

LA DIVERSITÉ

Friday, June 11 & Saturday, June 12
Abstracts of papers presented in online Concurrent Research Sessions

Vendredi le 11 et samedi le 12 juin
Abstrais des communications présentées
dans le cadre des séances simultanées de recherche en ligne

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

Research 1.1 - Financial reporting 1 - Debt Contracting

Moderator: Desmond Tsang, McGill University

Research 1.1.1 - Don't Stifle My Creativity: Firm Innovation and Covenant Tightness

Yue Zhang (presenting), Peking University

Zhiming Ma, Peking University

Kirill Novoselo, University of Finance and Economics

Derrald Stice, University of Hong Kong

Discussant: Abiodun S. Isiaka, University of Regina

This study explores the association between firm innovation and loan covenant tightness. We find that banks construct tighter contracts for firms filing more patents, consistent with lenders imposing more oversight on innovative firms. Our results hold under different fixed effect models, matching methods, and when exploiting a quasi-natural experiment based on staggered industry-level innovation shocks. The relation between innovation and covenant tightness is stronger for firms with poor financial performance and when the lender has more expertise. We document that a higher number of patents is associated with higher future performance but also higher future volatility. We also demonstrate that patents are associated with more future R&D, capital investment, and the likelihood of M&A activity in the industry of the filed patents. Our results are consistent with lenders interpreting patents as indicative of high potential that requires stricter discipline and oversight by lenders in order to be converted into actual business success, and with them designing debt contract terms accordingly.

Research 1.1.2 - Long-run Performance of Debt Renegotiations: Large-Sample Evidence

Wei Wang (presenting), Temple University

Tracy Xiang, Temple University

Sudipta Basu, Temple University

Discussant: Yue Zhan, Peking University

We examine the long-run performance of over 17,000 debt renegotiations. We find that, compared with non-renegotiating firms matched on size, book-to-market, profitability, and investment, renegotiating firms, on average, deliver 11 (19) percent higher stock returns over the three (five) years following the renegotiation. This renegotiation effect occurs regardless of the market's initial reaction, is strongest for lender consents/waivers, and decreases with the borrower's bargaining power. Renegotiations lead to immediate

increases in capital expenditures and working capital, but lagged improvements in earnings and cash flow from operations. Renegotiations followed by larger improvements in accounting fundamentals offer better long-run stock performance.

Research 1.1.3 - Abiodun S. Isiaka: Risk Factor Disclosures and the Cost of Private and Public Debt

Abiodun S. Isiaka (presenting), University of Regina

Discussant: Wei Wang, Temple University

This study examines the relationship between Risk Factor Disclosures (RFDs) in the annual 10-K report and the cost of debt in both the private and the public debt markets. We examine this relationship from two perspectives- the direct effect of RFDs on cost of debt and the indirect effect through Abnormal Risk Factor Disclosure (ARFD). To measure RFDs, we use the total number of words in item 1A-RFD, and the aggregate and categorical risk words developed by Campbell, Chen, Dhaliwal, Lu & Steele (2014). Using automated content analysis method to extract RFDs, we find that firms with higher RFDs have higher cost of debt in both the private and the public debt markets. We also find that firms in the private debt market are rewarded for transparency with lower cost of debt when risk factor disclosure is higher than expectation. However, firms are not penalized with higher cost of debt for reporting risk factors below expectation. In the public debt market, more risk disclosure is associated with higher cost of debt while less risk disclosure attracts lower cost of debt. This is in line with the expectation that public debt lenders rely more on public disclosures. In addition, we find that risk words relating to financial risk are more associated with cost of debt, suggesting financial risks are highly relevant in the debt market. The findings in this study suggest RFDs are both informative and useful to other audiences (borrowers and lenders) outside equity investors.

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

Research 1.2 - Managerial Accounting 1 – Quantitative

Moderator: Ganesh Vaidyanathan, University of Saskatchewan

Research 1.2.1 - Cost Asymmetry and Linguistic Complexity of Annual Reports

Abdul Khizer (presenting), Indian School of Business
Nishant Agarwal, University of Western Australia
Sanjay Kallapur, Indian School of Business

Discussant: Maria Assel, University of Augsburg

We study the impact of stickiness of Selling, General, and Administrative (SG&A) costs on the linguistic complexity of annual reports. We document that in order to reduce the information asymmetry caused by cost stickiness, managers reduce the complexity of annual reports. To alleviate endogeneity concerns, we use close-call union elections as an exogenous shock to cost stickiness, and separately use instrument variable regression approach. Further analyses reveal that this reduction in complexity of annual reports is higher for firms characterized by ex-ante poor supply of information, firms with higher incentives to improve the supply of information, and firms with lower agency concerns. We contribute to the literature that links management accounting and financial accounting by providing evidence that managers shape their disclosure choices to help investors access more information about the firm when stickiness of costs is high.

Research 1.2.2 - Enterprise Risk Management and Firm Operations: Evidence from Inventory Management.

Mehdi Shadaei (presenting), University of North Texas
Jianren Xu, University of North Texas

Discussant: Abdul Khizer, Indian School of Business

Enterprise Risk Management (ERM) is a program that manages all firm risks in an integrated framework to control and coordinate offsetting risks. In this study, we provide the first archival evidence on how ERM affects firms' day-to-day operations. Using hand collected ERM adoption data and inventory information, we examine whether firms with an ERM program experience an improvement in their inventory management. Our findings suggest that ERM adoption is associated with greater inventory turnover ratios and lower inventory impairments. These results are robust to a range of models in addressing endogeneity concerns. Additionally, we find that ERM's effect on inventory management is stronger among firms with more risks, with less innovative activities, or with higher

information asymmetries, and when firms' ERM program grows more mature. Our study documents ERM's real economic benefits to firms' operations and highlights how ERM contributes to operating performance.

Research 1.2.3 - Does Relative Performance Information Enhance Performance in Meaningful Tasks?

Maria Assel (presenting), University of Augsburg
Wolfgang Schultze, University of Augsburg

Discussant: Mehdi Shadaei, University of North Texas

We examine the combined effect of meaningful tasks and relative performance feedback on performance. Providing workers with a sense of purpose is becoming increasingly important in the competition for labor. Simultaneously, digitalization in the business world provides an abundance of information on workers' performance. Relative performance information (RPI) encourages social comparison and promotes a competitive mindset. We analyze whether the use of RPI in meaningful tasks further increases or compromises performance. Since both RPI and meaning individually improve performance, their combination may be complementary. However, RPI may also reduce the positive effect of meaningful tasks on performance as workers focus on direct implications of their behavior and competitive concerns crowd out motivational effects of meaning. Our experimental results based on a pretest study show a negative interaction effect between RPI and meaningful tasks. This study contributes to the debate on effective compensation by showing that the positive effects of meaning on performance are crowded out by comparison processes that drive the stand-alone effects of RPI.

Research 1.3 - Financial Reporting 2 - Financial Information

Moderator: Zvi Singer, HEC Montréal

Research 1.3.1 - Relevance Between Accounting Information and Happiness in the Local Public Sector.

Yoshitaka Hirose (presenting), Osaka City University
Akira Goto, Meiji University

Discussant: Zhichao Li, Durham University

This study examines whether the accrual accounting information disclosed by local governments is linked to happiness. It is not yet clear what kind of accrual accounting indicators should be improved by local governments to improve the happiness of residents. Accounting indicators were calculated from the financial statements

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

disclosed by each prefecture, and their relationship with the degree of happiness, learned through the questionnaire survey, was analyzed. The questionnaire was distributed in Japan, where accrual accounting was adopted in FY2017. The results reveal that (1) prefectures with larger assets have happier residents, (2) the happiness of residents is lower in prefectures where the burden on the current generation is higher than that on the future generation, and (3) the happiness of residents in prefectures with low sustainability, translating to higher debt per resident, is low. These results could not be obtained through only cash-based fiscal indicators traditionally used in Japan. In 2017, Japan switched to accrual accounting, whose indicators are related to happiness. This study demonstrates the usefulness of accrual accounting information. The results of this study will contribute to the decision-making of local governments seeking to improve the happiness of their residents.

Research 1.3.2 - PCAOB International Inspections and the Market Value of Cash Holdings.

Yiye Liu (presenting), City University of Hong Kong
Xindong (Kevin) Zhu, City University of Hong Kong
Yangxin Yu, City University of Hong Kong

Discussant: Yoshitaka Hirose, Osaka City University

This study examines whether and how Public Company Accounting Oversight Board (PCAOB) international inspections mitigate the value destruction associated with increases in cash holdings. We find that shareholders value internal cash holdings more highly for the non-U.S.-listed clients of inspected auditors after the public disclosure of the auditors' inspection reports. We also find that the effect of PCAOB international inspections on the market value of cash holdings is stronger in countries with weaker legal institutions and less sound information environment. Since investors' valuation of cash mirrors how they expect the cash to be used, our results suggest a unique governance role of PCAOB oversight in mitigating unresolved agency problems and safeguarding corporate resources, thereby lessening investors' markdowns of cash assets. Our findings also help identify the real economic impacts of PCAOB oversight in enhancing global stock market confidence.

Research 1.3.3 - Does Real Earnings Management Adversely Affect Analyst Coverage and Forecasts?

Zhichao Li (presenting), Durham University
Guanming He, Durham University
Richard Slack, Durham University

Discussant: Yiye Liu, City University of Hong Kong

Cohen et al. (2008) provide evidence that, after the implementation

of the Sarbanes-Oxley Act (hereafter, SOX) in 2002, firms tend to switch from accrual-based earnings management methods to real earnings management methods to manipulate their reported earnings. We investigate whether, in the post-SOX era, real earnings management adversely affects the coverage and forecasts of financial analysts who play a key role of information intermediary between firms and investors in stock markets. We find that the extent of real earnings management is negatively associated with the number of analysts covering and forecasting earnings for firms. This association is less pronounced for firms that exhibit a high degree of accrual-based earnings management, thus reconciling with Cohen et al.'s finding that firms utilize accrual-based earnings management and real earnings management as substitutes in managing earnings. We find no evidence that real earnings management reduces the informativeness of, or increases the error in, analyst forecasts. This suggests that, given an analyst's decision to cover firms that engage in real earnings management, s/he does not compromise on the quality of her/his forecasts. In aggregate, the reduced analyst coverage, albeit not in company with an increase in forecast error or a decrease in forecast informativeness, would potentially undermine the analysts' overall information-intermediary role in stock markets, and thereby deteriorate the overall information environments of firms, and weaken capital market efficiency. Our study thus calls for the importance of scrutinizing and curbing real earnings management.

Research 1.4 - Auditing 1 - Theory and Field Evidence **Moderator: Ping Zhang, University of Toronto**

Research 1.4.1 - Audit Committee Independence and Auditor-Manager Disputes. Discussant: François Larmande

Minlei Ye (presenting), University of Toronto
Sandra Kronenberger, University of Mainz
Sebastian Kronenberger, University of Mannheim

Discussant: François Larmande, Université de Sherbrooke

Conventional wisdom suggests that audit committee independence can strengthen auditor independence, increase audit quality, and thereby improve financial reporting quality and shareholders' value. Built on a one-period strategic model, this paper analyzes the role of audit committee independence in resolving disagreements between management and the auditor regarding financial reporting. We find that an audit committee may always agree with management irrespective of its independent level if underinvestment is more likely. Otherwise, a partially independent audit committee is indifferent between agreeing with the auditor or management. The optimal level of audit committee independence that maximizes shareholders'

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

value is affected by the trade-off between the losses of underinvestment and overinvestment, as well as the strategic interactions of shareholders, managers, auditors, and audit committees.

Research 1.4.2 - Auditor's Professional Judgment and the Externalities Between Legal Liability and Regulatory Oversight.

François Larmande (presenting), Université de Sherbrooke
Cédric Lesage, Concordia University

Discussant: Minlei Ye, University of Toronto

This paper analyzes the impacts on the auditor's behavior of the coexistence between two enforcement mechanisms – regulatory inspection and legal liability – in the presence of information asymmetry caused by the exercise of auditor's professional judgment. We find that regulatory inspections have in general a positive impact on audit effectiveness: being more frequent, as they are not contingent on client's accounting failure, inspections mitigate the limited liability concern (identified by Dye, 1993) regarding the impact of legal liability. By contrast, audit efficiency can be undermined by the coexistence of both mechanisms. Indeed, when auditor's liability is not perfectly known, the exact strength of incentives coming from the threat of legal penalty is uncertain. As a result, the overall expected penalty might be too high, prompting the auditor to disregard his valuable private information when exercising his professional judgment. We show that for a plausible range of parameter values, it is impossible to induce every auditor to be effective and efficient when both enforcement mechanisms coexist. Our findings enhance the understanding of the externalities between PCAOB regulatory oversight and legal liability, which sheds a new light on recent empirical results and provides policy implications for regulators.

Research 1.4.3 - Organizational Climates in Non-Big 4 vis-à-vis Big 4 Accounting Firms.

Laurence Daoust (presenting), HEC Montréal
Candice T. Hux, Northern Illinois University
Aleksandra B. Zimmerman, Florida State University

Discussant: Mitchell Stein, Western University

Non-Big 4 firms represent important participants in the audit market and are often compared to Big 4 firms yet details on *how* and *why* they are different from and yet similar to the more widely studied Big 4 firms remain largely unexplored. To investigate the organizational climates of non-Big 4 firms vis-à-vis Big 4 firms, we gather data from various sources. First, we administer an experiential questionnaire to 54 non-Big 4 partners (29) with and (25) without former Big 4 experience about their perceptions of various organizational aspects

of how these firms operate. Second, we probe deeper on the organizational climates of these firms by conducting 27 (7) semi-structured interviews of non-Big 4 firm partners with (without) former Big 4 experience given their unique insights into the operations of both types of firms. Finally, we triangulate our data by gathering the perspectives of 12 Big 4 firm partners, 2 of which have prior non-Big 4 firm experience. We analyze our findings using a theoretical framework drawn from institutional theory. Our findings shed light on how and why internal and external institutional forces have shaped non-Big 4 firms, thereby contributing to a deeper overall understanding of non-Big 4 firms vis-à-vis Big 4 firms. Based on our findings, we provide suggestions for future research.

Research 1.5 - Auditing 1 - Financial Reporting 3 - Impact of Standards **Moderator: Chiraz Ben Ali, Concordia University**

Research 1.5.1 - Fair Value Accounting for Property, Plant & Equipment: Impact of IFRS 1 Adoption.

Leo Sheng (presenting), York University
Yan Jin, University of Central Oklahoma
Flora Niu, Wilfrid Laurier University

Discussant: Parunchana Pacharm, Brock University

This paper uses a unique setting of Canadian public firms adopting IFRS to investigate what companies revalue PP&E under the deemed cost provision in IFRS 1 and whether the market reacts to these revaluations. Consistent with the political pressure hypothesis of Positive Accounting Theory, we predict and find that large firms are more likely to revalue PP&E. Utilizing the probit model, difference-in-difference approach, and Wald test, we find that the fair value election for PP&E under IFRS 1 does make a difference in future net income and stock returns, and investors react negatively to the fair value information for asset measurement, consistent with prior studies on other types of assets.

Research 1.5.2 - Do Enhanced Derivative Disclosures Work? An Informational Perspective.

Helen Ren (presenting), University of Liverpool
Guanming He, Durham University
Richard Taffler, University of Warwick

Discussant: Leo Sheng, York University

Firms use derivatives both for hedging and non-hedging purposes. The Statement of Financial Accounting Standards No. 161 (SFAS 161) requires firms to disclose the purposes of their derivatives

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

usage, thereby helping investors to evaluate the effects of derivatives usage on firm performance. However, the improvement in the transparency of derivative disclosures after the passage of SFAS 161 does not necessarily signify that relatively uninformed investors would better comprehend the information about derivatives that are of complex nature. Thus, whether enhanced derivative disclosures reduce information asymmetry between different investors is an open question. Using a hand-collected sample of U.S. listed firms and a difference-in-differences research design, we find that, compared with non-derivative users, derivative-users compliant with SFAS 161 experience a significantly greater reduction in stock illiquidity and the probability of informed trading in the post-SFAS 161 period, and such impact is more pronounced for firms with greater investor attention. We do not find evidence that non-compliers exhibit reduced stock illiquidity or decreased probability of informed trading post SFAS 161. Overall, our results suggest that the enhanced derivative disclosures, as mandated by SFAS 161, are effective in reducing information asymmetry when firms comply with the standard. Since many firms are indeed non-compliers, our study calls for more scrutiny over the enforcement of SFAS 161.

Research 1.5.3 - The Market Response to Mandatory Disclosure of Payments to Foreign Governments under the Extractive Sector Transparency Measures Act.

Parunchana Pacharn (presenting), Brock University

Fayez Elayan, Brock University

Jennifer Li, Brock University

Yijia Chen, Brock University

Discussant: Helen Ren, University of Liverpool

This paper examines the equity market response to mandated disclosures made according to the Extractive Sector Transparency Measures Act (ESTMA). Using a sample of 1,559 company-year-country filings from 937 extractive firms between 2016 and 2018, we find that ESTMA disclosures are associated with a significantly negative market reaction. We also find that investors react more negatively to ESTMA disclosures from firms with lower perceived transparency, firms that make payments to more corrupt host countries, firms with higher information asymmetry, and firms with disclosures under the Extractive Industries Transparency Initiative (EITI). Consistent with results from prior studies of other transparency measures outside of Canada, ours indicate that the overall impact of ESTMA is negative for an average firm. Thus, we suggest that the costs of increased transparency that firms internalize from the enactment of ESTMA exceed the benefits. There is a global trend in which countries have adopted or plan to adopt transparency measures to combat corruption. These transparency measures differ widely in their approach and scope; therefore, our

results provide an important insight to regulators, investors, and civil societies.

Research 2.1 - Auditing 1 - Financial Reporting 4 - Corporate Communication

Moderator: Christine Wiedman, University of Waterloo

Research 2.1.1 - Does firm's silence drive media's attention away?

Sasan Mansouri (presenting), University Frankfurt

Discussant: Fengzhi Zhu, Universidad Carlos III de Madrid

In this study, using a comprehensive dataset on business media coverage and textual analysis of the discussions in firms' quarterly earnings conference calls, we show that firms whose management fail to satisfy the demand for information, *ceteris paribus*, receive less media coverage. Poor information environment hurts the information-creation capacity of the media, while such an environment does not show a similar association with the media's information-dissemination role. Furthermore, this association is more prominent for the professional business media, compared to their non-professional counterparts such as blogs and alternative articles. Our results add nuance to the literature on media coverage bias by showing that the coverage of the firms is mainly driven by the supply-side factors, i.e. the factors affecting the suppliers of the coverage, rather than being demand-driven.

Research 2.1.2 - Corporate Communication about Regulatory Change: Evidence from the New Lease Standard.

Rucsandra Moldovan (presenting), Concordia University

Luminita Enache, University of Calgary

Paul A. Griffin, University of California, Davis

Discussant: Sasan Mansouri, University Frankfurt

This paper documents how firms communicate about a regulatory change that will be adopted in the future. Specifically, we investigate how the Securities and Exchange Commission's disclosure guidance in SAB Topic 11M applies to the FASB's Accounting Standards Update No. 2016-02 on Leases (ASC 842). We use linguistic measures to understand the pattern of firms' textual disclosures in the years prior to ASC 842 adoption. As firms approach the first year of adoption, we find that their SAB Topic 11M lease disclosures become longer, more dissimilar, and less readable. While only a minority of firms discloses information on materiality—a required disclosure—those that do increasingly disclose more specific textual

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

and numerical information on materiality the closer in time to adoption. In responding to SAB Topic 11M, firms appear to trade off

the need for a higher level of materiality specificity with the SEC objective for firms to use plain English in their financial statement filings.

Research 2.1.3 - Narrative Conservatism.

Juan Manuel Garcia Lara, Universidad Carlos III de Madrid Beatriz

Fengzhi Zhu (presenting), Universidad Carlos III de Madrid
Garcia Osmá, Universidad Carlos III de Madrid

Discussant: Ruscandra Moldovan, Concordia University

We define narrative conservatism as narratives reflecting bad news in a more timely, news-consistent, and complete manner than good news. Using a sample of 8-K filings for the period 1993 to 2020, we find that narrative disclosure is conservative. 8-Ks are filed faster, their marginal change of tone is more news consistent, and they contain more words, filings, items, exhibits, and graphs in response to bad news than to good news. We document higher narrative conservatism in voluntary 8-Ks. We also find evidence of narrative conservatism in quarterly 10-Q reports. Our evidence suggests that narrative conservatism is a pervasive property of accounting narratives throughout the period studied. Finally, we provide initial evidence that narrative conservatism is more salient in firms with low conditional or high unconditional conservatism.

Research 2.2 - Auditing 1 – Auditing 2 - Archival Evidence **Moderator: Minlei Ye, University of Toronto**

Research 2.2.1 - Are Two Sets of Eyes More Costly Than One? Large-Sample Evidence on Joint versus Single Audits in the European Union.

Carol Pomare (presenting), Mount Allison University

Paul Griffin, University of California Davis
David Lont, Otago University
Stefani Mason, De Paul University

Discussant: Lev Timoshenko, University of Calgary

The Global Financial Crisis, along with the recent failures of Carillion, BHS, and Patisserie Valerie, have led the Competition and Markets Authority (CMA) in the United Kingdom (UK) to call for the largest UK accounting firms to separate their audit and consultancy businesses operationally and to conduct mandatory joint audits of

the FTSE 350 firms. This paper provides evidence on the cost of joint audits in the European Union (EU). Specifically, we compare the audit markets of the UK, France, Germany, and several other EU

countries to understand if single and joint audits have similar costs, as suggested by the CMA. We find that the average fees paid by French companies that have a joint audit exceed the fees paid by UK companies by about 15 percent. French companies with two Big Five auditors pay, on average, 44 percent more than UK companies. German companies pay about 17 percent less than UK companies on average. While the CMA proposal to ban large audit firm combinations from performing joint audits differs from what occurs in France, our results suggest strongly that UK audit fees will increase significantly under the current UK proposal. We also find that French auditors take between 15 and 19 days more to sign off on the financial accounts than their German and UK counterparts.

Research 2.2.2 - Mandatory Disclosure of Negative Events and Auditor Behavior: Evidence from a Natural Experiment.

Xinyuan Shao (presenting), University of Minnesota

Hui (Eva) Liang, University of Minnesota
Xiaoli Guo, University of North Dakota

Discussant Caroline Pomare, Mount Allison University

This paper studies the impact of mandatory disclosure of negative corporate events on audit fees using the staggered adoption of data breach disclosure laws (hereafter, DBD laws) in the United States. On the one hand, mandatory disclosure reduces misreporting behavior and information asymmetry, resulting in lower fees ("reporting quality improvement benefit channel"). On the other hand, mandated disclosure of adverse corporate events increases auditors' litigation and reputation risk, leading to higher fees ("litigation and reputation cost channel"). We find evidence consistent with the litigation and reputation cost channel: auditors charge higher fees after the adoption of DBD laws. We also find that the impact on audit fees is pronounced in firms with higher cyber risk, higher ex-ante litigation risk, and greater auditor reputation concerns. Overall, our evidence suggests that mandated disclosure regulation could affect the audit process significantly.

Research 2.2.3 - How Do Auditors Assess Key Inputs in a Discounted Cash Flow Model.

Lev Timoshenko, (presenting), University of Calgary
J. Efrim Boritz, University of Waterloo

This study provides evidence about auditors' assessments of key inputs in a Discounted Cash Flow (DCF) model when performing an analysis of a goodwill impairment. Using verbal protocol analysis, this study examines how 21 experienced auditors from four different firms assess the seven key inputs in a discounted cash flow model

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

used by management to value goodwill. The study identifies several gaps in the audit process, including omissions and inaccurate applications of key audit steps, and suggests ways to address them through additional guidance, training, and supervision.

Research 2.3 - Diversity session 1 – Disclosures

Moderator: Li Yao, Concordia University

Research 2.3.1 - Earnings Forecasts of Female CEOs: Quality and Consequences.

Yuntian Li (presenting), HEC Montréal

Claude Francoeur, HEC Montréal

Zvi Singer, HEC Montréal

Jing Zhang, University of Colorado, Denver

Discussant: Jacqui Gagnon, University of Regina

This study examines the voluntary disclosure of earnings forecasts by female CEOs. We find that in the backdrop of increased pressure to perform from investors and other stakeholders, female CEOs tend to issue more earnings forecasts than male CEOs, and those forecasts are more accurate. We also find that financial analysts rely more on the earnings forecasts of female CEOs, possibly because they realize female CEOs' superior forecasting quality. We also document that while financial analysts generally prefer to follow companies headed by male CEOs, female CEOs' efforts to issue accurate earnings forecasts reduce this coverage gap. Our results are robust to the use of alternative research designs, including difference-in-difference and two-stage least squares regressions with an instrument variable. Overall, our study documents gender differences in voluntary disclosure by senior management.

Research 2.3.2 - Diversity Disclosure in UK Annual Reports.

Jacqui Gagnon (presenting), University of Regina

Discussant: Yuntian Li, HEC Montréal

I examine diversity disclosure in UK annual reports using large-sample data. Specifically, I create a diversity wordlist by isolating key themes in the UK Equality Act and apply this list to locate diversity text in annual reports of FTSE350 companies. Consistent with anecdotal evidence, I find that UK companies disclose company-specific information on gender, but nongender diversity disclosure is limited and boilerplate. Specifically, diversity policies are boilerplate with a linguistic structure that perpetuates status quo structures of power. My results support the view that diversity is not considered a notable aspect of corporate strategy by UK firms, registering a disconnect between sociological ideals and institutional execution.

Research 2.3.3 - Do Firms Provide Timely and Informative Disclosures in an Environment of Extreme Uncertainty? Evidence from the COVID-19 Pandemic.

Theophanis Stratopoulos (presenting), University of Waterloo

Victor Wang, University of Waterloo

Betty Xing, University of Waterloo

Discussant: Xiaohua Fang, Florida Atlantic University

Do firms provide timely and informative disclosures in an environment of extreme uncertainty? We study this overarching research question by examining corporate disclosures during the initial stage of the COVID-19 pandemic, i.e., the first quarter of 2020. During this period, firms had to respond to an unprecedented crisis with little prior experience or guidance from regulators. We find that COVID-19 disclosures in general have been timely and COVID-19 disclosures in 10-Ks in particular appeared to have been behaving as a leading indicator of the impending crisis. Our market reaction tests show that investors found these early COVID-19 disclosures to be useful. Content analysis shows that there was a gap in disclosure quality in that some disclosures lacked firm-specific details. Using two measures of disclosure quality derived from unsupervised machine learning, we find that the market reacted more strongly to COVID-19 disclosures that provided more concrete information about the impact of the pandemic. Understanding firms' disclosure behaviour under extreme uncertainty has important policy implications as the SEC is transitioning to a more principles-based approach towards disclosure regulation. Our findings suggest that firms responded quickly in providing related disclosures in the face of an unprecedented crisis, but they could have benefited from earlier regulatory guidance that may help them improve disclosure quality.

Research 2.4 - Financial Reporting 5 - Supply and Demand

Moderator: Bruce McConomy, Wilfrid Laurier University

Research 2.4.1 - Are Financially Constrained Firms Susceptible to a Stock Price Crash?

Helen Ren (presenting), University of Liverpool

Guanming He, Durham University

Discussant: Hui (Eva) Liang, University of Minnesota

This study investigates whether and how financial constraints on firms affect the risk of their stock price crashing. We find strong evidence that financial constraints increase future stock price crash risk. This finding is robust to using a dynamic panel generalized method of moments (GMM) estimator and two quasi-natural experiments to control for potential endogeneity. Cross-sectional analyses reveal that the positive relation between financial

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

constraints and future crash risk is more prominent for firms with high abnormal accruals or with weak corporate governance and less pronounced for firms that commit tax avoidance or have a high credit rating. Our study provides the implications of financial constraints on future extreme negative stock returns and is of interest to investors as well as other stakeholders concerned about firms' creditworthiness and viability.

Research 2.4.2 - Hiding or Helping? Determinants and Consequences of the Timing of Earnings Conference Calls.

Tracy Xiang (presenting), Temple University
Sudipta Basu, Temple University

Discussant: Helen Ren, University of Liverpool

Open conference calls reveal important information because of their forward-looking discussion, interactive nature, and easy accessibility. Using Bloomberg data, we investigate why firms hold earnings conference calls at different times of the day and how the stock market interprets and reacts to firms' timing choices. We measure retrospective and prospective news in earnings calls using earnings surprises and the tone of forward-looking statements. We find that firms with more extreme news (both good and bad) tend to hold calls outside trading hours, especially in the evening. To test whether the market understands the information embedded in "timing," we conduct an event study around the date when firms schedule the calls. We find a higher trading volume when the market is notified of an upcoming switch from during trading hours to outside them. Overall, our results suggest that firms strategically time conference calls and that investors infer information from the timing.

Research 2.4.3 - Quantitative Investing and Sell-Side Financial Analysts.

Hui (Eva) Liang (presenting), University of Minnesota

Discussant: Tracy Xiang, Temple University

Quantitative mutual funds and ETFs are an increasingly important part of the equity market, with total assets under management nearly tripling in the last decade. This paper measures stock ownership of quantitative mutual funds and ETFs (hereafter, quantitative ownership) and examines how it impacts the production of information in the capital market, as evidenced by the changing role of financial analysts. Given that the inputs to quantitative investing models are typically not obtained from information in analysts' reports, I hypothesize that quantitative investors discourage analysts' information production. In support of my hypothesis, I find that quantitative ownership is negatively correlated with analyst following and this relation is robust to using an instrument for quantitative ownership based on cases of mutual fund advisory

misconduct. I also find that quantitative ownership has an adverse effect on analysts' outputs, namely forecast accuracy and the number of dimensions forecasted, and on the information environment as indicated by the informativeness of analysts' forecast revisions and forecast dispersion. Additional analysis corroborates that a decrease in institutional investors' demand for information is the likely mechanism that drives the decline in information production by analysts. Overall, my paper provides evidence on the impact of quantitative investing on the information environment through its effect on analysts, an important information intermediary.

Research 2.5 - Managerial Accounting 2 – Qualitative **Moderator: Matthäus Tekathen, Concordia University**

Research 2.5.1 - The Double Usage of Management Accounting Tools in the Accounting Literature.

Jean-François Tremblay (presenting), Université du Québec à Montréal

Discussant: Gaurav Gupta, University of North Carolina, Wilmington

The research is interested in the relationship between the actor and the management control tool in the accounting literature. An in-depth analysis of 167 articles from three major publications from 2005 to 2020 encompassing a large variety of tools and actors allows the definition of three main literature trends: a decontextualized use of the management tools by the actors, a contextualized use and a dual use. This last usage remains succinctly studied and reveal a potential research area.

Research 2.5.2 - Developing a Balanced Scorecard and Success Factors for a Performing Arts Theatre based on Stakeholder's Expectations.

Naqi Sayed (presenting), Lakehead University

Sharon Moores, Lakehead University
Camillo Lento, Lakehead University

Discussant: Jean-François Tremblay, Université du Québec à Montréal

This study complements the arts management literature by using action-based research to develop a BSC and strategy map for a performing arts theatre (PAT). First, interviews with key stakeholders identify the Key Success Factors (KSFs), followed by a survey to determine each KSF's importance. Next, the DEMATEL method identifies the KSFs' interdependent causal relationships. Lastly, the

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

scale of controllability and room for improvement for each KSF is measured. The results reveal that the Financial Perspective plays a critical role in the PAT's success, while significant changes can be enacted by focusing on the Internal Processes Perspective. The Critical Success Factors (CSF) are, an excellent reputation, attendance growth, increasing sponsorship and donation, supporting the local arts community, and community involvement. However, PAT managers must be creative to enact change through these CSF as some are difficult to control or have little room for improvement.

Research 2.5.3 - Not Balanced After All: A Neo Institutional Explanation of the Role of Organizational Culture Dimensions in Determining Usage Levels of Balanced Scorecard Perspectives
Gaurav Gupta (presenting), University of North Carolina, Wilmington

Stephen Salter, Middle Tennessee State University

Discussant: Naqi Sayed, Lakehead University

Neo-Institutional Theory suggests that the acceptance and subsequent use of a Balanced Scorecard in an enterprise is the result of a process that depends on the scorecard being in concomitance with the organizational culture. This literature then demonstrates that managers pick and choose measures from the scorecard that suit their prior experience, violating the whole scorecard concept. In this paper, we offer an alternative that builds on Neo-Institutional Theory. We posit that acceptance and usage of the Balanced Scorecard are never complete. All four perspectives (financial, customer, internal business, and learning and growth/innovation) have different levels of usage and are influenced by different organizational culture dimensions. Using the raw data provided by Gupta and Salter (2018), we calculate the average usage of each perspective. We then determine the relationship between organizational culture dimensions as defined by the Globe Study (House et al. 2004) to the use of particular BSC perspectives. Regression Analysis and T-tests are conducted to analyze the data. Based on a sample of 1,126 managers and employees in 48 firms, we find that all four perspectives have different levels of usage and are influenced by different organizational culture dimensions. The financial dimension is the most used and innovation the least. An organization with a strong individualist culture uses all perspectives, but an organizational culture that avoids uncertainty reduces the usage of almost all scorecards. Several organizational culture dimensions affect one or two perspectives but not others. Overall, it is an incomplete and messy process.

Research 3.1 - Auditing 5 – Qualitative Studies
Moderator: Yves Gendron, Université Laval

The CAAA gratefully acknowledges financial support for this session provided by Chartered Business Valuators' Institute



Research 3.1.1 Freedom Through Choice: Employee Empowerment in The Neoliberal Workplace.

Erica Pimentel (presenting), Concordia University

Discussant: Bertrand Malsch, Queen's University

Existing studies demonstrate how accounting firms transform their employees into entrepreneurs of the self (Foucault, 2008), or subjects charged with making rational choices in order to maximize their value. These studies underscore the extensive disciplinary apparatus that controls employee behavior. This study explores whether and how accounting firm employees can experience freedom, in a Foucauldian sense (1985, 1994), in a workplace driven by techniques of neoliberal governmentality. Drawing on 31 semi-structured interviews with public accountants carried out during the height of the first wave of the COVID-19 pandemic, I find that employees can experience a sense of freedom when they are given choices that appeal to their value set, which in this case is their desire to make rational choices that maximize their human capital value (as in the case of a voluntary work reduction program). Choice itself becomes a technique of governmentality because employers control the array of available choices, or the choice architecture, and the information used to evaluate those choices.

Research 3.1.2 - Review Partners and Engagement Partners: A Different Perspective on the Interaction Process in Engagement Quality Review.

Michael Favere-Marchesi (presenting), Simon Fraser University

Discussant: Vaughan Radcliffe, Western University

This study examines the engagement quality review (EQR) process from the perspective of both audit engagement partners and review partners. A questionnaire was administered to 45 audit partners in public accounting firms in Canada and the U.S. The questionnaire covered the elements, associations, and contextual features

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

surrounding the EQR process. The study was conducted to heed the call from Emby and Favere-Marchesi (2010) to examine the process from the perspective of both actors involved in the review process and to determine whether in the last 10 years the perspective of review partners had been changed by the increased scrutiny of quality control inspections. Partners recalled an engagement of their choosing where they acted in the role of either an engagement partner or a review partner, and where the review process involved negotiation or discussions between the two partners to resolve one or more issues. The results provide a comprehensive picture of a typical EQR: the issues involved, the process and the ensuing outcomes. The results showed that partners shared some of the same perspectives when it came to identifying difficult or complex accounting issues and also highlighted concerns over the sufficiency of appropriate audit evidence, an item that is a recurring theme in audit deficiencies identified by quality control inspections. The results also highlighted major difference in the perception of power distance between these two types of partners with engagement partners being much more concerned about the career impact of the outcome of those discussions.

Research 3.1.3 - Boundary Work at the Margins of Politics and Auditing: Rationalising Advertising Probity in Ontario.

Vaughan S. Radcliffe (presenting), Western University

Paul Andon, University of New South Wales
Clinton Free, University of New South Wales
Mitchell Stein, Western University

Discussant: Erica Pimentel, Concordia University

We examine how political players attempt to rationalise arguments for and against the expansion of auditing into governmental affairs, and how state audit authorities respond to politically motivated boundary work. This study is motivated by growing evidence of political involvement in attempts to both expand, and undermine, state audit oversight of government affairs. We present an interpreted history (covering relevant events from 1995 to 2016) of political rationales and associated boundary work that led to the expansion of the Office of the Auditor General of Ontario's (OAGO) mandate to audit government advertisements campaigns for partisanship as well as attempts to modify this new audit remit over time. We reveal substantive, formal, and practical ways in which political players sought to rationalise/counter rationalise expanding the OAGO's authority to the unfamiliar territory of advertising probity. We show how such justification claims ebb and flow in accordance with changeable political interests, and how state auditors react to the fraught nature of politically motivated boundary work. We conceptualise important forms of rationalising rhetoric (which cannot be reduced to expressions of neoliberal government) that can be mobilised to deem state auditor authority legitimate in overseeing otherwise novel, unfamiliar, and controversial government affairs.

We also reveal a hitherto unrecognised resolve in state auditor responses to political intervention and shed further light on generalised forms of rationale that can underpin boundary work at the margins of accounting.

Research 3.2 - Auditing 5 – Taxation 1

Moderator: Kenneth Klassen, University of Waterloo

Research 3.2.1 - Component Auditor and Corporate Tax Aggressiveness.

Desmond Tsang (presenting), McGill University

Jeong-Bon Kim, City University of Hong Kong
Bing Luo, San Francisco State University
Jing Zhang, University of Colorado

Discussant: John Li, Ryerson University

The PCAOB has continuously expressed its concerns about the use of component auditors by multinational corporations (MNCs). Prior research has focused mainly on the negative impacts of component auditor use on audit quality, but it has largely overlooked the benefits associated with lead auditors utilizing component auditors' superior local knowledge. We investigate whether and how component auditors' local tax expertise contributes to the lead auditors. We obtain data on component auditor use from the new Form AP filings on disclosure of component auditors' involvement in group audits. Specifically, our analysis focuses on the relation between component auditor use and tax aggressiveness of MNCs. Using a sample of firms with auditor-provided tax service, we find an inverse relation between the two. We next show that the effect pertains only when the component and the lead auditors share the same network. We further find that this negative relation is more pronounced when tax systems in the component auditors' jurisdictions are more complex, when the component auditors are of higher competence, and when component auditor countries have weaker rule of law. Overall, we document the bright side of component auditor use; component auditors aid the lead auditors in detecting and deterring clients' aggressive tax strategies.

Research 3.2.2 - Financial Literacy Implications of the "Tax-Free" Heuristic in Tax-Sheltered Savings Plans.

Jonathan Farrar (presenting), Wilfrid Laurier University

Leslie Berger, Wilfrid Laurier University
Ruth Pogacar, University of Calgary
Lu Zhang, Ryerson University

Discussant: Desmond Tsang, McGill University

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

There are two primary types of tax-sheltered savings plans: frontloaded and backloaded. Canada is one of the few countries that offer both types of savings plans: the front-loaded Registered Retirement Savings Plan (RRSP) and the back-loaded Tax-Free Savings Account (TFSA). Based on dual process models of information processing (Chaiken et al., 1989), we predict that the phrase "tax-free" is a favorable heuristic that affects individuals' choice of tax-sheltered savings plans. We conduct a series of experiments to test this proposition. Overall, our results suggest that individuals have a clear preference for a tax-sheltered savings plan named the Tax-Free Account, regardless of the amount or content of explanatory information provided, because of the favorable "tax-free" heuristic. This preference is stronger among individuals self-reported to have less financial expertise and also those who made less mental effort to understand information about tax-sheltered plans. Our results have financial literacy implications, as they suggest that preferences for tax-sheltered savings plans are influenced by the plan name. Thus, the preference for plans with "tax-free" in the name disproportionately influences those with less financial expertise and may undermine the effectiveness of informational interventions designed to increase financial literacy.

Research 3.2.3 - Do Managers Respond to Tax Avoidance Incentives by Investing in the Tax Function? Evidence from Tax Departments.

John Li (presenting), Ryerson University

Discussant: Jonathan Farrar, Wilfrid Laurier University

While prior literature examines the role of certain incentives in motivating top managers (CEOs and CFOs) to engage in corporate tax avoidance, there is little evidence on the specific actions that managers take in response to these incentives. Motivated by the premise that a manager can influence a firm's tax activities by emphasizing the tax function, I investigate whether four specific tax avoidance incentives studied in prior literature (financial constraints, equity risk incentives, hedge fund interventions, and analyst cash flow forecasts) induce managers to make additional investments in the firm's tax department. Using a self-constructed dataset of tax department employees collected from the professional networking website LinkedIn, I find evidence that each incentive is significantly associated with an increase in the number of individuals employed within the tax department. This association is generally stronger among higher ranked employees and employees with prior tax department experience. In supplementary analyses, I find that some tax avoidance incentives also induce managers to pay higher tax fees to the firm's auditor and engage in tax lobbying. Overall, my findings are consistent with the premise that managers invest resources in the tax function when they are incentivized to avoid taxes. My study also provides some assurance that the association

between tax avoidance incentives and effective tax rates documented in prior studies is reflective of intentional tax avoidance behavior.

Research 3.3 - Corporate Governance - Role of Expertise **Moderator: Linda Thorne, York University**

This session is generously sponsored by the Stephen A. Jarislowsky Chair in Governance held by Claude Francoeur at HEC Montréal and the Stephen A. Jarislowsky Chair in Corporate Governance held by Michel Magnan, John Molson School of Business, Concordia University / Cette séance est généreusement commanditée par la Chaire de gouvernance Stephen A. Jarislowsky dirigée par Claude Francoeur de HEC Montréal et la Chaire de gouvernance d'entreprise Stephen A. Jarislowsky dirigée par Michel Magnan, Ecole de gestion John-Molson, Université Concordia.



Research 3.3.1 - Antecedents of and Outcomes after Finance Committee Use.

Eunju Ivy Lee (presenting), Temple University
Sudipta Basu, Temple University

Discussant: Dongyoung Lee, McGill University

Corporate boards of directors often voluntarily create finance committees. We study why firms use finance committees and whether firms realize benefits. We find that firms are more likely to have a finance committee when they have defined benefit pension plans, high leverage, debt equity issuance, active dividend payout, and ongoing divestiture. While we find a weak association between finance committee use and financial performance on average, we find that finance committees that are temporary and highly independent have better-performing investments. We find that finance committees that are not independent and are composed of non-financial experts are negatively associated with firm value.

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

Research 3.3.2 - Lawyer CEOs and Strategic Disclosures of Litigation Loss Contingencies.

Yu Hou (presenting), Queen's University

Feng Chen, University of Toronto

Gordon Richardson, University of Toronto

Barbara Su, Temple University

Discussant: Eunju Ivy Lee, Temple University

In this study, we examine how a lawyer CEO's legal expertise impacts a firm's litigation loss contingency disclosure, a disclosure both fraught with uncertainty and strategically important to the underlying firm and its stakeholders. We investigate the research question by comparing CEOs with a legal education background (lawyer CEOs) and those without legal education background (non-lawyer CEOs). Using a large hand-collected sample of litigation loss contingency disclosures over the life cycle of lawsuits from 1993 to 2017 from U.S. listed companies, we find that lawyer CEOs tend to make first disclosures about a pending litigation case on a timelier basis compared to non-lawyer CEOs. The acceleration in first disclosures is more pronounced for cases in which lawyer CEOs are more likely to utilize their legal expertise. However, relative to non-lawyer CEOs, lawyer CEOs are less likely to issue pre-warnings prior to material settlements, especially for cases that result in high settlement losses. Together these results suggest that lawyer CEOs carefully deliberate the costs and benefits of providing litigation loss contingency disclosures. The findings confirm our prediction that lawyer CEOs may either issue timelier disclosures of litigation information (i.e., the informative role) or withhold bad news (i.e., the information-protective role), according to the perceived levels of the proprietary costs of disclosure. Our study thus offers an enriched understanding of disclosure behavior by lawyer CEOs.

Research 3.3.3 - CSR Ratings in the Presence of a Former Rating Agency Employee: Evidence from LinkedIn

Dongyoung Lee (presenting), McGill University

Discussant: Yu Hou, Queen's University

While prior literature documents increased benefits associated with higher CSR ratings, little is known about exactly how firms enhance their CSR ratings. Prior research also treats firms' CSR ratings as an exogenous outcome from an independent organization. Using hand collected data from LinkedIn profiles, this study examines whether firms strategically hire a former rating agency employee to improve their CSR ratings. Applying both a matched control sample design and a difference in-differences methodology, we find a positive intertemporal and cross-sectional association between CSR ratings and the presence of a former rating agency employee. This implies that the recruitment strategy to poach personnel from the rating company can be an endogenous determinant of CSR ratings through knowledge transfer from the rating agency to the rated firm.

Research 3.4 - Responsabilité Sociale et Éducation Moderator: Hanen Khemakhem, Université du Québec à Montréal

This session is generously sponsored by the Ted Rogers School of Management at Ryerson University



Research 3.4.1 (In French) - Les comptables et le développement du savoir-être : perceptions et influences.

Janie Bérubé (présente), Université du Québec à Rimouski
Annie Brisson, Université du Québec à Rimouski

Intervenante: Sylvie Berthelot, Université de Sherbrooke

Cette recherche de nature qualitative porte sur le développement du savoir-être en contexte de formation universitaire en comptabilité et vise à répondre aux deux questions suivantes : Quel sens les étudiants accordent-ils au savoir-être ? Dans quelle mesure leur cheminement universitaire est-il susceptible d'influencer leur savoir-être ? Par des entretiens semi-dirigés avec 32 étudiants et récents diplômés d'universités québécoises en comptabilité, nous développons quatre façons d'aborder le savoir-être : 1) respecter les autres, 2) se connaître soi-même, 3) respecter les règles et être en mesure de faire son travail et enfin, 4) le « petit plus ». Nous avançons qu'une relation de confiance avec un enseignant est susceptible d'influencer le savoir-être des étudiants. Par ailleurs, les situations où les étudiants rencontrent des difficultés ou des défis semblent également, dans une certaine mesure, influencer le savoir-être. Les principaux constats qui ressortent de notre analyse de ces perceptions et influences mettent en évidence le caractère personnel et évolutif du savoir-être et l'influence insoupçonnée que les enseignants peuvent avoir sur son développement. Nous suggérons que certaines activités pédagogiques puissent être planifiées pour favoriser le développement du savoir-être des étudiants.

Research 3.4.2 (In French) - Les rapports de responsabilité sociétale : une étude des pratiques canadiennes.

Sylvie Berthelot, Université de Sherbrooke (présente)
Michel Coulmont, Université de Sherbrooke
Félix Martineau, Université de Sherbrooke

Intervenant: Vincent Gagné, Université de Sherbrooke

Contrairement à de nombreux pays européens, les autorités canadiennes n'ont pas légiféré au regard du reporting sociétal des sociétés. Plusieurs d'entre elles publient néanmoins volontairement des rapports de responsabilité sociétale établis à partir des référentiels reconnus comme par exemple celui de la Global

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

Reporting Initiative (GRI). Cette étude a pour objectifs d'identifier les indicateurs de performance publiés volontairement par les sociétés canadiennes se référant au référentiel G4 de la GRI et d'examiner si les indicateurs de performance publiés sont comparables d'une entreprise à l'autre. Les résultats des analyses tendent à démontrer que le nombre d'indicateurs présentés est faible et que le format des divulgations rend les comparaisons difficiles, voire impossibles. Des analyses supplémentaires ont permis d'identifier deux profils de rapports de responsabilité sociétale.

Research 3.4.3 (In French) - Le financement participatif accompagné : le secret du succès ?

Vincent Gagné, Université de Sherbrooke (présente)

Sylvie Berthelot, Université de Sherbrooke

Michel Coulmont, Université de Sherbrooke

Intervenante: Janie Bérubé, Université du Québec à Rimouski

Depuis quelques années, les plateformes de financement participatif sont de plus en plus nombreuses. Sur la scène québécoise, deux plateformes de financement participatif de proximité connaissent une popularité croissante et l'une d'elles affiche un taux de réussite relativement élevé. En s'appuyant sur les données portant sur les campagnes de financement menées par l'intermédiaire de ces deux plateformes, nous avons cherché à identifier les facteurs de succès des campagnes de financement réalisées sur celles-ci. Outre certaines caractéristiques des campagnes, l'accompagnement de l'entrepreneur semble être le facteur de succès le plus déterminant.

Research 3.5 - Auditing 3 - Archival Evidence **Moderator: Natalia Kochetova, Saint Mary's University**

Research 3.5.1 - Do Big 4 Auditors Consistently Provide Better Audit Quality? Evidence from Government Audits.

Johnathon Cziffra (presenting), University of New Brunswick

Zvi Singer, HEC Montreal

Jing Zhang, University of Colorado, Denver

Discussant: Ping Zhang, University of Toronto

Audit quality is affected by both the demand and the supply of audit, a major challenge in audit research is to isolate the audit supply effect. The audit of provincial entities in Canada offers a setting where the demand for audit quality is relatively constant, which allows us to isolate the supply effect. The reason for the relatively fixed demand is that the entities that are audited by different types of auditors, namely Big 4 firms, non-Big 4 firms, and government auditors, are eventually consolidated into the Public Accounts, one

set of financial statements that incorporates all government entities. Therefore one client, the Province, is paying for audits and is setting the demand for audit quality, making the demand for audit quality largely uniform across the various units. Using various measures of audit quality, we find that Big 4 firms underperform the government auditors on all our measures of audit quality, and underperform the non-Big 4 firms on some of the measures. In a supplementary analysis we examine the effect of Big 4 audit-office size on audit quality. We find that unlike in the audit of publicly-listed companies where office size is an audit quality determinant, in government audit, office size does not seem to affect audit quality. Overall, we find evidence that Big 4 auditors do not provide better audit quality in the setting of government audits, but rather the opposite, they are associated with inferior audit quality.

Research 3.5.2 - Auditor's Workload and Audit Quality under Audit Hour Budget Pressure – Evidence from Korean Audit Market.

Seokyoung Hwang (presenting), The City University of New York

Philip Keejae Hong, Central Michigan University

Discussant: Johnathon Cziffra, University of New Brunswick

By utilizing a unique audit hour data (actual and budgeted audit hour) in Korea, this study examines the impact of auditor's workload on audit quality under audit hour budget pressure. We find the intensity of the auditor's workload has a negative impact on audit quality, especially when the total audit hours exceed the budgeted hours. In an analysis where we separate the workload of partners and that of senior auditors, we find that the partner's workload has a negative impact on audit quality in the full sample. However, the senior auditor's workload negatively affects the audit quality only when the budget variance is unfavorable. We cautiously interpret our empirical findings that stress and burnout caused by increased audit hours under budget pressure can lead auditors to engage in quality threatening behavior and affect audit quality negatively.

Research 3.5.3 - The Impacts of Federal Securities Laws on the Audits of 10-K Financial Statements.

Ping Zhang (presenting), University of Toronto

Liuchuang Liu, Xi'an Jiaotong University

Baolei Qi, Xi'an Jiaotong University

Discussant: Seokyoung Hwang, The City University of New York

Auditor litigation risk is viewed as one of the most important mechanisms that motivate auditors to render proper audit quality. In this study we investigate how auditor litigation risk related to federal securities laws, ceteris paribus, affects the audits of 10-K financial statements. We argue and find empirical evidence that the federal

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

securities laws affect the auditors' issuance of opinions on financial statements and going concern status differently. In particular, the federal securities laws do not affect the auditors' threshold quality for issuing clean opinions on 10-K financial statements but lower the threshold of financial distress for issuing going concern opinions. We also document that the federal securities laws increase audit fees in the periods prior to SOX.

Research 4.1 - Financial Reporting 7 - Financial Analysts
Moderator: Duane Kennedy, University of Waterloo

CAAA gratefully acknowledges financial support for this session provided by Chartered Business Valuators' Institute



Research 4.1.1 - Geographic Distance and Analysts' Risk Discussions.

Changqiu Yu (presenting), University of Manitoba

Discussant: Shaokun Li, Peking University

Using textual analysis of analyst reports to extract analysts' risk discussions for firms around the world, I find that foreign analysts make more risk discussions than local analysts. Foreign analysts' more risk discussions are closely tied to their unfamiliarity to the underlying firms. The positive relation between foreignness and risk discussions is mitigated for analysts with strong personal ability and for firm countries with better institutional environment. Analysts' risk discussions are incrementally informative to investors. Foreign analysts are as well as local analysts in the informativeness of risk discussions.

Research 4.1.2 - Inside the Black Box of Private Communications: Evidence from Taxi Ride Patterns between Managers and Analysts in New York City.

Stacey Choy (presenting), University of Toronto
Ole-Kristian Hope, University of Toronto

Discussant: Changqiu Yu, University of Manitoba

Using textual analysis of analyst reports to extract analysts' risk discussions for firms around the world, I find that foreign analysts

make more risk discussions than local analysts. Foreign analysts' more risk discussions are closely tied to their unfamiliarity to the underlying firms. The positive relation between foreignness and risk discussions is mitigated for analysts with strong personal ability and for firm countries with better institutional environment. Analysts' risk discussions are incrementally informative to investors. Foreign analysts are as well as local analysts in the informativeness of risk discussions.

Research 4.1.3 - Does the All-Star Award Affect Analysts' Performance? Evidence from a Regression Discontinuity Design and the Field.

Shaokun Li (presenting), Peking University
Congcong Li, Duquesne University
Hai Lu, University of Toronto

Discussant: Stacey Choy, University of Toronto

This paper examines the effect of the All-Star award on Chinese analysts' choices and performance. Using unique voting data from 2007 to 2016 and a regression discontinuity design (RDD), we find that All-Star award recipients are more accurate in earnings forecasts than non-recipients after the All-Stars receive the award. Similar RD analyses show that All-Stars concentrate on fewer industries, cover more firms per industry, and issue forecasts more frequently after they receive the award. We conduct follow-up surveys of analysts and institutional investors. The responses from 102 analysts and 385 institutional investors indeed suggest that firm coverage, research reports, site visits, roadshows, internal service, and training increase after analysts win the All-Star award. Both RDD and field evidence support performance enhancing effect of the All-Star award and this effect is realized through the mechanism of reallocating efforts and obtaining more access to external and internal resources.

Research 4.2 - Financial Reporting 8 - Managerial Opportunism
Moderator: Sudipta Basu, Temple University

Research 4.2.1 - Does Common Ownership Impact Peer Learning.

Abdul Mohi Khizer (presenting), Indian School of Business

Discussant: Yetaotao Qiu, University of Nottingham

I examine the impact of conflict of interest between a manager and an institutional investor, on firm policies. On one hand, institutional investors are sophisticated diversified investors with the power to

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

influence firm outcome and incentive to maximize value from a diversified shareholder perspective. On the other hand, managers undertake decisions at firm level with baseline focus to maximize value for firm-specific shareholders. These managerial decisions, in addition to other factors, are driven by peer effects. Peer effects propel firms to converge towards a common average and can negatively impact the diversity of an investor's portfolio. Employing a spatial autoregressive model on the social network of firms, in conjunction with friend-of-friends approach, I find that institutional investors and managers recognize the possible negative impact of peer driven convergence on investor's portfolio diversity and consequently propel decisions of the focal firm in direction opposite to those taken by peer firms when part of a common portfolio. This paper identifies institutional investors to be a limitation to peer learning mechanism and posits possibilities of contrarian decisions in peer networks to the peer learning literature. It further helps understand the ramifications of common ownership on portfolio firms and explains the vexing puzzle of why dissimilarities exist within and across industries in the long run.

Research 4.2.2 - Derivative Disclosures and Managerial Opportunism.

Helen Ren (presenting), University of Liverpool
Guanming He, Durham University

Discussant: Abdul Mohi Khizer, Indian School of Business

Derivatives are increasingly used by managers not only to hedge risks but also to pursue non-hedging activities for fulfilling opportunistic incentives. The Statement of Financial Accounting Standards No. 161 (hereafter, SFAS 161) requires firms to disclose their objectives and strategies of using derivatives. Using the adoption of this standard, we examine whether and how derivative disclosures influence managerial opportunistic behavior. We employ insider trades and stock price crash risk to capture managerial opportunism. Applying a difference-in-differences research design with hand-collected data on derivative designations, we find that, after the implementation of SFAS 161, derivative users that comply with SFAS 161 experience a significantly greater decrease in both insider trades and stock price crash risk, compared with a matched control sample of non-derivative-users. Our cross-sectional analyses reveal that SFAS 161 has greater impact on firms in the case of high information opacity, high financial risk, or high business risk. We find no evidence that, compared to the non-derivative-users, derivative users not compliant with SFAS 161 have a greater reduction in either insider trades or stock price crash risk in the post-SFAS 161 period, implying the importance of enhancing the enforcement of the regulation. Overall, our results suggest that the enhanced disclosures, as stipulated by SFAS 161, curb managerial opportunism.

Research 4.2.3 - Peer choice in IPOs.

Yetaotao Qiu (presenting), University of Nottingham
Michel Magnan, Concordia University
Rucsandra Moldovan, Concordia University

Discussant: Helen Ren, University of Liverpool

This paper examines the peer firms identified by IPO firms in their registration statement. Using a unique, hand-collected data set, we investigate the relation between peer firm information environment and peer choice by IPO firms. We find that IPO firms on average select peer firms with better information environment and that this effect is more pronounced for younger firms, firms without venture capitalist backing, non-biotech firms, firms underwritten by less prestigious investment banks, and firm with less specificity in their use of proceeds description. Our evidence is consistent with the idea that IPO firms with greater information uncertainty are more likely to identify peers with better information environment in the registration statement. We also find evidence that the peer information environment is positively associated with upward offering price revision and post-offering analyst coverage and reduces the number of amendment filings. This paper provides evidence that IPO firms can capitalize on the externalities of peer information to facilitate their initial public offering.

Research 4.3 - Managerial Accounting 3 - Decision Making **Moderator: Kim Trottier, HEC Montréal**

Research 4.3.1 - Over-Investment and Product Market Competition.

Jumpei Hamamura (presenting), Momoyama Gakuin University
Kohei Arai, Osaka Prefecture University
Kento Inoue, Kindai University
Takeshi Yoshikawa, Osaka Prefecture University

Discussant: Yajing Tian, Renmin University of China

This study uses both theory and empirical evidence to examine over-investment by managers. Based on analytical research, we find that complementary goods are a crucial factor that contribute to decisions regarding over-investment. Due to the complementarity of goods, an increase in the demand for efficient firms' products increases the demand for the products of inefficient firms. Consequently, efficient firms resort to aggressive investments to gain a competitive advantage and improve demand. In addition, we present an empirical case for over-investment by testing the relationship between current year investments and future performance. We introduce a new variable using an analytical model and demonstrate its impact on managerial investment decision-making. While previous theoretical economic studies have frequently applied contract theory to consider managers' behavior, this study contributes to the literature by indicating that it is also essential to

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

use the industrial organization model. Our study proposes a new variable that affects over-investment using an analytical model and demonstrates that it has a significant impact on managers' decision-making. This finding is an essential contribution to the over-investment literature.

Research 4.3.2 - Does Internal Control affect Corporate Outsourcing? Evidence from Forward Purchase.

Dongling Xu (presenting), City University of Hong Kong
Xiangang Xin, City University of Hong Kong

Discussant: Jumpei Hamamura, Momoyama Gakuin University

We examine the effect of internal control on corporate outsourcing in terms of purchase through forward contracts. We find that firms with internal control weakness have less forward purchase. Further analysis shows that the accuracy of management sales forecasts works as the channel through which internal control weakness affects forward purchase. The effect of internal control weakness on forward purchase is more pronounced for firms with more uncertain information environment. We also find preliminary evidence that more forward purchase leads to lower inventory volatility and better operating performance. Overall, our study provides new insights into the effect of internal control on corporate outsourcing decisions.

Research 4.3.3 - Does Corporate Digital Transformation Based on Information Technology Systems Affect Innovation Output?

Yajing Tian (presenting), Renmin University of China
Yue Zhao, Renmin university of China
Wuqing Wu, Renmin University of China

Discussant: Dongling Xu, City University of Hong Kong

Corporate digitalization primarily built on information technology (IT) systems is happening at an exponential speed all around the world in recent years. This paper examines whether and how corporate IT implementation affects innovation output by constructing a novel measure of IT investments based on unique data from audited financial statements. The results of baseline regression provide evidence of a significant positive association between IT investments and innovation output after controlling for firm-level characteristics, industry and year fixed effects. This finding remains robust in a series of sensitivity tests including Two-Stage Least Square analysis, Heckman two-stage selection model, inclusion of firm fixed effects and region fixed effects, and using alternative proxies for the dependent variable and the independent variable. We further introduce a difference-in-difference approach to identify the causal relationship between IT investments and innovation output. The results show that the positive association is more pronounced for firms in regions with less developed (financial) markets, and for firms located in regions with less informatization. Furthermore, additional analyses find that upstream firms alongside the supply chain who engage in more complex business activities, and technology intensive firms with a stronger motivation and greater ability to involve IT systems in R&D projects, experience a stronger

positive relationship between IT investments and R&D output. This paper contributes to the existing literature by extending the essence of IT implementation in digital economy, providing evidence of the positive effect of IT investments on innovation and constructing a novel measure of IT investments.

Research 5.1 - Financial Reporting 9 - Non-Disclosure **Moderator: Yu Hou, Queen's University**

Research 5.1.1 - "Let me Get Back to you" – A Machine Learning Approach to Measuring Non-Answers.

Sassan Mansouri (presenting), Goethe University Frankfurt
Fabian Woebeking, Goethe University Frankfurt
Andreas Barth, Goethe University Frankfurt

Discussant: Jingjing Wang, University of Calgary

It is relatively easy for us humans to detect when a question we asked has not been answered – we teach this skill to a computer. Using a supervised machine learning framework on a large training set of questions and answers, we identify 1,227 trigrams that signal non-answers. We show that this glossary has economic relevance by applying it to contemporaneous stock market reactions after earnings conference calls. Our findings suggest that obstructing the flow of information leads to significantly lower cumulative abnormal stock returns and higher implied volatility. Our metric is designed to be of general applicability for Q&A situations, and hence, is capable of identifying non-answers outside the contextual domain of financial earnings conference calls.

Research 5.1.2 - Strategic Non-Disclosure of Going Concern Uncertainties.

Jingjing Wang (presenting), University of Calgary
Ole-Kristian Hope, University of Toronto

Discussant: Sasan Mansouri, Goethe University Frankfurt

This paper examines management's strategic behavior of avoiding going concern (GC) uncertainty disclosures. Specifically, we explore how to separate "strategic firms" from "truthful firms." "Strategic firms" ("truthful firms") refer to companies with substantial doubt in GC but whose managers fail to (do) mention GC or provide adequate discussions on GC. Employing a linguistic model built on textual features extracted from the Q&A sections of conference calls from financially distressed firms, we find that strategic executives tend to engage in lengthier conversations with less negative tone. Further, they are more likely to use deceptive language, mention non-GAAP measures, and discuss macroeconomic information. Also, strategic managers are less likely to elaborate on litigation and liquidity matters. We extend the linguistic model out-of-sample to less-distressed firms and predict strategic scores that indicate the likelihood of these firms having a high risk of GC uncertainty but not

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

providing sufficient GC disclosures or not mentioning GC at all. Employing the adoption of ASU 2014-15 as a quasi-natural experiment, we find that the out-of-sample strategic firms, compared to truthful firms, are less likely to mention the word “going concern” after the issuance of the new GC standard. These strategic firms also scale back their discretionary expenditures, including R&D and capital expenditures.

Research 5.2 - Taxation 2

Moderator: Andrew M. Bauer, University of Waterloo

Research 5.2.1 - Enterprise Risk Management and Corporate Tax Avoidance.

Evan M. Eastman (presenting), Florida State University

Anne C. Ehinger, Florida State University
Jianren Xu, University of North Texas

Discussant: Leslie Berger, Wilfrid Laurier University

This study examines the impact of enterprise risk management (ERM) programs on corporate tax avoidance. ERM is a holistic approach to managing an enterprise's entire portfolio of risks (COSO 2004; 2017). We expect that enhanced coordination across business units as a result of ERM allows firms to exploit tax avoidance opportunities, while also mitigating overly aggressive tax positions. We hand-collect data on ERM adoption for a sample of S&P 500 firms from 1993 to 2016. We empirically document that firms with ERM programs have lower cash effective tax rates (ETRs) and are less likely to engage in tax shelter than non-ERM adopters. We instrument for ERM adoption using a firm's exposure to natural catastrophes and our results are robust. Additionally, we find that the relation between ERM and tax avoidance is stronger among financially constrained firms and firms with higher managerial risk-incentives.

Research 5.2.2 - Taxes and Corporate Investment Behaviour: Evidence from the Halloween Massacre of 2006.

Matthew Boland (presenting), Saint Mary's University

Khin Phyo Hlaing, Saint Mary's University

Discussant: Evan M. Eastman, Florida State University

Tax policy makers commonly examine whether a certain tax policy has unwarranted or warranted effects on corporate decisions. However, the effect of taxes has been confounded by factors, such as, financial reporting incentives or changes in accounting policy and other macro-events. We examine whether a dramatic increase in tax rates subject to business income trusts after an unanticipated announcement widely known as “Halloween Massacre” in Canada has a pronounced effect on how firms change their investment decisions. The empirical findings are consistent with the theory that

higher taxes decrease corporate investment.

Research 5.2.3 - The Efficacy of Tax Whistleblowing Programs: A Mixed Methods Investigation.

Leslie Berger (presenting), Wilfrid Laurier University

Linda Thorne, York University
Preetika Joshi, McGill University

Discussant: Matthew Boland, Saint Mary's University

Tax whistleblowing programs are being adopted by national revenue agencies throughout the globe in an effort to combat aggressive tax behavior by firms. Despite the growth in popularity of these programs, little is known about the deterrence effect of tax whistleblowing programs and the efficacy of features of these programs, in particular the use of financial rewards, in deterring aggressive tax behavior. To evaluate the efficacy of tax whistleblowing programs in deterring aggressive tax behavior, we use a mixed methods approach that compares the deterrence effect across national tax whistleblowing programs, and the relative impact of the inclusion of financial rewards and whistleblower protections in deterring aggressive tax behavior. Firstly, using a cross-country data set and employing a difference-in-differences design that exploits over-time and cross-country heterogeneity in the implementation of tax whistleblowing programs, our results support the deterrence effect of tax whistleblowing programs as we find lower levels of tax aggressiveness when firms' headquarters are in a country with an active tax whistleblowing program. Secondly, given the inclusion in financial rewards and whistleblower protections varies cross-nationally, we use an experiment to show that financial rewards and whistleblower protections deter aggressive tax behavior above that experienced merely in the presence of a tax whistleblowing program. Thus, our mixed methods investigation demonstrates the efficacy of tax whistleblowing programs as a deterrent, which is augmented in the presence of financial rewards and protections. Our findings have important policy implications for the design and adoption of tax whistleblowing programs.

Research 5.3 - Financial Reporting 10 - Voluntary Disclosure

Moderator: Samir Trabelsi, Brock University

Research 5.3.1 - Corporate Governance Reforms and Voluntary Disclosure: International Evidence on Management Earnings Forecasts.

Ziyao San (presenting), York University

Discussant: Caroline Lee, Temple University

This study examines whether and how the country-wide implementation of corporate governance reforms affects the provision and properties of management earnings forecasts. Using a

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

difference-in-differences research design, I find that the implementation of corporate governance reforms in a country increases the propensity of firms to issue management earnings forecasts. Further analysis shows that the increase in forecast propensity is more pronounced for firms incurring losses in the current period or firms anticipating future losses. However, in terms of forecast properties, although I find that managers tend to issue more timely forecasts in the period post the implementation of reforms, my results also indicate that the earnings forecasts issued in the post-reform period tend to be less disaggregated and have higher forecast error and optimistic bias. Further results show that the deteriorated forecast quality in the period post the reform is primarily driven by forecasts made by new forecasters who did not provide earnings forecasts prior to the reform. Overall, my findings shed light on the role that strengthened corporate governance plays in firms' voluntary disclosure practices and suggest a channel through which the implementation of reforms enhances firm value.

Research 5.3.2 - Tick Size and Voluntary Disclosure.

Ole-Kristian Hope, University of Toronto

Junhao Liu (presenting), University of Toronto

Discussant: Ziyao San, York University

Employing the SEC Tick Size Pilot Program that increases the minimum trading unit of a set of randomly selected small-capitalization stocks, we use difference-in-differences analyses with firm fixed effects and find that treatment firms respond to the liquidity decline by issuing fewer management earnings forecasts, while in contrast, control firms do not exhibit a significant change. We find similar results using conference calls as an alternative voluntary disclosure proxy. Next, we explore the reason for the disclosure reduction and find that the liquidity reduction associated with the pilot program explains the change in voluntary disclosure. Further strengthening the identification, we find a consistent reversal effect after the end of the pilot program. Overall, these findings show how the tick size program affects corporate voluntary disclosure and suggest the role of stock liquidity in shaping the information environment.

Research 5.3.3 - Why do Firms Issue Earnings Forecasts for Multiple Years Simultaneously?

Caroline Lee (presenting), Temple University

Sudipta Basu, Temple University

Discussant: Junhao Liu, University of Toronto

By issuing earnings forecasts for both current and future years simultaneously, managers provide the multi-year data required for many valuation models and help investors sort out transitory and permanent shocks. We find that firms that are overpriced and have more transitory earnings tend to issue multi-year forecasts simultaneously. Overpriced firms are more likely to issue both short and long-term bad news than only short-term bad news forecasts. Mispricing tends to be corrected after firms' multi-year forecasts,

especially when overpriced firms issue both long- and short-term bad news forecasts. We also find a more linear current period earnings–return relation when firms issue multi-year forecasts, which suggests that investors underreact less to extreme news because the future year forecasts embed earnings persistence information.

Research 5.4 - Managerial Accounting 4 - Performance Evaluation

Moderator: Paulina Arroyo, Université du Québec à Montréal

Research 5.4.1 - The Effect of Deferred Bonus and Recovery on Risk Taking in Investment Decisions.

Maria Assel (presenting), University of Augsburg

Mandy M. Cheng, University of New South Wales

Tami Dinh, University of St. Gallen

Wolfgang Schultze, University of Augsburg

Discussant: Jen Choi, Emory University

We examine the impact of uncertain, deferred bonus payments on managers' risk-taking behavior. Bonus deferral and bonus recovery, that impose performance 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, we propose that uncertain, deferred bonus payments increase managers' willingness to expose their firm to excessive risk and jeopardize the stability of the firm when previously awarded bonuses are at stake. We 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. Moral priming reduces risk taking on average, but encourages higher additional risk under uncertain, deferred bonus payments. Excessive risk taking depends on the interaction between the compensation scheme and individual loss aversion. This 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 via slogans.

Research 5.4.2 - Martin Altenburger: The Effect of Corporate Giving and Participation on Employee Performance and Performance Overstatement.

Martin Altenburger (presenting), University of Vienna

Discussant: Maria Assel, University of Augsburg

In this study, I investigate whether corporate giving and employee participation in the corporate giving decision-making process affect employee performance and performance overstatement. I conducted a laboratory experiment in which an organization either (1) includes employees in the decision-making process regarding the beneficiary of corporate giving (participative corporate giving), (2) chooses the beneficiary alone (non-participative corporate giving), or (3) does not

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

engage in corporate giving at all. The results demonstrate that participative corporate giving leads to higher employee performance than non-participative corporate giving and no corporate giving. Regarding performance reporting, employees overstate the least if an organization implements participative corporate giving. Non-participative corporate giving neither increases employee performance nor does it decrease performance overstatements as compared to no corporate giving. Collectively, these findings suggest that employee participation in the corporate-giving decision-making process is a useful measure that can be applied to increase employee performance and reduce performance overstatements.

Research 5.4.3 - Customer RPE: Using Customer Performance to Filter Noise out of CEO Incentive Contracts.

Jen Choi (presenting), Emory University

Mary Ellen Carter, Boston College
Karen L. Sedatole, Emory University

Discussant: Martin Altenburger, University of Vienna

The “informativeness criterion” (Holmstrom 1982) states that any information item that is informative about a CEO’s effort be used in incentive contracting. Prior research documents negative incentive weights on industry peer performance in CEO contracting in what is known as “relative performance evaluation” (RPE). RPE improves the efficiency of incentive contracting by filtering noise from CEO performance measurement. We test whether the performance of a firm’s customer base is also used to improve incentive contracting, what we term “customer relative performance evaluation” (customer RPE). Consistent with customer RPE, we document a negative incentive weight on customer performance in CEO incentive contracts incremental to the negative incentive weight on performance of industry peers documented in prior research. Further, the negative incentive weight on customer performance is larger in absolute value for firms whose performance is more highly correlated with their customers’ performance, when the firm’s products/services are more specialized, and when the firm has lower operating flexibility. Moreover, the weight on customer performance decreases when the adverse incentives triggered by customer RPE are more costly.

Research 5.5 - Diversity Session 2 - Earnings Management **Moderator: Rucsandra Moldovan, Concordia University**

Research 5.5.1 - Corporate Governance Reforms, Societal Trust and Corporate Financial Policies. Discussant: Jafar Al Saleem.

Cephas Simon-Peter Dak-Adzaklo (presenting), City University of Hong Kong

Raymond Wong, City University of Hong Kong

Discussant: Jafar Al Saleem, Bemidji State University

Using a sample of firms from 36 countries that implement corporate governance reforms during 1990-2014, we hypothesize and find that the implementation of corporate governance reforms is positively associated with firms’ external financing and investment. More importantly, we find that the effect of corporate governance reforms is stronger among firms domiciled in low trust countries, which is consistent with a substitutive relation between subjective belief and formal rules and regulations. These effects persist for five years after the reforms and are robust to an array of robustness tests including employing different samples, different fixed effects, and alternative measures of corporate financial policies. In additional analyses, we find that “comply-or-explain” reforms have a more pronounced effect on firms’ corporate financing and investment decisions than do “rule-based” reforms. In sum, our findings suggest that institutional enhancement (via strengthened firm-level governance practices) and its interplay with societal trust are effective in alleviating the agency cost of corporate financing and investment policies. Our research has significant implications for policy makers and practitioners in maintaining the proper function of the capital markets.

Research 5.5.2 - Cultural Tightness and Earnings Management Around the World.

Gaoguang Zhou (presenting), Hong Kong Baptist University

Jingyi Jia, Hong Kong Baptist University
Ahrum Choi, Hong Kong Baptist University
Byron Y. Song, Hong Kong Baptist University

Discussant: Cephas Simon-Peter Dak-Adzaklo, City University of Hong Kong

Prior studies have primarily focused on how Hofstede’s cultural dimensions affect the prevalence of earnings management. This study advances this strand of literature by examining the effect of cultural tightness, an important yet unexplored cultural dimension, on earnings management internationally. We find that managers are less (more) likely to use accrual-based (real) earnings management in countries with a tight culture, consistent with the notion that managers switch to real earnings management when accrual-based earnings management is culturally constrained. Our findings are robust to several endogeneity and sensitivity tests. Additionally, our results show that the strength of investor protection attenuates the effect of cultural tightness on earnings management, suggesting a substitutive relation between the legal regime and cultural tightness affecting earnings management. Our results also show that the association between cultural tightness and earnings management weakens when firms are exposed to a more internationalized environment. Finally, we show that cultural tightness interacts with other cultural dimensions as well as has distinct effects on earnings management. Taken together, our study shows that tightness is an important cultural dimension that influences earnings management globally.

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

Research 5.5.3 - Community Diversity and Earnings Management: Empirical Evidence.

Jafar Al Saleem (presenting), Bemidji State University

Ricardo Malagueño, University of East Anglia Norwich

Ana Marques, University of East Anglia Norwich

Gaia Melloni, University of Lausanne

Discussant: Gaoguang Zhou, Hong Kong Baptist University

This study examines whether firms with headquarters in counties with more diverse communities manipulate their earnings less. Drawing on institutional theory, we argue that higher community diversity (in terms of race, religion, gender, and age) is associated with stronger public monitoring/scrutiny on firms' activities, which may lead to a reduction in their unethical/opportunistic behaviors (e.g., earnings management). Using a sample of U.S. firms, from 2000 to 2016, our results indicate that all dimensions of community diversity are negatively associated with earnings management. We further demonstrate that the four diversity variables are complementary, and not substitutes, as the decrease in earnings management is still observed when the four dimensions are considered concurrently. These results are robust to the use of various alternative earnings management measures (discretionary accruals, absolute discretionary accruals, discretionary revenue, and discretionary current accruals). This paper contributes to the literature by examining the extent to which institutional characteristics shape firms' financial reporting quality.

Research 6.1 - Field Studies in Accounting

Moderator: Sophie Audouset-Coulier, Concordia University

Research 6.1.1 - The Importance of Social Controls in the Commission of or Resistance to Group Fraud: A Field Study.

Pujawati (Estha) Gondowijoyo (presenting), Queen's University

Christie Hayne Gies, University of Illinois

Pamela R. Murphy, Queen's University

Discussant: Erica Pimentel, Concordia University

We analyze 38 stories of group fraud, half from the perspective of someone who committed group fraud and half from the perspective of someone who resisted pressure to commit group fraud. Our goal is to better understand the control mechanisms that helped push people toward or against group fraud. Our theoretical lens highlights the implications of the social nature of "group" fraud and classifies the various mechanisms we examine into social controls and administrative controls. Social controls are based on the influence of others (e.g., culture, mentorship, management style) while administrative controls are based on rules or policies to which individuals must adhere (e.g., reward systems, internal controls). We find that social controls were significantly more influential than administrative controls in pushing interview participants toward the

commission of group fraud as well as helping them resist. For example, management style and organizational culture played significant roles in facilitating both the commission of and resistance to group fraud. Leveraging Qualitative Comparative Analysis, we also identify configurations of controls that commonly lead to the commission of and resistance to group fraud. Our field study offers important contributions to both research and practice.

Research 6.1.2 - The Dual Usage Paradox, how the Actor's Global and Local use of Management Control Tools Emphasize the Usage Validation Effort.

Jean-François Tremblay (presenting), University du Québec à Montréal

Discussant: Pujawati (Estha) Gondowijoyo, Queen's University

The research is interested in the relationship between the actor and the management control tool. The problem of the dual use of the tool (decontextualized and contextualized) raised by the literature allows us to identify the following research question: To what extent can uses, decontextualized and contextualized, take place jointly? In order to answer this, a theoretical framework inspired by Giddens' (1990, 1991) perspective on modernity is proposed and the analysis of three case studies is presented. The framework makes it possible to better define the processes related to the decontextualized use (sharing, generalization, stability) and those related to the contextualized use (individuality, particularization, modification) of the tools by the actor. Interviews carried out with eight actors from three different organizations allowed us to collect empirical data on the use of three different management control tools. The main contributions are 2 to allow the reconciliation of two currents of literature through a coherent conceptual model of dual use and the emergence of the use validation effort deployed by all management control actors in practice.

Research 6.1.3 - The Blind Spots of Interdisciplinarity.

Erica Pimentel (presenting), Concordia University

Charles H. Cho, York University

Joel Bothello, Concordia University

Discussant: Jean-François Tremblay, Université du Québec à Montréal

When implemented effectively, interdisciplinary research has the potential to generate novel insights that advance our thinking about a particular phenomenon, as well as produce practical impact. Despite decades of calls for such research, research communities are becoming more siloed and less impactful (especially in accounting research). We propose that an unexamined reason for this problem is the diffusion of a particular mode of interdisciplinary research. Specifically, we observe researchers who are trained in accounting, work in accounting departments and publish in accounting journals, yet label themselves as 'interdisciplinary researchers' because they import theories from other fields. This mode, that we term 'identity-based' interdisciplinary accounting

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

research (IAR), is a selective interpretation of what interdisciplinary means, that is, one that capitalizes upon calls for impactful, boundary-spanning work without incurring any of the costs and penalties associated with true interdisciplinary research. This paper aims to highlight the dangers of identity-based IAR, and instead argue that interdisciplinarity should be more of a practice. We argue that IAR can be best achieved through the collaboration of researchers from different fields by integrating the members of a research team's background and training. Our purpose is to demonstrate how the intersection of perspectives from different fields (and different career stages) can enrich scholarly output for multiple stakeholders. We show this 'practice-based IAR' may unfold through different channels, allowing for meaningful and impactful research, effective diffusion and dissemination and an IAR community that encourages interdisciplinary research practices.

Research 6.2 - Auditing 4 - Audit and Governance

Moderator: Michael Favere-Marchesi, Simon Fraser University

This session is generously sponsored by the Stephen A. Jarislowsky Chair in Governance held by Claude Francoeur at HEC Montréal and the Stephen A. Jarislowsky Chair in Corporate Governance held by Michel Magnan, John Molson School of Business, Concordia University / Cette séance est généreusement commanditée par la Chaire de gouvernance Stephen A. Jarislowsky dirigée par Claude Francoeur de HEC Montréal et la Chaire de gouvernance d'entreprise Stephen A. Jarislowsky dirigée par Michel Magnan, Ecole de gestion John Molson, Université Concordia.



Research 6.2.1 - Market for Corporate Control, Auditor Selection and Audit Fees: Evidence from International M&A Laws.

Jay Junghun Lee (presenting), University of Massachusetts

Ahrum Choi, Hong Kong Baptist University
Jeong-Bon Kim, City University of Hong Kong
Jong Chool, Park University of South Florida

Discussant: Bradley Pomeroy, University of Waterloo

We investigate whether and, if so, how the market for corporate control affects auditor selection and audit pricing in a cross-country setting. In so doing, we exploit the staggered enactments of

international M&A laws as an exogenous shock that increases takeover pressure substantially. We find that firms are more likely to choose Big 4 auditors in the post period after the enactment of M&A laws, suggesting that the takeover pressure heightened by the M&A laws increases the demand for audit verification by higher quality auditors. We also show that this law enactment improves financial reporting quality and does so to a greater extent when auditors face higher litigation risk. We further find that improved reporting quality facilitates creditors' and investors' reliance on accounting information, as reflected in greater uses of accounting-based debt covenants and enhanced earnings informativeness, respectively, in the post-law period. Finally, we find that audit fees decrease after the law enactments, suggesting that the fee-decreasing effect of strengthened external governance is greater than its fee-increasing effect associated with the increased demand for audit verification.

Research 6.2.2 - An Investigation into the Audit Committee's Evaluation of the External Auditor.

Bradley Pomeroy (presenting), University of Waterloo

Krista Fiolleau, University of Waterloo
Susan McCracken, McMaster University

Discussant: Jay Junghun Lee, University of Massachusetts

Audit committees are responsible for recommending an audit firm for appointment as the company's external auditor. Most support their recommendation by performing an evaluation of the auditor. In this study, we conduct interviews with audit committee members, auditors, and company managers to investigate the auditor evaluation practices followed by large Canadian public company audit committees. We draw on Callon and Muniesa's (2005) definition of calculation to analyze our findings. We learn the typical practice audit committees follow involves inviting the audit partner and the CFO to a meeting where their responses to questions are compared. We argue this practice allows only for an evaluation of the partner. Put simply, audit committees can only evaluate what they can hear and see in the boardroom. We also document the new practices many audit committees have adopted to produce an evaluation of the broader audit team and the firm by moving these entities to the boardroom.

Research 6.3 - Financial Reporting 11- Bank and Debt Contracting

Moderator: Xiaohua (David) Fang, Florida Atlantic University

Research 6.3.1- Performance Pricing under Human Capital Uncertainty.

Mahfuz Chy (presenting), University of Missouri

Discussant: Xiaoran (Jason) Jia, York University

Exploiting the recognition of the inevitable disclosure doctrine by

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

several states in the U.S., I find that better protection of intellectual capital leads to an increase in the use of accounting-based performance pricing provisions in private lending agreements. The effect is more pronounced for firms that rely more on intellectual capital. The effect is also less pronounced when firms can better enforce non-compete agreements and when the threat of hold-up by borrowers' intellectual capital is more credible. The results suggest that when a firm can better retain its intellectual capital, lenders face less uncertainty about future firm fundamentals. As such, they are more likely to commit to a pre-negotiated pricing schedule and write a more complete contract ex-ante. The evidence sheds light on the contrasting theoretical predictions relating intellectual capital to the use of performance pricing provisions.

Research 6.3.2- Investor Relations and Private Debt Markets.

Nayana Reiter (presenting), University of Toronto

Kimball L. Chapman, Washington University in St. Louis
Ruby Lee, University of Florida
Christopher D. Williams, University of Michigan

Discussant: Mahfuz Chy, University of Missouri

Prior literature documents various benefits of investor relations (IR) activities in public equity and debt markets. We study whether IR is relevant in private debt markets. We find that firms with IR officers have 6.6% (10 bps) lower loan spreads after controlling for common determinants of spreads and firm disclosure. This association is strongest when information asymmetry between the lender and borrower is high and when there are higher levels of financial distress. The magnitude of this relation is larger for firms with long-tenured IR officers and for firms with better public communications. We also find lower likelihood of collateral, fewer performance covenants and lower lead-lender loan allocation for IR firms. Our evidence suggests that the relevance of IR in private debt markets arises through both public and private information channels.

Research 6.3.3 - Fintech Competition and Bank Risk-Taking.

Xiaoran (Jason) Jia (presenting), York University

Discussant: Nayana Reiter, University of Toronto

Using a sample of U.S. community banks and fintech loans data from Lending Club and Prosper, this paper investigates how fintech-induced competition in the consumer lending market influences the changes in risk-taking of incumbent community banks and discusses potential financial stability implications. The main findings are consistent with the "competition-fragility" view that fintech-induced competition erodes bank charter value, increasing the equilibrium level of bank risk-taking. Notably, such risk-increasing effects of fintech penetration are stronger for ex-ante weaker banks, implying that managers in weaker banks tend to have greater risk-shifting incentives. Using accounting measures, this paper documents that fintech penetration is positively associated with the relationship between current period loan growth and future periods' net loan charge-offs and is positively associated with changes in banks'

future loan loss provisions, with the effects of fintech penetration stronger for ex-ante weaker banks. The paper also addresses endogeneity concerns with single state analysis, rules out several alternative explanations, and conducts various robustness tests. Collectively, the results suggest that fintech penetration is more likely to cause financial stability concerns for ex-ante weaker banks.

Research 6.4 - Financial Reporting 12 - Capital Market Research

Moderator: Ke Wang, University of Alberta

Research 6.4.1 - When Earnings Meet Auctions.

Junhao Liu (presenting), University of Toronto

Ole-Kristian Hope, University of Toronto
Danqi Hu, Northwestern University

Discussant: Gulraze Wakil, Ryerson University

Extensive research has studied how earnings news interacts with the continuous trading environment. We provide initial empirical evidence on how auctions, rather than continuous trading, reacts to earnings news (and other financial news) and evaluate the information content of auction-derived earnings announcement returns. Using our laboratory setting from China where the first trade after earnings announcements is a stand-alone opening auction, we argue that auctions have the potential to reveal the market's consensus view on earnings news. We show that auction-derived earnings announcement returns exhibit strong predictability for future stock returns and firm fundamentals. Further analyses suggest that the predictability is more pronounced when the public information environment is opaque. The results imply that the auction mechanism can generate value-relevant signals by extracting the market's consensus views on earnings news in a relatively short window.

Research 6.4.2 - The Misuse of Regression-Based x-Scores as Dependent Variables.

Sudipta Basu (presenting), Temple University

Dmitri Byzalov, Temple University

Discussant: Junhao Liu, University of Toronto

Researchers often use regression-based *x-Scores* (e.g., *C-Score*, *F-Score*, and *Z-Score*) from a stage 1 model as a dependent variable in stage 2. We argue that this *x-Score* analysis causes major biases and interpretation problems because (1) *x-Score* cannot capture new sources of variation, and (2) the estimates are often artifacts of arbitrary technical assumptions. Instead, researchers should just include the test variables and the relevant controls in stage 1, obviating the need for an *x-Score*. We confirm these arguments using simulations. In replication analyses, major published findings change after we remove the bias caused by the misuse of *x-Score*.

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

Research 6.4.3 - The Accruals Anomaly is Not Dead: Canadian Evidence.

Gulraze Wakil (presenting), Ryerson University

Camillo Lento, Lakehead University

Naqi Sayed, Lakehead University

Discussant: Sudipta Basu, Temple University

The accruals anomaly has generated considerable attention after abnormal returns related to accruals were first documented by Sloan (1996). The accruals anomaly has been investigated predominantly in the US setting where it has weakened over the past decade. This study investigates the accruals anomaly in Canada over a 23- year sample period from 1996 to 2018 and finds abnormal hedge portfolio returns of approximately 10 and 12 percent during the whole sample period and the last eight years of our sample period, respectively. Our portfolio abnormal returns; however, are only statistically significant for the larger firms in the S&P/TSX composite index, a subset of firms in the Toronto stock exchange (TSX). This is in contrast to the US where small firms were driving the accruals anomaly. These findings will be useful for academics and investors because prior literature on the accruals anomaly in Canada present inconsistent results and examine a limited number of years. Finally, market efficiency in Canada may improve if investors take advantage of the returns related to accruals.

Research 6.5 - Financial Reporting 6 – Value Relevance

Moderator: Karel Hrazdil, Simon Fraser University

Research 6.5.1 - Does Market Sentiment Affect Investor Information Processing? Evidence from the Credibility of Management Forecasts.

Carlo D'Augusta (presenting), Middle Tennessee State University

Matthew D. DeAngelis, Georgia State University

Andrea S. Kelton, Middle Tennessee State University

Discussant: Sina Rahiminejad, University of Calgary

Reaction to management forecasts is asymmetric (i.e. weaker for good news than bad news) because investors, skeptical of the credibility of good news forecasts, spend more effort in processing the information. Consistent with positive sentiment reducing the effort spent by investors in scrutinizing positive forecast news, we find that the immediate reaction to forecast news is significantly asymmetric only when sentiment is negative; when sentiment is positive, the initial reaction to good news becomes significantly stronger and the asymmetry disappears. Further supporting our hypothesis, cross-sectional analyses show that the effect of

sentiment is stronger in subsamples where investors' have stronger concerns about the credibility of good news. In addition, we also find evidence of post-forecast drift following good news forecasts when sentiment is negative, but not when sentiment is positive or the forecast contains bad news. Together, our findings suggest that investors reduce effortful information processing in periods of positive sentiment.

Research 6.5.2 - Do Note Disclosures Influence Value-Relevance more when Managers Lose Financial Statement Placement Discretion?

Do Note Disclosures Influence Value-Relevance more when Managers Lose Financial Statement Placement Discretion? Evidence from ASU 2011-05.

Matthew Cedergren (presenting), Santa Clara University

Changling Chen, University of Waterloo

Kai Chen, Wilfrid Laurier University

Victor Wang, University of Waterloo

Discussant: Carlo D'Augusta, Middle Tennessee State University

We examine whether financial statement note disclosures play an enhanced role in value relevance when managers lose the ability to convey information via financial statement placement discretion. Specifically, we consider the setting of ASU 2011-05, which removed the option for firms to report other comprehensive income (OCI) in the statement of changes in stockholders' equity. We report two main findings. First, using a larger sample and longer time period than early studies examining ASU 2011-05, we document that, relative to firms that were unaffected by the OCI reporting mandate, firms that changed OCI placement away from the statement of changes in stockholders' equity exhibited greater increases in OCI value relevance after ASU 2011-05 became effective, in line with the FASB's stated goal of raising the prominence of items reported in OCI. Our findings contradict the seemingly puzzling findings of early studies, which documented an incremental decrease in OCI value relevance for these firms. Second, we find that this incremental positive effect for firms that changed OCI placement is enhanced when OCI-related note disclosures are more specific, contain more numerical information, are more readable, are more stable from year to year, and are shorter in length. Collectively, our findings suggest that financial statement placement and note disclosure characteristics interact in a manner such that when managers lose their ability to convey information via their financial statement placement choice, note disclosures become a relatively more important vehicle in the determination of value relevance.

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

Research 6.5.3 - Large Book-Tax Differences, Earnings Persistence, and Investment in Physical and Intangible Assets.

Sina Rahiminejad (presenting), University of Calgary

Mark Anderson, University of Calgary

Rajiv Banker, Temple University

Hussein Warsame, University of Calgary

Discussant: Matthew Cedergren, Santa Clara University

We re-examine the question why large positive and large negative book-tax differences (LPBTDs and LNBTDs) are associated with lower earnings persistence (Hanlon, 2005). Specifically, we investigate whether lower earnings persistence of LPBTDs and LNBTDs, relative to smaller BTDs, is due to earnings management or is a consequence of investments. First, we show that high CAPX (HiCAPX) firms and high R&D (HiR&D) firms are disproportionately represented in the LPBTD and LNBTD sub-samples respectively, whereas high discretionary accrual (HiDA) firms are uniformly distributed across the LPBTD, LNBTD and smaller BTD sub-samples. Next, we find that HiDA firms are associated with lower earnings persistence in all BTD sub-samples, but HiCAPX and HiR&D firms are only associated with lower earnings persistence in the LPBTD and LNBTD sub-samples respectively. Extending the Hanlon model, we demonstrate that the differential earnings persistence associated with LPBTDs and LNBTDs is concentrated in HiCAPX and HiR&D firms respectively.

Research 7.1 - Diversity Session 3 - Accounting Profession **Moderator: Marcia A. Annisette, York University**

Research 7.1.1 - Alessandro Ghio, & Nicholas McGuigan: An Exploration of Queer Spaces and Worldviews in the Accounting Profession.

Alessandro Ghio, & Nicholas McGuigan, Monash University (both presenting)

Discussant: Laurence Daoust, HEC Montreal

This paper explores LGBTQ accountants' worldviews to rethink the relationship between agency and structure for LGBTQ accountants. Drawing on queer theory and Lefebvre sociological approach to space, we dismantle the perceived apparent high level of normativity and the heteronormative dominating style in accounting firms by unravelling queer spaces. LGBTQ accountants' life experiences shape the way they live, perceive and conceive the world. The views of LGBTQ accountants contribute to questioning the current system of decisions, generating opportunities for counter-hegemonic and innovative processes. However, we also identify the persistence of (active or passive) compliance to the existing heteronormative structures in accounting firms among some LGBTQ accountants. Our findings, thus, suggest that gender appropriation of alternative

views, such as queer ones, has contributed for a long time to the idea of a unique heteronormative space within accounting firms. Finally, we provide evidence that diversity initiatives in accounting risk to recreate spaces dominated by new norms and preclude multiple 'others'.

Research 7.1.2 - Big 4 Professionals in Non-Big 4 Firms: Deviant Trajectories, Habitus Adjustment, and Capital Mobilization.

Laurence Daoust (presenting), HEC Montreal

Candice T. Hux, Northern Illinois University

Aleksandra B. Zimmerman, Florida State University

Discussant: Alessandro Ghio, Monash University

This paper conducts a mixed-method study to examine: (1) How do Big 4 senior professionals experience the exit from a Big 4 firm to a non-Big 4 firm? (2) How do they adjust to their new firm? and (3) How do they mobilize their Big 4 experience to contribute to non-Big 4 firms? Rooted in a theoretical framework based on Bourdieusian scholarship, we study the downward move of senior professionals from prestigious Big 4 accounting firms to less recognized non-Big 4 accounting firms. Our study extends the literature by documenting the movements of senior professionals between different accounting firms, which highlights the non-linear nature of careers in accounting firms. Our findings also contribute to the Bourdieusian studies by focusing on the downward deviant trajectory of professionals, a phenomenon that has received little attention in Bourdieu's work. Finally, we contribute to the literature by showing how non-Big 4 firms rely on the capital of former Big 4 professionals to strengthen their position in the field and to compete with Big 4 firms.

Research 7.2 - Financial Reporting 13 - Institutional Investors **Moderator: Li Yao, Concordia University**

Research 7.2.1 - Xiaoyin Wei: The Impact of CEO's Social Capital on China's Qualified Foreign Institutional Investors' Blockholdings.

Xiaoyin Wei (presenting), Queensland University of Technology

Ellie Chapple, Queensland University of Technology

Natalie Elms, Queensland University of Technology

Yanyan Huang, Jinling Institute of Technology

Discussant: Duo Pei, Rutgers Business School

The phenomenon of underinvestment in foreign equity securities is widely acknowledged as equity home bias in capital markets. This research investigates whether the social capital of Chief Executive Officers (CEOs) is a factor affecting the investment decisions of qualified foreign institutional investors (QFIIs). A sample of 2671 firms from the Shanghai and Shenzhen stock exchanges (A-class

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

shares) covering the period 2014-2018 is used, totalling 10736 firm-year observations. Using criteria developed for measuring social capital, namely CEOs' elite university network (i.e. CEO's elite networks from the top 2 universities in China—Peking University & Tsinghua University) and political connections (i.e. CEOs' formal position interlock & political background), this findings show that there is significant relation between CEO's social capital and QFII's investment preferences. Moreover, this research confirms that QFIIs prefer cross-listed firms with higher capitalization and enhanced performance, using the proxy return on assets (ROA) for firm performance.

This study speaks to both literature and practice. First, the results show that China's market differs from other markets, and the impact of CEO's political connections on foreign institutional investors' block holdings is more pronounced in China. For example, previous research conducted in France shows that CEO's political ties are positively correlated with foreign institutional investors' block holdings, but the relation is not statistically significant. Second, the findings of this research contribute to the capital market effects of senior executives and offer new insights as to the signalling role of CEO's social capital to QFIIs. Third, the research develops an advanced framework for measuring board social capital, which may be used for other senior executives and employed in future research. The analysis will have implications for investors, policymakers, as well as firms in the Chinese capital market as CEO's social capital may become a potential channel to influence foreign capital attraction.

Research 7.2.2 -A Safe Haven for Retail Investors: The Influence of Passive Institutional Ownership on Analyst Optimism.

Jingxin Hu (presenting), Syracuse University

Discussant: Xiaoyin Wei, Rutgers Business School

We investigate how passive institutional ownership affects analyst optimism. An increase in a firm's passive institutional ownership implies that some retail investors migrate to passive funds. As prior literature shows that retail investors are most responsive to analysts' forecasts, the migration means less audience responding to analysts' optimistic forecasts. We predict that analysts have less incentive to issue optimistic forecasts for firms with higher passive ownership. Using the Russell index setting to isolate exogenous shocks to passive ownership, we find that higher passive ownership is associated with lower analyst optimism in stock recommendations and earnings forecasts, and that the effects fade away over time. We also document stronger market reactions to favorable recommendations and earnings forecast revisions for firms with higher passive ownership. Further tests indicate that firms have lower income-increasing discretionary accruals and a lower likelihood of restatement after increases in passive ownership, suggesting that the reduced analyst optimism weakens the incentive to manage earnings upward.

Research 7.2.3 - The Devil is in the Details: Firm-Specific or Market Information in Shareholder Activism.

Duo Pei (presenting), Rutgers Business School

Discussant: Jingxin Hu, Syracuse University

This study measures how shareholder activism may change market participants' processing and incorporation of different types of information. Specifically, I examine the earnings response coefficient (ERC), price delay, and probability of informed trading (PIN), which capture the usage of firm-specific public information, public market-wide information, and firm-specific private information, respectively. I find an increase in ERC, price delay, and PIN during shareholder activism. The increase in ERC may be encouraged by management providing better information in the form of longer 10-Qs. Price delay further increases for activist targets which have an activist on the board of directors. The findings are consistent with a slower reflection of publicly available market-wide information and investors engaging in more public and private firm-specific information processing. Investors appear to substitute more general information with focused information about activist targets in their trading decisions.

Research 7.3 - Financial Reporting 14 - Management Forecasts

Moderator: Irene Gordon, Simon Fraser University

Research 7.3.1- Luminita Enache: Disclosure of Qualifying Information.

Scarlett (Xiaotong) Song, (presenting) University of New Hampshire

Luminita Enache, University of Calgary
Lynn Li, Boston, University
Edward J. Riedl, Boston University

Discussion: Ken Li, McMaster University

This paper tests the theory of qualifying information. This theory, reflected in Einhorn (2005) and Ebert, Simons, and Stecher (2017), assesses a firm's supplemental voluntary disclosure upon receiving a private signal, which must be truthfully revealed. In particular, this theory states that firms faced with bad (good) private signals are incentivized (lack incentives) to reveal additional information to mitigate the former's negative valuation implications. We test this theory in the biotechnology industry using two settings: the issuance of 8-K filings, which reveal the Food and Drug Administration (FDA) decision on a product passing or failing a stage of development; and firms' quarterly earnings announcements. Consistent with this theory, we document that firms receiving bad signals (i.e., FDA rejections) are more likely to provide additional disclosure about other products under development in both the 8-K and earnings announcement, relative to firms receiving good signals (i.e., FDA approvals). We further document market consequences of this

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

disclosure strategy, with attenuated negative market reactions for firms announcing bad signals (FDA rejections) that also provide additional disclosure.

Research 7.3.2 Does Political Uncertainty Restrain Informative Disclosure?

Marwa Soliman (presenting), University of Ottawa

Discussant: Irene Gordon, Simon Fraser University

I examine the effect of political uncertainty on firms' narrative disclosure during conference calls. Using Hassan et al. (2019) firm level political risk measure as a proxy for managers' perception of political uncertainty, I find that political uncertainty is positively associated with a firm's complex disclosure. To further understand the nature of this complexity, I follow Bushee et al. (2018) approach to decompose linguistic complexity into two latent components: "information" and "obfuscation". I find that political uncertainty significantly increases the obfuscation component in narrative disclosure but has no impact on the information component. The results are consistent with the obfuscation hypothesis, suggesting that disclosure complexity during high political uncertainty periods is a managerial choice rather than an operational necessity. Additional analysis reveals that firms experience deterioration in the subsequent performance, suggesting that providing complex disclosure might be a tactic of impression management to mask poor future performance to mislead investors about firm fundamentals. In a cross-sectional analysis, I find that asset redeployability negate the positive association between political uncertainty and obfuscation disclosure, suggesting that firms with more redeployable assets can better manage uncertainties. Supporting the obfuscation hypothesis during high political uncertainty periods, I find that managers also tend to use other disclosure techniques including providing more ambiguous tone, scripted and shorter Q&A section of the calls, as well as other disclosure channels (10-Ks and 10-Qs). Moreover, I find that managers provide more forward-looking information in response to the increased demand for information by outsiders when political uncertainty is heightened. Overall, the findings suggest that managers alter firm disclosure structure to manage firm level political uncertainty.

Research 7.3.3 - A Firm-Specific Measure of Non-GAAP Exclusion Quality.

Ken Li (presenting), McMaster University
Kurt H. Gee, Pennsylvania State University
Benjamin C. Whipple, University of Georgia

Discussant: Marwa Soliman, University of Ottawa

We create a new firm-specific measure of quarterly non-GAAP exclusion quality. Although prior research provides on-average evidence about exclusion quality, firm-specific exclusion quality measures are generally unavailable or coarsely defined. Nevertheless, firm-specific measures of quality are necessary to

identify individual firms that disclose non-GAAP earnings for informative versus aggressive reporting purposes. Prior research interprets the association between firms' non-GAAP exclusions and future operating performance, which we refer to as "exclusions persistence," as an important measure of exclusion quality. We use a machine learning approach to create an ex-ante prediction of an individual firm's quarterly non-GAAP exclusions persistence. Our new measure has significant predictive ability, and is superior to existing exclusion quality measures, in distinguishing firms based on the persistence of their exclusions. We also provide evidence on several applications that are difficult to implement without a firm-specific exclusion quality measure, including: (1) identifying, and distinguishing between, individual firms with high and low non-GAAP exclusions persistence, (2) examining whether investors misprice non-GAAP exclusions based on the level of exclusion persistence, and (3) identifying settings where non-GAAP earnings underperforms GAAP earnings in predicting future performance.

Research 7.4 - Environmental Disclosure

Moderator: Gordon Richardson, University of Toronto

This session is generously sponsored by the Ted Rogers School of Management at Ryerson University



Research 7.4.1- Value Relevance of Carbon Emissions and Disclosures: The Role of Materiality.

Shira Cohen (presenting), San Diego State University

Discussant: Jody Grewal, University of Toronto

This paper is the first to explore whether investors incorporate materiality when valuing firm-level GHGE and whether materiality influences the value relevance of voluntary GHGE disclosures. Although climate risk is increasingly recognized as a financial risk to investors, investor ability to assess financial exposure to climate risk depends on firm disclosures. The perceived weak regulatory enforcement of mandatory disclosures has left investors relying on voluntary disclosures. Existing studies are inconclusive as to whether the voluntary disclosure of climate risk is associated with firm valuation. Using the SASB materiality standards, I examine S&P 500 firms that voluntarily disclose climate risk to the CDP and find that investors differentially value GHGE conditional on whether it is financially material. Investors reward climate risk transparency when the impact on financial performance is nonmaterial, but further discount firm value when the information disclosed is material. In turn, managers respond rationally in their disclosure choice: GHGE-material firms are less likely to voluntarily disclose information, as

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

doing so further penalizes firm value. This study is particularly relevant to the growing conversations on climate risk disclosure regulation and sheds light on the continued drive among institutional investors for enhanced climate risk disclosure regulation.

Research 7.4.2 - Adverse Climate Incidents and Bank Loan Contracting.

Karel Hrazdil (presenting), Simon Fraser University

Deniz Anginer, Simon Fraser University

Jiyuan Li, Simon Fraser University

Ray Zhang, Simon Fraser University

Discussant: Shira Cohen

We investigate how a borrower's adverse climate-related incidents affect bank loan contracting. Using a sample of 2,622 publicly traded US firms over the period 2000–2016, we construct event-based measures of corporate climate performances based on firm-level adverse climate incidents such as oil spills, excess carbon emissions and deforestation projects. We show that loans initiated after the occurrence of firms' first adverse climate-related incidents have significantly higher spreads, shorter maturities, more covenant restrictions, and higher likelihood of being secured with collateral. In cross-sectional tests, we find that the intensity and influence of adverse climate related incidents exacerbate the pricing of bank loans. Our results support the notion that banks incorporate firm-specific climate performance into their lending contracts.

Research 7.4.3 - Greenwashing and the Cost of Equity Capital: International Evidence.

Amna Chalwati (presenting), Saint Mary's University

Sadok El Ghoul, University of Alberta

Samir Trabelsi, Brock University

Discussant: Karel Hrazdil, Simon Fraser University

We investigate whether greenwashing can be costly to shareholders and firms in terms of capital raising costs. Using estimates of the cost of equity capital implied by analyst earnings forecasts and growth rate for a sample of 3,936 firms from 48 countries, we find strong, robust evidence that the cost of equity is increasing in greenwashing level, while controlling for other firm-level characteristics. This core finding persists after controlling for multiple risk factors and country fixed effects in our main regression model and after performing additional tests, which aim to control for correlated omitted variables and endogeneity concerns.

Research 7.4.4 - Science-Based Carbon Emissions Targets.

Jody Grewal (presenting), University of Toronto

David Freiberg, Harvard Business School

George Serafeim, Harvard Business School

Discussant: Amna Chalwati, Saint Mary's University

We examine the effect of voluntarily adopting a standard for setting science-based carbon emissions targets on target difficulty and investments to achieve those targets. We find that firms with a track record of setting and achieving ambitious carbon targets are more likely to set science-based targets. Firms are also more likely to set science-based targets if they perceive climate change-related risks and have carbon-intensive operations. Using a difference-in-differences research design that compares the science and non-science targets of a firm, we find that targets become more difficult when firms adopt the science-based standard for the target, consistent with the standard increasing target difficulty and inconsistent with firms relabeling their existing targets. The increase in target difficulty is accompanied by more investment in carbon reduction projects and higher expected emissions and monetary savings from these projects. Given that the science-based standard is determined externally of the adopting organization, our results suggest that external standards for target setting could have both target and investment effects.

Canadian Academic Accounting Association 2021 Annual Conference

Congrès annuel 2021 de l'Association canadienne des professeurs de comptabilité

Research 7.5 - Séance en français 2 - Audit et gouvernance
Moderator: Anne Fortin, Université du Québec à Montréal

This session is generously sponsored by the Stephen A. Jarislowsky Chair in Governance held by Claude Francoeur at HEC Montréal and the Stephen A. Jarislowsky Chair in Corporate Governance held by Michel Magnan, John Molson School of Business, Concordia University / Cette séance est généreusement commanditée par la Chaire de gouvernance Stephen A. Jarislowsky dirigée par Claude Francoeur de HEC Montréal et la Chaire de gouvernance d'entreprise Stephen A. Jarislowsky dirigée par Michel Magnan, École de gestion John Molson, Université Concordia.



Research 7.5.1 (In French) - Audit des divulgations qualitatives en responsabilité sociétale : la formation de l'opinion de l'auditeur.

Vincent Gagné (présente), Université de Sherbrooke
Sylvie Berthelot, Université de Sherbrooke
Claudia Génier, Université de Sherbrooke

Intervenante : Annie Lecompte, Université du Québec à Montréal

L'importante croissance de la demande pour de l'information non-financière de qualité engendre des défis importants pour la profession comptable. En effet, une part importante des informations non-financières divulguées est de nature qualitative et le manque de précision des normes de missions de certification qui concernent de telles informations soulève des doutes quant à la pertinence et la fiabilité de l'information divulguée. Afin de mieux comprendre le processus d'audit d'informations qualitatives non-financières, nous avons étudié 22 rapports d'auditeurs exprimant une opinion sur de telles divulgations. Nos résultats démontrent qu'en fonction des normes d'audit actuelles, la formation d'une opinion sur des divulgations qualitatives est possible sous certaines conditions, bien que le niveau d'assurance fourni ne puisse être élevé que lors de l'audit d'indicateurs spécifiques. Notre modèle conceptuel de l'audit d'informations nonfinancières qualitatives approfondit notre compréhension des processus d'audit d'informations nonfinancières qualitatives et renseigne les organisations de normalisation de même que les praticiens sur le fonctionnement de ce type particulier

de mission de certification.

Research 7.5.2 (In French) - Lisibilité des pratiques de rémunération des hauts dirigeants canadiens et qualité de la gouvernance.

Caroline Talbot (présente), Université Sherbrooke
Michel Coulmont, Université de Sherbrooke
Sylvie Berthelot, Université de Sherbrooke

Intervenante : Melissa Fortin, Université du Québec à Montréal

Cette étude examine les liens entre la qualité des pratiques de gouvernance et la lisibilité des rapports de rémunération des hauts dirigeants. Les analyses ont été réalisées en ayant recours à un échantillon d'entreprises canadiennes inscrites à la Bourse de Toronto et incluses dans le classement du Corporate Governance Index du journal The Globe & Mail. L'étude est conduite sur un échantillon de 533 rapports de rémunération couvrant les années 2016 à 2018. À l'aide d'outils mesurant la lisibilité provenant du domaine de la psychologie, les résultats montrent que la qualité de la gouvernance semble contribuer à la lisibilité des rapports de rémunération de la haute direction.