. This representation is more diverse than that depicted in the legacy magazines, however, the identity of CPAs remains predominantly white and male.

**Authors:**

***Anne Neal, Carleton University**
Merridee Bujaki, Carleton University
François Brouard, Carleton University
Sylvain Durocher, University of Ottawa

**Moderator: Suresh Kalagnanam, University of Saskatchewan**

### 6.4.3 Effects of Values and Beliefs on Support for Carbon Tax: An Actor Perspective from Canada and the United States (Starting @ 4 PM CST Saskatoon / 6 PM EDT / GMT-6)

Emissions reduction is a serious concern for society and firms, but scepticism remains an obstacle in the implementation of an effective emission reducing carbon pricing policy in many countries. Support for carbon tax as a climate policy can be influenced by powerful interests and groups that hold significant power or face substantial costs. This study takes an actor perspective and draws on the attitude-behaviour-context (ABC) framework to analyse values and beliefs of an overlooked group of actors Â– chief financial officers (CFOs) - and their effects on support for carbon tax. The study identifies three distinct value factors and two environmental belief factors of CFOs. A Partial Least Square - Structural Equation Modelling (PLS-SEM) results show that certain aspects of the CFO values and beliefs are related to support for carbon tax. Thus, this study identifies the attitudes of an actor towards carbon tax, and the characteristics that environmentally progressive firms may target as they hire CFOs. The study also highlights the need for policy makers to engage corporate actors in formulating climate tax policies, and argues that this partnership may enhance consistency and accuracy in carbon accounting, and help to ensure that real, not symbolic, carbon reduction is taking place.

**Authors:**

***Oliver N. Okafor, Ryerson University**
Michael Opara, Texas A & M University
Cynthia Maier, Southern Alberta Institute of Technology
Kenneth Kalu, Ryerson University

## Other Papers Accepted to the Conference

**The following papers were accepted for presentation at the 2020 CAAA Annual Conference but were not presented as part of the online research sessions during the event.**

### Disclosure Policies in Quarterly Earnings Guidance

Prior research has suggested various guidance motives. Some motivate firms to issue guidance for a given quarter (short-term motives) while others motivate firms to issue guidance consistently over time (long-term motives). Most long-term motives are related to improving the transparency of the firm while most short-term motives serve other purposes. Using guidance patterns as parsimonious proxies for a firm's focus on the long-term or the short-term, we compare guidance issued by firms that provide "regular" guidance every quarter (over twelve consecutive quarters) to firms that provide guidance sporadically. We find that regular guidance tends to be accurate and have less variable forecast errors. We also find that market participants view regular guidance more credibly than sporadic guidance. Moreover, firms that provide regular guidance are responding to a heightened demand for disclosure from institutional investors, whereas firms that provide guidance sporadically seem to trade-off the benefits of lowering overly optimistic earnings expectations against the costs of large forecast errors when deciding whether to issue guidance in a particular quarter. Together, we document systematic differences in the quality and credibility of guidance between firms that provide guidance regularly and firms that provide guidance sporadically, and our evidence is largely consistent with our prediction that long-term-focused guiders seek to improve transparency while short-term-focused guiders issue guidance to ensure beatable market expectations.

**Authors:**

Claire Quinto, University of Oregon
Steve Matsunaga, University of Oregon
Michael (Minye) Tang, New York University

### Climate Risk and Corporate Investment

Abstract We investigate the impact of climate risk on corporate investment using an international sample of firms from 53 countries. Our main findings show that climate risk is not negatively associated with capital expenditure but negatively related to Selling, General and Administrative Expense (SG&A) expenditure. However, for climate-vulnerable industries, we find that climate risk is positively associated with capital expenditure. Additionally, climate risk is positively (negatively) related to capital (SG&A) expenditure up to three years into the future. As expected, higher climate risk is associated with a decline in investment in terms of both capital and SG&A expenditures for financially constrained firms.

**Authors:**

Kiridaran Kanagaretnam, York University
Gerald Lobo, University of Houston
Lei Zhang, York University

### Salary Perception and Career Prospects in Audit Firms

We examine the role that auditor's salary perception has on audit quality and delay. Using Glassdoor ratings by U.S. Big 6 audit firm employees in audit and assurance, we first document that there is discrepancy between pay perception and reality. The discrepancy is explained, though not completely, by salary level, comparisons to peers and superiors, firm-wide attitudes, cost of living and human capital in the area, work-life balance, and perceived career prospects. Surprisingly, the unexplained pay dissatisfaction relates positively with audit quality (small profits and going concern opinions) and audit efficiency (audit delay), after controlling for salary level. Further tests show that an audit employee's expectation of career opportunities moderates this result. Our findings contribute to a greater understanding of the

audit employee-level factors that influence audit work outcomes.

**Authors:**

Ahmad Hammami, Concordia University
Rucsandra Moldovan, Concordia University
Elisabeth Peltier, Concordia University

**Technology and the Audit: In the Trenches**

Accounting firms are investing extensive resources into advancing the use of automation, audit data analytics and artificial intelligence (Patriquin, 2019). Yet the factors that caused these changes and how they are effecting the audit profession remains to be explored (Hopp, Antons, Kaminski, and Saige 2018; Moll and Yigitbasioglu, 2019). To address this gap, we used a phenomenological approach to ask auditors about the current state of technological adoption in audit firms, the effect of technology on the audit, and why change now. We first develop our understanding of the current state of adoption and use of technology after reviewing the extant literature on technology and auditing as a basis for the development of a research protocol. In total, we interviewed 27 technology and audit specialists in the Big Four accounting firms, two national firms, and one regional firm. We analyzed our data to identify how and which technologies are being implemented, the factors promoting and encumbering its implementation, and which audit practices were being automated. The implications of our analysis for the accounting profession are discussed.

**Authors:**

Krista Fiolleau, University of Waterloo
Carolyn MacTavish, Wilfrid Laurier University
Errol Osecki, York University
Linda Thorne, York University

**A Study of Technological Adoption in the Audit Industry: The Theory Disruption Applied to a Regulated Industry**

More and more technology is being utilized by auditors in the course of the audit to the extent that some have suggested that up to 70 percent of all audit functions will be replaced by technology in the near future. While many extol the benefits of technology for the audit in terms of the realization of efficiency and the reduction of costs, the influence of a widespread adoption of technology on a regulated industry, such as the audit industry, remains to be understood. To investigate this question, we apply Christensen's (1997) theory of disruption to consider the extent to which technology is a sustaining or a disruptive response in the audit industry and by so doing, provide insight into technological adoption in a regulated industry. A sustaining response improves existing products valued by the mainstream customers, whereas a disruptive response is one that transforms the industry by creating new values and markets. Through our analysis of interviews conducted on auditors, we consider how technological innovation has influenced the audit industry and the nature of the audit. Increased adoption of technical innovation is used in the audit industry to increase the accuracy of audits as facilitated by the automation of routine tasks and the replacement of audit sampling by auditing-by exception of entire populations. Our analysis suggests technological innovation in the audit industry is a sustaining response directed at improving the quality of the audit for mainstream and high-end customers of the audit industry, which is the public and external users of financial statements. The implications of these findings are further explored.

**Authors:**

Krista Fiolleau, University of Waterloo
Carolyn MacTavish, Wilfrid Laurier University Errol Osecki, York University
Linda Thorne, York University

**Do Auditors and Institutional Investors Neutralize Entrenched Managers in Managing Earnings?**

Abstract: This study examines the relationship between managerial entrenchment and earnings quality. Consistent with prior research, we measure earnings quality by the magnitude of absolute discretionary accruals based on the standard Jones (1991) model and the modified Jones model proposed by Dechow et al., (1995). Using governance data from Institutional Shareholder Services (ISS) database, we create an entrenchment index based on Bebchuk et al., (2008) methodology. We document an increase in discretionary accruals by 7.02% on average, for a unit increase in managerial entrenchment. This relationship is robust to firm, auditor and institutional investor characteristics. Moreover, we document an exacerbation of managerial entrenchment impact on earnings quality, in presence of larger ownership by short term (high turnover) institutional investors, and a non-linear impact of institutional investor concentration on mitigation of entrenchment driven earnings manipulation.

**Authors:**

Vijaya Subrahmanyam, Mercer University
Abdul Khizer, Indian School of Business

**Do Enhanced SEC Disclosure Rules Mitigate Agency Problems? Evidence from Executive Jet Perquisites**

Executive personal use of corporate aircraft (jet perks) is a contentious practice, and research provides mixed evidence whether this form of perquisite compensation reflects optimal compensation or rent extraction. The SEC introduced new and enhanced rules in 2006 to improve the transparency of compensation disclosure and, arguably, mitigate agency problems that encourage managerial rent extraction. We examine the effectiveness of this rules enhancement by testing the link between executive jet perks in U.S. S&P 500 firms and future firm performance and abnormal investment. Our findings suggest that these rules are ineffective at disciplining the use of jet perk compensation, as future firm performance weakens and over-investment of excess cash flow increases as jet perks increase. Conversely, we do not find consistent evidence that firm governance structures discipline, or that greater excess cash flows exacerbate, these negative outcomes. Our evidence highlights potential limits to disclosure rules that enhance compensation transparency but otherwise do not alter incentive alignment, and support views that executive jet perks have negative implications for firm stakeholders.

**Authors:**

Andrew M. Bauer, University of Waterloo
James A. Chyz, University of Tennessee
Hamza Warraich, University of Waterloo

**Shareholder Investment Horizon, Management Incentive Horizon, and Real Earnings**

The agency paradigm is primarily concerned with compensation contracts with both short-term and long-term provisions that align the interests of top management with those of shareholders. But such alignment may be imperfect. In particular, if shareholders differ in their time-preferences, it will be impossible to find a contract that fully aligns manager interests with those of both long-term and short-term shareholders. In this study, we first theoretically examine the properties of optimal contracts when shareholders have heterogeneous time preferences about liquidating their holdings in the firm. We then show that the managerial compensation contract will create incentives for the manager to trade-off short term price increases with long term value creation. In empirical tests, we use measures of average shareholder horizon and managerial compensation horizon and identify firms where there is a misalignment between these measures. We show, both from our theoretical model and our empirical tests, that the negative impact of real earnings management arises from misalignment of managerial and investor horizons.

**Authors:**

Bharat Sarath, Rutgers University
Lingyi Zheng, Rutgers University

**Neurophysiological Measures of Professional Skepticism During Information Processing and Audit Risk Judgment**

As a key determinant of audit quality relates to auditors' professional skepticism, this study uses a laboratory experiment to test neurophysiological measures (pupillary response, eye fixation and skin conductance response (SCR)) of the personality trait skepticism. These measures are commonly associated with the degree of cognitive and/or emotional arousal experienced during the decision-making process. Data is collected via a case scenario adapted from audit literature that involves auditor judgments of inherent risk, control risk and fraud risk. We test the mediating role of the neurophysiological measures in explaining the association between scores on the Hurtt Professional Skepticism Scale (HPSS) and the three aforementioned risk judgments during two key phases in the judgment process: 1) pre-judgment reading and processing of the information provided in the case, and 2) making the risk judgments. Our findings indicate that all three neurophysiological measures, collected while participants were reading and processing case material, mediate the relationship between participants' scores on the HPSS and their audit risk judgements; however, neurophysiological measures are not significant mediators during the audit risk judgment phase except for pupil dilation during the assessment of control risk. These findings contribute to the auditing literature, as well as more generally to the personality measurement literature by showing that HPSS is primarily correlated with neurophysiological measures during the information processing phase of the judgment process. Overall, we demonstrate the strong association between arousal and professional skepticism, the value of separately considering the pre-judgment phase of risk assessment, and the merit of going beyond the use of questionnaires to measure skeptical states and skeptical behavior through the use of neurophysiological measurement technologies.

**Authors:**

J. Efrim Boritz, University of Waterloo
Katharine Elizabeth Patterson, University of Waterloo
Kristian Rotaru, Monash University
Carla L. Wilkin, Monash University

**Masculinity and Analyst Risk-Taking: Evidence from Earnings Forecast and Stock Price**

We investigate how risk preferences shape financial analysts' forecasting style and influence the value of their research output and career advancement. Using facial width-to-height ratio (fWHR) as a measure of masculinity (related to testosterone) in men, we first show that fWHR predicts analysts' risk-taking behavior: analysts with higher fWHR are more likely to be bold forecasters and this positive link is not attenuated by high career concerns or information uncertainty that this profession commonly faces. Next, we preclude alternative explanations, demonstrating that such risk-taking behavior of analysts is the result of a conscious forecasting strategy. Because the risk-taking analysts produce better research quality, they tend to be followed by competitors, induce bigger price impacts, and play a role in elevating stock price informativeness for their covered firms. As a result, these analysts benefit from this propensity and are more likely to experience favorable career trajectories. Overall, our investigation illuminates the role of risk preferences in explaining the heterogeneity in analysts' forecasting behavior.

**Authors:**

Jinglin Jiang, Sonoma State University
Bo Liu, Zhejiang University

**Firm Opacity, Stock Returns, and Board Gender Diversity: When Ethics Pay Off**

Prior studies show that firms with opaque financial reporting are more prone to stock price crash due to their limited access to external financing. Moreover, the literature documents that firms with gender-diverse boards maintain a higher quality of financial reporting. In this study, we examine the impact of board gender diversity on the association between firm opacity and stock price crash. To this end, we utilize the exogenous shock of the 2007-2008 financial crisis to capital markets to examine whether firms with gender-diverse boards witnessed lower stock price crashes due to their lower opacity ex ante. Using a sample of S&P 1500 firms spanning the period 2005-2008, we employ a difference-in-differences research design and find that firms with high opacity ex ante witness more negative returns ex post. We also find that gender-diverse firms ex ante witness less negative returns ex post. Finally, our analysis reveals a moderating role for gender diversity in the boardroom on the association between firm opacity and stock returns around the financial crisis. Overall, our paper provides evidence that board gender diversity is associated with ethical financial reporting, which pays off in times of crisis.

**Authors:**

Mostafa Harakeh, & Tarek El Masri, Lebanese American University
Nikolaos Tsileponis, University of Bristol

**Policy Uncertainty and Textual Disclosure**

Abstract We analyze the importance of policy uncertainty to textual disclosure in the U.S. over the 1996 to 2015 period. We find that policy uncertainty increases textual disclosure length, lowers readability, and increases the tone of uncertainty and negativity. Our strong, robust evidence implies that textual disclosure exhibits a systematic component related to policy uncertainty. Additionally, we find that the length effect is exacerbated by high institutional ownership and post-SOX filing, but the readability effect is mitigated by tough external monitoring evident in high analyst coverage and the presence of Big 4 auditors. In another set of results consistent with expectations, we find that tone becomes more uncertain and negative if firms have high government policy sensitivity or high stock price synchronicity amidst policy uncertainty. In additional tests, our results suggest that firms with textual disclosure that is consistent with the information-acceleration expectations enjoy cheaper equity financing costs.

**Authors:**

Liangliang Jiang, The Hong Kong Polytechnic University
Jeffrey A. Pittman, Memorial University of Newfoundland
Walid Saffar. The Hong Kong Polytechnic University

**Media exposure and corporate labor investment decisions**

We examine whether the media can act as a friction that hampers investment efficiency for corporate decisions that attract significant media attention (i.e., labor). We develop a new measure of media exposure that takes into account the circulation and geographic proximity of a comprehensive set of media outlets. We find that more media exposure leads to greater labor investment inefficiency, and this effect varies predictably with managers' sensitivity to media exposure. Our findings illustrate that the media can serve as a friction in, rather than a facilitator or monitor of, managers' capital allocation decisions

**Author:**

Vishal Paul Baloria, Boston College

**Organizational capital, corporate tax avoidance, and firm value**

Organizational capital (OC) represents a firm's stock of knowledge, capabilities, culture, business processes and systems that facilitate matching of human skills and physical capital to enhance organizational efficiency. In this study, we investigate the relationship between OC and corporate tax avoidance and whether shareholders value tax avoidance differentially, conditional on the level of OC. Using a large sample of U.S. firms during 1986 - 2016, we find that firms with high OC avoid more corporate taxes. We use the staggered adoption of the Inevitable Disclosure Doctrine (IDD) by various U.S. states as an exogenous shock to the stock of OC to strengthen our identification strategy and better establish the direction of causality between OC and tax avoidance. We also document that shareholders view tax avoidance of high OC firms as value enhancing. In cross-sectional analyses, we show that high OC firms avoid more tax when the internal information environment is better, financing constraints are tighter, and agency problems are more severe. We also find that tax avoidance by high OC firms increases future cash flow and that firms with high OC are more likely to invest in tax haven subsidiaries. Overall, our study provides evidence that OC is significantly related to corporate tax avoidance and to shareholders' valuation of tax avoidance activities.

**Authors:**

Mostafa Monzur Hasan, University, Sydney
Gerald J. Lobo C.T. University of Houston

**Textual Disclosure Quality and GDP Growth: Evidence from Form 20-F Filings**

Using proxies for textual disclosure quality of Form 20-F filings by firms from 28 countries cross-listed in the U.S., we find that the aggregate textual disclosure quality of the firms from a given country predicts this country's GDP growth for up to three years even after controlling for the aggregate earnings growth and other macroeconomic indicators. The predictability of aggregate textual disclosure quality is more pronounced for home countries with weak institutions in which the demand for quality information disclosure is higher. Additional analyses suggest that textual disclosure quality enhances the informativeness of earnings and corporate operation activities in predicting future GDP growth. Our findings suggest that the aggregate textual disclosure quality of firms from a given country serves as a leading indicator of GDP growth.

**Authors:**

Minkang Lu, Zhongnan University of Economics and Law
Hongping Tan, McGill University
Li Yao, Concordia University

**Audit Committee Diversity and Accounting Conservatism**

Regulators are encouraging greater diversity in corporate boards. One argument in favour of diversity is that it reduces 'groupthink' which occurs when members of cohesive, homogeneous groups take excessive risks. If heterogeneous groups make less risky decisions, then more diverse audit committees may be associated with conservatism in financial reporting. However, diversity may also lead to problems in groups, which may subdivide along hypothetical fault lines, reducing their effectiveness. In this case stronger fault lines may be negatively associated with accounting conservatism. We test these hypotheses using a large sample of firms from 2009 to 2018. We develop diversity and Faultline scores using three attributes found to be important to financial reporting in prior literature and we utilise several measures of conservatism. Our results provide strong evidence in support of the diversity hypothesis but only weakly support the Faultline hypothesis.

**Authors:**

Elisabeth Dedman, University of Surrey
Tarek Metwally, University of Nottingham
Andrew W. Stark, University of Manchester

**Anger, Fear, and Investor's Information Search Behavior**

This study investigates the differential effect of anger and fear on investors information search behavior. Based on theories from psychology, I predict that angry investors will seek out less additional information and exert a lower depth of thought than fearful investors after a negative earnings surprise. Additionally, I predict that these differences will be moderated in investors that exhibit higher levels of emotion management ability. Using an experiment, I find that neither anger nor fear had any effect on the number of additional information sources investors access. However, angry investors processed information less deeply than fearful investors. This is evident by significant differences in the amount of time spent reading additional information and the ability to recall details about the information. Finally, high emotion management ability reduces differences in depth of thought for both angry and fearful investors. The results of this study have implications for investors and researchers.

**Author:**

Michael J. Wynes, Wilfrid Laurier University

**Explaining investors' fixation on increasing revenue: An experimental investigation of the differential reaction to revenues versus expenses**

Prior research by Ertimur et al. (2003) has archivally demonstrated that investors have differential reactions to revenue increases versus expense decreases in firms with positive earnings surprises and offer differential levels of persistence as an explanation for this curious unexpected finding. We use an experimental method to explain how this differential reaction is, at least in part, due to a heuristic-like process in investor's decision-making process. We also examine how this process might lead to suboptimal investment decisions when either the persistence of financial statement items is not properly assessed or, as is often the case, there are multiple causes for earnings surprises. We demonstrate that even when investors make similar predictions for future earnings, their judgments about current earnings are more positive when even small amounts of revenue increases are responsible for a positive earnings surprise. These findings are consistent with explanations from research in psychology such as the halo bias and mental accounting theory. This paper helps to explain some of the complexities with individual investor behavior when looking at revenues and expenses. Specifically, investors' preference for revenue increases as compared to expense decreases is likely caused by biases that are not obvious to the decision maker and therefore difficult to adjust their investments decisions for such biases.

**Authors:**

James Smith, University of Lethbridge
Michael J. Wynes, Wilfrid Laurier University

**The Moderating Effect of Cultural Values on the Relationship between Corporate Social Performance and Firm Performance**

Using two national culture dimensions, we show a strong interaction effect between culture and firms' corporate social performance (CSP), which significantly influences firm performance. Specifically, firm performance is higher in those firms where CSR initiatives are congruent with the cultural environment. CSP has a negative impact on firm performance for those firms domiciled in countries which are individualistic and favor flexibility. These findings are amplified for those firms with low levels of foreign influence in terms of institutional ownership and sales. Using a data set covering 3,581 firms from 41 different countries, our results show that culture and CSR initiatives have a powerful interaction effect in determining firm performance, suggesting that CSP's

impact is dependent upon the culture of the country where the firm resides.

**Authors:**

Wei Shi, University of Miami
Kevin Veenstra, McMaster University

**Flying Under the Radar: The Real Effects of Anonymous Trading**

Using the TSX Attributed Trading data, we investigate the extent to which anonymous trading enables managers to obtain more informative feedback from the stock market to improve investment efficiency. Our empirical analysis yields three novel findings. First, using the new proxy of Tobin's Q that accounts for intangible capital, proposed by Peters and Taylor (2017), we show that anonymous trading reduces investment efficiency and that its economic impact is substantial. Second, we find both anonymous buyer-initiated and seller-initiated trades have comparable negative effect on investment efficiency. Third, the negative effect of anonymous trading on managerial learning from stock prices appears to be (i) significant only for the tangible investment, (ii) for financially constrained firms, and (iii) in industries that seem to exhibit low investment adjustment costs and are more research-intensive. By and large, our novel evidence suggests that in firms where anonymous trading is more pronounced, managers' investment decisions are less guided by their stock price.

**Authors:**

Najah Attig, Saint Mary's University
Sadok El Ghoul, University of Alberta

**Investor Identity Verification and Demand for Crypto Tokens**

Start-up firms have the option to raise financing by issuing crypto tokens to anonymous investors in a largely unregulated market. These firms can, and some do, adopt practices from banking that require investors to reveal their identity at time of primary issuance. We analyze how commitment to investor identification such as know-your customer policies (KYC) impacts investor demand for crypto tokens. We find that investor identity verification is associated with larger number of buyers, more transactions, greater trading volume, higher liquidity, and lower bid-ask spreads. These results are, however, limited to secondary trading, while there is no difference between adopters and non-adopters of identity verification in primary trading at the initial coin offering (ICO). We also find that an increase in regulation of crypto token issuance leads to a less severe negative impact on demand for tokens issued by firms that adopted identity verification practices, consistent with self-regulation shielding firms from negative externalities of regulation. Finally, active and diversified investors are more likely to invest in tokens issued by firms that adopted investor identity verification. In this new market, in the absence of regulation, firms seem to self select into those with short lived operations targeted at investors who value their privacy, and those that seek benefits from investor identification to attract and keep investors. Broadly, our results support the view that self-regulation yields benefits in unregulated markets, and importantly that decreasing investor privacy can lead to an increase in demand for assets.

**Authors:**

Vedran Capkun, HEC Paris
Yang Ding, HEC Paris
Pepa Kraft, HEC PARIS

**Earnings Management in Chinese Family Firms: A Fraud Triangle Framework**

There exist contradictory findings regarding the relationship between family ownership and earnings management. Relying on a fraud triangle framework, this study explores how resource constraints, less effective governance, and the prevalence of earnings management in an industry respectively create pressure, opportunity, and rationalization for family firms to engage in earnings management. The analysis of 1,597 Chinese listed family firms provides support to the fraud triangle theoretical framework. Our findings underscore the need to improve our understanding of family firms under different contexts.

**Authors:**

Harrison Liu, University of Texas at San Antonio
Kai Xu, University of Texas at San Antonio

**Short Selling and Executive Stock Option Exercises**

This study investigates whether short sellers value the information in top-level executives' decisions to exercise abnormally large amount of stock options. Based on their private information about their companies, executives choose a time to exercise their vested stock-options to maximize profits. Although short sellers have differentiated themselves as informed and sophisticated investors, it is unclear, however, whether short sellers value and use the information in this opportunistic behavior. Using a newly available data set with daily short sales volume data, we find that both abnormal returns and daily abnormal short sales are significantly associated with abnormally large amount of stock option exercises. Collectively, these results suggest that short sellers value the information in executives' abnormally large stock option exercises.

**Authors:**

Harrison Liu, University of Texas at San Antonio
Si Shen, University of Texas at San Antonio
Jennifer Yin, University of Texas at San Antonio

**Social norms of retributive justice for tax evasion and indirect effects on taxpayers' compliance**

Tax authorities who convict tax offenders of tax evasion and disclose key details of these convictions to the general public do so with the hope that there will be a deterrent effect of this publicity. However, the empirical tax compliance literature is silent as to whether or not a tax authority's publicity efforts actually result in a deterrent effect, and why these deterrent effects might occur, despite suggestions that deterrent effects do occur (Alm 2012; Braithwaite & Braithwaite 2000; Devos & Zackrisson 2015). The purpose of this research is therefore to provide empirical and theoretical clarity regarding these issues so that tax authorities and tax policy makers can better understand how publicity regarding convicted tax offenders affects observers.

**Authors:**

Jonathan Farrar, Wilfrid Laurier University
Amy Hageman, Kansas State University
Oliver Okafor, Ryerson University

**Triple Bottom Line Evaluation of Energy Retrofit Spending in Social Housing: Shovel Ready or Shovel Worthy?**

This paper outlines findings from field research investigating the distribution of government sourced stimulus funding to energy retrofitting capital projects in the social housing sector. The research provides an opportunity to observe how a municipal government department responsible for social housing, a chronically underfunded part of the public sector, responded to the availability of unexpected funding from a large stimulus funding program. This study extends a prior pilot study that applied a 'triple bottom line' perspective to evaluate the energy retrofitting investment in a small social housing property. The current study expands our investigation to the municipal government level, looking at the department that administers and funds a portfolio of social housing provider organizations. This department was responsible for allocating the stimulus funding to selected social housing provider properties in its portfolio, and developed a variety of new processes and reporting models to implement this relatively large spend. Our research is designed as an exploratory study, collecting and analyzing interviews, documents and reports from the field site. The first phase of the research, reported here, involves applying the triple bottom line concepts of economic, environmental, and social sustainability to the actions and events obtained from interviewing the key actors. Our main research goal is to assess the implications of these events in terms of sustainability. We also glean some preliminary insights about how the sustainability concepts may map into broader theoretical perspectives from the sociology of worth literature. The second phase of the research is still in the data collection stage, and will involve analysis of quantitative data from the field study.

**Authors:**

Kathryn Bewley, Ryerson University
Thomas Schneider, Ryerson University

**Performance Measures in CEO Compensation of Family Firms**

Family firms constitute a significant part of the capital market. Compared to non-family firms, family firms are perceived to have different agency problems. Specifically, they face fewer conflicts between managers and shareholders (Type I Agency Problem), but more conflicts between large and small shareholders (Type II Agency Problem). This paper investigates the compensation design issues in family firms that face these unique agency problems. In the paper, we explore and compare the use of performance measures in CEO compensation in family vs. non-family firms. Performance measures are widely used in compensation contracts to provide benchmarks for outcomes of managers' actions. Such design aims to mitigate the agency conflicts between managers and shareholders. Examining the S&P 500 firms in the U.S., we find that family firms place higher weight on the accounting measures since they are perceived to be more reliable. We also document that family CEOs receive higher weight on the two accruals components of earnings in their compensation. Further analyses find evidence on the use of non-GAAP performance measures in family firms.

**Authors:**

Lele Chen, University of Texas at San Antonio
Harrison Liu, University of Texas at San Antonio Jennifer Yin, University of Texas at San Antonio

**Family Firms and Penalized Firm Misconduct**

Family firms constitute a significant part of the capital market. Compared to non-family firms, family firms are perceived to have different agency problems. Specifically, they face fewer conflicts between managers and shareholders (Type I Agency Problem), but more conflicts between large and small shareholders (Type II Agency Problem). This paper examines the impact of family ownership on corporate misconduct and its consequences. Firm misconduct could occur in all business activities and cause significant economic losses. Although prior literature addresses various causes and consequences of firm misconduct, few consider the impacts of family ownership. We argue that the reduced Type I agency problem could provide alignment effects that constrain managerial misbehavior, while the more severe Type II agency issues could cause entrenchment effects and motivate misconduct in family firms. Therefore, it's an empirical question whether and how family ownership impacts firm misconduct. Examining the S&P 500 firms in the U.S., our empirical analyses show that family ownership could constrain firm misconduct and firms' information environment is a moderating factor of such impact. Further analyses find that family firms face less severe consequences when they are penalized for their misconduct.

**Authors:**

Lele Chen, University of Texas at San Antonio
Jennifer Yin, University of Texas at San Antonio

**The Effect of SEC's Mandatory Risk Factor Disclosures on Audit Fees and Audit Quality**

The Securities and Exchange Commission (SEC) mandated firms to include a "risk factor" section in their Form 10-K to discuss "the most significant factors that make the company speculative or risky" since 2005. Auditors also must assess their clients' risk as part of planning and performing financial statement audits. By extracting qualitative risk disclosure factors from firms' 10-K Form using a textual analysis software, we investigate how the assessed clients' risks determine auditors' decision regarding audit pricing, the extent of audit testing, and the type of audit opinions rendered. We find that auditor charges at least six percent higher audit fees for risky clients and this is more pronounced at the client, auditor, industry, and auditor-industry levels. The number of risk factors disclosure are negatively associated with the absolute value of discretionary accruals compared with clients, auditor's own portfolio, industry and auditor-industry levels. Auditors are more likely to issue going concern opinion as an indication of conservative reporting for risky clients. We also find that the risky clients are less likely to meet/beat analysts forecast and more likely to have financial statement restatements. The results suggest that information conveyed by risk factor disclosed by the clients reflected in audit fees and audit quality. Overall, our findings support the SEC's decision to mandate risk factor disclosure, as the disclosure appears to be important for the auditors and provide additional useful information to investors and policy makers in assessing auditor's actions on the SEC's mandated risk factor disclosure.

**Authors:**

Sarowar Hossain, University of New South Wales
Ryan Zihang Peng, University of New South Wales

**The Consequence of Establishing the Compensation Committee Under an Imperfect Institution**

In Taiwan, the regulator requires that a listed firm establish a compensation committee. Its main purpose is to strengthen the sensitivity of executive compensation to both firm performance and peer performance. However, under the absence of the audit committee, this may cause executives to face an internal pressure to boost the reported earnings and an external pressure to meet or exceed peer performance if executives want to retain the original level of the compensation in the post-adoption period (i.e., the increase of monetary incentives). Thus, this study aims to unravel whether the regulation unrelated to earnings quality has a detrimental impact on financial statement and what role the compensation committee members plays in such an impact. The empirical results show that if compensation committees increase the sensitivity of firm performance or peer performance in the contracts after the regulation, the executives will more manipulate accruals and classifications than other executives. Accruals-based earnings management and classification shifting become complement. Interestingly, if compensation committees increase the sensitivity of peer performance, the executives less manipulate real activities, which become easier detected. In addition, partial empirical results show that incumbent independent directors on compensation committees, who possess internal knowledge, would mitigate earnings management due to the enhanced monetary incentives. However, experienced directors or professionals on compensation committees would exacerbate earnings management. In this context, busy effects dominate over knowledge effects.

**Author:**

Chao-Jung Pan, National Yunlin University of Science and Technology

**Does Vertical Interlock Benefit Shareholders? Evidence after Related Party Mergers and Acquisitions**

This study examines the agency problem between executives and shareholders under the settings of business groups from a new perspective. In particular, when the listed company's executives also hold positions in its business group, will these vertically interlocked executives help preventing the shareholders' benefits upon the group profit-sharing? We choose to examine the impact of vertical interlock through related party mergers and acquisitions. Our evidence suggests that the vertically interlocked companies would be more likely to conduct related party mergers and acquisitions, which experience much lower subsequent buy-and-hold abnormal returns along with other signs of expropriation.

**Authors:**

Xin Chen, Shanghai Advanced Institute of Finance
Chang Yang, Shanghai Jiao Tong University
Wenyun Shi, Shanghai Jiao Tong University

**On Managerial Compensation and Earnings Management**

Prior research on the relationship between managerial compensation and earnings management fails to address two issues that we address: potentially biased estimate and the spill-over effect. We apply a natural experiment provided by the Omnibus Budget Reconciliation Act of 1993 as an exogenous shock in managerial compensation so we can re-examine its causal impact in reporting behavior. Using one-step estimation for accruals and controlling for the potential spillover effects, we find evidence that this act induced changes in the vega of managerial compensation for treated firms, which are associated with increases in their total accruals. Further, we do not find evidence that the spill-over effects mitigate our findings.

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**Corporate Governance, Accounting Conservatism, and Private Information Collection**

Prior research suggests that by reporting conservatively, firms achieve various desirable ends, such as reducing stock price crash risk. However, the relative contribution of accounting conservatism is unclear since prior research often ignores other pathways by which some of the outcomes ascribed to accounting behavior might arise. We explore the relative roles of corporate governance, accounting conservatism, and private information collection to reduce stock price crash risk. Our evidence suggests all three contribute to this outcome and so future research needs to recognize the potential role of these other pathways to assess the relative effects of accounting behavior for selected outcomes.

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**Organizational and Individual Effects on Corporate Donation Decisions**

A majority of studies of corporate donations focus on the justification for making donations, the types of organizations that donate, and especially the relationship of donations to financial performance. Relatively little is known of the process by which the donation decision is made on behalf of the corporation. Our study addresses this gap by investigating the impact of organizational effects (degrees of professionalism) and individual effects (emotional response to the charity and emotional intelligence) on decisions about potential recipients of corporate largesse. Using a role play experiment, we find that both organizational and individual effects can be important in determining which charity to choose. Especially important is the impact of emotional intelligence. Participants with higher levels of emotional intelligence are less likely to make the decision based solely on personal emotional reaction.

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**Does board independence influence annual report readability?**

We examine whether readability of annual reports is improved by the independent boards. Using a sample of 11,383 firm-year observations over the period 1998-2016, we empirically show that firms reduce the readability of their annual reports for increases in board independence. Our identification strategy uses the Sarbanes-Oxley (SOX) Act of 2002 and associated changes to the listing rule of NYSE/NASDAQ as natural exogenous shocks and a valid instrument for increases in the board independence. Our analysis shows that the instrumented board independence reduces annual report readability. We cross-validate this result by showing that managers make annual reports less readable when independent directors employ performance-based compensation contracts. Further, we document that independent boards are ineffective when they are co-opted. However, intense monitoring improves readability. We also find that the impact of board independence on readability is more pronounced in firms with long-tenured CEOs and less pronounced when the boards are long-tenured and the CEO is also the chair of the board. Overall, we support incomplete revelation hypothesis and show exploitative motive of managers for increases in the board independence.

**Authors:**

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**The Effect of Corporate Spinoffs on Loan Contracting**

Banks have a unique informational advantage in the assessment of borrower credit risk due to their access to material inside information. Corporate spinoffs are important events that are accompanied by valuation and future credit-risk implications for the parent firm. Among other benefits, it is argued that spinoffs increase corporate focus and enhance valuation transparency for the parent firm. We examine whether banks are able to ascertain the likelihood and the implications of impending spinoffs for the parent firm before a formal public announcement of the spinoff. Restricting the sample to spinoff cases where the parent firms do not suffer from ex-post credit deterioration, our empirical analyses indicate that banks charge lower spreads for syndicated loans extended to borrowers in the year prior to a spinoff announcement. This suggests that overall, the value- and transparency-enhancing effects of spinoffs dominate potential negative credit consequences. Cross-sectional analyses indicate that this effect is contextual. Banks charge higher loan spreads if spinoffs are conducted by a borrower with low information quality, and charge lower loan spreads for spinoffs conducted by more complex borrowers. The results are robust to a Propensity Score Matching approach and the use of alternative samples. Overall, our results suggest that loan spreads charged by banks could be used as forward-looking cues for detecting the likelihood and nature of important corporate events such as spinoffs.

**Authors:**

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**"Does it matter?" or "Is it right?": Understanding the Nature of Work in the Tax Field and the Approaches by Different Practitioners**

Although tax professionals have come increasingly under the spotlight in recent years, the academic understanding of the nature of the actual work that they carry out is still not very developed. Examining the Canadian context, this study opens the black box of tax practice by first providing a detailed mapping of the sets of tasks that characterize the tax field. Relying on Abbott's (1988) theorization on professional work, it investigates the nature of the specific expertise involved in tax work and explains how it differs from the professional work that both accountants and lawyers more traditionally perform. Secondly, the study considers the different approaches that those initially trained as accountants and lawyers tend take to tax work. Through in-depth interviews with 38 professionals, four dimensions along which individuals stemming from the two professions differ are identified and these are then substantiated with the results from a survey of 116 individuals working in the tax area. Overall, the study provides a deeper understanding of the nature of tax work, which will help inform future academic research, as well as a better appreciation of how different professionals will approach tax work, which will assist those charged with training tax practitioners.

**Author:**

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**Competitive Threat and Strategic Disclosure During the IPO Quiet Period**

This study examines the disclosure behavior of rival firms identified by an Initial Public Offering (IPO) candidate in its registration statement. I hypothesize that identified rivals have incentives to pre-empt the competitive effects of the IPO and do so by disclosing more positive information during the IPO quiet period. I find that the tone of disclosures made by identified rivals becomes more positive during the quiet period, and reverses after the quiet period ends. This strategic disclosure behavior is mainly driven by identified rivals' concerns over product market competition. Further evidence indicates that this behavior hurts the IPO candidate and benefits the identified rivals.

**Author:**

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**The effect of sanction target on manager's compliance with regulations**

Regulators rely on sanctions to compel compliance with protective regulations. In practice, regulatory sanctions sometimes target individual violating managers but sometimes target entire violating organizations. Relying on moral disengagement theory (Bandura 1999), we predict that targeting organizations with sanctions will cue a need to protect coworker from penalties, raising compliance rates but at the same time reducing managers' willingness to act altruistically on behalf of the other key stakeholders. We test this prediction using a modified three-person dictator game with a regulation that imposes an allocation standard on the dictator's decision. We assign participants to one of three roles: a decision-making manager and two passive participants, a coworker and an investor. Managers in our stylized game may fully comply (i.e. 'spirit of the law' compliance), minimally comply (i.e. 'letter of the law' compliance), or violate the regulation. We find that, compared to targeting individual managers with sanctions, firmtargeted sanctions (imposing costs on both the manager and the innocent coworker) lower full compliance rates, resulting in lower quality compliance. This effect is mediated by increased concerns for the coworker, who is served by avoiding penalties rather than complying fully per se. We do not find statistically significant evidence that combined compliance rates (including both full and minimal compliance) increased as a result of targeting the firm. We further observe that coworkers and investors incorrectly expect firm-targeted sanctions to result in greater compliance and higher quality compliance, suggesting that external parties may incorrectly anticipate the link between non-financial sanctions and compliance. In practice, our research suggests that regulatory regimes targeting firms may inadvertently reduce managers' willingness to comply with the "spirit" of the law, leading to lower compliance quality

**Authors:**

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**Aggregate Economic Policy Uncertainty and Corporate Political Contribution Disclosure**

Using recently developed indices of aggregate economic policy uncertainty (EPU) and corporate political disclosure (CPD) transparency, we document that companies facing higher aggregate EPU make more transparent CPD in order to signal their commitment to mitigating the perceived potential negative impact of aggregate EPU on corporate operational performance and stock return. The positive association is more pronounced for firms that more actively manage EPU through corporate political contributions and weaker for firms with higher levels of exposure to political risk. In addition, we find that uncertainty in monetary policies has the most significant positive influence on CPD transparency followed by uncertainty in national security, taxes, fiscal policies, and entitlement programs. We also find that CPD transparency has a significant moderating effect on the negative association between aggregate EPU and future stock returns. Our empirical evidence strongly supports the notion that aggregate EPU impacts CPD transparency and that more transparent CPD mitigates the negative impact of aggregate EPU on stock return.

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**The Influence of Internet of Things on Audit**

Internet of Things (IoT) is a hot topic for both practitioners and researchers. It is now viewed as another disruptive technology that will shape the world (National Intelligence Council, 2008; Gilchrist, 2016; Schwab, 2016; Sfar et al., 2018) as a very important component of the Industry 4.0. However, most of the current literature focus on technical issues and little is related to accounting and finance. In this paper, we investigate how IoT affects audit. Specifically, we test how IoT adoption influences audit fees. We find that IoT firms are charged lower audit fees. This effect is more pronounced when internal control is better since good internal controls can ensure the successful adoption of IoT and when firms are more complex because IoT can have more effects. Moreover, we find that firms report less internal control weaknesses after adopting this technology and IoT decreases audit delay. In addition, we show that the main effect exists for both IoT providers and users. Our paper is the first archival research that empirically relates IoT with audit and provides another benefit of using IoT decreasing external audit fees.

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**Financial Statement Comparability and the usefulness of earnings: Some Canadian Evidence**

Building on the comparability construct developed by De Franco, Kothari, and Verdi (2011), we examine whether the comparability enhances the usefulness – relevance and reliability – of earnings, as suggested in the International Financial Reporting Standards (IFRS) Conceptual Framework. Thus far, researchers have examined the benefits of comparability from the users' perspective. However, the role of comparability in improving the usefulness of earnings has not been directly examined. Our study is motivated to address such a question using Canadian firms' data in the post-IFRS period. The findings are consistent with our prediction, indicating that comparability enhances the decision usefulness of earnings. These results are robust to several control factors, including industry membership, firm profitability, firm size and leverage.

**Authors:**

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**Impact du conseil d'administration sur la performance durable des entreprises canadiennes**

L'objectif de la présente recherche consiste dans l'étude de l'impact des caractéristiques du conseil d'administration soit la taille, l'indépendance des membres du conseil d'administration et la diversité de genre sur la performance durable des entreprises, dans un contexte canadien. Dans le cadre de cette recherche, la performance durable représente une mesure tridimensionnelle, l'analyse de la performance est segmentée selon les trois dimensions de la performance : financière, sociale et environnementale. Trois modèles de régression linéaire sont utilisés afin de tester les hypothèses de l'étude pour chaque type de la performance. Les résultats révèlent que la taille du conseil d'administration est associée positivement avec toutes les dimensions de la performance durable. L'indépendance du conseil d'administration est négativement associée à la dimension financière, tandis qu'elle est positivement associée aux dimensions environnementale et sociale de la performance durable. Nous constatons que toutes les caractéristiques du conseil d'administration ont une influence positive sur les dimensions sociale et environnementale de la performance. Notre étude montre un impact positif de la diversité sur les dimensions sociale et environnementale de la performance durable et aucun impact sur la performance financière. Les femmes semblent amener dans les CA des préoccupations plus larges que celles financières, avec des effets positifs sur la performance durable, sans nuire à la performance financière de l'entreprise.

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**The influence of governance structure on the relation between pay ratio and CSR performance**

We investigate the moderating effects of governance structure on the relation between pay ratio and CSR performance. We argue that governance structure including board independence and CEO duality will moderate the relation between pay ratio and CSR performance. Based on a sample of companies available in ExecuComp and ASSET4 for the period of 2007-2016, we hypothesize and find that board independence mitigates the negative relation between pay ratio and CSR performance. Furthermore, we predict and find that the positive effect of board independence on the relation between pay ratio and CSR performance decreases when the CEO is also the chair of the board. The results suggest that independent directors are able to mitigate the negative effects of pay ratio on firm's CSR performance and concentration of power in terms of CEO duality decreases the effectiveness of monitoring activities by the board.

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