

Session 1.01: TECHNOLOGY-RELATED LITIGATION JUDGMENTS
DATE: FRIDAY, OCTOBER 8, 2021
TIME: 1:45 PM - 3:15 PM

The Ticking Time Bomb: Population Testing and Jurors' Assessments of Auditor Negligence

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ABSTRACT: Audit data analytics (ADA) allow auditors to examine entire populations of client data for anomalies (i.e., population testing). While population testing has the potential to enhance the quality of audits, little research exists regarding its implications on auditor liability. Accordingly, we conduct an experiment to examine the possibility that population testing creates significant litigation exposure when materially misstated transactions are flagged as anomalies but not selected for further testing (a “ticking time bomb” according to an interviewed audit practitioner). Combining theory on counterfactual reasoning and persuasion, we predict that when the audit approach is framed as data-driven, jurors will assess higher auditor negligence when misstatements were initially flagged as anomalies by the ADA (vs. not flagged), but this effect is reduced when the audit approach is framed as risk-based. Results are stronger than expected as framing the audit approach as risk-based not only reduces but eliminates the litigation exposure associated with flagged but not tested transactions (i.e., defuses the time bomb that manifests with data-driven framing). Cumulatively, our study demonstrates how the description of the audit approach influences jurors’ auditor negligence assessments, and the litigation exposure associated with ADA. These results have important implications for audit practice and regulation, future research, and the legal system.

Session 1.01: TECHNOLOGY-RELATED LITIGATION JUDGMENTS
DATE: FRIDAY, OCTOBER 8, 2021
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When Does Reliance on Technology Elevate Auditor Liability?

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ABSTRACT: Audit firms continue to make large investments in advanced audit technologies. While the intent of these investments is to enhance audit effectiveness and efficiency, concerns have been expressed about the potential for elevated auditor liability due to well-documented psychological aversions to use of technology in judgment and decision-making. Melding theories on attribution and counterfactual thinking, we predict that reliance on technology will only result in elevated liability when the audit task is relatively subjective, thereby requiring professional judgment, and this effect will be larger when the undetected misstatement is due to management fraud (vs. error). For objective tasks, requiring little to no judgment, we predict no effect on auditor liability. Results from two experiments with jury-eligible individuals support these predictions as we only observe elevated liability for subjective audit tasks involving management fraud. In other words, jurors are generally receptive to reliance on technology, but do not view technology as an adequate replacement when auditors need to simultaneously exercise professional judgment and detect cues of management deception. Although more research is necessary, including the efficacy of various defense tactics, our study should give practitioners a degree of comfort that technology reliance will only elevate auditor liability under specific conditions.

Session 1.01: TECHNOLOGY-RELATED LITIGATION JUDGMENTS
DATE: FRIDAY, OCTOBER 8, 2021
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Disclosure Timeliness and Jurors' Liability Assessments: The Impact of Delayed Cybersecurity Disclosures and Management Justifications

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ABSTRACT: This study examines the impact of disclosure timeliness and the management justifications on jurors' liability assessments. The purpose of this study is to determine how the characteristics and content of cybersecurity incidents' disclosures impact jurors' liability assessments. Specifically, this study explores how jurors react to management forthcomingness (i.e., timeliness) in disclosing the incident and the plausibility of the explanations provided to justify the disclosure strategy (i.e., timing). We predict and find that more timely disclosures lead to more favorable assessments of causal attribution and liability and that assessments of causal attribution mediate the relationship between disclosure timeliness and liability. We also find evidence that the use of plausible (implausible) justifications lead to stronger (weaker) beliefs that the company is to be blamed for the disclosure timing. The evidence suggests that plausible justifications help mitigate the negative effect of delayed disclosure on assessments of causal attribution and liability, but this effect is not consistently observed when a disclosure is made in a timely manner. This study has relevant implications to the accounting literature and theory on disclosure timeliness and the use of remedial tactics to reduce litigation. This study is also relevant in light of the increased incidence of cybersecurity attacks and the associated cost of litigation.

Session 1.02: DISCLOSURE PRESENTATION EFFECTS
DATE: FRIDAY, OCTOBER 8, 2021
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Emotion Suppression in Firm Disclosures

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ABSTRACT: Emotional expressions convey information above and beyond the actual information content in an interaction. Motivated by firms' desire to avoid unintentionally revealing information in disclosures, we study the effects of managers suppressing emotion in their vocal delivery. In our main experiment, we show that emotion suppression is effective, in that investors perceive disclosures as sounding less emotional when managers attempt to limit the emotion in their voices. However, we also show that attempting to suppress emotion in disclosures causes managers to sound less natural. In a supplemental experiment, we find that emotion suppression reduces perceptions of managers' competence and trustworthiness—two important components of manager credibility. Our results suggest that managers' efforts to limit emotion in their voices, a likely consequence of firms' preparation for disclosures, may have unintended consequences. Our study contributes to the literature on the qualitative characteristics of disclosures and has practical implications for managers attempting to manage these characteristics.

Session 1.02: DISCLOSURE PRESENTATION EFFECTS
DATE: FRIDAY, OCTOBER 8, 2021
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The Effect of Disclosure Readability on Lending Decisions

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ABSTRACT: This paper examines the effect readability has on the perceived creditworthiness of borrowers. We find that reduced readability increases the likelihood that borrowers objectively deserving of an unfavorable credit rating will not receive one. We also find that the overall financial health of a borrower with low creditworthiness is viewed more favorably when the nonfinancial information the borrower provides possesses a low degree of readability. Additionally, when the readability of a borrower's nonfinancial information is relatively low, the self-reported accuracy with which respondents understood the borrower's nonfinancial information decreases. Finally, regarding affect, when participants received materials with a high degree of readability, respondents in conditions involving borrowers with low creditworthiness (as opposed to borrowers with high creditworthiness) reported higher levels of overall positive affect. This greater amount of positive affect was driven by lower levels of negative affect rather than higher levels of positive affect, a phenomenon potentially linked to emotional suppression employed by participants in their role as a loan officer.

Session 1.02: DISCLOSURE PRESENTATION EFFECTS
DATE: FRIDAY, OCTOBER 8, 2021
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Investor Judgments: Linking Dependent Measures to Constructs

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ABSTRACT: The literature on investor judgments and decisions has grown substantially in recent years. With that growth has come an increase in the number and types of dependent measures used by researchers, but the construct validity of these measures has received relatively little attention. In this paper, we first survey the literature to understand the types of dependent measures typically used by researchers. We then conduct factor analyses to uncover linkages between the dependent measures and investor judgment constructs. Our results suggest that, while the wide variety of dependent measures used by researchers can appear on their face to represent many nuanced economic constructs, these measures load onto three distinct factors that represent inputs to investors' decision-making process. The three factors relate to (1) expectations regarding future firm performance and value, (2) investment preferences towards and general perceptions of the firm, and (3) evaluations of the risk associated with investing in the firm. Based on this empirical data, we conclude with a discussion of the implications of our findings for future research on investor judgments and provide recommendations to guide experimental researchers, reviewers, and editors as this literature continues to move forward.

Session 1.03: ORGANIZATIONAL VALUES AND CONTRACT FRAMING
DATE: FRIDAY, OCTOBER 8, 2021
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Because I Care: The Effect of Superiors' Value Congruence and Compensation Scheme on Target Setting in Social Mission Organizations

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ABSTRACT: This study experimentally examines the effects of superiors' value-congruence and compensation scheme on target setting. Value congruence is the degree to which superiors personally value the social mission of the organization they work for, such that value congruent superiors personally value the social mission of the organization more than non-value congruent superiors. To motivate subordinates to fulfill the mission of the organization, we predict and find value congruent superiors set higher targets for their subordinates than non-value congruent superiors when paid a fixed wage. We also predict and find performance-based pay moderates the effect of value congruence leading value-congruent and non-value congruent superiors to set similar targets. Lastly, we find our results are driven by superiors with high levels of benevolence. Our findings provide social mission organizations insight into tailoring management compensation schemes for superiors with different levels of value congruence.

Session 1.03: ORGANIZATIONAL VALUES AND CONTRACT FRAMING
DATE: FRIDAY, OCTOBER 8, 2021
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Fit for Purpose: The Effect of Informal Control Communication Style and Contract Frames on Employee Goal Alignment

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ABSTRACT: Firms often use informal controls such as vision statements as a way to elicit desirable behavior from employees. Yet, companies vary significantly in terms of how they communicate their vision statements, either as ideals emphasizing the overall values and strategies or as guidelines prescribing day-to-day practices. To better understand when vision communication can be most effective, we conduct an experiment to investigate how different communication styles in vision statements interact with formal contract frames in aligning employee behavior with organizational goals. Results suggest that employees are more likely to forgo self-interests and act in the best interest of the company when they experience a high fit between vision communication and contract frame. Specifically, when i) overall ideals are paired with bonus-framed contracts or ii) detailed practices are paired with penalty-framed contracts, vision communications are most effective in aligning employee behavior with organizational goals. Our findings suggest that no single style of disseminating organizational visions dominates, but instead must be implemented in tandem with a congruent formal contract frame.

Session 1.03: ORGANIZATIONAL VALUES AND CONTRACT FRAMING
DATE: FRIDAY, OCTOBER 8, 2021
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To Give Up or Not to Give Up: The Effect of Contract Frame and Target Difficulty on Effort Provision and Performance

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ABSTRACT: Bonus contracts are often used in practice but can create incentives for gaming. Penalty contracts are growing in popularity as they can provide the benefit of motivating greater effort than bonus contracts. However, we do not have a clear understanding of how individuals are motivated by penalty contracts at different target levels in relation to bonus contracts. We experimentally evaluate the effects of contract frame and target difficulty on effort provision and performance. Building from Prospect Theory, we predict and find that subordinates working under a penalty contract show greater giving up behavior than those working under a bonus contract when given a high target, but not with a low target. Notably, however, subordinates who do not give up show higher performance under a penalty compared to a bonus contract when given a high target, but lower performance when working towards a low target.

Session 1.04: SOCIAL INTERACTIONS ACROSS FIRM HIERARCHIES
DATE: FRIDAY, OCTOBER 8, 2021
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Tend to One's Own House: The Effect of Firm CSR on Employee Effort

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ABSTRACT: We examine how employee effort is affected by the firm's corporate social responsibility (hereafter CSR) actions. We expect how employees are treated by the firm (well or poor) and employees' perception that CSR uses transferable resources to determine their effort response to CSR. Specifically, we expect that when employee treatment is poor and employees perceive that CSR uses transferable resources, employees will react negatively to CSR because they will view the firm's CSR actions as unfair. However, we expect employees' will not respond negatively to CSR when employees are treated well or if they do not perceive CSR actions as using transferable resources. Results support our expectations and our theory. That is, we find that employees respond negatively to CSR only when they are treated poorly by their firm and CSR uses transferable resources. In line with our underlying theory we find that these effects are driven by employees' perceptions of firm fairness. Our study suggests that firms may wish to consider how they are treating their employees before expending resources on CSR actions that benefit external parties.

Session 1.04: SOCIAL INTERACTIONS ACROSS FIRM HIERARCHIES
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The Behavioral Effects of Remote Work on Budget Reporting under Managers' Approval Authority in Hierarchical Organizations

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ABSTRACT: We experimentally investigate the behavioral effects of the remoteness of hierarchical work settings (owners, managers, and employees) on employees' and managers' budget reporting behavior when managers hold the authority to approve or reject employees' reports. The remoteness of work settings influences perceived psychological distance from the reporting task, which affects the abstractness/concreteness of individuals' construal level and, in turn, their decision making. When contemplating budget reports under managers' approval authority, employees are more likely to focus on moral values if the distance from the reporting task is far (remote settings) than if the distance is near (non-remote settings). Similarly, when exercising approval authority, managers may have higher levels of empathy toward owners in remote settings than in non-remote settings. Consistent with our theory, experimental results show that employees report more truthfully when approval authority is present than when it is absent, but only in remote work settings. Managers report more truthfully when they hold approval authority than when they do not hold the authority, again only in remote work settings. We discuss the implications of our findings for research and practice.

Session 2.01: THE AUDIT PRODUCTION PROCESS
DATE: FRIDAY, OCTOBER 8, 2021
TIME: 3:45 PM - 5:15 PM

Improving Auditors' Review of Inconsistent Audit Evidence

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ABSTRACT: We examine whether a promotion focus improves audit reviewers' detection of conclusion deficiencies, which occur when auditors fail to integrate their individual audit test work into their holistic evaluation of account balances. These deficiencies are particularly concerning when the audit evidence set includes inconsistencies. A promotion focus is a frame of mind that broadens attention and encourages big picture thinking, whereas a prevention focus narrows attention and emphasizes avoiding mistakes. In two experiments, we provide evidence that a promotion focus improves reviewers' detection of conclusion deficiencies when considering inconsistent evidence. Specifically, we find that a promotion focus increases reviewers' identification of inconsistencies among evidence items and the extent to which they link these items to their evaluations of the overall sufficiency of evidence. Moreover, promotion focused reviewers are more likely to communicate inconsistent evidence to the engagement manager. Communicating issues for follow-up is important because quality control necessitates either conducting additional procedures or proposing an adjustment. In sum, we find that an intervention encouraging a promotion focus improves auditors' review of complex evidence sets containing items that are inconsistent with client assertions.

Session 2.01: THE AUDIT PRODUCTION PROCESS
DATE: FRIDAY, OCTOBER 8, 2021
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Power and the Audit Senior Associate

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ABSTRACT: Audit senior associates play a critical role in the audit process, yet we know comparably little about how modern seniors define their organizational role. In an analysis of interview data from 22 US-based audit seniors, we identify three key sub-roles that seniors occupy that vary in the control seniors have over the valued resources of time and information. We apply recent theoretical work on the psychology of power that characterizes power as “asymmetric control over valued resources” to analyze how each sub-role’s conflicting behavioral norms and motivations influence auditor behavior, with downstream consequences for audit quality. By applying this theoretical lens to analyze how seniors view their day-to-day work as essential to the audit, we contribute not only to distinguishing the senior role as one where seniors juggle competing expectations and motivations while establishing themselves as knowledgeable professionals, but also to a broader understanding of the psychology of power in a rich organizational context.

Session 2.02: REPORTING ACCURACY: CAUSES AND CONSEQUENCES
DATE: FRIDAY, OCTOBER 8, 2021
TIME: 3:45 PM - 5:15 PM

*How Financial Statement Restatements and Voluntary Product Certifications
Influence Consumer Purchasing Intentions*

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Adi Masli
University of Kansas

Chad Matthew Stefaniak
University of South Carolina

ABSTRACT: Restatements are widely studied in prior literature and associated with a plethora of negative outcomes. However, prior literature is silent on whether consumers concern themselves with management's ability to provide reliable financial information and what downstream effects this inability has on perceptions of the company's products. Using real-world consumers of credence goods, we conduct an experiment to investigate the effects of restatements and third-party voluntary, non-financial certification on consumers' purchasing intentions and organizational legitimacy perceptions. Organizational legitimacy perceptions are particularly relevant for producers of credence goods as consumers cannot determine product quality, even after consumption. We find misstatements serve as surrogate indicators of product quality and are detrimental to consumers' purchasing intentions and organizational legitimacy perceptions. Voluntary third-party certification fully (partially) mitigates the negative effects of error (irregularity) misstatements on consumer purchasing intentions, not by restoring consumers' organizational legitimacy perceptions but by providing additional product and/or production process quality information.

Session 2.02: REPORTING ACCURACY: CAUSES AND CONSEQUENCES
DATE: FRIDAY, OCTOBER 8, 2021
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The Effect of Uncertainty about Future Accounting Standards on Financial Reporting Quality

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ABSTRACT: Financial statement preparers often make accounting judgments with considerable uncertainty about what future accounting standards will require. We conduct a study in the experimental economics tradition to investigate how such uncertainty affects preparers' current period accounting estimates. Compared to preparers who know with certainty that future standards will allow them to benefit from reporting a biased accounting estimate in the present, we find that preparers who face uncertainty about future standards arrive at less biased estimates. We further find that this reduction in bias reflects a behavioral response from preparers that is in conflict with their wealth-maximizing financial incentives. Moreover, we find evidence that uncertainty about future standards causes preparers to rely more on their unbiased private information about estimate value, and focus less on the potential benefits of biased reporting. Although uncertainty associated with standard setting is often criticized, our theory and results suggest that increased financial reporting quality is an unanticipated benefit of the uncertainty that naturally arises from a deliberative and inclusive standard setting process.

Session 2.03: DECISION-MAKING IN THE PRESENCE OF AMBIGUITY AND UNCONTROLLABLE EVENTS

DATE: FRIDAY, OCTOBER 8, 2021

TIME: 3:45 PM - 5:15 PM

It's Not Always Black and White—Identifying Managers Who Perceive and Use Ambiguity in Accounting to Their Advantage

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ABSTRACT: Prior research suggests that ambiguous situations offer an opportunity for managers to make self-serving decisions. We extend this research by identifying managerial characteristics that are associated with enhanced perceptions of ambiguity in accounting standards. Specifically, we find that managers with higher [lower] narcissism and higher [lower] construal mindset perceive accounting standards to be more (less) ambiguous. We also document the pervasive impact that impulsivity registers in moderating the influences of mindset and narcissism. In doing so we help explain recent, novel findings in psychology research. Supplemental path analysis further documents that perceived ambiguity is a significant mediating factor between these trait characteristics and self-serving earnings management choices. Our findings not only contribute to a better understanding of who may be more inclined to engage in untoward decision-making but also may prove useful in corporate governance.

Session 2.03: DECISION-MAKING IN THE PRESENCE OF AMBIGUITY AND UNCONTROLLABLE EVENTS

DATE: FRIDAY, OCTOBER 8, 2021

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Performance Effects of Insulating and Non-Insulating Cost Allocations

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ABSTRACT: Despite improvements in the ability to track or trace costs to individual business units, firms still often allocate significant amounts of common costs between units for several purposes, including decision-making and control. Thus, the selection of appropriate allocation bases and methods represent important control choices for firms. One decision firms must make in this regard is whether allocations will be insulating or non-insulating. Non-insulating cost allocations distribute costs ex post based on same-period relative performance, creating a contemporaneous interdependency between managers. Conversely, insulating cost allocations distribute costs ex ante and are independent of relative performance during the period. Theory suggests this fundamental difference is likely to affect managers' perceptions and behavior in important ways. In an experiment, we predict and find that performance is lower when managers are allocated common costs via a non-insulating cost allocation as compared to when costs are allocated via an insulating allocation. We also predict and find that, under an insulating cost allocation, performance is lower when a negative uncontrollable event occurs that reduces the return to managers' effort. However, the shock-absorbing, interdependent nature of the non-insulating allocation leads to performance increases in the presence of such an event. Our study helps inform managers of some of the costs and benefits of different cost allocations.

Session 2.03: DECISION-MAKING IN THE PRESENCE OF AMBIGUITY AND UNCONTROLLABLE EVENTS

DATE: FRIDAY, OCTOBER 8, 2021

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When Less is More: The Effect of Decision Rights and Performance-Dependent Incentives on Creativity

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ABSTRACT: Using an experiment, we examine how the allocation of decision rights over selecting most creative output and the form of incentive scheme interact to influence creative performance. The literature commonly assumes unrestricted decision rights lead to higher creativity. We propose that this is not necessarily the case. Specifically, we draw on literature on decision rights, creativity, and satisficing. We propose that giving employees decision rights over selecting the most creative output leads to less creativity due to employees satisficing and settling for less creative output. This is due to the uncertain nature of creativity, which makes it difficult to assess one's creative output. We find for performance dependent incentives (creativity-dependent incentive scheme), the quantity and creative quality of output is lower when employees have decision rights over selecting the most creative output versus the absence of such decision rights. We do not observe such an effect for fixed compensation. Supplemental analyses show that our findings are consistent with a process whereby employees with decision rights consistently check, evaluate, and settle for a lower performance level while producing output. But this only occurs when employees have an incentive to exert effort as it is the case in the performance dependent compensation condition.

Session 2.04: STAKEHOLDER RESPONSE TO TAX AND TECHNOLOGY INTERVENTIONS

DATE: FRIDAY, OCTOBER 8, 2021

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Show or Tell? An Experimental Investigation of the Effects of Salience and Informational Justice on Taxpayer Judgments

Jason Schwebke
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ABSTRACT: With the passage of the Tax Cuts and Jobs Act (TCJA) of 2017, many individuals anticipated a tax benefit on their subsequent tax return. But when individuals mistakenly assumed that a lower refund meant they did not benefit from the tax policy change, some taxpayers became outspoken about their lack of support for and perceived unfairness of the law. This study utilizes a 2 x 2 between-subjects experiment to examine the effects of tax benefit salience and informational justice on taxpayers' perceptions of the fairness of a law change and their subsequent compliance intentions. I find that tax benefit salience and informational justice both have a positive direct effect on taxpayers' perceptions of the fairness of the law change. Importantly, the effect of salience is stronger when informational justice is low compared to when informational justice is high. Finally, the indirect effect of salience on compliance intentions through perceived fairness is stronger for taxpayers who receive an explanation low in informational justice compared to those who received an explanation high in informational justice, suggesting a potential substitution effect for informational justice and salience.

Session 2.04: STAKEHOLDER RESPONSE TO TAX AND TECHNOLOGY INTERVENTIONS

DATE: FRIDAY, OCTOBER 8, 2021

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The Effects of ISO 27001 Certificate and CSR Performance on Investors' Responses to Cybersecurity Breaches

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New Jersey City University

ABSTRACT: We investigate the effects of ISO 27001 certificate and CSR performance on investors' responses to cybersecurity breaches. Based on the results of an online experiment with 202 MTurk participants, we find that an ISO 27001 certificate issued by an independent certification body serves as damage control and attenuates investors' negative reactions when facing data breaches. However, the connection between the certification body that issue ISO 27001 certificates and the financial audit firm of the audited company may impair the effectiveness of the ISO 27001 certificate serving as damage control for cybersecurity breaches. Similarly, positive CSR performance provides insurance-like protection and spillover to reduce investors' negative responses on occasions of cybersecurity breaches. In addition, ISO 27001 certificate and CSR performance are substitutive mechanisms. Specifically, the existence of either ISO 27001 certificate or positive CSR performance alone is effective enough in attenuating investors' negative perceptions. Adding another control does not necessarily lead to additional benefits.

Session 2.04: STAKEHOLDER RESPONSE TO TAX AND TECHNOLOGY INTERVENTIONS

DATE: FRIDAY, OCTOBER 8, 2021

TIME: 3:45 PM - 5:15 PM

The Examination of Entrepreneurial Investment Tax Credits: Angel vs. Crowdfunding Investing

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ABSTRACT: Many states use equity-investment tax credits to incentivize investments for the purpose of spurring entrepreneurial activity and, in turn, economic development (Acs, Asterbro, Audretsch, and Robinson, 2016; Bell, Wilbanks, and Hendon, 2013; Erken, Donselaar, and Thurik, 2016). Yet, there is little evidence about whether investment tax credits accomplish their objectives (Ebersole, 2017). Further, little is known about the investing decisions of low net-worth investors, whom the SEC has only recently permitted to make equity-investments in startups via crowdfunding platforms. This paper experimentally examines whether tax credits increase an individual's likelihood to invest in startups across the two regulated investing methods, Angel and Crowdfunding, which differ in market and agency risk. Results indicate that equity-investment tax credits are effective at incentivizing investors to make risky capital investments in startups via Crowdfunding. Notwithstanding the tax credit, individuals are more likely to invest when the investing method is characterized as Angel investing, characterized by lower agency risk. The investor accreditation level of the individual (unaccredited vs. accredited) did not influence the effectiveness of the credit. Yet, unaccredited individuals are more likely to invest overall. These results indicate that current investment tax credit programs, which target Angel investing of accredited investors, may not be necessary to incentivize investors. Instead, tax credit programs may be more effective and offset risk and cost for unaccredited investors if tax credit legislatures are adapted to align with the increasingly popular Crowdfunding regulation.

Session 3.01: AUDITOR INDEPENDENCE
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 10:30 AM - 12:00 PM

Audit Firm Tenure and Nonprofessional Investors' Perceptions of Entitativity and Independence Impairment: The Mitigating Effect of Partner Rotation Disclosure

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University of South Carolina

ABSTRACT: In 2019 the PCAOB began requiring audit firm tenure disclosure within the auditor's report for SEC registrant clients. During the standard-setting process, many commenters raised concerns that prominent disclosure of firm tenure in the auditor's report would lead investors to inappropriately infer a negative relationship between audit quality and long firm tenure. This is particularly troubling given a review of the literature suggests a generally neutral or positive relation between firm tenure and audit quality (Tepalagul and Lin's 2015). We use entitativity research (a cognitive process through which individuals attribute varying degrees of interconnectedness among others) to predict and find disclosing an audit firm's long tenure within the auditor's report significantly increases perceptions of entitativity, and thus reduces investors' beliefs that the auditor was independent while conducting the audit. We further identify a treatment to mitigate the effects of long firm tenure disclosure – disclosure of a firm's adherence to the SEC's mandatory partner rotation requirement. We predict and find partner rotation disclosure moderates the mediation of firm tenure on investors' judgments such that the indirect effect through entitativity operates only when partner rotation is not disclosed in the auditor's report. Our results should be not only useful for regulators to understand one effect of their standard, but also for firms because of their autonomy to voluntarily add engagement partner rotation protocols to their auditor's reports and potentially mitigate this disclosure effect.

Session 3.01: AUDITOR INDEPENDENCE
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 10:30 AM - 12:00 PM

Bridging Social Mismatches: Understanding Alumni Affiliation's Effects on Auditor Evidence Collection

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Providence College

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ABSTRACT: Regulators and researchers express concern about auditors who leave their firms for employment at their clients, due to lingering relationships which might represent a threat to auditor independence and negatively impact audit quality through undue influences of the client personnel on auditor judgment. We examine a potential benefit of these relationships during evidence collection. Understanding the effects of alumni affiliation on evidence collection is important because if issues are not discovered at this phase, they are likely to go unaddressed, potentially hurting audit quality. Contrary to most research findings, we find that alumni affiliation benefits the audit by reducing perceived social mismatch, increasing auditors' evidence collection. Additionally, we find that when auditors become fatigued, the benefits of alumni affiliation diminish as auditors over-rely on the relationship, leading them to prematurely cease evidence collection.

Session 3.01: AUDITOR INDEPENDENCE
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 10:30 AM - 12:00 PM

The Effects of Auditor Tenure and Predictability of The Client's Information Environment on Auditor Estimates

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The University of Mississippi

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The University of Mississippi

Emily Kathryn Hornok
Baylor University

ABSTRACT: We examine the joint effects of auditor tenure and information predictability on auditor judgments to address regulators' ongoing concerns that audit quality suffers with longer auditor tenure presumably because of auditors' social bonds with their clients. Using a laboratory experiment, we predict and find that longer auditor tenure allows auditor-client social bonds to strengthen. Furthermore, we predict and find that in less predictable information environments a stronger social bond between the auditor and client results in more accurate estimates by the auditor. Conversely, we observe the opposite of this effect in more predictable information environments. Our results provide causal evidence that tenure strengthens social bonds and identify a setting in which the social bond improves audit quality. Our findings suggest that regulation surrounding auditor tenure should consider the context (e.g., the client's information environment) in which the auditor and client are operating. We also provide insights for interpreting the relationship between auditor tenure and audit quality.

Session 3.02: INVESTOR RESPONSE TO GENDER AND TECHNOLOGY
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 10:30 AM - 12:00 PM

Are Investment Decisions Suboptimal When AI is the Source of Financial Information?

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ABSTRACT: An increasing number of businesses are using artificial intelligence (AI) software in their accounting systems to reduce uncertainty and improve accuracy. However, algorithm aversion theory (Dietvorst, Simmons, and Massey 2015) indicates that individuals often avoid information provided by automated systems as compared to that provided by humans, suggesting that the use of AI might not result in the anticipated benefits. We investigate how disclosing the use of AI rather than human staff for estimating the fair value of an asset influences investment decisions through decreased levels of attentiveness. Consistent with algorithm aversion, we find that disclosing the use of AI rather than the use of human staff to estimate the asset's fair value dampens investor responses. Specifically, the use of AI reduces additional investment when the fair value information is positive, as well as reduces investment withdrawal when the fair value information is negative. We also find that feelings of attentiveness mediate the effect of information sources (AI versus human staff) on investment decisions. Our study has practical implications for regulators and managers exploring the effectiveness of more widespread use of algorithms in accounting systems. Our study also has theoretical implications by identifying the relationship between affective responses and algorithm-aversion behavior.

Session 3.02: INVESTOR RESPONSE TO GENDER AND TECHNOLOGY
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 10:30 AM - 12:00 PM

CEO Gender and Responses to Shareholder Activism

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ABSTRACT: Recent literature finds that firms led by female CEOs are more likely to be targeted by activist shareholders, and that female CEOs are more likely to cooperate with activist shareholders' requests. Our study complements this literature by investigating how a CEO's response to shareholder activism influences investors' reactions, and whether these reactions differ depending on the gender of the CEO. Using a controlled experiment, we find that investors evaluate a firm as less attractive when a female CEO uses a combative response rather than a cooperative response to shareholder activism. Alternatively, investors evaluate a firm as less attractive when a male CEO uses a cooperative response rather than a combative response. Our results collectively suggest that investors rely on gender stereotypes when evaluating the responses of male and female executives to shareholder activism, and that these evaluations affect their investment judgments. Our results also suggest a potential alternative explanation for the finding that female CEOs are more likely to cooperate with activist shareholders than male CEOs. Rather than inherent differences in the management style of male and female CEOs, responses to activist shareholders may be driven, at least in part, by managers anticipating that they will be penalized by investors for deviating from gender-stereotypical behavior.

Session 3.02: INVESTOR RESPONSE TO GENDER AND TECHNOLOGY
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 10:30 AM - 12:00 PM

The Role of Gender Stereotypes in the Humanization of Robo-Advisors

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ABSTRACT: This study examines the role of gender stereotypes in the humanization of robo-advisors. With advances in technology, robo-advisors, or automated/algorithmic investing platforms, have become a popular option for individual investors who want the benefits of professional money management at a relatively low cost. Yet little is currently known about how individual investors interact with these tools. The current study used an experimental design to examine the role of gender stereotypes on the humanization of robo-advisors. While a prior study by Hodge, Mendoza and Sinha (2019) showed the negative effects of humanizing robo-advisors by giving them a name, our results suggest that it depends on the gender and associated stereotypes that are used to humanize the robo-advisor. While humanizing robo-advisors with a male name had a negative effect on advice utilization (in comparison to a control group with no name), humanizing robo-advisors with a female name had a positive effect on advice utilization. These results have implications for financial services firms as they continue to venture into the realm of robo-advising.

Session 3.03: PAY INCREASES AND PROMOTIONS
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 10:30 AM - 12:00 PM

How Does Basing a Pay Increase on a Firm-Level Performance Measure Affect Employee Pay Satisfaction? A Value Chain Perspective

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Patrick Ryan Martin
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Bryan Richard Stikeleather
University of South Carolina

ABSTRACT: Employers often provide broad pay increases that are not tied to individual performance. Instead, such pay increases are typically either provided unconditionally (e.g., fixed bonus or raise) or tied to risky, firm-level measures of performance such as firm profits (e.g., profit sharing). We investigate whether the structure of a broad pay increase interacts with the type of work employees perform (i.e., their role in the value chain) to influence their pay satisfaction. Drawing on the theory of psychological ownership, we predict that providing an unconditional pay increase improves employee pay satisfaction to a greater extent when employees add value to their firm's products and services indirectly rather than directly. In addition, we also predict that offering a pay increase conditioned on firm-level performance rather than one that is unconditional leads to smaller improvements in pay satisfaction among workers who add value indirectly but larger improvements among those who add value directly. Via an experiment, we find support for these predictions. We discuss the implications of adopting a "value chain" perspective for incentive contracting.

Session 3.03: PAY INCREASES AND PROMOTIONS
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 10:30 AM - 12:00 PM

How Unbundling the Timing of a Pay Increase Affects Employee Effort

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ABSTRACT: Employees often obtain pay increases in several forms, including raises, bonuses, and cost-of-living adjustments. We investigate how controllable factors related to the timing of such increases affect employee effort. In practice, significant variation exists in when a pay increase is (i) announced, (ii) quantified, and (iii) made effective, with these events potentially occurring concurrently (i.e., they are temporally bundled) or at different points in time (i.e., they are temporally unbundled). We posit that varying the temporal separation of these events can affect the nature and timing of the utility gains that they provide, thereby affecting employees' effort and pattern of productivity. Via an experiment, we find when a pay increase is temporally bundled, employees respond by providing more voluntary effort and that this effect decays over time. In contrast, we find when the increase is temporally unbundled, employees respond with a smaller but more persistent increase in effort, leading to equivalent levels of total output at a lower total compensation cost. Our study provides empirical evidence that refining the timing of pay increases can smooth employee productivity over time and reduce compensation costs without diminishing overall productivity.

Session 3.03: PAY INCREASES AND PROMOTIONS
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 10:30 AM - 12:00 PM

Promote Internally or Hire Externally? The Role of Trust, Reciprocity, and Performance Measurement Precision

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Jeremy Lill
University of Kansas

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ABSTRACT: Managers often face the choice between promoting an internal employee and hiring an external candidate. Using an incentivized experiment, we examine managers' promote/hire decision and employees' behavior before and after that decision in a setting in which the external candidate has superior ability. Consistent with theory on trust and reciprocity, results indicate that employees invest in costly effort to increase their chances of promotion, and managers reciprocate this effort by promoting them despite their inferior ability. Managers tend to anchor their promote/hire decision on employees' early effort level rather than their sharp increase in effort immediately prior to that decision. Importantly, we predict and find that managers are more likely to promote internally rather than hire externally under a less precise performance measurement system. Results also suggest that promoted (non-promoted) employees who exerted high effort react more positively (negatively) to their managers' promote/hire decision under a more precise system.

Session 4.01: PROFESSIONAL SKEPTICISM IN AUDITING
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 1:30 PM - 3:00 PM

An Experimental Examination of Auditor Work Ownership and Skepticism in a Collaborative Audit Setting

Christopher Pearson
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ABSTRACT: Psychological ownership theory explains that auditors are more likely to be motivated to exercise skepticism when they feel a sense of ownership of their work. Perceptions of ownership are likely threatened by collaboration with other auditors, which is increasingly likely to occur given ongoing trends towards a more globalized, specialized, and automated audit. I test the effect of audit compartmentalization and collaboration in an experimental setting where auditors evaluate evidence that relates to a sample selected by themselves or another audit participant, which I further manipulate as either a human auditor or a technological system. Findings indicate that auditors experience higher engagement with evidence related to a sample selected by themselves compared to a sample selected by another human auditor, which contributes to greater perceptions of ownership and skepticism. I find similar differences in engagement, ownership, and skepticism when auditors evaluate evidence that relates to a sample selected by a technological system compared to a human auditor. Findings contribute to the literature by documenting the importance of engagement and ownership to auditor judgment and decision-making. In addition, I demonstrate a previously unexplored benefit of audit automation to auditors' work ownership and skepticism.

Session 4.01: PROFESSIONAL SKEPTICISM IN AUDITING
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 1:30 PM - 3:00 PM

Resisting Management Influence: Auditor Characteristics that Inhibit Motivated Reasoning.

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ABSTRACT: We study motivated reasoning and the auditors who successfully inhibit it. We find that most auditors initially inhibit motivated reasoning, identifying an unreasonable management preference, but many do not persistently inhibit motivated reasoning, judging that same preference's recording as acceptable, suggesting most auditors are initially uninfluenced by management's preferences—as auditors insist—but ultimately influenced—as skeptics allege. Auditors with higher cognitive ability more persistently inhibit motivated reasoning, but only when deploying targeted cognitive effort to do so. Generally, higher emotional stability and extroversion (agreeableness) levels also positively (negatively) correlate with persistently inhibiting motivated reasoning, as does dispositional fear of negative evaluation. Neither auditors' conscientiousness nor indecisiveness affect motivated reasoning inhibition and, counterintuitively, professional identification negatively correlate with it.

Session 4.02: AUDIT AND ADVISORY EFFECTS ON INVESTORS AND MANAGERS

DATE: SATURDAY, OCTOBER 9, 2021

TIME: 1:30 PM - 3:00 PM

More than Just a Name: The Impact of a Star-Quality Rating System for Audit Partners on Investor Decision-Making

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ABSTRACT: Investors have long expressed dissatisfaction with the level of transparency regarding the external audit. In response, the Public Company Accounting Oversight Board now requires audit firms to disclose the identities of engagement partners for all publicly-traded companies. Drawing on source credibility theory, we explore whether the information contained in Form AP affects the investment choices of professional and non-professional investors. First, due to practitioner concerns that partner identification may lead to the creation of a “box score” or “star-rating” for individual audit partners, we consider investor sensitivity to a star-rating system and find that investors are less likely to invest in a company audited by an audit partner with a lower rating, even when the company outperforms competing investment choices. Second, we consider investor sensitivity to information about an audit partner’s industry expertise, an indicator of credibility. Contrary to prior literature that has demonstrated the importance of firm specialization to the market, we do not find evidence to suggest that the individual audit partner’s expertise affects investment choices. We contribute valuable insights to the literature and to practice about a future where the quality of an individual auditor may be reduced to a number of stars and provide evidence that the implications of Form AP extend beyond the audit partner’s name.

Session 4.02: AUDIT AND ADVISORY EFFECTS ON INVESTORS AND MANAGERS

DATE: SATURDAY, OCTOBER 9, 2021

TIME: 1:30 PM - 3:00 PM

The Impact of Auditor Behavior and Audit Committee Questioning on Non-GAAP Reporting Decisions

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ABSTRACT: While external auditors' contentious or cooperative behavior during discussions over subjective GAAP reporting choices can influence management's GAAP reporting decisions, this behavior may also impact managers' subsequent non-GAAP reporting. Additionally, recent calls for audit committees to go beyond GAAP and question non-GAAP disclosures may impact non-GAAP reporting. We experimentally examine if contentious or cooperative auditor behavior and audit committee questioning influence managers' non-GAAP disclosure choices. Senior executives are less likely to make non-GAAP earnings exclusions, and present non-GAAP earnings less prominently earlier in the earnings release, when the auditor is contentious during GAAP discussions and/or when an audit committee questions both GAAP and non-GAAP disclosures. Auditor contentiousness likely enhances subsequent disclosure hesitancy, while anticipated non-GAAP questioning generates more thorough disclosure analysis, both curbing non-GAAP reporting. Managers select more aggressive non-GAAP reporting choices only absent both auditor contention and active audit committee questioning of non-GAAP financials. Thus, certain governance mechanisms can individually and jointly curb aggressive non-GAAP reporting.

Session 4.03: SOCIAL TIES, TEAM IDENTITY, AND POLITICAL BIAS
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 1:30 PM - 3:00 PM

Why Can't We Be Friends?! The Effects of In-Group Identity and Clarity of the Bonus Determination Criteria on Supervisors' Discretionary Bonus Adjustments

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Cody Lu
University of Massachusetts-Amherst

Anne Wu
National Chengchi University

ABSTRACT: This study examines the influence of in-group identity between supervisors and subordinates and the clarity of the bonus determination criteria on supervisors' discretionary adjustments of subordinates' bonus compensation through the lenses of social network theory. Using field data from a Chinese manufacturing company, we find that in-group sales agents receive higher bonus awards and that this effect is more pronounced when there is high clarity of the bonus determination criteria. Additional analysis shows that these effects hold for higher-tenured sales agents and in more economically prosperous regions. Finally, we find that higher bonus awards are positively (negatively) associated with in-group sales agents' future performance when there is low (high) clarity of the bonus determination criteria. Our findings provide implications for both practice and research on incentive contracting.

Session 4.03: SOCIAL TIES, TEAM IDENTITY, AND POLITICAL BIAS
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 1:30 PM - 3:00 PM

Professionally Skeptical Yet Politically Susceptible: Variance Explanations Are Less Believable When Provided by Political Opponents

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University of North Dakota

Robert Rankin
Texas A&M University - Commerce

ABSTRACT: Political polarization causes people to feel positively towards those of the same political affiliation and negatively towards the opposition, influencing their behavior in the same direction. While this effect should be mitigated for accountants due to their professional requirement to be objective, our experiment shows that accounting students in the role of management accountants are less likely to believe variance explanations provided by managers with opposing political beliefs compared to those with similar beliefs. This occurs because the participants dislike managers they perceive to be less similar to them and find them (and their explanations) to be less trustworthy, but only when sharing political beliefs is important to the participants. We also find that whether or not the effect manifests through state professional skepticism, heightened trait professional skepticism has limited ability to insulate participants from the effects of outgroup hate.

Session 4.03: SOCIAL TIES, TEAM IDENTITY, AND POLITICAL BIAS
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 1:30 PM - 3:00 PM

Team Identity and Transactive Memory in Strategic Performance Measurement System Design

Aishwarrya Deore
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Michigan State University

Xue Yang
Michigan State University

ABSTRACT: Effective design of strategic performance measurement systems (SPM) such as the balanced scorecard (BSC) is critical for long-term competitive advantage. We examine how team affective processes (namely team identity) influence team cognition (namely transactive memory) and lead to more effective SPM design in established teams. We introduce the notion of team-task identity (TTI), which denotes the extent to which members internalize the goals of the team's task. TTI impacts the team's transactive memory system (TMS) and facilitates effective usage of members' knowledge sets. We conduct a 2x1 (TTI present/absent) experiment where 118 middle-level managers work in 21 established teams to design a BSC. We find that stronger TTI leads to greater BSC design effectiveness, and TMS partially mediates this relation. Component dimensions of TMS (specialization, credibility, coordination) have differential impacts in this mediation relation. Our research contributes to an understanding of the micro-foundations of effective SPM design.

Session 5.01: AUDIT REGULATION AND INSPECTION
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 3:30 PM - 5:00 PM

Auditors' Reaction to Feedback from PCAOB Inspections

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ABSTRACT: PCAOB inspections offer a unique opportunity for auditors to receive feedback about their performance. Using an experiential questionnaire, we ask 103 partners and managers about their experience with and reaction to a recent PCAOB inspection. Drawing on performance feedback research, we predict and find that more positive perceptions of the inspection feedback source and message each increase auditors' motivation to use the inspection feedback. This in turn increases audit quality and decreases inspection risk management on the subsequent year of the engagement. We further find that as auditors' motivation to use inspection feedback increases, their desire to continue working on public company audits increases and their turnover intentions decrease. Interestingly, inspection results (i.e., presence or absence of a Part I finding) do not impact audit quality beyond the effect of inspection feedback message. We conclude by providing qualitative insights into ways in which inspectors and audit firms can improve the inspection feedback experience and ultimately audit quality.

Session 5.01: AUDIT REGULATION AND INSPECTION
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 3:30 PM - 5:00 PM

How Do Reward Versus Penalty Framed Incentives Affect Auditor Judgments and Actions in Diagnostic Tasks?

Yue Hong
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Timothy W Shields
Chapman University

ABSTRACT: To motivate auditors to increase audit quality, regulators primarily introduce penalty-framed incentives. Researchers propose that more reward-framed incentives are needed to motivate auditors to supply high audit quality (Peecher, Solomon, and Trotman 2013). We examine how the incentive frame affects auditors' risk judgments and testing actions in diagnostic tasks that are key to discerning whether a misstatement is present. We find that participants are more likely to test a potential misstatement under a reward versus penalty frame due to an action bias towards testing. However, participants increased testing primarily when a misstatement was absent. Therefore, a reward versus penalty frame resulted in more false alarms, with no improvement in misstatement detection. Our study suggests that providing auditors reward- versus penalty-framed incentives can increase testing but at the cost of audit efficiency.

Session 5.02: PROCESS ACCOUNTABILITY AND TASK FEEDBACK
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 3:30 PM - 5:00 PM

Knowledge Sharing: The Spillover Effects of Process versus Outcome Accountability

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ABSTRACT: Whereas prior literature has examined how process and outcome accountability affect task performance, this paper experimentally investigates the spillover effects of accountability systems on knowledge-sharing behavior and how such effects differ between employees with high versus low task output. Because outcome accountability draws attention to task output, employees who produce higher output may be more confident in their performance and, therefore, are more willing to share task-specific knowledge. In contrast, because process accountability focuses attention on exploring task strategies, employees who engage more in strategy exploration may be more confident in their performance and more willing to share task-specific knowledge, despite that strategy exploration may negatively affect current output. As predicted, experimental results show that employees with higher output are more willing to share their knowledge under outcome accountability but are less willing to share knowledge under process accountability. Mediation analysis confirms that participants' confidence in performance underlies these results. The influences of knowledge sharing on the productivity of coworkers who receive the shared knowledge are also examined.

Session 5.02: PROCESS ACCOUNTABILITY AND TASK FEEDBACK
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 3:30 PM - 5:00 PM

*Taking the Blinders Off: The Behavioral Effects of Process versus Goal-Oriented
Accountability on Managerial Decision Quality*

Ziyang Li
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Xiqiong He
Southwestern University of Finance and Economics

Jordan Samet
University of Illinois Urbana-Champaign

Jason Kuang
Georgia Institute of Technology

ABSTRACT: Process accountability is a common way to motivate individuals in complex and subjective tasks as it reduces the effect of noise on their motivations while still promoting sufficient effort. Whereas past research has demonstrated this benefit, we bring to light a negative consequence of process accountability. Specifically, we predict and find that holding managers accountable to their process in a forecasting and investment decision task leads to a narrow conceptual focus that makes them susceptible to presentational biases, negatively affecting decision quality. Further, we demonstrate that modifying the accountability requirement by making salient the broader reason for performing the task (i.e., goal-oriented accountability) mitigates the influence of the presentational bias. We also find supporting evidence for our theory, suggesting that goal-oriented accountability triggers a more comprehensive and longer-term forecasting procedure than that of process accountability.

Session 5.02: PROCESS ACCOUNTABILITY AND TASK FEEDBACK
DATE: SATURDAY, OCTOBER 9, 2021
TIME: 3:30 PM - 5:00 PM

Jack of All Trades or Master of One? Feedback and Employee Choice in a Multitask Environment

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ABSTRACT: In a multitask setting, developmental feedback is an important tool used to focus employee future efforts on a specific task. This study explores whether employee responses to developmental feedback in a multitask setting differs when feedback focus on the task which is an employee's relative strength (strength-congruent) or weakness (weakness-congruent), and whether employee response depends on whether the task is relatively more effort or ability driven. Using an experiment, I find that strength-congruent feedback on a more ability-driven task leads to a longer task choice of duration than when strength-congruent feedback is given on a more effort-driven task, or when weakness-congruent feedback is given. However, within the time spent on the task, I find that feedback elicits greater performance improvement when it is strength-congruent on an ability task, and weakness-congruent on an effort task. This study broadens our understanding of the multitask environment and how employees allocate effort in the presence of communicated firm preferences.