Plenary Session: ACCOUNTING AND THE NEW NORMAL: REMOTE AUDITING, PREPOPULATED TAX RETURNS, AND ALGORITHMS
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 10:00 AM – 11:30 AM

Auditing from a Distance: The Impact of Remote Auditing and Supervisor Monitoring on Analytical Procedures Judgments

Sudip Bhattacharjee, Virginia Polytechnic Institute and State University
Sean Hillison, Virginia Polytechnic Institute and State University
Carissa L. Malone, Virginia Polytechnic Institute and State University

ABSTRACT: Remote auditing has increasingly become a common work arrangement. Audit firms are concerned that the "out-of-sight-out-of-mind" mentality of remote work diminishes audit quality and have instituted steps such as increased supervisors' monitoring. We investigate how two remote audit factors, spatial distance between the auditor and client and the frequency of supervisor monitoring, can influence auditors' analytical procedures judgments. We theorize that increased psychological distance from working remotely facilitates higher level thinking and enhances creative hypothesis generation and evaluation when uncovering a complex financial statement error. However, more frequent supervisor monitoring causes auditors to feel constrained, which diminishes the benefits of working remotely. In an experiment, relative to working on the client site, auditors working remotely considered a wider range of potential causes for a seeded error, and exhibited higher decision quality, when monitored less frequently than more frequently. Our results highlight conditions under which remote auditing can impact audit quality.

Plenary Session: ACCOUNTING AND THE NEW NORMAL: REMOTE AUDITING, PREPOPULATED TAX RETURNS, AND ALGORITHMS
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 10:00 AM – 11:30 AM

Pre-Populated Tax Returns: Taxpayer Adoption and the Effect on Taxpayer Aggressiveness

Jason Schwebke, University of Central Florida
William Douglas Brink, Miami University
Victoria Jane Hansen, The University of North Carolina at Wilmington
Charles Kelliher, University of Central Florida

ABSTRACT: While a pre-populated tax return system has never existed at the federal level in the U.S., it has been attempted by a few state revenue agencies. However, these systems did not survive due to lack of taxpayer participation and lobbying efforts from tax software companies. For the Internal Revenue Service to implement such a system at the federal level, it requires taxpayer participation. We conduct an experiment to examine individuals' likelihood of using an IRS pre-populated return system and its impact on taxpayer aggressiveness. In a 2×2 experiment, we manipulate injunctive norms using public perception of the pre-populated IRS tax return (unfavorable or favorable) and manipulate filing method (IRS pre-populated return or IRS blank tax software). Results indicate that injunctive norms (i.e., public perception) influence taxpayers' personal beliefs towards an IRS system. Personal beliefs mediate the relationship between injunctive norms and likelihood to use the IRS pre-populated tax return. Taxpayers exposed to unfavorable injunctive norms are more aggressive. In addition, taxpayers who file using an IRS pre-populated tax return are also more aggressive. More importantly, the increased aggressiveness related to the pre-populated filing method is mitigated when taxpayers are exposed to favorable injunctive norms about the IRS and the pre-populated system.

Plenary Session: ACCOUNTING AND THE NEW NORMAL: REMOTE AUDITING, PREPOPULATED TAX RETURNS, AND ALGORITHMS
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 10:00 AM – 11:30 AM

Egocentrism, Human versus Algorithmic Information Processing, and Selection of Disclosure Medium

Patrick Witz
University of Wyoming

ABSTRACT: Recent literature demonstrates that expectations of how investors will process information can affect the information that reaches investors in the first place. Yet it is unclear whether the formation of managers' expectations is entirely rational, or whether it can be systematically biased by certain cognitive factors. In two laboratory experiments and a survey, this study examines how one systematic bias can form, and can cause unintentional distortion in managers' selection of disclosure mediums by which to release information. Results from the first experiment indicate participants' utilization of more sensory (video) disclosure mediums is reduced in response to expectations of algorithm-based information processing. Yet results from the second experiment indicate that participants' trust in assessments of sensory information in video disclosure mediums is greater in response to algorithm-based information processing. Participants thus behave in an inconsistent manner when their perspective is flipped from issuing disclosures to processing disclosures. This finding is consistent with an egocentric focus in perspective taking bias that extends prior psychology literature on the Spotlight Effect and the Illusion of Transparency. This bias can be represented through a two-stage psychological mechanism involving (1) the formation of a setting-specific egocentric default perspective and (2) insufficient adjustment away from this perspective for more similar vs. less similar others. This study contributes to existing literature on financial disclosure, and introduces the role of cognitive biases in driving certain feedback effects being explored in the emerging literature.

Session 1.01: AUDITOR RESPONSE TO MANAGERS' MOTIVES
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 12:30 PM - 2:00 PM

Does Voluntary Disclosure of Projected Financial Information Influence Auditors' Evaluation of That Information?

Kamber Vittori Hetrick
Northeastern University

Sean Hillison
Virginia Tech

ABSTRACT: Prior research documents that investors and analysts typically interpret voluntarily disclosed information to be credible because releasing biased information is costly to the manager. In this study, we investigate the joint influence of two factors (whether the projected financial information is voluntarily disclosed and the forecast optimism) on auditors' skeptical beliefs related to audits of complex estimates. Based on psychology theory related to source credibility, we argue that auditors performing audits of complex estimates will be more skeptical of audit evidence that has been voluntarily disclosed because they have less trust in client management, even when the forecasted information is less optimistic. In addition, we predict that auditors are skeptical of forecasts containing higher optimism, regardless of voluntary disclosure. Results of an experiment asking 89 practicing auditors to evaluate a real-world goodwill impairment case are consistent with our expectations. Specifically, we find that auditors are least skeptical when projected financial information is not disclosed and less optimistic compared to all other conditions. Further, as predicted, participants' management trust judgments mediate the joint effect voluntary disclosure and forecast optimism have on professional skepticism. Collectively, our results highlight important considerations related to audits of complex estimates.

Session 1.01: AUDITOR RESPONSE TO MANAGERS' MOTIVES
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 12:30 PM - 2:00 PM

Explaining Away Intentional Misstatements: When are Management Excuses Most Effective?

Erin L Hamilton
University of Nevada-Las Vegas

Jason L. Smith
University of Nevada-Las Vegas

ABSTRACT: When auditors identify a misstatement within the financial statements, they typically discuss the misstatement with client management and seek an explanation to understand how it occurred. In the event the misstatement was caused intentionally, managers may attempt to “explain away” the fraudulent misstatement by making it seem unintentional (an excuse) or by defending its appropriateness (a justification). In this study, we use two experiments—one with 58 financial reporting managers and the other with 108 professional auditors—to examine the strategies used by managers to explain away intentional misstatements and the circumstances under which auditors are prone to believe these misleading accounts. We predict and find that managers believe they can more effectively explain away an intentional misstatement caused by omission (i.e., inaction), as opposed to misrepresentation (i.e., action), but only if the explanation takes the form of an excuse. Accordingly, most managers choose an excuse, rather than a justification, when attempting to explain away an intentional omission. However, when this same excuse is provided to auditors to explain the cause of a misstatement identified during the audit, we find that they judge it to be more believable when the misstatement involves omission compared to active misrepresentation. Together, our studies suggest the specific omission-excuse combination chosen by managers to perpetrate and conceal fraud is the combination auditors are more inclined to believe.

Session 1.01: AUDITOR RESPONSE TO MANAGERS' MOTIVES
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 12:30 PM - 2:00 PM

External, In-House Internal, and Outsourced Internal Auditor Responses to Earnings Management

Benjamin Commerford
University of Kentucky

Curtis Mullis
Georgia State University

Chad Matthew Stefaniak
University of South Carolina

ABSTRACT: There are three types of auditors charged with ensuring financial reporting quality: external, in-house internal, and outsourced internal auditors. In an experiment with practicing auditors, we compare the responses of each auditor type to earnings management. Grounded in Organizational Identity Theory, we predict and find EAs are less likely to restrict earnings management when management's motive to report aggressively is organization serving (i.e., to comply with a debt covenant) compared to when management's motive is self-serving (i.e., to meet a bonus target) and compared to in-house internal auditors. Further, we provide evidence that OIAs are consistently less likely to restrict earnings management behavior compared to in-house internal auditors. Thus, our results suggest external auditors' expressed preference to rely on the work of outsourced internal auditors over in-house internal auditors (c.f. Bame-Aldred et al. 2013) may inadvertently diminish audit quality.

Session 1.02: ATTRIBUTES OF INCENTIVES
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 12:30 PM - 2:00 PM

Does the Effect of Reward Frequency on Performance Depend on Reward Type?

Andrew H Newman
University of South Carolina

Ivo D Tafkov
Georgia State University

Nathan Waddoups
University of Denver

Grazia Xiong
University of South Carolina

ABSTRACT: Recent trends in incentive compensation highlight two important features regarding performance-based rewards: (a) firms are paying out rewards more frequently, and (b) firms are increasingly using tangible rewards in lieu of cash rewards to motivate employees. This study investigates whether and how reward frequency and reward type jointly influence employee performance. Drawing on both economic and behavioral theories, we predict and find that increasing reward frequency has a positive effect on employee performance. Moreover, this positive effect is greater for cash rewards than it is for tangible rewards. Results of our study contribute to both theory and practice by enhancing our understanding of the role of reward frequency in motivating employee performance and more importantly, how its efficacy is affected by reward type.

Session 1.02: ATTRIBUTES OF INCENTIVES
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 12:30 PM - 2:00 PM

Measurement Diversity and Subjectivity in Incentive Contracts: A Field Study of Employee Perceptions, Feedback-Seeking Behavior, and Extrinsic Satisfaction

Lorenzo Patelli
University of Denver

ABSTRACT: Diversity and subjectivity are two common measurement attributes of performance targets used in incentive contracts. Prior research studies them separately and provides mixed results on their effects on organizational performance. Since firms set performance targets primarily to influence employee motivation, we examine how employees respond to measurement diversity and subjectivity of performance targets. We used proprietary data from two firms to measure the diversity and subjectivity of performance targets included in short-term incentive contacts. We then conducted a survey within the firms to capture employee goal perceptions and self-regulatory processes to cope with them. Our findings show that employees whose incentive contracts disperse weights on multiple targets (i.e., higher diversity) report higher conflict, and employees whose incentive contracts place more weight on subjective targets (i.e., higher subjectivity) report higher ambiguity. Although both perceptions are associated with lower extrinsic satisfaction, we find that employees who perceive higher conflict tend to engage more in feedback-seeking behavior, mitigating the negative effect on their extrinsic satisfaction. Conversely, we find that employees who perceive higher ambiguity tend to engage less in feedback-seeking behavior. Our findings highlight the importance of behavioral responses to the measurement attributes of performance targets and contribute to explaining their motivational implications.

Session 1.02: ATTRIBUTES OF INCENTIVES
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 12:30 PM - 2:00 PM

The Effects of Managerial Discretion in Complex Performance Evaluation Settings: Experimental Evidence

Markus C Arnold
University of Bern

Kai Alexander Bauch
University of Bern

ABSTRACT: Subjective performance evaluation often has positive performance effects when employees' effort provision is unidimensional. However, prior work also indicates that it can have negative effects in complex performance evaluation settings, in which employees' effort provision can be efficient or inefficient. This study uses an experiment to investigate why subjective performance evaluation can lead to difficulties in complex performance evaluation settings and to disentangle three potential explanations. First, employees may not prefer performance evaluations based on efficient effort only when the provision of inefficient effort cannot be unambiguously attributed to employees' bad intentions. Second, managers may deliberately deviate from rewarding efficient effort because they (falsely) anticipate employees' preferences for rewarding inefficient effort or have such preferences themselves. Finally, the mere existence of a manager (as opposed to an automatic bonus allocation) may lead employees to be concerned about how performance will be evaluated and whether their bonus will be sufficiently large and this distorts effort provision. We test our theory in an interdependent team setting, where a bonus has to be allocated to multiple employees. We predict and find that employees, without any managerial intervention, prefer efficient effort-based to equal bonus allocation. Managers, however, deliberately deviate from efficient effort-based bonus allocations to partly reward inefficient effort, thereby decreasing team performance. Finally, we find some evidence that, by depleting cognitive resources, employees' concerns about their performance evaluation and bonus shares distorts cognitively demanding aspects of their effort provision. We contribute to the literature on manager discretion in performance evaluation by disentangling potential explanations for the observed negative effects of subjective performance evaluation in complex performance evaluation settings.

Session 1.03: CONSERVATISM AND ACTIVISM
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 12:30 PM - 2:00 PM

Accounting Conservatism as a Social Norm

Jivas Chakravarthy
University of Texas-Arlington

Timothy W Shields
Chapman University

ABSTRACT: We conduct an experiment which pairs senders (providers of information) and receivers (users of information) in a setting characterized by information asymmetry, measurement uncertainty, and misaligned incentives that motivate senders to report aggressively. Each period receivers evaluate reporting errors and rank each sender in order of preference, which determines the next period's pairings. We posit that receivers perceive a social norm to apply – an informal rule prohibiting aggressive reporting – and use noisy reporting errors to gauge senders' compliance. Consistent with this expectation we find that, ceteris paribus, receivers disprefer senders producing (i) a large overstatement error than understatement error of equal magnitude and (ii) an incremental overstatement error than incremental understatement error. These asymmetric revealed preferences are both inconsistent with strategic self-interested behavior and cannot be explained by loss aversion. Alternatively, when senders' motives are aligned with receivers', we find no asymmetry in receivers' revealed preferences over reporting errors. While our evidence is indirect, our findings open the possibility that accounting conservatism emerged as a social norm – an informal bonding cost, borne by the sender – that serves to enhance trust and cooperation among economic agents. We believe this insight can open new possibilities for conservatism research.

Session 1.03: CONSERVATISM AND ACTIVISM
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 12:30 PM - 2:00 PM

CEO (In)Activism and Investor Decisions

Michael Thomas Durney
University of Iowa

Joseph Johnson
University of Central Florida

Roshan Sinha
Indiana University - Bloomington

Donald R Young
Indiana University

ABSTRACT: Amidst growing pressure from investors and the general public, CEOs increasingly express their views on social, environmental, and political issues. Using an experiment, we offer initial evidence on the effect of this CEO activism on investor decisions. Specifically, we examine how the (mis)alignment of investor and CEO views on issues more or less relevant to a firm's operations and a CEO's choice to publicly take a position (or not) affects investor decisions. Using social identity theory, we predict and find that investors purchase relatively more (less) stock when their views align (misalign) with a CEO's activist position, regardless of the operational relevance of the issue. We also highlight the pitfalls of taking an activist position – investors respond more negatively to a CEO who takes a position (versus does not take a position) on an issue that is less relevant to the firm's operations. Supplemental analyses of information search and perceived CEO appropriateness provides further provide support for our theory. Our study contributes to the emerging literature on CEO activism, the literature on CEO communication via social media, and has practical implications for CEOs.

Session 1.03: CONSERVATISM AND ACTIVISM
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 12:30 PM - 2:00 PM

Complexity as a Proxy for Risk when Evaluating Derivative Securities

Michael Thomas Durney
University of Iowa

Robert Libby
Cornell University

Felipe Bastos Gurgel Silva
University of Missouri-Columbia

ABSTRACT: The overall market for derivative securities is often estimated as more than ten times the World's GDP and many decry the complexity of derivatives as a main contributor to the subprime financial crisis. In this paper, we investigate whether and why complexity is used as a proxy for risk when evaluating derivatives. We conduct three laboratory experiments to show a robust effect consistent with investors and managers taking complexity as a proxy for risk and deeming more complex, but equally risky, derivatives as worse for risk minimization. We also provide evidence that the effect is driven by negative perceptions (i.e., affect) regarding derivatives. Altogether, our results shed light on how derivatives are evaluated and suggest an important potential source of misinterpretations of disclosures provided under US GAAP (ASC 815-10-50).

Session 2.01: AUDITOR ADVICE, SKEPTICISM, AND LIABILITY
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 2:30 PM - 4:00 PM

Favorable PCAOB Inspections and Auditor Liability

Jonathan H Grenier
Miami University

Jesse C Robertson
University of North Texas

Chad Allan Simon
Utah State University

Jeremy Vinson
Clemson University

ABSTRACT: We examine the value relevance of PCAOB inspection finding by examining whether they affect jurors' assessments of auditor liability. Specifically, we investigate whether a clean inspection finding for the audit in question (i.e., the PCAOB did not identify deficiencies for this audit) provides litigation protection for auditors, and whether factors related to the PCAOB, audit firm, plaintiff attorney, and client reduce any such litigation protection. Drawing on source credibility theory, we predict and find that a favorable, engagement-specific PCAOB inspection finding reduces jurors' negligence assessments, and that this effect is mediated by the credibility of the auditor's defense argument. We also find that having a former PCAOB inspector on the audit in question reduces the litigation protection of a clean inspection finding only if the plaintiff attorney criticizes this staffing decision. Furthermore, holding the presence of a favorable, engagement-specific PCAOB inspection finding constant, an unfavorable, firm-wide PCAOB quality control criticism increases jurors' negligence assessments but the presence of an audit firm alumni at the client does not. Collectively, our results indicate that PCAOB inspection reports could be informative in the juror setting, but the benefit of favorable, engagement-specific PCAOB inspection findings can be diminished. In addition, our findings about the potential benefit of favorable inspection findings on juror judgments complements prior research indicating that negative information from the PCAOB is associated with investor and client decisions.

Session 2.01: AUDITOR ADVICE, SKEPTICISM, AND LIABILITY
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 2:30 PM - 4:00 PM

Reexamining the Outcome Effect: Are Auditors Penalized for Exercising Professional Skepticism?

Mary Elizabeth Marshall
Louisiana Tech University

Curtis Mullis
Georgia State University

Kristen Kelli Saunders
University of Nebraska-Lincoln

Chad Matthew Stefaniak
University of South Carolina

ABSTRACT: Prior research suggests audit firms' evaluation systems inhibit professional skepticism. Specifically, supervisors "penalize auditors who employ an appropriate level of skepticism, but do not identify a misstatement" (Brazel et al. 2016, p. 1577), thereby discouraging future instances of professional skepticism. Across two experiments using practicing auditors, we empirically advance the understanding of this outcome effect by disaggregating the evaluation process. Specifically, our design isolates the effects of an auditor's skeptical action, outcome of the skeptical action (i.e., misstatement identification or not), and budget overage of the skeptical action on supervisors' evaluations. While we identify a fact pattern consistent with prior research (i.e., evaluations of auditors who identify a misstatement are higher than those who do not), contrary to prior interpretations of this fact pattern, we find supervisors reward auditors who identify a misstatement and do not penalize auditors who do not identify a misstatement. We also find auditors who do not identify a misstatement are not penalized for budget overages. Collectively, our findings suggest auditors benefit, and are not penalized, for undertaking skeptical actions, which should be of interest to audit firms, regulators, and academics concerned with improving the auditor evaluation process and its impact on professional skepticism.

Session 2.01: AUDITOR ADVICE, SKEPTICISM, AND LIABILITY
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 2:30 PM - 4:00 PM

Rejected but Not Dejected: The Effects of Gratitude and Ingroup Membership on Auditors' Future Advice-Giving when Past Advice is Dismissed

Tim D Bauer
University of Waterloo

Tim Brown
University of South Carolina

ABSTRACT: Auditors are encouraged to share advice to improve audit quality, but it is inevitable that sometimes this advice will be ignored. Previous research has shown that advice rejection has adverse effects. This paper examines how advice rejection influences auditor's intentions to provide advice in the future, with a focus on identifying mitigating factors that reduce the impact of rejection. We predict and find in an experiment that expressions of gratitude will reduce the effects of advice rejection, but only when the advisor belongs to the same ingroup as the advisee. Our results provide valuable information for researchers about boundary conditions on the effect of gratitude in the advice domain, and suggest that auditors could emphasize expressions of gratitude to encourage advice sharing amongst team members with a closer group bond.

Session 2.02: SUSTAINABILITY AND PAY TRANSPARENCY
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 2:30 PM - 4:00 PM

What Are You Hiding? The Strategic Use of Pay Secrecy and its Effects on Managerial Honesty

Conor Brown
University of Pittsburgh

ABSTRACT: Abstract: Pay communication, or the organizational practices regarding if, what, how, when, and to whom pay information is given, is a popular topic among legislators, business press, and employees, but underappreciated by academics as a component of a firm's compensation and control systems. Using two experiments, I test the implications of using pay communication policies strategically. In Experiment 1, I predict and find that participants acting as principals use pay secrecy policies as a control mechanism in an attempt to mitigate the increase in managerial misreporting associated with inequitable pay. In Experiment 2, I examine agents' reaction to the principals' choice of pay communication policy. I predict and find that agents interpret the principal's decision to enact a pay secrecy policy as a signal of the principal's private information regarding pay equity. I find that lower-paid agents misreport similarly under pay secrecy and pay transparency policies, and equally paid agents under pay secrecy policies misreport similarly to lower-paid agents. Additionally, I examine the incremental harm of attempting and failing to conceal pay inequity in a setting where the principal selects a pay secrecy policy and the salary information is subsequently leaked via an alternative channel. I find that trust in the principal mediates these effects on agent behavior.

Session 2.02: SUSTAINABILITY AND PAY TRANSPARENCY
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 2:30 PM - 4:00 PM

The Interaction of Cognitive Frame and Performance Measurement Scope on Managers' Selection of Sustainable Suppliers

Nadra Pencle
Ball State University

ABSTRACT: Pressure on corporations from their stakeholders to not only return a business profit, but also demonstrate sustainability present an ongoing challenge. Due in part to the multiple and potentially contradictory dimensions of sustainability, how corporate managers respond to stakeholders demands can have long lasting effects on the organization and society. Some organizations have responded to this challenge by implementing performance measurement systems (PMS) which vary in scope, to help direct attention towards sustainable goals. Yet, prior research is inconclusive regarding the effectiveness of broad PMS scope in directing organizational actors towards more sustainable decisions. Furthermore, research suggests that the decision makers' cognitive processes are important to corporate decision making in the sustainability context. Currently, it appears that a business case cognitive frame, which directs organizational actors to undertake only those sustainable actions that will yield a financial benefit, dominates organizational decision making. Therefore, scholars have called for more research to enhance our knowledge and understanding of managerial cognition related to sustainability. I respond to that call by mobilizing paradox theory; an alternative form of cognition posited to better support managerial decisions when competing logics exist. My objective is two-fold. Under experimental conditions, I investigate if and how cognitive frames can moderate the effect of a broad versus narrow PMS. The results reveal that managers who approach decision making under a broad PMS and a paradoxical cognitive frame make more sustainable managerial judgments than managers making decisions using a business case cognitive frame and/or a PMS that is narrow in scope. These findings are important given the social and environmental implication of judgments surrounding sustainability.

Session 2.02: SUSTAINABILITY AND PAY TRANSPARENCY
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 2:30 PM - 4:00 PM

When Does Pay Transparency Increase or Decrease Employee Motivation? The Role of Pay Dispersion and Relative Performance Information

Robert Andreas Grasser
University of South Carolina

Andrew H Newman
University of South Carolina

Grazia Xiong
University of South Carolina

ABSTRACT: The prevalence of pay transparency has grown in recent years. However, many firms still prefer to maintain pay secrecy. Empirical evidence for this on-going debate over pay transparency versus pay secrecy is very limited. Using an experiment, our study investigates how the effect of pay transparency on employee motivation are influenced by the nature of pay dispersion present in an organization and its current feedback environment, namely, whether a formal relative performance feedback system is also in place. Drawing on theory of social comparison and distributive fairness, we predict and find that ultimately whether the effect of increasing pay transparency on employee motivation is negative, positive, or inconsequential depends on the information content pay transparency reveals in isolation or in addition to a formal RPI system. By highlighting factors that influence the nature of the effectiveness of pay transparency, our study extends our understanding of pay transparency and identify settings under which 1) pay feedback and performance feedback are largely substitutes; and 2) performance feedback overshadows the motivational effect of pay feedback.

Session 2.03: COMPARABILITY OF FINANCIAL STATEMENTS
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 2:30 PM - 4:00 PM

Can Enhanced Segment Comparability Reduce Firm Value? The Moderating Role of Competitor Orientation and Segment-Specific Information

Chezham Leon Sealy
University of Alabama

Ying Wang
University of Massachusetts-Amherst

Yao Yu
University of Massachusetts-Amherst

ABSTRACT: Concerns regarding insufficient comparability and a lack of detailed information in segment disclosures prompted the Financial Accounting Standards Board to undertake “the segment reporting project” (FASB [2019b]). This study examines how enhanced segment-level comparability affects managers’ operational decisions, and whether this effect varies with managers’ competitor orientation and the reporting of additional segment-specific information. Our results indicate that enhanced segment comparability causes managers who are more competitor oriented to focus on outperforming competitors at the segment level, resulting in operational distortion that decreases overall firm value. While additional segment-specific information does not affect more competitor-oriented managers’ decisions, less competitor-oriented managers only engage in operational distortion when more comparable segment disclosures report additional segment-specific information. Our findings suggest that enhanced segment comparability and additional segment-specific disclosures could harm firm value and inform regulators about potential unintended consequences of proposed changes to the current segment reporting standard.

Session 2.03: COMPARABILITY OF FINANCIAL STATEMENTS
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 2:30 PM - 4:00 PM

Constructive Obligations and Past Practice

Cassie A Mongold
University of Texas

Brian Joseph White
University of Texas at Austin

Shannon Garavaglia
University Pittsburgh

ABSTRACT: Accounting standards require companies to recognize liabilities when a pattern of past practice creates constructive obligations. We conduct two experiments to test whether, and under what circumstances, financial statement users believe that a company’s past practice gives rise to obligations. Although we find that financial statement users rely heavily on past practice to predict a company’s future activities, they do not believe that past practice alone is sufficient to obligate a company to continue the practice. There are, however, situations in which users believe past practice does create obligations, such as when a company’s employees rely on its past practice to make important decisions. Further, users believe that such obligations can arise from moral, and not necessarily legal, compulsion. This is important because it suggests that users view obligations as comprising a broader range of situations than would be encompassed by a strict legal standard for defining obligations. Our results present a nuanced picture of the role of past practice in creating obligations and provide input to standard setters as they consider how liabilities should be defined.

Session 2.03: COMPARABILITY OF FINANCIAL STATEMENTS
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 2:30 PM - 4:00 PM

What's in a Name? Investors' Reactions to Non-GAAP Labels

Shannon Garavaglia
University Pittsburgh

ABSTRACT: Many firms report non-GAAP measures, and there is considerable variation in how firms label these measures. I conduct a survey and two experiments to investigate how non-professional investors react to non-GAAP labels and the moderating effects of awareness of managerial discretion in non-GAAP reporting. I find that when awareness of discretion is low, investors are more willing to invest in a firm that reports higher non-GAAP earnings with a more diagnostic label, specifically a label that implies persistent performance ("core"), compared to when the firm uses a less diagnostic label ("adjusted"). Results further suggest that when awareness of discretion is low, investors rely primarily on the diagnosticity of the non-GAAP label in their investment judgments, causing them to overlook the calculation of non-GAAP earnings. When awareness of discretion in non-GAAP reporting is high, investors include assessments of the non-GAAP measure and management credibility in their investment decisions, and react positively to more transparent non-GAAP disclosures.

Session 3.01: WORK ENVIRONMENTS FOR AUDITORS AND WHISTLEBLOWERS
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 4:30 PM - 6:00 PM

A Multi-Method Study of the Effects of Eliminating Time Entry on Audit Timeliness and Related Auditor and Client Perceptions

Erin Michelle Hawkins
Clemson University

Andrew H Newman
University of South Carolina

Jesse C Robertson
University of North Texas

Chad Matthew Stefaniak
University of South Carolina

Jeremy Vinson
Clemson University

ABSTRACT: Public accounting firms traditionally use a billable time entry (BTE) model to assist in budgeting engagements, evaluating personnel, and determining audit fees. However, research has identified drawbacks including time pressure and incentives to engage in audit quality-reducing behavior. Relatively little research examines alternative budgeting models. We conduct a multi-method study to examine the effects of an alternative, No-BTE model recently implemented as a pilot program by a large, regional public accounting firm. Results from proprietary audit engagement archival data indicate the No-BTE model did not have an incremental effect on audit preparer time above and beyond that observed in non-pilot engagements. Survey results indicate auditors who participated in the No-BTE pilot program perceive it can improve elements of audit quality, reduce apprehension over performance evaluations, and improve work/life balance. Survey results from clients did not identify drawbacks. We offer implications for practice and research suggestions on this novel budgeting approach.

Session 3.01: WORK ENVIRONMENTS FOR AUDITORS AND WHISTLEBLOWERS
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 4:30 PM - 6:00 PM

Workplace Aggression Initiated by Clients Against Accounting Professionals

Tim D Bauer
University of Waterloo

Sean Hillison
Virginia Tech

Ala Mokhtar
University of Waterloo

ABSTRACT: We survey 134 accounting professionals to examine whether they experience client-initiated workplace aggression, and if so, what forms that aggression takes and how these professionals respond to or cope with such aggression. We also examine the prevalence of an extreme form of workplace aggression, client-initiated bullying, and its effect on accounting professionals. We examine these phenomena using questionnaires on negative acts, coping mechanisms, and bullying that are grounded in the psychology literature. Ninety percent of respondents have experienced at least one client-initiated negative act in their career; on average, respondents experience four such negative acts. Further, our results show that 34 percent of respondents have experienced client- initiated workplace bullying. To cope with workplace aggression, we found that accounting professionals often try to take action to improve the situation but they also ignore or resign themselves to the situation. Conditional analyses reveal that seniors, managers, and partners typically experience more negative acts than staff but seniors and managers also commonly experience more negative acts than partners; we find few important differences between auditors and tax professionals. Additional analyses suggest that partners generally cope differently than staff, seniors, or managers.

Session 3.01: WORK ENVIRONMENTS FOR AUDITORS AND WHISTLEBLOWERS
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 4:30 PM - 6:00 PM

The Negative Effects of Whistleblowing Rewards and Protecting the Identity of the Whistleblower on Subsequent Cooperation

Ryan David Sommerfeldt
University of Illinois-Urbana-Champaign

ABSTRACT: Companies are strongly encouraged to implement whistleblowing programs to help detect and deter misconduct in organizations. Rewarding the whistleblower and protecting the whistleblower's identity are two highly recommended features of whistleblowing programs. I use two experiments to examine the spillover effects of these whistleblowing program features on how willing employees are to cooperate with their co-workers, both the whistleblower and neutral co-workers who did not observe misconduct or blow the whistle. I find that people prefer to cooperate less with a whistleblower than with a neutral co-worker (the "whistleblower effect"). In addition, I find that providing a reward to the whistleblower results in even less cooperation with the whistleblower (the "reward effect"). Finally, I find that protecting the identity of the whistleblower removes the reward effect but does not remove the whistleblower effect. When employees do not know the identity of the whistleblower, they act as though all of their co-workers could be whistleblowers and, thus, are less willing to cooperate with all of their co-workers. My results contribute to the literature on whistleblowing and highlight that caution should be taken when determining whether to reward whistleblowers and protect their identities.

Session 3.02: BUDGETING
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 4:30 PM - 6:00 PM

Exploring Contagion in Budgetary Misreporting

Jeremy Lill
University of Kansas

Michael John Majerczyk
Georgia State University

Ke Xu
Georgia State University

ABSTRACT: This study investigates the effect of internal reporting transparency on managerial misreporting behavior. We focus on a setting in which an organization has an established belief system indicating behaviors (e.g., honest reporting) that are valued by the organization. We hypothesize and find that misreporting is greater in open reporting environments compared to in closed reporting environments. Further, the negative effect of open reporting environments on misreporting behavior is greater with low organizational identification compared to high organizational identification. Our findings provide valuable insight into how the internal reporting environment and the level of organizational identification jointly affect managerial reporting behavior. Thus, we provide further insight into how organizational factors, including the presence of others, influence reporting behavior. Our study has important implications for practice given many organizations' move towards more open, transparent environments and greater investment in building organizational identification.

Session 3.02: BUDGETING
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 4:30 PM - 6:00 PM

Ration Now or Ration Later: Endogenous Contractual Choice in Participative Budgeting

Steven T Schwartz
SUNY-Binghamton

Richard A Young
The Ohio State University

Jing Liu
Chapman University

ABSTRACT: There is an extensive literature on participative budgeting studying situations where subordinates are better informed of project attributes than superiors. This paper reports on an experiment that adds to this literature by examining a superior's choice between a budget contract that has a binding maximum funding limit (a "rationing" contract) and a budget contract where the superior can use ex post discretion to deny funding without the power of ex ante commitment (a "review" contract). Assuming only selfish motives, the rationing contract should be optimal from the superior's perspective, while the review contract should result in the subordinate acquiring all the surplus. However, prior research has found that when a superior chooses between a review contract and a "trust" contract (wherein all subordinate requests are guaranteed to be funded), the review contract performs almost as well as the theoretical predictions for the rationing contract. The results from this experiment put prior findings into perspective. While superiors fail to achieve theorized earnings, the rationing contract does significantly better from the superior's perspective than the review contract. We conclude that while the review contract may signal a superior's commitment to enforce norms when chosen over the trust contract, it simply serves as a less powerful tool in controlling slack when chosen over the rationing contract.

Session 3.02: BUDGETING
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 4:30 PM - 6:00 PM

Friendships Matter: The Behavioral Effects of Social Distance and Residual Claim Distribution on Budget Reporting in Hierarchical Organizations

Jason Kuang
Georgia Institute of Technology

Michael John Majerczyk
Georgia State University

Di Yang
UNSW Sydney

ABSTRACT: In this paper, we focus on the honesty of subordinates' budget reporting in multi-level (subordinate, manager, and owner) hierarchical organizations. We experimentally investigate how subordinates' honesty is jointly influenced by their perceived social distance from the manager and the distribution of residual claim between the manager and owner. We predict and find that, when the manager has a relatively large stake in the residual claim, low social distance between the subordinate and manager increases the subordinate's honesty level, and this effect is fully mediated by the subordinate's increased concern about the manager's well-being. However, when the manager has a small stake in the residual claim, low social distance between the subordinate and manager decreases the subordinate's honesty level, and this effect is partially mediated by the subordinate's reduced concern about the manager's impression of their behavior. We discuss the implications of our findings for management accounting theory and practice.

Session 3.03: TAX RESEARCH
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 4:30 PM - 6:00 PM

Tax Evasion Punishment and Observers' Tax Compliance: An Experimental Investigation

Tisha King
Wilfrid Laurier University

Jonathan Farrar
Wilfrid Laurier University

ABSTRACT: We experimentally investigate how a tax evader's successful or unsuccessful conviction influences other taxpayers' compliance decisions. Using insights from the retributive justice and affective events literatures, we develop and find support for a model which posits a conditional indirect effect of perceptions of responsibility for a fraud on taxpayers' compliance intentions, through perceptions of punishment deservingness and affective reactions. We also find that the association between punishment deservingness and affective reactions is conditional on punishment actually occurring. Overall, others' tax compliance intentions significantly increase only when observers perceive that a tax fraud perpetrator is highly responsible for wrongdoing and is punished. These results have implications for tax and other organizational authorities when deciding whether or not to prosecute a fraud perpetrator.

Session 3.03: TAX RESEARCH
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 4:30 PM - 6:00 PM

Multiple Concurrent Framing Effects: Evidence from a Risky Tax Decision

Ethan G LaMothe
University of Central Florida

ABSTRACT: Prior research relying on prospect theory finds tax compliance decisions are framed by expectations (e.g., prior year outcomes) and withholding position (i.e., refund vs taxes due) and concludes individuals are influenced by multiple reference points, potentially at the same time. In this study, I examine how multiple reference points can simultaneously frame an individual's decisions even though the prospect theory value function is based on the existence of a single reference point. I predict and find these reference points both influence individual tax compliance through the simultaneous operation of two distinct framing. Specifically, I find expectations (withholding position) influence decisions through a risky choice (goal) framing effect which results from diminishing sensitivity (loss aversion). These results highlight the importance of distinguishing between these two features of the value function when using prospect theory to explain a hypothesized effect as the value function can provide multiple explanations for the same behavior.

Session 3.03: TAX RESEARCH
DATE: FRIDAY, OCTOBER 2, 2020
TIME: 4:30 PM - 6:00 PM

Investigating the Effect of Service Messages on Noncompliant Taxpayers' Reactions to Declining Audit Effectiveness

Nina Collum
Louisiana Tech University

Nancy-Susan Jurney
Oklahoma City University

Mary Elizabeth Marshall
Louisiana Tech University

ABSTRACT: We examine the very real possibility that audits begin to lose effectiveness, which we label "audit productivity," as tax authorities continue to receive fewer resources. In a simulated compliance environment with real US taxpayers, we predict and find a negative relationship between declining audit productivity and taxpayer compliance in subsequent periods. Although the most obvious solution would be to invest the resources necessary to achieve full audit productivity, this is not feasible in the current budgetary environment. Thus, we propose and test that the inclusion of minimal cost service messages can offset the negative effect of declining audit productivity by influencing how the taxpayers perceive the taxing authority. Specifically, our results show taxpayers who view a service message are more likely to view the Internal Revenue Service as focused on customer service (rather than as focused on punishing criminals). Results contribute to the literature on individual tax compliance behavior, particularly related to the balance between the service and enforcement paradigms.

Session 4.01: AUDITOR CHARACTERISTICS
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 10:00 AM - 11:30 AM

Machiavellian Traits as a Signal of Bad Seeds or Opportunists

Dereck D Barr-Pulliam
University of Louisville

Stephani A. Mason
DePaul University

Leah Elena Muriel
Oklahoma State University

ABSTRACT: Source credibility theory suggests that those with less credibility (as expressed through trustworthiness and expertise) are generally less convincing. We examine perceptions when auditors may be perceived to exhibit higher or lower expertise (via inspection deficiency rates) and higher or lower trustworthiness (by the presence or absence of a breach in the PCAOB inspection process). Non-professional investors are less likely to continue investing in a company audited by a firm that has a higher deficiency rate. We also find evidence of an interactive effect between the deficiency rate and a breach in the inspection process. We also identify that individuals who exhibit higher or lower Machiavellianism react differently to the effect of a breach in public trust, particularly in the setting where the auditor has the most to gain from subverting the inspection process (a high deficiency rate). In a supplementary analysis, we examine another breach of public trust - the manipulation of materiality in order for a client to pass on booking a large overstatement. Results are consistent with our primary analysis. We also find marginal evidence that investors may perceive the second type of breach of public trust as more influential to investment decisions. Our findings should be of interest to auditors, audit committees, and management, as the PCAOB inspection process is an annual event for all large public accounting firms, and absentee owners must rely on publicly available information in their investment decision making, which includes the use of audited financial statements.

Session 4.01: AUDITOR CHARACTERISTICS
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 10:00 AM - 11:30 AM

Does Higher Status Make Client Personnel More Cooperative with Staff Auditors?

Dan Rimkus
University of Texas at Austin

ABSTRACT: Staff auditors sometimes collect evidence from high-status client personnel, and prior research explores how this can harm evidence collection by changing auditor behavior. In the current study, I focus on how holding status changes client behavior. Specifically, I investigate (1) the possibility that status makes clients more cooperative towards staff auditors, and (2) whether auditors' actions moderate the effect. In an abstract, interactive laboratory experiment, auditors choose how much evidence to collect and clients choose how much to cooperate. Results indicate that high-status clients are more cooperative than low-status clients, but only for smaller evidence requests. Further analysis suggests that high-status clients are more sensitive to increases in request size than low-status clients. Overall, my findings demonstrate that collecting evidence from high-status client personnel may actually benefit auditors, but this effect depends on the auditor's actions, carrying implications for practitioners that value client cooperation.

Session 4.01: AUDITOR CHARACTERISTICS
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 10:00 AM - 11:30 AM

The Effects of Self-Esteem and Perspective-Taking on Judgment and Decision-Making in Group Audits

Ayla Borkus
KroeseWevers

Hielke De Boer
De Nederlandsche Bank

Herman Van Brenk
Nyenrode Business University

Niels Van Nieuw Amerongen
Nyenrode Business University

ABSTRACT: We examine the effects of a skeptical trait (self-esteem) and a state (perspective-taking) – both jointly and separately – on group auditors' review actions. These are important mechanisms to enhance audit quality in multinational group audits given the concerns raised by regulators of a lack of sufficient skepticism by group auditors. We hypothesize that group auditors who have a high level of self-esteem and are prompted to take the regulator's perspective are more skeptical in reviewing the work performed by component auditors. In an experiment with 103 audit managers and partners, we measured self-esteem and manipulated a perspective-taking prompt. As hypothesized, we find an increase in skeptical actions for group auditors who have a high level of self-esteem or those who are prompted to take the regulator's perspective. Initially, we did not find support for an interaction effect between self-esteem and perspective-taking, but supplemental analyses show an ordinal interaction, such that the highest level of skeptical action is achieved when self-esteem is high and regulator's perspective-taking is present. Audit firms might use the insights from our study in composing group audit teams and providing firm policies to enhance audit quality in multinational group audits.

Session 4.02: EMPLOYEE RESPONSES TO INCENTIVES
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 10:00 AM - 11:30 AM

Rethinking Positive versus Negative Reciprocity: Father Time Weighs In

Jordan Samet
University of Illinois Urbana-Champaign

Karl Schuhmacher
Emory University

Kristy L Towry
Emory University

Jacob Theodore Zureich
Emory University

ABSTRACT: Reciprocity has been shown to play a prominent role in the workplace, with employees rewarding their employer's kindness (positive reciprocity) and punishing their employer's unkindness (negative reciprocity). Conventional wisdom suggests that employees reciprocate negatively more strongly than they reciprocate positively. However, this understanding may be incomplete, as prior studies have focused on short-term settings that emphasize employees' initial responses. In reality, employees often react to a single employer decision – whether kind (e.g., a wage increase) or unkind (e.g., wage decrease) – with multiple responses over time (e.g., effort throughout a year). Focusing on long-term settings, we predict and find that negative reciprocity is initially stronger than positive reciprocity, but also fades more over time than positive reciprocity. This fading is so pronounced in our setting that positive reciprocity is stronger overall in the long run. Thus, the negativity bias observed in prior studies may reverse in the long run, leading to a positivity bias.

Session 4.02: EMPLOYEE RESPONSES TO INCENTIVES
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 10:00 AM - 11:30 AM

The Joint Effects of a Manager's Level of Narcissism and Incentive Scheme on Employee Effort

Miriam Kristina Maske
University of Bundeswehr Munich

Matthias Sohn
European University Viadrina

Bernhard Hirsch
University of Bundeswehr Munich

ABSTRACT: Narcissism has become the most heavily discussed personality trait in recent times. However, accounting research on managerial narcissism and its implications for management control system choices, such as incentive schemes, is scarce. Based on Christ and Vance's (2018) "cascading controls" framework, we propose that employees' work effort depends upon their manager's level of narcissism and compensation scheme. In a fully incentivized online experiment with 329 German employees, we manipulate managers' level of narcissism (high or low) and the framing of managers' compensation scheme (bonus or penalty) and examine the joint effect of these two factors on employees' effort to help the manager reach her or his goals (obtain a bonus or avoid a penalty). In line with psychological research, the results show that subordinates perceive the relationship quality with their manager as lower when manager narcissism is high and that employees show more negative (and less positive) emotions towards a narcissistic manager. Furthermore, employees invest less (more) effort to help the manager when the manager's narcissism is high (low). Importantly, we also show that relative to a manager's bonus contract, a penalty contract has a negative effect on employees' effort when the manager's narcissism is high. Our results underline the negative consequences of narcissism for leader-follower relations and have important implications for management compensation design in business practice.

Session 4.02: EMPLOYEE RESPONSES TO INCENTIVES
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 10:00 AM - 11:30 AM

When does Employee Giving Spill Over into Subsequent Ethics? The Role of the Organization of the Employee Giving Program

Eddy Cardinaels
Tilburg University and KU Leuven

Qinnan Ruan
Tilburg University

Huaxiang Yin
Nanyang Technological University

ABSTRACT: Companies increasingly organize employee giving programs to motivate ethical behavior from employees. Such programs are usually designed to increase employees' engagement levels into the donation. We experimentally examine whether the organization of such employee giving programs can activate a positive spillover from employee giving engagement to subsequent ethical behavior. We predict that employee giving programs that disclose relative performance information (RPI) on the employee's contribution to charity can enhance the positive link between this contribution engagement and subsequent ethics. This beneficial effect of RPI will only occur when employee giving programs ask employees to contribute money but not when they ask to contribute time. Our results support these predictions. Only for the money condition, the positive effect of the contribution on subsequent ethics is stronger when RPI is present relative to when it is absent. Our results have implications for practice. Stimulating employees to contribute money to charity and providing them with RPI can promote more ethics in organizations.

Session 5.01: AUDITING STANDARDS AND RULES
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 1:00 PM - 2:30 PM

the Influence of Sustainability Assurance Report Level and Format on Nonprofessional Investors' Judgments

William N Dilla
Iowa State University

Diane J Janvrin
Iowa State University

Jon D Perkins
Iowa State University

Robyn L Raschke
University of Nevada-Las Vegas

ABSTRACT: The International Auditing and Assurance Standards Board (IAASB) recently identified effective communication in the assurance reports that accompany emerging forms of external reporting (EER) as an important challenge. Our study addresses this challenge in the context of assurance on integrated financial and sustainability reports. It examines the influence of sustainability assurance report level (limited versus reasonable) and format (presented separately or combined with financial information assurance) on investor judgments. Nonprofessional investors viewed integrated financial and sustainability performance information accompanied by assurance reports and made investment judgments based on this information. Participants assessed sustainability performance information to be more credible and made higher investment judgments when the sustainability assurance report was presented separately from financial statement assurance. They assessed sustainability performance information to be more credible and made higher investment judgments with a separate limited assurance sustainability report as opposed to a separate reasonable assurance report. Sustainability assurance level did not influence participants' judgments when the financial and sustainability assurance reports were combined. A supplemental analysis indicates that this may have occurred due to participants' having difficulty understanding the combined assurance report. Results indicate that standard setters' concerns regarding whether assurance reports that accompany EER effectively communicate the level of

assurance provided are warranted.

Session 5.01: AUDITING STANDARDS AND RULES
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 1:00 PM - 2:30 PM

The Sound of Silence: What Does a Standard Unqualified Audit Opinion Mean Under ASC 205-40?

Joel Owens
Portland State University

Kristen Kelli Saunders
University of Nebraska-Lincoln

Samantha Tara Schachner
University of Nebraska-Lincoln

Todd A Thornock
University of Nebraska-Lincoln

ABSTRACT: A recent FASB standard requires an entity's management to assess the entity's ability to continue as a going concern and disclose substantial doubt about such. In contextualized experiments wherein the entity's auditor does not issue a going concern opinion and the entity subsequently fails, we examine the effects of this new standard on jurors' judgments of auditor liability, operationalized as auditor blameworthiness for investor losses. We find: (1) when management has not disclosed going concern issues, blame ascribed to auditors for investor losses increases under the new standard; (2) auditor blame increases further when management has disclosed going concern issues; and (3) inclusion of a going concern-related critical audit matter (CAM) in the audit report mitigates these adverse effects of the new standard on auditor liability. These findings provide insights regarding unintended consequences to auditors of the new FASB standard and the efficacy of CAMs to mitigate those consequences.

Session 5.01: AUDITING STANDARDS AND RULES
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 1:00 PM - 2:30 PM

Attempts to Leverage Engagement Partner Identities in Audit Litigation and the Effectiveness of a Show-and-Tell Defense

Erin Burrell Nickell
Stetson University

Lisa M Victoravich
University of Denver

D. Jordan Lowe
Arizona State University - Tempe

ABSTRACT: The PCAOB recently adopted Rule 3211 which requires all audit firms to file a Form AP with the Board. The intended purpose of Form AP was to require the disclosure of the name of the engagement partner on audits of public companies as a means of enhancing audit quality and transparency for financial statement users. However, there is concern regarding the possible unintended consequences of this increased transparency to stakeholders. This study addresses practitioner concerns of increased liability by considering how information about engagement partners can be leveraged by the prosecution to support allegations of negligence. Plaintiffs can leverage information from a database (AuditorSearch) on the PCAOB's website to draw conclusions on an individual partner's portfolio of engagements and about the partner's expertise. We conducted an experiment with 231 jury-eligible MTurk participants to examine the effect of information about a partner's workload and industry expertise on juror verdicts of audit firm negligence. Consistent with expectations, when the plaintiff's strategy included identifying the engagement partner as having been overworked or lacking industry expertise, jurors were more likely to provide significantly higher negligence verdicts than without such knowledge. These results are mediated by activating assessments of partner negligence and negative emotional reactions to the audit firm. We also find that the defense strategy of using visuals (show and tell) as evidence of due professional care is an effective remedial technique against plaintiff's strategies of exploiting data from Form AP. Conclusions and implications of our study are also noted.

Session 5.02: INCENTIVES AND CREATIVITY
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 1:00 PM - 2:30 PM

Creative Capacity, Multidimensional Incentives, and Creative Performance

Ajanee Ranasinghe
University of Melbourne

ABSTRACT: I conduct an experiment to examine whether an individual's creative capacity – the potential to produce creative outcomes – influences the efficacy of creativity-weighted-quantity incentives. To remain commercially viable, organizations desire creativity while also maintaining efficiency. The challenge is to design a management control system to achieve a trade-off between these desired dimensions. Prior research finds that incentivizing both creativity and quantity of production is detrimental to quantity and has no effect on creativity. However, these studies do not consider the creative capacity of individuals. Drawing on psychology and economics literatures, I predict and find that creativity-weighted-quantity incentives lead to an improvement in creativity for individuals with high creative capacity, but not for individuals with low creative capacity. The creative performance is sustained over time for individuals with high creative capacity but declines for those with low creative capacity. These results suggest that creativity-weighted-quantity incentives are effective for the types of individuals who are typically employed for creative work.

Session 5.02: INCENTIVES AND CREATIVITY
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 1:00 PM - 2:30 PM

Cheer Up: The Effect of Mood and Performance-Dependent Incentives on Creativity

Alisa Gabrielle Brink
Virginia Commonwealth University

Bernhard E. Reichert
Virginia Commonwealth University

J. Matthew Sarji
Virginia Commonwealth University

ABSTRACT: We use an experiment to investigate how incentive scheme and mood influence creative performance. The popular business press, as well as anecdotal evidence from artists and corporate practice, suggests that being in a positive mood leads to improved creativity, and companies that operate in knowledge industries invest considerable resources in measures aimed at improving employee mood. We extend the literature by examining the effect of mood on creativity in compensation contexts where participants create rebus puzzles with compensation that is either fixed, performance-dependent based on the quantity of output, or performance-dependent based on the creativity of output. A relatively positive or negative mood is induced through the use of previously validated mood statements and classical music. We find a positive mood compared to a negative mood leads to more highly creative output (i.e., puzzles that receive top-quartile creativity ratings) for fixed compensation, but not for quantity-dependent or creativity-dependent compensation. These results are consistent with a crowding out of the effect of positive mood on creativity by performance-dependent compensation. Supplemental analysis indicates that this crowding out occurs after time passes rather than instantaneously, as mood significantly affects the creativity of the first 25 percent of puzzles produced regardless of compensation form. We also find that the combination of a negative mood and quantity incentive leads to the production of the greatest number of puzzles that are of the lowest creative quality.

Session 5.02: INCENTIVES AND CREATIVITY
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 1:00 PM - 2:30 PM

Self-Serving Biases in Team Member Communication: The Effects of Voluntary Communication and Explanation

Leslie Berger
Wilfrid Laurier University

Lan Guo
Wilfrid Laurier University

Kelsey Kirbyson
Wilfrid Laurier University

Christopher Wong
University of Waterloo

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

Session 6.01: TECHNOLOGY IN AUDITING
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 2:30 PM - 4:00 PM

A Blockchain Halo? Client Adoption of Disruptive Technology and the Biasing Effects on Auditor Judgment

Ashley Austin
University of Richmond

Tyler Williams
Bentley University

ABSTRACT: Companies are devoting significant resources toward harnessing the power of disruptive technologies, including blockchain. Blockchain adoption will present unprecedented challenges and threats to financial reporting and auditing processes, changing the future of auditing. While audit firms employ specialists to advise on disruptive technologies like blockchain, most audit professionals likely do not fully comprehend such innovative and complex technology—making them more susceptible to the positive hype surrounding the technology. Most auditors likely perceive client blockchain adoption positively, especially when exposed to more blockchain news. However, positive feelings regarding client adoption of blockchain (a "blockchain halo") should not affect auditor judgments in audit areas unrelated to the technology. We experimentally demonstrate the presence of a blockchain halo and the subsequent biasing effects on complex auditor judgments. Specifically, we find an interactive effect such that auditors with less auditor expertise evaluate management's biased projections more favorably when exposed to more blockchain news as well as when the client adopts blockchain in an unrelated area. Auditors with more expertise do not exhibit this bias. Thus, we contribute to halo theory and demonstrate to practice the unintended consequences related to client adoption of disruptive technology.

Session 6.01: TECHNOLOGY IN AUDITING
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 2:30 PM - 4:00 PM

Audit Data Analytics and Jurors' Assessments of Auditor Negligence: The Effects of Follow-up Procedures and the Lack of a Standard

Peter Kipp
University of North Texas

Renee Olvera
Texas Christian University

Jesse C Robertson
University of North Texas

Jeremy Vinson
Clemson University

ABSTRACT: While auditors are increasingly using audit data analytics (ADA), research is limited on whether this new technology will affect auditor liability. This study examines the effects of how auditors follow up on the large number of exceptions often identified by ADA, and the lack of a standard on the use of ADA, affects jurors' assessments of auditor negligence. Consistent with the algorithm aversion literature, we find that jurors assess higher negligence when auditors use Artificial Intelligence (AI) to identify a sample of exceptions for follow up testing than if human audit team members identify exceptions for follow up. Higher perceptions of causation and foreseeability in the AI condition mediate this effect. We also find an interaction such that negligence is highest when auditors use AI to select exceptions for follow up testing and there is no ADA standard. To our knowledge, ours is the first study to consider algorithm aversion in the juror-auditor setting and to apply the culpable control model to emerging audit technologies.

Session 6.01: TECHNOLOGY IN AUDITING
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 2:30 PM - 4:00 PM

The Impact of Data Analytic Sophistication and Supervisor Preference on the Evaluation of Complex Estimates

Steve Perreault
Providence College

Jared Koreff
Trinity University

ABSTRACT: The rise of technology-enabled data analysis tools creates opportunities for firms to improve audit quality related to complex estimates. In an effort to combat auditor's resistance to using technology-enabled tools, firms may promote the sophistication of such tools to their audit staff. However, there is a paucity of research examining how auditors consider the sophistication of an analytic tool when making judgments about audit evidence. We conduct an experiment and find that, holding all other information constant, the perceived sophistication of an analytic tool interacts with the preferences of an audit supervisor to jointly impact auditor's anticipated evaluation from a supervisor and, in turn, their evidence evaluation decisions when auditing a complex estimate. As such, the promotion of tool sophistication by audit firms can significantly affect the audit of complex estimates to a greater degree than what would normatively be expected. Implications for audit theory and practice are discussed.

Session 6.02: CAREER CONCERNS: EVALUATIONS, PROMOTIONS, AND GUILT
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 2:30 PM - 4:00 PM

How Opportunity to Rationalize Misreporting Affects Business Unit Controllers' Feelings of Guilt

Janina Hornbach
Uppsala University

ABSTRACT: This paper investigates how business unit (BU) controllers cognitively and emotionally deal with trade-offs between their local and fiduciary duty. I propose that the amount of guilt BU controllers experience depends on how well they can rationalize a decision to violate their fiduciary duty. To test my prediction, I designed a randomized, scenario-based experiment with professional controllers where I provide both opportunity and motivation to misreport. Subsequently, I either restrict (treatment) or not restrict (control) opportunities to rationalize misreporting ex-post. My findings suggest that opportunities to rationalize do play a role in reducing guilt in BU controllers, although differently to what I expected. The findings suggest that BU controllers experience increased guilt from misreporting despite having opportunities to rationalize, suggesting that violations of fiduciary duty are not easily rationalized away. However, when BU controllers were made aware of the moral implications of their decision, their ease of rationalization increased and guilt levels decreased. It seems that attempts to restrict rationalizations have increased the level of threat to BU controllers' professional integrity, triggering them to more actively reduce guilt. The findings have implications for control mechanisms aiming to increase BU controllers' awareness of the moral ambiguity of misreporting in the interest of the BU.

Session 6.02: CAREER CONCERNS: EVALUATIONS, PROMOTIONS, AND GUILT
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 2:30 PM - 4:00 PM

Candidate Selection in Business Units: Be the Best or Surround Yourself with the Best?

Jeremy Lill
University of Kansas

Michael John Majerczyk
Georgia State University

Ivo D Tafkov
Georgia State University

ABSTRACT: This study investigates, via an experiment, how status considerations in the presence of relative performance information shape the impact of the organizational selection process on the caliber of employee selected by business units. Specifically, we investigate how an organization's employee selection process (centralized vs. decentralized) and the information available to decision-makers in that selection process (low vs. high) affect the caliber of employees selected by a business unit in a team-based environment. We find that when low levels of candidate-specific information are present, the quality of the selected employee is lower under a decentralized than under the centralized selection process. We also find that under both centralized and decentralized selection processes, providing decisions-makers with more information about candidates is only beneficial when it decreases ambiguity regarding who is the best candidate and is harmful when it increases this ambiguity. Overall, our results indicate that non-pecuniary status considerations can significantly influence employee selection decisions in organizations.

Session 6.02: CAREER CONCERNS: EVALUATIONS, PROMOTIONS, AND GUILT
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 2:30 PM - 4:00 PM

Subjective Evaluation of Professional Employees: Work-Day Duration as a Heuristic to Evaluate Output

Sara Wick
Wilfrid Laurier University

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

Session 6.03: VERBAL AND EARNINGS MANIPULATIONS
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 2:30 PM - 4:00 PM

Firm Managers' Fair Value Estimates In Light of an Impending Audit

Lisa Koonce
University of Texas at Austin

Ben W Van Landuyt
University of Arizona

ABSTRACT: Accounting estimates, including those related to fair value, are pervasive in financial reports and are often subject to managerial manipulation. Financial statement audits are conventionally viewed as a deterrent to such manipulation. In an experiment with 127 accounting professionals averaging over 28 years of experience, we test whether the opposite is true for financial reporting choices related to fair value estimates. We show that participants in the role of a CFO "start high" with their fair value estimates when anticipating an audit, as they view the audit as likely to cause downward revisions to their estimates. We also find that managers' tendency to "start high" is more pronounced when past auditor-manager negotiation outcomes have favored the auditor's, versus the manager's, preferred reporting position. Finally, we find that although managers do not proactively respond to auditor expertise in their initial estimates, they expect expert auditors to prompt lower final reporting outcomes.

Session 6.03: VERBAL AND EARNINGS MANIPULATIONS
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 2:30 PM - 4:00 PM

Managing Earnings to Appear Truthful: The Effect of Public Scrutiny on Exactly Meeting a Threshold

Jessen L. Hobson
University of Illinois-Urbana-Champaign

Sebastian Stirnkorb
Erasmus University

ABSTRACT: The past two decades have not eliminated managers' willingness to manage earnings to meet and beat earnings thresholds, but have increased investors' skepticism of earnings that exactly meet those thresholds. Using a low-external-context experiment, we find that managers avoid exactly meeting a benchmark, even when they alter true earnings to do so. Thus, we examine a new incentive to manage earnings: misreporting to appear truthful. Specifically, we examine the effect of intensified scrutiny of managers and managers' individual sensitivity and concern about investors' perceptions of them. We find that when earnings exactly meet a benchmark, managers are more likely to misreport earnings when they report under high public scrutiny. This is particularly the case for managers who are low on the Dark Triad scale (and thus more sensitive to others' perceptions). Further, we show that this misreporting increases managers' belief that the market will accept their reports, consistent with managers misreporting for self-presentational goals. These results help explain otherwise undetectable behavior around earnings benchmarks and are important as managers are increasingly scrutinized by critical media, activists, and political oversight bodies, and as they face skepticism via more intimate forms of disclosure and communication, such as social media.

Session 6.03: VERBAL AND EARNINGS MANIPULATIONS
DATE: SATURDAY, OCTOBER 3, 2020
TIME: 2:30 PM - 4:00 PM

The Joint Effect of Strategic Temporal Immediacy and Communication Mode on Investor Judgment

Scott Jackson
University of Massachusetts-Amherst

M. David Piercey
University of Massachusetts-Amherst

Ying Wang
University of Massachusetts-Amherst

ABSTRACT: Abstract: Managers strategically vary the language used to describe firm performance (i.e., temporal immediacy) to either draw themselves closer to positive events or distance themselves from negative events. We examine how strategic temporal immediacy affects investor judgment and how such effects vary with communication mode (text versus video). We find that within text communications, investors have higher investment willingness when managers use strategic (versus non-strategic) temporal immediacy, and such an effect is mediated by investors' perceptions of temporal distance to future positive events discussed in management disclosures. However, there is no effect of strategic temporal immediacy within video communications, regardless whether managers exhibit neutral or egotistical nonverbal behavior in the video, although we do find lower investment willingness in the egotistical video condition compared to the neutral video condition. Our findings are relevant to researchers and practitioners interested in understanding the joint effect of verbal and non-verbal cues on investor judgment.