

1.02: Engagement Partner Quality and Human Capital in Audit Firms

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Do Signing Audit Partners matter? Evidence from Sudden Hospitalization Events

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This paper investigates whether audit partners matter for audit quality. Specifically, we analyze the impact of sudden hospitalization of the engagement partner when auditing primarily happens-between the fiscal-year end date and the publication date of each financial report-on the audit quality of their clients. Our results indicate that, overall, engagement partner hospitalizations have little impact on audit quality. However, these events lead to lower audit quality at non-Big 4 audit firms, whereas audit quality at Big 4 firms remains unaffected. This suggests that Big 4 audit firms have effective contingency plans in place to mitigate the effects of sudden absences of engagement partners. Additionally, we find that hospitalizations have a more pronounced impact on the audit quality of long-tenured audit partners compared to short-tenured audit partners. This finding suggests that long-tenured audit partners deliver higher quality audits. In summary, our study contributes to understanding the role of audit partners in audit quality outcomes.

1.02: Engagement Partner Quality and Human Capital in Audit Firms

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Engagement Partner Quality, Costs of Capital, and Valuation

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Accounting theory predicts that the clients of higher quality auditors should enjoy lower costs of capital and have more predictable future cash flows, therefore, having higher values. However, empirical evidence on whether and how the audit quality at the engagement partner (EP) level influences the clients' costs of capital and values is scarce. Therefore, employing five proxies for the EP quality (characterized by size and industry specialization), and analyzing 414-739 EPs from the United Kingdom, we examine and find, consistent with the theoretical predictions, that the clients of high-quality EPs generally enjoy lower costs of capital and have higher values. The former effect is mainly due to the markets' perception that high-quality EPs improve their clients' accruals quality, consequently, increasing the value of the client by reducing the magnitude of discount factor, if with the assumption of holding other factors (that may influence value) consistent. The results are not sensitive to controls for the industry, year, client, and audit firm fixed effects, to alternative measurements of EP quality and clients' value, and to a median regression method. Our additional analyses on the effect of EP quality on debt covenants show that the loan contracts of clients of high-quality EPs are less likely secured and have larger amount of facilities and lower loan spread over LIBOR. Our results suggest that high quality audit at EP level benefits the client.

1.03: Global ESG Impact: Diversity, Inclusion, and Media Coverage

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Environmental, Social, and Governance Media Coverage and Breadth of Minority Ownership

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This study investigates whether and how environmental, social, governance (ESG) media coverage affects shareholders' investment decision-making. We find that ESG media coverage increases the number of investors (majority and minority shareholders), and that the impact of ESG media coverage on breadth of ownership is more pronounced for minority shareholders than majority shareholders. The findings are robust to alternative research designs with the inclusion of either ESG performance (i.e., ESG ratings) or the issuance of sustainability reports, abnormal ESG media coverage, and two-stage least squares regression. Overall, these results support the informational role of ESG media coverage in capital markets under agenda-setting theory.

1.03: Global ESG Impact: Diversity, Inclusion, and Media Coverage

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Unveiling the Dual Impact of Diversity & Inclusion: Boosting Financial Outcomes Through Enhanced Environmental Performance

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By using a holistic measure of diversity and inclusion (D&I), which goes beyond the simple gender quotas or other individual aspects within the boardroom, we assess the simultaneous and synergistic effects of its various dimensions on corporate financial performance (CFP), shedding light on the reason why D&I influences firms' profitability and value. Using a sample of globally publicly listed companies from 2017 to 2022, we first confirm previous findings that support a positive correlation between D&I and CFP. Most importantly, we find that environmental performance mediates roughly 40% of the direct channel between D&I and CFP. Our results show that companies adopting a more comprehensive approach to diversity and inclusive practices in the workplace achieve superior outcomes because of their higher response to environmental issues.

1.03: Global ESG Impact: Diversity, Inclusion, and Media Coverage

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Enhancing Corporate Environmental, Social and Governance (ESG) Performance in China: The Role of Returnee Chairmen vs. CEOs with Foreign Experience

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This study explores the impact of foreign experience (Forback) on ESG performance in Chinese firms, with a focus on Chairmen of the Board and CEOs. Our findings demonstrate that foreign work or study experience significantly enhances ESG outcomes, with Chairmen exerting a more substantial influence than CEOs. Notably, Chairmen with Forback in common law countries drive greater ESG improvements, with foreign work experience being more impactful than academic experience. Additionally, our results indicate that enhanced environmental performance is more likely when the Chairman has Forback, and Chairmen with overseas experience are generally associated with higher levels of corporate governance. This study underscores the unique role of Chairmen in China, who act both as agents of corporate governance and as the actual controllers of their firms. Our findings provide valuable insights for international collaborations on sustainable development with China, suggesting that such efforts could be most effectively facilitated through Chairmen. These insights also have important implications for corporate governance in contexts where ownership is concentrated among multiple large shareholders.

1.04: Behavioral and Economic Influences on Reporting

1/24/2025

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The Upside of Loss Aversion: Evidence from Financial Reporting Loss Avoidance

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De la Rosa and Lambertsen (2022) theoretically show that when investors are loss-averse, earnings discontinuities proposed in Guttman et al. (2006) emerge at investor reference points and are an increasing function of loss aversion. In this study, I test these propositions using a sample drawn from 49 countries in which cross-country differences in loss aversion are measurable. Net income distributions indicate that discontinuity at zero earnings is only statistically significant among countries ranked high in loss aversion, and the size of discontinuity increases with loss aversion. A multivariate analysis corroborates this association by documenting that loss avoidance is an increasing function of loss aversion. To date, the theoretical and empirical loss aversion literatures are mixed on whether loss aversion is expected to increase loss avoidance through stronger performance or opportunistic reporting. A second analysis finds that loss avoidance in countries ranked high in loss aversion is (i) positively associated with operating cash flows, (ii) negatively associated with total and discretionary accruals, and (iii) informative for future earnings and cash flow, relative to loss avoidance in countries ranked low in loss aversion. These results suggest that performance (opportunistic reporting) plays a larger (smaller) role in loss avoidance in more-loss-averse countries.

1.04: Behavioral and Economic Influences on Reporting

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The Information Value of US-Listed Foreign Firms' Earnings Announcements

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Motivated by the economic significance of foreign listers and their distinct reporting regulations, this paper examines the impact of foreign listers' earnings announcements (EAs) on equity bid-ask spreads surrounding the EA date and investigates whether and how it differs from that of domestic listers' EAs. We find that, compared to their domestic counterparts, foreign listers have higher bid-ask spreads in the pre-EA period, a smaller spread increase at announcement, and a greater post-announcement spread decrease. Taken together, these results indicate that the EAs of foreign listers convey relatively more new information to unsophisticated investors compared to the EAs of domestic listers. Furthermore, these patterns are more pronounced for foreign listers from weaker regulatory regimes, for those with lower levels of analyst following and lower institutional ownership, and for those updating earnings on a less timely or less frequent basis, consistent with the notion that sophisticated investors may have important informational advantages over unsophisticated investors in these firms. This study enhances our understanding of the important informational effects of foreign listers' EAs and offers insights to policy makers by providing evidence of the potential costs of foreign listers' less stringent reporting requirements.

1.04: Behavioral and Economic Influences on Reporting

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Economic Uncertainty and the reporting of Level 3 Assets – A Cross-Country Analysis

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Focusing on a sample of cross-listed firms that are not financial institutions, we examine whether country-specific macroeconomic conditions create incentives for managers to classify financial instruments into, or out of, Level 3. We use economic policy uncertainty (EPU) as our gauge of the state of the economic environment, as it plays a key role in comprehending the impact of policy decisions and their influence on diverse economic measures. We find that country-specific macroeconomic conditions are associated with the levels of and changes in Level 3 assets held (or classified as) by companies. We find no evidence, however, of country-specific macroeconomic conditions being associated with companies using Level 3 assets to manage earnings.

2.02: Global Standards, Local Challenges

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Stare Decisis: A Literature Review on the Success and Impact of IFRS with Suggestions for Future Research

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This paper summarizes the research on international financial reporting standards (IFRS) found in seven relevant ABDC A and A* journals for 2016-2021. It focuses on the term stare decisis as it applies to the promulgation and use of IFRS. It creates a model of how IFRS influences, and is influenced, by numerous factors. The outcomes of the IFRS process are framed using two definitions of stare decisis. The first definition, a narrow legal interpretation, implies global uniformity of IFRS rules as originally published. For this the research does not support IFRS as stare decisis. The second broader definition sees stare decisis as measured in improvements in comparability, capital markets, societal and other outcomes. This definition can be supported. The manuscript concludes with ten areas of research improvement, including new topics, new geographies, and most importantly, more recent data.

2.02: Global Standards, Local Challenges

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Switching Back from IFRS to Local GAAP: Does It Impact Target Price Accuracy and Analyst Optimism?

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Prior research shows that mandatory IFRS adoption provided some benefits for financial analysts. We extend this literature by investigating whether switching back from IFRS to local GAAP reduces these benefits. More precisely, we analyze the impact of such a switch on target price errors in Switzerland, where several firms have decided to abandon IFRS and use Swiss GAAP. Our cross-sectional analysis shows that analysts' errors are significantly lower for firms applying IFRS. The results from our staggered difference-in-differences suggest a significant increase in the absolute target price errors after a switch from IFRS to Swiss GAAP. Thus, we conclude that target price accuracy decreases when opacity increases. However, analysts are usually more optimistic about firms using IFRS, and analyst optimism significantly decreases after a switch from IFRS to Swiss GAAP. This latter finding suggests that analysts become more prudent when opacity increases. Overall, we conclude that switching back from IFRS to local GAAP has some negative and some positive consequences for financial analysts.

2.02: Global Standards, Local Challenges

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Do Accounting Standards Affect Financial Statements? Evidence from Firms with Twin Financial Statements

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We investigate the effect of accounting standards on commonly used financial statement figures and ratios holding the underlying transactions fixed. Specifically, we study a novel sample of EU-domiciled firms that are listed in the U.S. markets and that each year report two separate annual reports with different consolidated financial statements, one based on U.S. Generally Accepted Accounting Principles (U.S. GAAP) to the U.S. Securities and Exchange Commission (SEC) and the other based on International Financial Reporting Standards (IFRS) to their home country in the EU. These firms with twin financial statements allow us to document differences in financial statement figures between U.S. GAAP and IFRS. These differences in turn affect commonly used accounting-based ratios such as ROE and ROA. We also use this sample to document differences in bankruptcy prediction and discretionary earnings management between U.S. GAAP and IFRS, holding the underlying transactions fixed. Further, because commonly used matching techniques are based on financial statements figures that we show differ for our twin financial statement firms (such as total assets), we demonstrate that matching of twin financial statement firms that report using U.S. GAAP (IFRS) fails to match to its twin among all IFRS- (U.S. GAAP-) reporting firms approximately 60 percent of the time. This incorrect matching results in statistically significant differences in discretionary earnings management comparisons between U.S. GAAP and IFRS, relative to within twin comparisons. Our results suggest that differences in financial statement figures between U.S. GAAP and IFRS affect matching when applied across accounting standards.

2.03: Global Auditing and Governance: Regulation and Innovation

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The Importance of Auditing Standards to Cross-Listings: Evidence from the Implementation of the International Standards on Auditing

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We examine the influence of the implementation of the International Standards on Auditing (ISA) on domestic firms' cross-listing activities. Exploiting the staggered adoption of the ISA in home jurisdictions, we find that the ISA increases the propensity of firms to cross-list their shares in foreign jurisdictions. Furthermore, we document that ISA implementation reduces audit fee premiums borne by cross-listing firms, and that the effect of ISA implementation on cross-listing is more pronounced in firms with greater information asymmetry and higher agency costs. We also show that the effect is stronger when a jurisdiction implements the ISA in a more comprehensive manner, where enforcement is likely to be stronger, and when a firm relies more on external financing. Collectively, these results provide evidence that ISA implementation lowers the cost of complying with foreign regulations and mitigates firms' informational friction, thereby encouraging domestic firms to raise capital in foreign markets.

2.03: Global Auditing and Governance: Regulation and Innovation

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Did Lead Auditors Decrease Use of Chinese Component Auditors Following HFCAA?

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U.S. Congress passed the Holding Foreign Companies Accountable Act (HFCAA) in December 2020 to increase pressure on China to allow PCAOB inspections of Chinese auditors. We examine the impact of the HFCAA on the amount of work performed by Chinese component auditors (CCAs) and find a significant decrease in the use of CCAs by non-Chinese lead auditors. Cross-sectional analyses suggest that such effects are particularly concentrated in non-Big Four lead auditors and when CCAs previously played a substantial role. Moreover, our results support an increase in lead auditor participation and a higher likelihood of lead auditor changes among issuers with CCA after HFCAA. Collectively, our results reveal real changes in non-Chinese lead auditor behavior due to HFCAA. Our research is relevant to regulators, auditors, and investors for understanding the possible unintended consequences of HFCAA.

2.03: Global Auditing and Governance: Regulation and Innovation

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Dual-Class Structure and Corporate Innovation: International Evidence

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We document a strong negative impact of dual-class ownership structure on corporate innovation. The potential mechanism driving this result is the managerial consumption of private benefits of control, as measured by the voting premium attached to the superior voting shares. Using a staggered introduction of board reform across countries as an exogenous shock to corporate governance, we show that this negative impact is alleviated after the shock. We also find that the relation between dual-class ownership and innovation depends on the firms' lifecycle. For younger firms, we find a slightly positive relationship, while for older and more mature firms, the relation is strongly negative. Our results suggest that a policy of time-based sunset provision can be beneficial for innovation.

2.04: Cultural and Political Influence on Corporate Practices

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How Green is the Argentine Blue Dollar?

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The accounting implications relative to foreign currency transactions and functional currency determinations influence the ability of a country to engage in international trade. Secondary exchange rates, also known as 'black market rates,' are common in economically developing countries. Argentina is a unique case due to the sheer expanse of their secondary exchange rate-known as the dollar blue (also known as blue dollar, blue chip, and dollar informal). The blue dollar was born out of extreme economic disfunction of 1989 to 2011 and the poor political choices made during this time. Political policies and decisions bred distrust among locals and gave way to feelings of inadequacy towards the national government. As a result, in October of 2011, the blue dollar was born. The blue dollar sought to provide a more accurate exchange rate as compared to the U.S. dollar that fit current inflation rates and could be traded among the Argentine people without governmental control. Utilizing an International Political Economy (IPE) framework, this paper will discuss the blue dollar's origins and its continued effects throughout Argentina; highlight tourists' dependency upon and use; and examine the political impact of this informal exchange rate and the implications of dollarization. Las implicaciones contables relativas a las transacciones en moneda extranjera y las determinaciones de la moneda funcional influyen en la capacidad de un pa s para participar en el comercio internacional. Los tipos de cambio secundarios, tambi n conocidos como tipos de 'cambio del mercado negro', son comunes en los pa ses en desarrollo. Argentina es un caso  nico debido a la gran extensi n de su tipo de cambio secundario, conocido como el d lar blue (tambi n conocido como d lar celeste, d lar paralelo y d lar informal). El d lar blue naci  de la disfunci n econ mica extrema de 1989 a 2011 y las malas decisiones pol ticas tomadas durante este tiempo. Las pol ticas y decisiones pol ticas generaron desconfianza entre la poblaci n local y dieron paso a sentimientos de inadecuaci n hacia el gobierno nacional. Como resultado, en octubre de 2011, naci  el d lar azul. El d lar azul buscaba proporcionar un tipo de cambio m s preciso en comparaci n con el d lar estadounidense que se ajustara a las tasas de inflaci n actuales y pudiera ser negociado entre el pueblo argentino sin control gubernamental. Este trabajo discutir  los or genes del d lar blue y sus efectos continuos en toda Argentina; destacar  la dependencia y el uso de los turistas; y examinar  el impacto pol tico de este tipo de cambio informal y las implicaciones de la dolarizaci n.

2.04: Cultural and Political Influence on Corporate Practices

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Corruption Networks and Anti-corruption Mechanisms: A Case of Kenya.

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This paper explores how strong corruption networks, consisting of members of the Kenyan political elite, senior bureaucrats, and their corporate cronies, work around anti-corruption mechanisms and render them ineffective. We use multiple methods, including field interviews, direct observations, and archival data from various sources, to collect and analyze our data. We find that corruption persists in Kenya because of the lack of political will, at various levels, to operationalize anti-corruption measures. Furthermore, the deeply entrenched socio-cultural expectations together with weak public sector governance structures, give rise to inadequate transparency and accountability which in turn result in greater opportunities for corruption. We extend the literature on corruption by presenting a strong case that shows that enacting anti-corruption laws and regulations alone is not enough to eradicate corruption. Our ability to gain access to a strong team of interview participants, who were willing to share their perspectives on corruption without the usual fear of reprisals, allows us to present an analysis of corruption that goes beyond the use of archival documents only. Undoubtedly, to have any chance of winning the fight against corruption in any setting (Africa or otherwise) requires strong political will and we propose that future research energies can be directed at understanding how political will in fighting corruption can be enhanced in sub-Saharan Africa.

2.04: Cultural and Political Influence on Corporate Practices

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Ancestral narratives and corporate innovation: international evidence

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This paper examines how ancestral narratives affect today's corporate innovation. Using pre-industrial folklore from around the world, we find that firms located in societies where the local folklore is rich in heroes winning at challenges, spend more on R&D and achieve greater innovation effectiveness as measured by patent and citation counts given the R&D inputs, whereas for firms in societies where significant folklore features supernatural entities, the opposite is the case. Mechanism analyses reveal that these effects of folklore are at least partly due to cultural transmission and managers with origins in the local culture. The links between folklore and innovation are robust to controlling for various geographical factors and to exploiting the Jewish immigration shock from World War II. Overall, these findings are consistent with the notion that folklore transcends generations and shapes firms' contemporary economic choices and outcomes.

3.01: Psychological and Cultural Dynamics in Auditing

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The Impact of Corporate Culture Similarity between Audit Firms and Their Clients on Financial Reporting Quality

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This study examines the impact of corporate culture similarity between audit firms and their clients on financial reporting quality. Our research utilizes textual analysis, a potent methodology, to explore the importance of corporate characteristics within a constantly evolving economic and social environment. Drawing on social exchange theory (SET), two competing predictions arise. First, high similarity may lead to reciprocity bias, resulting in lower financial reporting quality because of limited due diligence. Second, similarity in corporate culture can enhance financial reporting quality through open communication and adherence to mutually agreed rules. The findings of this study reveal that corporate culture similarity has a negative impact on financial reporting quality, supporting the prediction of lower quality due to insufficient due diligence in evaluating aggressive accounting practices. Our outcomes remain consistent with a series of robustness and endogeneity tests, such as propensity score matching (PSM) estimation, entropy balance, and instrumental variable tests. Our cross-sectional analyses demonstrate that a higher degree of board diversity and stronger corporate governance can attenuate the negative impact of cultural similarity on financial reporting quality. This study has significant implications for various stakeholders, including policymakers, regulators, and practitioners who aim to promote higher standards for financial reporting quality.

3.01: Psychological and Cultural Dynamics in Auditing

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The Effect of Perceived Client Pressure and Outcome Imprecision on Auditors' Fair Value Materiality Judgments

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This paper extends the literature on one of the most critical topic in auditing, namely, auditors' fair value materiality judgments. We extend Griffin (2014) study to examine the direct and interaction effects of one critical situational factor, namely, outcome imprecision, and auditors' key individual factor relating to clients, namely, perceived client pressure, on auditors' fair value materiality judgments. We invoked the theory of motivated reasoning and social influence theory to formulate the hypotheses. Using a 2x2 experimental setting with auditors from Big 4 audit firms with experience in auditing fair value estimates, we manipulated outcome imprecision at two levels (precise versus imprecise) and manipulated perceived client pressure at two levels (high versus low) to provide findings to support the following hypotheses. First, when the range of fair value accounting estimates is precise (imprecise), auditors are more (less) likely to request an audit adjustment and a greater (lesser) adjustment. Second, auditors with low (high) perceived client pressure are more (less) likely to request an audit adjustment and request a greater (lesser) adjustment. Third, when the range of fair value accounting estimates is precise, auditors with low (high) perceived client pressure are more (less) likely to request an audit adjustment and a greater (lesser) audit adjustment. Our results show that auditors with high perceived client pressure are biased in their judgment toward client preferences. By examining the interaction effect of this client-related individual factor (perceived client pressure) and situational factor (outcome imprecision), we identify the boundary conditions under which the effect amplifies auditors' fair value materiality judgments. Our findings have implications for global standard-setters on future standards setting, audit firms to create consistent global audit methodologies that give auditors clear guidance to exercise their judgments, regulators, practitioners, and researchers.

3.01: Psychological and Cultural Dynamics in Auditing

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Psychological Stress and Audit Quality

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This study examines the impact of audit partners' psychological stress on audit quality. Our unique research design utilizes two facts: (1) some Taiwanese firms have investments in mainland China (MC), while others do not; and (2) the outbreak of the Covid-19 pandemic in MC in January 2020 made audit work very challenging, especially in lockdown cities. We argue that Taiwanese audit partners with clients investing in MC would be stressed during the (early) Covid period, whereas partners without such clients would not be, as audit work in Taiwan was not interrupted by Covid. Our primary analysis focuses on Taiwanese firms without investments in MC in 2018 and 2019 because these firms were not directly affected by the pandemic in these years, but some audit partners were stressed by the situation in MC. Using a difference-in-difference approach, we compare audit quality of these firms audited by stressed versus unstressed partners in both years. The results indicate that firms audited by stressed partners exhibit lower audit quality in 2019 than in 2018, relative to those audited by unstressed partners. We attribute this decline in audit quality to the psychological stress experienced by auditors due to the challenging audit environments in the Covid period in MC. This finding suggests that partner stress can spill over from one engagement to another, highlighting the pervasive negative impact of stress on audit quality. Additional analyses reveal that the negative impact of partner stress on audit quality is mainly driven by male partners. This study underscores the need for audit firms and regulators to address the adverse effects of auditor stress on audit performance.

3.02: Global Standards and Market Adaptation

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Linkage Between Strategy and Financial Performance Disclosure in Annual Reports: A New Reporting Path for Organizational Learning

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We examine the reporting practice of linkage between strategy disclosures (management discussion of firm strategy and the business model) and financial performance disclosures in annual reports as a path for organizational learning. For identification we use the UK Company Law Amendment mandating a Strategic Report as a separate section of the annual report so that strategy disclosures provide sufficient context for financial statements. We confirm that the linkage between strategy and performance disclosures in annual reports increases incrementally after the amendment for firms most subject to its effects of the Company Law Amendment. For these firms, we document an incremental rise in measures associated with organizational learning (e.g., measures of organizational changes and workforce engagement). Our study has important policy implications for the structure of textual disclosure in annual reports.

3.02: Global Standards and Market Adaptation

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Greening IAS 38: Revising the Recognition Criteria for Research and Development Expenditures

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This study discusses and examines the possibility of revising the recognition criteria for research and development (R&D) expenditures to incentivise investors and companies for investing more in innovating sustainable technologies and practices. Underscoring the significance of green R&D in the transition towards a low-carbon economy, we document that green R&D intensity is positively associated with environmental ratings, and negatively associated with Scope 1 greenhouse gas emissions. Our analyses further reveal that firms with more green R&D investments are less likely to capitalise their R&D expenditures. These findings advocate for a change of IAS 38, recognising long-term environmental and societal benefits rather than solely future economic benefits when considering the capitalisation of R&D expenditures. When green R&D investments are recognised as assets, firms are incentivised to increase their involvement in green R&D, and investors are more likely to fund them.

3.02: Global Standards and Market Adaptation

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What Makes the Impairment Rules Under IFRS Better than US GAAP? Insights from Quarterly Impairment and Reversal Data.

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This study aims to provide insights into the value relevance implications of differences between US GAAP and IFRS in accounting for long-lived asset impairments. IFRS accounting for asset impairments has a stronger association with future cash flows than the US GAAP equivalent. We show why this is the case. We find that, even though there are significant differences in the standards for recognition and initial measurement of impairment losses, the recognition and measurement of the initial impairment loss do not drive the difference in value relevance. Rather, we find that the difference is caused by IFRS' requirement to reverse initial impairment losses when future cash flow estimates improve. This practice is prohibited under US GAAP. We find this by exploiting quarterly impairment data to better isolate initial impairment losses and reversals from net impairments analyzed in prior research. Our study has implications for future research and policy implications for accounting standard setting under US GAAP and IFRS. Importantly, we highlight the critical difference in accounting standards: the reversal of initial impairment losses, which leads to IFRS appearing more informative than US GAAP.

3.03: Beyond Borders: Governance Strategies in a Globalized Market

1/24/2025

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Why Do Foreign Firms Cross-list in the United States? Testing the Bonding Hypothesis

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In this paper, we examine the motivation of the firms to decide to cross-list in the other country. Based on the bonding hypothesis, firms may decide to cross-list in other countries with a better corporate governance regime in order to bond themselves into that of the cross-listing countries. Instead of creating a proxy to measure and to compare corporate governance regime across different countries, this paper uses country-level board reforms to capture the decrease in the gap of corporate governance regime between home country and the U.S. we find that firms cross-list in the U.S. after the home country's board reform enjoy smaller premium, compared to the firms who cross-list prior to the home country's board reform. The impact of board reform on the cross-listing premium takes more than two years to fully reduce the gap of corporate governance between home country and the U.S. Moreover, we find board reforms related to the audit committee have higher impact on the premium. If a firm belongs to a country with more politically stable and the higher perception of anti-corruption, then a cross-listing premium is smaller. Overall, we find that the larger differences in corporate governance regime in the two countries incentivize firms to cross-list by confirming the bonding hypothesis.

3.03: Beyond Borders: Governance Strategies in a Globalized Market

1/24/2025

3:45:00 PM-5:15:00 PM

Corporate Governance Disclosure around Board Reforms

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We examine changes in corporate governance disclosure surrounding global 'comply-or-explain' (COE) board reforms and their implications for firm value. We document a significant increase in both the quantity and quality of corporate governance disclosures following the adoption of COE board reforms. Our findings indicate that firms providing longer and more detailed governance disclosures generally experience higher stock returns. However, this positive relationship is primarily driven by the reform adoption years and by firms that become compliant. In other words, firms that comply and explain enjoy higher returns. Overall, our results suggest that, in the context of board reforms, disclosure serves as a key mechanism for firms to credibly communicate changes in their governance structure. Nonetheless, the effect is short-lived, indicating that, over the long term, governance disclosures are not incrementally informative and do not substitute for 'best practices' under COE regimes.

3.03: Beyond Borders: Governance Strategies in a Globalized Market

1/24/2025

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The Connection between Directors' Media Expertise and Firms' Information Environments: Evidence from Analyst Forecasts

Jian Cao (1), Joanna Golden (2), Zhengfei Lu (3), Yanxin Luo (4), Xiaofang Xu (5)

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The appointment of professionals from the media sector as independent directors can enhance the communication and interaction among a company, the media, and company's stakeholders. This study examines the impact of media directors' board presence on the interplay between the media and other intermediaries, specifically, on how the impact reduces information asymmetry. Drawing upon data from A-share firms listed in China from 2007 to 2020, we find that the presence of independent directors with media expertise has an unintended negative impact on the quality of a firm's information environment, as manifested by higher errors, greater optimism, and dispersion in analysts' forecasts. Additional analysis shows a plausible mechanism by which media directors' board presence can reduce the quality of analysts' forecasts by promoting media coverage. Reliance on media coverage for monitoring increases analyst forecast errors, optimism, and dispersion, suggesting that the media and analysts act as substitutes for providing information to the market. Finally, the negative impact of directors' media affiliation on analysts' forecasts is mitigated by the degree of ownership engagement of the state and institutions that represent more sophisticated investors. The findings of this investigation provide valuable theoretical and practical insights into the governance of corporate boards in China, specifically regarding the role and composition of independent directors.

3.04: Education, Nonprofits, and Disclosure Goals

1/24/2025

3:45:00 PM-5:15:00 PM

Revenue Recognition in a Not-for-profit Organization: Issues and Consequences

Gustavo Tanaka (1)

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The purpose of the research described in this article was to analyze issues around and consequences of the adoption of FASB accounting standard update ASU 2018-08, which was aimed at clarifying and improving the scope and the accounting guidance for contributions received and made, primarily by not-for-profit (NFP) organizations. The organization that was the subject of analysis was a program office, located in a Latin American country, of a well-known international conservation NGO. Before compliance with ASU 2018-08, for recording contributions received and made and for the preparation of financial statements, this NGO applied ASU 2014-09 (Topic 606): Revenue from Contracts with Customers and ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. An unexpected finding was that prior to adopting ASU 2018-08, the NGO recorded all contributions (both received and made) as conditional. After the adoption of ASU 2018-08, there was a considerable increase in the number and monetary amount of donations; contrary to our hypothesis, however, this is attributed mainly to greater social/environmental awareness after Covid 19. Efficiency in the use of donated funds, information availability, and NGO reputation were identified as the factors most important for donors in their decision-making. In addition, following adoption of ASU 2018-08 there was an abrupt decrease in the percentage of contributions, both given and received, recorded as conditional.

3.04: Education, Nonprofits, and Disclosure Goals

1/24/2025

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Firm-Level and Country-Level Determinants of Reporting of Sustainable Development Goals

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The purpose of this study is to identify the firm-level and country-level determinants of reporting of sustainable development goals (SDGs) of firms. Prior studies on SDG determinants used single industry, single country, or single geographical region samples and provided limited insights into why firms disclose SDGs. This study uses a large multi-industry and multi-country sample to provide more robust, generalisable results about the determinants of SDG reporting. We use a sample of 9,763 public large companies listed on the top 24 global indices of 26 countries from 2018 to 2022. The results show that firm-level determinants firm size, company ESG score, board size, director diversity score, and the country-level social progress score are the main determinants of SDG reporting. This study enhances our understanding of SDG disclosure and its association with firm and country-level features. It provides information for various stakeholders, such as businesses, governments, society, and policymakers for SDG reporting. Based on the features examined, the study provides information to social impact investors about what drives the disclosure of SGD at the firm and country levels.

3.04: Education, Nonprofits, and Disclosure Goals

1/24/2025

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Preparing U.S. Accounting Students for Global Business

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Our study seeks insight from accounting practitioners and academics to understand the relevance of global accounting for practicing accountants in the United States. This will help Universities in the United States make informed decisions on global accounting coverage in accounting curriculums. Practitioners indicate that, overall, the majority of recent graduates are not prepared with adequate knowledge of global accounting topics, supporting coverage within the accounting curriculum. While there is agreement between practitioners and academics on International Financial Reporting Standard setting being one of the topics needing the most in-depth coverage in the curriculum, practitioners view depth of knowledge needed for Global Accountants to be more broad-based and less financial transactional-based. The results of this study benefits the accounting profession by providing useful information so University curriculums and organizations' training programs can better prepare practitioners across all facets of accounting (such as, managerial, audit, and tax) for the global business world.

4.01: Mandatory Policies in Audit: Rotation and Designation Effects

1/25/2025

10:30:00 AM-12:00:00 PM

Mandatory Rotation of Audit Committee Chairs and Its Impact on Financial Reporting Quality: Evidence from Director Term Limits in China

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We examine whether an audit committee (AC) chair delivers the same level of monitoring during different phases of her/his tenure. We take advantage of a unique Chinese setting where independent directors by law are allowed to serve a maximum of two consecutive three-year terms. We build our hypothesis based on a cost and benefit analysis of AC chair effective monitoring. We hypothesize that the reduced monitoring cost stemming from diminished discomfort from director-management confrontation, in conjunction with increased career concern incentives, leads to a higher level of monitoring effectiveness in the AC chair's departure year. Consistent with this conjecture, we find that a firm has higher financial reporting quality in the mandatory departure year of its AC chair. Our findings and inferences are robust to alternative design choices. We also perform a test to examine the labor market outcome of an AC chair's effective monitoring. We show that an AC chair's monitoring is indeed 'priced' in the directorship labor market. By focusing on enhanced independence and increased career concern occurring in the mandatory final year of an AC chair's appointment, our evidence contributes to the understanding of independence as a multifaceted and nuanced concept.

4.01: Mandatory Policies in Audit: Rotation and Designation Effects

1/25/2025

10:30:00 AM-12:00:00 PM

Is Mandatory Auditor Designation a Miracle Cure? The Impact of the Periodic Auditor Designation in South Korea

Jaeik Min (1), Linna Shi (2)

(1) University of Cincinnati, Blue Ash, OH, (2) University of Cincinnati, Mason, OH

The New External Audit Act, which introduced the periodic auditor designation system in the South Korean market, has mandated that listed firms replace their incumbent auditors with new ones designated by the Securities and Futures Commission. This policy has been in effect since the fiscal year starting after November 1, 2019. Our study investigates the impact of this periodic auditor designation policy by comparing audit fees, efforts, hourly rates, and audit quality among firms that switched auditors in 2020 due to the policy (periodic firms) with those that switched for other reasons (voluntary firms). Our findings indicate that periodic firms incurred significantly higher audit fees than voluntary firms, attributable to both extended audit hours and increased hourly rates. This pattern is similar to the effects observed under mandatory authority auditor designation, which targets problematic firms such as those suspected of misstated financial reporting or experiencing losses (authority firms). However, when examining the impact on audit quality, we observed that while authority firms showed a reduced magnitude of discretionary accruals after being required to switch auditors, periodic firms did not exhibit significant changes in the magnitudes of their discretionary accruals. Further analysis reveals that the mandatory auditor designation has led to more firms switching from Big 4 to Non-Big 4 auditors than vice versa. Interestingly, Non-Big 4 auditors decreased their audit hours but charged higher hourly audit price when designated under the periodic policy. Overall, our results suggest that applying the periodic auditor designation to non-problematic firms does not efficiently achieve the intended policy goals: it increases the cost of auditing without enhancing audit quality.

4.02: Standards, Quality, and Manipulation

1/25/2025

10:30:00 AM-12:00:00 PM

Do Words Matter? Linguistic Characteristics of IFRS and Accounting Quality

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This paper explores whether the writing quality of International Financial Reporting Standards (IFRS) affects financial reporting quality via changes to accounting quality. Within a standard setting, we view that good writing quality serves to both make the guidance accessible and constrain the variance of what accounting outcomes are permissible within the given IFRS framework. Through textual analysis of the complete body of IFRS on an annual basis, we explore whether certain measures of writing quality, specifically readability, grammatical correctness, writing clarity, and the use of uncertainty terminology, affect accounting quality. Using a pooled sample of global firms from Compustat Global that follow IFRS, over the period of 2010 – 2021, as predicted, we find that that accounting standards that are more readable and more grammatically correct are associated with significantly higher measures of accounting quality. However, contrary to our predictions, we also find that standards that are more clearly written are associated with significantly lower accounting quality, and standards with more uncertainty terminology are associated with significantly higher accounting quality. Our results demonstrate that linguistic characteristics are significantly associated with the quality accounting information.

4.02: Standards, Quality, and Manipulation

1/25/2025

10:30:00 AM-12:00:00 PM

The Effectiveness of Accruals Manipulation Measures: International Evidence

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One defining characteristic of accrual earnings manipulation is that current-period abnormal accruals are negatively associated with future firm performance. Prior U.S.-sample research has shown that some accrual measures commonly used in accounting research do not exhibit this relationship and demonstrate the superiority of specific accrual measurement models. We examine this relationship in an international setting. Specifically, we evaluate the extent to which various accruals manipulation measures exhibit this negative relationship in multinational samples and under alternative variable measurement approaches that allow us to maximize sample sizes for cross-national analyses. International settings are impacted by differences in measurement across standards, and even with one set of standards, there are national implementation differences. Finally, data availability significantly impacts sample sizes for international research examining accruals. Our study shows that some measures are not associated with or positively associated with future firm performance, suggesting these measures do not capture earnings manipulation well in international settings. We provide recommendations on which measures should be used to capture accrual quality in multinational settings. Additional analysis indicates that the effectiveness of accruals manipulation measures is not sensitive to the choice of database.

4.03: Financial Policy Impact and Investment Decisions

1/25/2025

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The Importance of Interbank Information Sharing to Firms' Public Disclosure Policies

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Exploiting the country-level mandatory adoption of public credit registries (PCRs), which share borrowers' credit information among banks to improve their ability to sort and monitor borrowers, we document a negative impact of interbank information sharing on firms' decisions to voluntarily provide management forecasts. Consistent with expectations, we find that this impact is larger for PCRs that share more information, have greater transparency, and are under stricter regulation. The impact also intensifies for firms exhibiting more severe information asymmetry and operating in countries where banks have stronger monitoring incentives and regulatory institutions better protect creditors' claims. Additionally, interbank information sharing reduces the informativeness of firms' disclosure. Collectively, we provide evidence implying that interbank information sharing engenders the substitution of shareholder monitoring with bank monitoring, which helps resolve agency problems and reduces shareholders' demand for public disclosure.

4.03: Financial Policy Impact and Investment Decisions

1/25/2025

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Accounting-Based Valuation for Corporate Equity Investments*

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(1) University of Illinois-Chicago, Chicago, IL, (2) Copenhagen Business School, Frederiksberg, United States

We study the valuation of firms with corporate equity investments. Feltham and Ohlson (1995) develop an accounting-based valuation model for a single firm with operating activities and financing activities, where financing activities are deposits or withdrawals from a risk-free bank account. We extend prior literature by considering multiple firms that have minority interest equity investments, such as in the case of cross holdings, which are common in Germany, Japan (keiretsu) and South Korea (chaebol). We analytically demonstrate how the accounting treatment of corporate equity investments distorts market prices when these equity investments are mutual. This distortion arises for firms with direct corporate equity investments, as well as for firms with more complex ownership structures, where the equity investments are indirect and held through other entities. The implied stock prices of firms with equity investments incorporate information about investees and increase stock price volatility. Finally, we articulate why the accounting treatment of corporate equity investments may distort firms' market-to-book ratios.

5.01: Audit Insights: Expanded Reports, Charitable Alignment, and Whistleblowing

1/25/2025

1:15:00 PM-2:45:00 PM

Whistleblowing Allegations and Auditor Resignation: Should I Stay or Should I Go?

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(1) Old Dominion University, Norfolk, VA, (2) San Jose State University, San Jose, CA, (3) San Jose State University, CA

Abstract Purpose “ Although regulations to prevent financial wrongdoing exist in the United States, whistleblowing remains important in deterring unethical corporate behavior. We seek to address the tension in the audit continuance literature by examining auditor resignations following a whistleblowing allegation. Design/methodology/approach “ Whistleblowing allegation data is obtained (i) from the U.S. Occupational Safety and Health Administration (OSHA) and (ii) through manually collecting media-reported whistleblowing allegations. We use a difference-in-difference research design to examine auditor resignations around whistleblowing allegations. Our test sample is compared against a propensity-score-matched (PSM) sample of control firms. Findings “ Auditors are significantly less likely to resign from an engagement following a whistleblowing allegation. Auditors prefer to increase their fees and continue with the engagement rather than resign, even when faced with the heightened risks posed by whistleblowing allegations. These findings suggest that auditors value the ability to earn a consistent stream of increased revenue from their clients, in agreement with the risk-spreading theory of audit continuance literature. Originality/value “ To our knowledge, this is the first study that examines auditor resignations following a whistleblowing allegation. These findings contribute to the existing whistleblowing and auditing literature and add to the auditor acceptance/continuance literature. Our findings are meaningful to shareholders, managers, researchers, and especially to standard setters who are tasked with ensuring that auditors provide assurances about the accuracy of financial statements.

5.01: Audit Insights: Expanded Reports, Charitable Alignment, and Whistleblowing

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Charitable Alignment and Auditor-Client Contracting: An Exploratory Study

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This study examines the association between charitable alignment, which we define as a situation where an auditor and their client make corporate charitable donations (CCDs) to the same local nonprofits, and various audit outcomes. We use the unique overlaps of CCDs between U.S. Fortune 500 firms and their auditors to measure charitable alignment. First, we find that certain firm characteristics and governance factors such as board independence and board members' connection to nonprofits may facilitate the development of charitable alignment between auditors and clients. Second, we find that firms that make CCDs to the same nonprofits than their auditors tend to pay higher audit fees, have longer audit tenures, are less likely to restate their earnings, and pay higher fees for non-audit services compared to firms that do not make such CCDs, indicating impaired auditor independence in the presence of charitable alignment. Furthermore, we document a positive association between charitable alignment and abnormal accruals. This evidence suggests the auditor-client charitable alignment built through CCDs may facilitate reciprocal trust and cooperation that modifies auditors' professional judgment. This study is the first that attempts to increase our understanding of the ethical implications of auditor-client charitable alignment for the integrity of the audit process and the reliability of financial reporting.

5.01: Audit Insights: Expanded Reports, Charitable Alignment, and Whistleblowing

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Do Insiders Use Audit Findings? Evidence from the Expanded Audit Report in the United Kingdom

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(1) Universidad de Chile, Santiago, Chile, (2) Florida International University, Miami, FL, (3) The University of Bristol, student, United Kingdom

In this paper, we examine the association between the contents of the expanded audit report, which was adopted in 2013, and insider trading in the United Kingdom. Pre/post analyses indicate that following adoption of the expanded report, the likelihood and volume of insider trading in the period between an earnings announcement and publication of the audit report do not change. In cross-sectional tests of the post-adoption period only, we find that insiders trade based on auditors' materiality disclosures both before and after the expanded report is published, but the association between insider trading and the number of risks of material misstatement is significant only in the period after the report's publication. We attribute our findings to the availability and ease of interpretation of audit disclosures and insiders' desire to minimize their legal and reputational risks. Our findings speak to the usefulness of the mandated information in the expanded audit report and the importance of timing for audit report publication

5.02: Inside Out: Corporate Culture, Social Media, and Stakeholder Trust

1/25/2025

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Credibility and reputation concerns: Evidence from X users

Louis Mangeney (1)

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I examine the impact of credibility and reputation concerns on processing costs within the realm of social media. Specifically, I investigate the distinct effects of user-generated content on X (formerly known as Twitter) on information asymmetry surrounding earnings announcements. I control for firm-initiated content on social media, market responses to announcements, and various factors influencing firms' information environments, such as analyst following and traditional media activity. To introduce variability in credibility and reputation concerns, I leverage two institutional features unique to X: the platform's identification feature for users of public interest (verified accounts) and the introduction of the clickable cashtag (automatic access). The findings reveal that content from less credible users is linked to an increase in information asymmetry surrounding earnings announcements. Conversely, social media content originating from credible firms is associated with a reduction in information asymmetry. In summary, this study sheds light on the ways in which credibility on social media influences processing costs. The results underscore the potential for social media to contribute to investor misinformation when employed as an additional source for disclosure processing.

5.02: Inside Out: Corporate Culture, Social Media, and Stakeholder Trust

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Do You Still Need to be Reassured? Sustainability Reporting Assurance and Social Media Accountability

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(1) Georgia State University, Atlanta, GA, (2) University of Padova, N/A, (3) Washburn University, Lawrence, KS, (4) Esade Business School, MADRID, SPAIN

The paper examines whether sustainability reporting assurance affects firms' accountability through corporate social media communication. Data have been manually collected from the sustainability reports of Fortune 200 firms over the period 2011-2020 and supplemented with social media (i.e., Facebook) data. The results show that firms that provide independent sustainability assurance and exhibit more credible, higher quality assurance use corporate social media to a lesser extent, consistent with a disclosure substitution effect. Interestingly, this effect varies cross-sectionally, and it is driven by firms with an established reputation and those facing a lower accountability demand from stakeholders. In additional analyses, we find evidence of a substitution effect among greener (less-polluting) firms and firms that provide sustainability assurance regularly. These results are robust to alternative social media activity measures and clustering. Overall, the study provides novel evidence on the role of sustainability assurance as a relevant source of information and contributes to the recent debate on sustainability reporting quality and corporate accountability needs.

5.02: Inside Out: Corporate Culture, Social Media, and Stakeholder Trust

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Corporate Socializing on Social Media: Evidence from Positive Peer Tweeting

Enshuai Yu (1), Sean Cao (2), Lijun Lei (3), Susan Shu (4)

(1) Boston College, Brighton, MA, (2) University of Maryland-College Park, College Park, MD, (3) University of North Carolina at Greensboro, Greensboro, NC, (4) Boston College, Chestnut Hill, MA

This study provides novel evidence on how firms socialize on social media, focusing on firms disclosing positive information about peer firms on Twitter (i.e., positive peer tweeting). We examine the determinants, the information content of positive peer tweeting, and the associated capital market consequences. We find that positive peer tweeting is associated with economic relatedness, the demand for legitimacy, and expected litigation risk. Positive peer tweets signal stronger interfirm ties and predict future interfirm collaborations. Positive peer tweets elicit positive market reactions for both the tweeted and tweeting firms. Public signaling of economic relations is not costless, as subsequent negative news of tweeted firms also spills over to tweeting firms. Positive peer tweets help attenuate the adverse market reactions to the tweeted firms' bad news disclosure, probably because positive peer tweets serve an advocacy role from tweeting firms towards tweeted firms.

5.03: Sustainable Narratives: Reporting, Assurance, and ESG Outcomes

1/25/2025

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Does the Ethical Distance Between Group Audit Participants Matter for Earnings Quality and Audit Fees?

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Group audits are increasingly common (e.g., the majority of audits of Fortune 500 companies), and regulators have expressed significant concerns over the quality of group audits. Since ethics is a fundamental aspect of auditing, this study examines the association (if any) between group audit participants' presumed ethical distance, earnings quality, and audit fees. Using the World Values Survey data, we first determine the difference in ethical scores of the group and component auditors based on their country of location. Second, using our calculated ethical distance, we empirically find that when the component auditors are from a less ethical context than the group auditor, ethical distance is associated with lower earnings quality and audit fees. On the contrary, statistically speaking, we do not find that earnings quality improves or affects audit fees if the component auditor is located in a more ethical location than the group auditor. The findings of this archival study will be of interest to global audit regulators as well as group auditors charged with managing the overall group audit quality of multinational entities.

5.03: Sustainable Narratives: Reporting, Assurance, and ESG Outcomes

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Do Reputation and Performance Visibility Shape Corporate Environmental, Social, and Governance Outcomes?

Ivy Munoko (1), Marvin Nipper (2), Kevin Munch (1)

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ABSTRACT: Based on institutional theory and using a sample of 859 comparable firms, this study documents the actual effect of corporate reputation and performance visibility on environmental, social, and governance (ESG) outcomes. We examine whether a firm's membership selection into the Dow Jones Sustainability Index (DJSI), which signals positive ESG reputation within its industry, leads to a significant change in the firm's ESG outcomes. We analyze this effect considering the ESG sensitivity of its industry and stakeholders' perceptions of which ESG outcomes are financially material. Our findings suggest that after membership selection into the DJSI, firms in ESG-sensitive industries are motivated to maintain their ESG performance. However, post-selection, firms in ESG non-sensitive industries experience a significant drop in performance in less visible ESG categories considered financially immaterial by stakeholders, and ESG categories not captured in financial reports but otherwise have substantial societal and environmental impacts. Our study contributes to ESG accounting literature by demonstrating the role that non-state actors in capital markets play in establishing ESG performance indicators and the consequences of these metrics.

5.03: Sustainable Narratives: Reporting, Assurance, and ESG Outcomes

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WHERE IS THE BENEFIT IN BENEFIT CORPORATIONS? EVIDENCE FROM BENEFIT CORPORATION LAWS IN THE US

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We investigate investors' reactions to the staggered adoption of Benefit Corporation laws in US. Benefit Corporations (BC) pursue social benefits (via sustainable practices) along with value maximization. Adopting sustainability allows firms to charge higher product prices, but such initiatives also come at higher costs. Existing literature documenting the impact of corporate sustainability produces mixed results while also suffering from bias in different ESG ratings. Since firms can now become BCs regardless of firm characteristics or ESG performance, the BC laws provide a cleaner setting for studying investors' perceptions of corporate sustainability while avoiding the bias identified in the literature. We document negative investor reaction to the BC laws. We also find higher return volatility following the BC laws. Further analysis suggests that this reaction is driven by BCs facing higher costs but unable to generate additional revenues, thereby lowering profitability. Time-trend analysis suggests investor perceptions towards sustainability changing over time.

6.01: Corporate Tax Strategies: Culture and Disclosure Impacts

1/25/2025

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Material Contract Redactions and Tax Avoidance

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The U.S. Securities and Exchange Commission (SEC) requires public firms to report all material contracts. Nevertheless, the SEC still allows firms to redact proprietary and immaterial information that may potentially cause competitive harm. This study examines whether material contract redactions are related to firms' involvement in tax avoidance. We find that firms' redaction of information from material contracts is associated with more tax avoidance. When classifying material contracts into five categories (including Credit/Leasing, Employment/Incentive, Investment, Purchases and Sales, and Research and Development (R&D)/License) and separately examining the relation between each category and tax avoidance, we find that all categories are associated with more tax avoidance. These results reveal managers' perception about redaction helping them hide tax avoidance behavior. Our findings may have implications for regulators regarding the unintended consequences of allowing firms to redact information from material contracts.

6.01: Corporate Tax Strategies: Culture and Disclosure Impacts

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Teamwork Culture and Corporate Tax Avoidance

Shujia Mei (1), Chunhao Xu (2), Lili Gai (3)

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This study examines the relationship between corporate teamwork culture and tax avoidance. Using innovative measures of teamwork culture developed by Li et al. 2021 through a machine learning analysis of earnings call transcripts, we find that firms with stronger teamwork cultures are more effective in minimizing tax liabilities than those with weaker teamwork cultures. This result holds across various tax avoidance proxies, including long-term tax avoidance measures. Our findings indicate that firms with strong teamwork cultures tend to avoid taxes through benign tax positions, such as utilizing research and development tax credits and net operating loss carryforwards, rather than aggressive tax planning strategies, such as restructuring or shifting intangible assets to low-tax jurisdictions, to reduce their taxes. Additional analysis reveals that firms with strong teamwork cultures are less likely to engage in tax sheltering and face lower tax risks.

6.02: Disclosure Strategies in a Changing Economy

1/25/2025

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Spillover Effect of Government Subsidies on Peer Firm Disclosures

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The federal and state governments of the United States frequently utilize government subsidies to support businesses. While previous studies have focused on how subsidies affect the recipient firms, the spillover effects on other non-recipient peer firms within the same industry have received less attention. This research investigates how peer firms respond to government subsidies awarded to their competitors, particularly through changes in their disclosures. The findings reveal that peer firms significantly increase their disclosures in 10-K filings, corporate website content, and 8-K filings. This increase in transparency is the response to their declining firm performance, including sales growth and stock performance. Additionally, peer firms also face heightened competition and greater financial constraints following the receipt of government subsidies by their competitors. These findings reveal how peer firms strategically enhance transparency to navigate the challenges posed by subsidized competition.

6.02: Disclosure Strategies in a Changing Economy

1/25/2025

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The Effect of the Economic Growth, Regulatory Relief, and Consumer Protection Act on Small Business Credit Availability

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This study examines bank financial disclosures to gauge the effect of a major deregulation of community bank capital requirements on the availability of credit. Through the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), regulators enacted the Community Bank Leverage Ratio (CBLR) framework in 2020 to alleviate regulatory compliance pressures on community banks. Institutions that elect this framework are no longer required to meet risk-based capital requirements. Instead, they are considered well-capitalized for regulatory purposes through meeting one unweighted leverage ratio. Policymakers theorized that this framework would free up previously restricted capital and incentivize banks to increase lending. They believed higher lending would boost opportunities for small businesses and, by extension, the overall economy. The implementation of the CBLR framework provides a novel setting to test the capital release hypothesis. Contrary to policymakers' beliefs, I find the law decreased bank-level lending in several areas, including commercial and agricultural lending. However, the results for individual lending are mixed. Certain loans, such as automobile and real estate loans, are higher among adopting banks. The results of this paper relate to the national debate on the EGRRCPA's implications for the availability of credit.

6.03: The Boardroom Effect: Ego, Diversity, and Disclosure Quality

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Regulated Boards and Accounting Conservatism

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In recent years, there has been an increasing demand to improve female representation on corporate boards, leading to debates on the effectiveness of gender quota mandates. While advocates of such mandates highlight the favorable influence of gender diversity on board monitoring and firm outcomes, critics raise concerns regarding their potential unintended consequences. Using a difference-in-differences design, we investigate the effect of passing California Senate Bill-826 (SB-826) on accounting conservatism, a primary attribute of financial reporting. Our findings show that California-headquartered firms exhibit less conservative accounting practices after SB-826, with non-compliant firms ex ante experiencing a more significant change. We also observe a notable increase in the participation of rookie female directors following SB-826, leading to lower conservative accounting choices especially among non-compliant firms. Interestingly, compliant firms in California hiring seasoned female directors exhibit higher accounting conservatism post-SB-826, suggesting that findings are instigated by the imposed changes to board equilibria rather than the mere addition of female directors. Our findings underscore the importance of board autonomy and director experience in determining financial reporting quality, cautioning against the undesirable outcomes of regulated board structures.

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CEO Narcissism and Related Party Transactions

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We examine the association between CEO narcissism and the likelihood of engaging in related party transactions (RPTs) and its influence on the value implications of these transactions. Furthermore, we investigate the effect of board monitoring on the relationship between CEO narcissism and the value effects of RPTs. We find that CEO narcissism is positively associated with the propensity for RPT engagements. We also highlight the detrimental effect of RPTs conducted by narcissistic CEOs by documenting that RPT engagements have a negative (positive) effect on firm performance at high (low) levels of CEO narcissism. In addition, we show that strong board monitoring moderates the negative influence of CEO narcissism on the value implications of RPTs. Overall, we find evidence of the opportunistic behavior of narcissistic CEOs engaging in value-reducing RPTs. We also underscore the significance of board monitoring in mitigating the adverse effects of CEO narcissism on the RPT-firm performance association.

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Top Management Team Composition and Risk Factor Disclosures

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Risk factor disclosures provide valuable information to stakeholders. These disclosures are created by broad processes, involving not only CEOs and CFOs but also various other managers across the firm, yet little is known about how top management team composition is associated with risk disclosure quality. This study examines whether team background diversity and joint work experience of the top management team are associated with risk disclosure quality. Findings show that teams with more overall diversity (measured through functional experience, education, and team tenure) and more joint work experience (measured through team tenure overlap) issue disclosures that are more readable and more focused on firm fundamentals. We also find team diversity is most important in accounting roles as opposed to non-accounting roles. Cross-sectional tests show that the impact of team diversity and joint tenure on the readability of risk disclosures are strongest in a complex business environment. Finally, our results are robust to using an alternate team that should also influence risk factor disclosure quality: the audit committee. Overall, our findings provide evidence on how group composition within relevant teams can influence risk disclosure properties.