**PhD Seminar 2018-2019**
1 credit

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# Doctoral Research Seminar

# Empirical Research in Accounting

## Introduction

The course will introduce you to empirical research in accounting. The approach will emphasize the theoretical foundations and econometric rigor of empirical work. The course will cover the main research areas of empirical research in corporate governance, financial reporting, and disclosure.

## Objectives

The course objective is to equip students with tools to conduct empirical research in Accounting.

## Learning Outcomes

At the end of the course students will have an understanding of the main research topics in these areas and the tools to conduct their own independent research.

## Competences

General Competences:

- Conduct a critical analysis, evaluation and synthesis of new and complex ideas with the objective to produce general principles applicable to business situations.
- Use appropriate tools and techniques for problem solving, correction contrasting and decision validation.
- Demonstrate knowledge and understanding that provide a basis or opportunity for originality in developing and / or application of ideas, often related to a research context.
- Students should be able to communicate clearly and concisely their conclusions, underlying knowledge and reasons to a specialized and non-specialized audience.
- Students should possess the learning outcomes that enable them to continue studying in a way that will be largely self-directed or autonomous.

Specific Competences:

- Conduct a critical analysis, evaluation and synthesis of new and complex ideas with the objective to produce general principles applicable to business situations.
- Ability to articulate research questions that could extend our understanding of the field, and design a research program to answer them.

## Content

The course is structured in two modules. The first module will cover research topics on corporate governance, with a focus on the implications of governance on valuation, executive compensation, board composition, shareholder monitoring, and corporate fraud. The second module will focus on financial reporting and disclosure, with a focus on accounting conservatism, disclosure regulation, and enforcement.

## Methodology

The course will be conducted in the doctoral seminar style in 20 sessions. Each topic will typically consist of an interactive lecture providing an overview of the research in that particular topic followed by student-led discussions of papers in the area of interest.

Each topic has a set of readings. We distinguish between two types of readings. General readings will introduce you to the topic and provide an overview and a background for the class discussion. So you can skim parts of them. The assigned papers will be discussed in more detail. Each student should be prepared to discuss the following questions for each assigned paper:

1. Is the paper well motivated? Why is the research question (un)interesting? What is the paper's contribution?
2. How compelling are the hypotheses?
3. What is the study's research design and identification strategy?
4. How well is the research design tied to the research question? To what extent is the design capable of distinguishing between alternative hypotheses?
5. What are the major results? How do the authors interpret them?
6. What new research questions do the results raise?

Each paper discussion will be led by one student, but the rest of the students are supposed to participate in the discussion. The presenting student will submit a short report on the paper (maximum of 3 pages, font size 12 pt, double space). This report will include comments about the contribution, hypothesis development, and empirical approach of the paper.

Each student will develop during the course a research project on a topic of her/his interest. Each student will submit at the end of the course a draft describing the research question, the contribution to prior literature, and the empirical methods. The document will be written in the usual working paper format). The document will be written in Times Roman, 12 pt, double space and will not be longer than 30 pages.

## Evaluation

The measuring of the learning outcomes and the grading of the course for the students will be according to class presentations and discussions. In particular, the grading will be determined as follows:

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|---|---|
| Class participation (participation in the paper discussions led by other students) | 30% |
| Discussions led by the student (and corresponding referee report) | 30% |
| Final project (research proposal) | 40% |

## Outline

### I. Module on Corporate Governance (8 sessions)

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|---|---|---|
| 1 & 2 | **Corporate governance and firm value** | Professor: Gaizka Ormazabal<br>Papers to discuss: See below<br>Background readings: See below |
| 3 & 4 | **The board of directors** | Professor: Gaizka Ormazabal<br>Papers to discuss: See below<br>Background readings: See below |
| 5 & 6 | **Executive compensation** | Professor: Igor Kadach<br>Papers to discuss: See below<br>Background readings: See below |
| 7 & 8 | **Investor monitoring** | Professor: Igor Kadach<br>Papers to discuss: See below<br>Background readings: See below |

### II. Module on Financial Reporting and Disclosure (12 sessions)

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|---|---|---|
| 9 & 10 | **Accounting Information and Contracting: Conservatism and Debt Contracting (I)** | Professor: Fernando Penalva<br>Papers to discuss: See below<br>Background readings: See below |
| 11 & 12 | **Accounting Information and Contracting: Conservatism and Debt Contracting (II)** | Professor: Fernando Penalva<br>Papers to discuss: See below<br>Background readings: See below |
| 13 & 14 | **Disclosure, Information Asymmetry, Liquidity and the Cost of Capital** | Professor: Pietro Bonetti<br>Papers to discuss: See below<br>Background readings: See below |
| 15 & 16 | **Proprietary Costs of Transparency** | Professor: Miguel Duro<br>Papers to discuss: See below<br>Background readings: See below |
| 17 & 18 | **Disclosure Regulation and Regulatory Enforcement** | Professor: Miguel Duro<br>Papers to discuss: See below<br>Background readings: See below |
| 19 & 20 | **Real Effects of Disclosure** | Professor: Pietro Bonetti<br>Papers to discuss: See below<br>Background readings: See below |

**<u>Module on Corporate Governance</u>**

## Session 1 and 2: Corporate governance and firm value

*Papers for discussion*

Paul Gompers, Joy Ishii, Andrew Metrick, 2003. Corporate Governance and Equity Prices, *Quarterly Journal of Economics* 118(1), 107–155.

Shane A. Johnson, Theodore C. Moorman, and Sorin Sorescu, 2009. A Reexamination of Corporate Governance and Equity Prices. *The Review of Financial Studies* 22, 4753-4786.

David Larcker, Scott Richardson, Irem Tuna. 2007. Corporate Governance, Accounting Outcomes, and Organizational Performance. *The Accounting Review* 82(4), 963-1008.

What are the consequences of board destaggering? Weili Ge, Lloyd Tanlu, Jenny Li Zhang. *Review of Accounting Studies*. September 2016, Volume 21, Issue 3, pp 808-858.

*Other related papers*

Lucian Bebchuk, Alma Cohen, and Allen Ferrell, What Matters in Corporate Governance, The Review of Financial Studies, 22 (2), pp. 783-827.

John Core, Wayne Guay, Tjomme Rusticus (2006). Does Weak Governance Cause Weak Stock Returns? An Examination of Firm Operating Performance and Investors' Expectations. *The Journal of Finance*, 61 (2), 655-687.

*Background reading*

Corporate Governance Matters. David Larcker and Brian Tayan. Pearson Education, Inc. FT Press, 2011. Chapters 1, 11, and 13.

Holmstrom, B., and Kaplan, S., 2003. The State of U.S. Corporate Governance: What's Right and What's Wrong? *Journal of Applied Corporate Finance*, 15(3), 8-20.

Larcker, D. and Tayan, B., 2008. Models of Corporate Governance: Who's the Fairest of Them All? Rock Center for Corporate Governance at Stanford University. Case Number CG-11.

Romano, R. 2005. The Sarbanes-Oxley Act and the Making of Quack Corporate Governance. *Yale Law Journal* 114, 1521-1611.

## Session 3 and 4: The Board of Directors

*Papers for discussion*

Yermack, David, 1996. Higher Market Valuation of Companies with a Small Board of Directors, *Journal of Financial Economics* 40(2), 185-211.

Coles, J., Naveen, D., Naveen, L. 2008. Boards: Does one size fits all? *Journal of Financial Economics* 87, 329-356.

Eliezer M. Fich, Anil Shivdasani, 2006. Are Busy Boards Effective Monitors? *The Journal of Finance* 61 (2), 689-724.

Adams, Renée B., and Daniel Ferreira. 2009. Women in the Boardroom and Their Impact on Governance and Performance. *Journal of Financial Economics*, 94(2): 291-309

*Background reading*

Corporate Governance Matters. David Larcker and Brian Tayan. Pearson Education, Inc. FT Press, 2011. Chapters 3, 4, and 5.

Deloitte & Touche, 2013. The Duties of Directors.

Shivdasani, A., Zenner, M., 2004. Best Practices in Corporate Governance: What Two Decades of Research Reveals. *Journal of Applied Corporate Finance* 16(2-3), 29-41.

Wachtell, Lipton, Rosen & Katz, 2008. Risk Management and the Board of Directors.

**Session 5 and 6: Executive Compensation**

*Papers for discussion*

Core, J. and W. Guay. 1999. The use of equity grants to manage optimal equity incentive levels. *Journal of Accounting and Economics* 28: 151–84.

Jayaraman S., Milbourn T., and Seo H., Product Market Peers and Relative Performance Evaluation. Working paper 2018.

Bennett, B., Bettis C., Gopalan R., Milbourn T. 2017. Compensation goals and firm performance. *Journal of Financial Economics* 124(2): 307–330.

*Background reading*

Murphy, K., 2013. Executive Compensation: Where we are, and how we got there in Constantinides, G., Harris, M., and Stulz, R., eds. *Handbook of the Economics of Finance*. Elsevier Science North Holland, Elsevier.

Cadman, B., Rusticus, T., Sunder, J. 2013. Stock option grant vesting terms: Economic and financial reporting determinants. *Review of Accounting Studies* 18(4), 1159-1190.

Miguel Antón M., Ederer F., Giné M., and Schmalz, M., Common Ownership, Competition and Top Management Incentives. Working paper.

Larcker, D., McCall, A., Ormazabal, G., and Tayan, B., 2012. Ten Myths of Say on Pay. Rock Center for Corporate Governance at Stanford University Closer Look Series: Topics, Issues and Controversies in Corporate Governance No. CGRP-26.

Yermack, D. 2006. Flights of fancy: Corporate jets, CEO perquisites, and inferior shareholder returns. *Journal of Financial Economics* 80, 211-242.

**Sessions 7 and 8: Investor Monitoring**

*Papers for discussion*

Klein, April and Zur, Emanuel, 2009. Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors, *Journal of Finance*, 44(1), 197-229.

Appel I., Gormley T., Keim D. Standing on the shoulders of giants: The effect of passive investors on activism. *Review of Financial Studies.*

Brav A, Jiang W., Ma S., Tian X. 2018. How Does Hedge Fund Activism Reshape Corporate Innovation? *Journal of Financial Economics*, 130(2), 237-264.

*Background reading*

Corporate Governance Matters. David Larcker and Brian Tayan. Pearson Education, Inc. FT Press, 2011. Chapter 12.

David F. Larcker, Gaizka Ormazabal, and Daniel J. Taylor (2011), The Market Reaction to Corporate Governance Regulation, *Journal of Financial Economics* 101: 431-448.

Karpoff, J., 2001, "The Impact of Shareholder Activism on Target Companies: A Survey of Empirical Findings," Unpublished manuscript, University of Washington

Cuñat, V., Giné, M., and Gudalupe M. Price and Probability: Decomposing the Takeover Effects of Anti-Takeover Provisions. Working paper.

Edmans A., Holderness C., 2017. Blockholders: Survey of Theory and Evidence. Article for the Elsevier *Handbook of Corporate Governance*.

**<u>Module on Financial Reporting and Disclosure</u>**

**Sessions 9 and 10: Accounting Information and Contracting: Conservatism and Debt Contracting (I)**

*Background reading*

*<u>Conservatism and measurement</u>*
Basu, Sudipta. 1997. The conservatism principle and the asymmetric timeliness of earnings, Journal of Accounting and Economics 24, 3-37.

Khan, M., and R. L. Watts, 2009. Estimation and empirical properties of a firm-year measure of accounting conservatism. *Journal of Accounting and Economics* 48 (2): 132-150.

*<u>Types of conservatism</u>*
(*Just read the sections describing the two types of conservatism*): Beaver, William and Stephen Ryan, 2005, Conditional and unconditional conservatism: Concepts and modeling, Review of Accounting Studies 10, 269-309.

*<u>Criticism of conservatism measures</u>*
Patatoukas and Thomas, 2011. More evidence of bias in differential timeliness estimates of conditional conservatism, *The Accounting Review*, 1675-1793.

*<u>Reasons for conservatism</u>*
Watts, R., 2003a. Conservatism in accounting Part I: Explanations and implications. Accounting Horizons 17 (3): 207-221.

*Papers for discussion*

*<u>Debt-contracting value of conservatism (association studies)</u>*
Ball, R., Ashok Robin and Gil Sadka. 2008. Is Financial Reporting Shaped by Equity Markets or by Debt Markets? An International Study of Timeliness and Conservatism. *Review of Accounting Studies* 13, 168–205.

Ball, R., R. M. Bushman, and F. P. Vasvari. 2008. The Debt-Contracting Value of Accounting Information and Loan Syndicate Structure. Journal of Accounting Research, 46(2): 247-288.

Zhang, J., 2008. The contracting benefits of accounting conservatism to lenders and borrowers. J. Account. Economics 45, 27–54.

Beatty, A., and S. Liao. 2011. Do delays in expected loss recognition affect banks' willingness to lend? Journal of Accounting & Economics 52, 1-20.

Garcia Lara, J., B. Garcia Osma and F. Penalva. 2016. Accounting conservatism and firm investment efficiency. Journal of Accounting and Economics 61 (1), 221–238.

**Sessions 13 and 14: Accounting Information and Contracting: Conservatism and Debt Contracting (II)**

*Background reading*

*Identification issues*
(*Read up to page 542*) Leuz, C. and P. D. Wysoki, 2016. The economics of disclosure and financial reporting regulation: Evidence and suggestions for future research. Journal of Accounting Research 54: 525-622.

*Papers for discussion*

*Debt-contracting value of conservatism (identification studies)*
Gormley, T.A., B.H. Kim and X. Martin. 2012. Do firms adjust their timely loss recognition in response to changes in the banking industry? Journal of Accounting Research 50, 159-196.

Jayaraman, S., and L. Shivakumar. 2013. Agency-based demand for conservatism: evidence from state adoption of antitakeover laws. Review of Accounting Studies 18, 95-134.

Tan, L. 2013. Creditor control rights, state of nature verification, and financial reporting conservatism. Journal of Accounting and Economics 55, 1-22.

Aier,J.K, L. Chen, and M. Pevzner. 2014. Debtholders Demand for Conservatism Evidence from Changes in Directors Fiduciary Duties. Journal of Accounting Research 52 (5), 993-1027.

*Impact of fair value adoption on debt-contracting value of conservatism*
Demerjian, P. R. 2011. Accounting standards and debt covenants: Has the balance sheet approach led to a decline in the use of balance sheet covenants? Journal of Accounting and Economics 52 (2): 178-202.

Ball, R., Li, X., and Shivakumar, L. 2015. Contractability of Financial Statement Information Prepared Under IFRS: Evidence from Debt Contracts around IFRS Adoption. Journal of Accounting Research 53 (5): 915-963.

Demerjian, P., J. Donovan and C. R. Larson. 2016. Fair value accounting and debt contracting: Evidence from adoption of SFAS 159. Journal of Accounting Research 54: 1041-1076.

Badia, M., M. Duro, F. Penalva, and S. Ryan. 2017. Conditionally Conservative Fair Value Measurements. Journal of Accounting and Economics 63 (1): 75-98.

**Sessions 13 and 14: Disclosure, Information Asymmetry, Liquidity and the Cost of Capital**

*Papers for discussion*

Leuz and Schrand, 2009, Disclosure and the Cost of Capital: Evidence from Firms' Responses to the Enron Shock, Working paper

Balakrishnan, K., M. Billings, B. Kelly, and A. Ljungqvist. 2014. Shaping liquidity: On the causal effects of voluntary disclosure. *Journal of Finance* 69: 2237-2278.

*Background reading (* is mandatory reading)*

(*) Leuz and Wysocki, 2016, The Economics of Disclosure and Financial Reporting Regulation: U.S. and International Evidence and Suggestions for Future Research, with Peter Wysocki, *Journal of Accounting Research*.

(*)Milgrom, 2008. What the Seller Won't Tell You: Persuasion and Disclosure in Markets, Journal of Economic Perspectives 22, 115–131.

(*) Lambert, Leuz, and Verrecchia, 2007, Accounting Information, Disclosure and the Cost of Capital, *Journal of Accounting Research* 45, 385-420. (Read Sections 1 – 3.2)

(*) Easley and O'Hara, 2004, Information and the Cost of Capital, *Journal of Finance* 59, 1553-1583. (Read Section 1 only)

**Sessions 15 and 16: Proprietary Costs of Transparency**

*Papers for discussion*

Li, Lin, and Zhang, 2018. Trade Secrets Law and Corporate Disclosure: Causal Evidence on the Proprietary Cost Hypothesis. *Journal of Accounting Research* 56: 265–268

Asker and Ljungqvist. 2010. Competition and the Structure of Vertical Relationships in Capital Markets. *Journal of Political Economy* 118: 599-647.

*Background reading (* is mandatory reading)*

(*) Proprietary versus Non-Proprietary Disclosures: Evidence from Germany, in: The Economics and Politics of Accounting, C. Leuz, D. Pfaff and A. Hopwood (eds), Oxford University Press (2004): 164–197. (Just read intro and get a sense for basic idea)

(*) Cho. 2015. Segment disclosure transparency and internal capital market efficiency: Evidence from SFAS No. 131. *Journal of Accounting Research* 53: 669-723. (Just skim to get a sense for literature on segment disclosure)

**Sessions 16 and 17: Disclosure Regulation and Regulatory Enforcement**

*Papers for discussion*

Christensen, H. B., L. Hail, C. Leuz. 2013. Mandatory IFRS reporting and changes in enforcement. *Journal of Accounting and Economics* 56: 147–177.

Christensen, Hail, and Leuz, 2016, Capital-Market Effects of Securities Regulation: Prior Conditions, Implementation and Enforcement, *Review of Financial Studies* 29, 2885–2924.

*Background reading (* is mandatory reading)*

(*) Barth, M., and D. Israeli. 2013. Disentangling mandatory IFRS reporting and changes in enforcement. *Journal of Accounting and Economics* 56: 178–188.

(*) Christensen, H. B., L. Hail, C. Leuz. 2013. Proper Inferences or a Market for Excuses? The Capital-Market Effect of Mandatory IFRS Adoption. Working paper.

(*) Holthausen, R.W. 2009. Accounting Standards, Financial Reporting Outcomes and Enforcement. *Journal of Accounting Research* 47: 447–458.

**Sessions 18 and 19: Real Effects of Disclosure**

*Papers for discussion*

Jin and Leslie, 2003, The Effect of Information on Product Quality: Evidence from Restaurant Hygiene Grade Cards, *The Quarterly Journal of Economics* 118, 409-451.

Badertscher, Shroff, and White, 2013, Externalities of Public Firm Presence: Evidence From Private Firms' Investment Decisions, *Journal of Financial Economics* 109, 682-706.

*Background reading (* is mandatory reading)*

(*)Dranove and Jin, 2010, Quality Disclosure and Certification, *Journal of Economic Literature* 48, 935–963.

(*) Leuz and Wysocki, 2016, The Economics of Disclosure and Financial Reporting Regulation: U.S. and International Evidence and Suggestions for Future Research, with Peter Wysocki, *Journal of Accounting Research*.

## Professors' Biography

### Pietro Bonetti

He studies the role of disclosure and transparency in capital and other markets, the effects of disclosure and securities regulation, international accounting as well as corporate governance and financial contracting.

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### Miguel Duro

His research focuses on the impact of corporate governance, corporate disclosure and public enforcement in capital markets, earnings management and other accounting attributes. Professor Duro has coauthored several papers at different stages of review at top-tier accounting journals (one of them forthcoming at the Journal of Accounting and Economics).

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### Igor Kadach

Professor Kadach's research interests concentrate on voluntary disclosure, institutional ownership and the structure of executive compensation. In his dissertation, Igor studied the interplay of equity mispricing and managers' earnings forecast decisions. In other research projects he studies the effects of institutional ownership on analysts following and executive compensation.

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### Gaizka Ormazabal

Professor Ormazabal's research focuses on executive compensation and corporate governance. His work examines the choice and valuation implications of corporate governance mechanisms. His current research projects analyze managerial risk-taking incentives, corporate risk oversight, financial regulation, asset securitization, and the role of corporate governance intermediaries.

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### Fernando Peñalva

His research focuses on accounting conservatism, fair value, earnings management, corporate governance, and corporate disclosure. His current research projects analyze the measurement of conservatism, the information consequences of earnings management, and the impact of conservatism on earnings management. His relevant publications can be found in the link below.

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Link: http://www.iese.edu/en/faculty-research/professors/faculty-directory/fernando-penalva/