

Contemporary Research in Financial Accounting and Governance
PhD seminar
Spring 2012

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"A good scientist needs a thick skin and an irrational sense of optimism."

I. Logistics

Registration: Students for the course will be selected in the order of registration. Due to the nature of the course, it is limited to a maximum of 15 participants. Priority will be given to KATAJA members (e.g. students belonging to GSA). Registration should be done via e-mail to the Departmental Coordinator Noora Kedonperä (noora.kedonpera@utu.fi). Deadline for registration is Friday, 2 March 2012.

Venue and time: Sessions will be held in the Turku School of Economics at the University of Turku, Rehtorinpellonkatu 3, 20500 Turku. The course comprises two related parts. The first part will be held from 5 Mar - 9 Mar 2012, and the second part is from 16 Apr - 20 Apr 2012. For further enquiries, please contact either Angela Gore (angela.gore@utu.fi) or Hannu Schadewitz (hannu.schadewitz@utu.fi).

The seminar will be held in the following specific locations, from 9-12 each day:

Week 1		Week 2	
Mon 5.3	Is 34	Monday 16.4	Is 34
Tues 6.3	OP-Pohjola	Tues 17.4	OP-Pohjola
Weds 7.3	OP-Pohjola	Weds 18.4	OP-Pohjola
Thurs 8.3	Is 32	Thurs 19.4	Is 32
Fri 9.3	Is 34	Fri 20.4	Is 34

II. Course Objectives

This course will provide an introduction to empirical financial accounting research, with a focus on two specific areas: disclosure and governance-related research. We'll study both a variety of recent work in order to introduce you to the latest developments in the area, along with a few 'classics,' to help you identify potential research paper/dissertation topics. We'll also spend time discussing the elements of good research papers (such as writing a good introduction, and thinking about what referees look for) to help increase your chances of successfully publishing your future work.

III. Course Grade

Your course grade will consist of the following:

Presentations	35%
Participation	35%
Homework	<u>30%</u>
Total grade	100%

Grading will be on a scale of 0-5, 6 ECTS or units.

1. Participation and presentations

The format of this class will primarily be discussion, which means that you'll be required to do a lot of talking. We will cover approximately two or three papers during each class meeting. One student will be responsible for leading the discussion of most papers (and we will allocate the papers at the first class meeting; I will lead the discussion for the papers on the first day for both weeks 1 and 2). The presenter will orient the discussion around the following questions:

1. What is the question of interest (main hypothesis or prediction), the motivation (why is this topic interesting and important), and how does it relate to the existing literature?
2. How do the authors attempt to answer the question of interest, with a focus on methods and research design?
3. What are the main findings and results?
4. Did the authors answer the question(s) proposed? Why or why not?
5. What improvements would you make to this paper, and/or what questions are left unanswered?

Normally the presentation should last around 30-45 minutes if uninterrupted. However, interruptions are expected: the non-presenting students (and myself) are strongly encouraged to ask questions and make comments *during* the presentations, as they arise. I do not expect the presenter to know everything about the paper, or to be able to answer all questions (neither can I!). However, non-presenting students should read the assigned papers thoroughly to the extent that they can explain the paper to a lay person, and make useful comments. Each non-presenting student should ask at least one question about every paper, and/or provide thoughtful comments.

Paper summaries:

To help you be ready for the paper discussions, I ask that you prepare a short summary for each paper. The summaries should be oriented around the above five questions, and should be sufficiently succinct (on average, one page, but *no more* than two pages) to

allow using them for future reference. Note that I will not collect these summaries, however, I'll likely notice if you don't prepare them.

Optional papers:

In addition to the listed papers, which we will discuss in more detail, I have also listed a series of "optional" papers. These are meant for your reference, both to help you gain a broader perspective on particular areas, and to give you other works to consider for those topics which capture your interest. I will occasionally refer to these papers as we go, and/or discuss a summary of major points, but do not expect you to have read them in detail.

2. Homework

We will have approximately 3 homework assignments each week. Examples of homework include writing up a one-page research idea; looking up a paper to determine its research impact; and writing a referee report. Tentative due dates are listed on the attached course outline.

Course Outline

Date	Papers	Homework Due
Week 1, 5 Mar:	Disclosure overview.	
	Beyer et al. (2010); Healy and Palepu (2001) Optional: Core (2001)	
Week 1, 6 Mar:	Does disclosure matter? Costs and benefits of disclosure. Plus a discussion about the elements of a good introduction.	One-page research idea based on Beyer et al (2010) or Healy & Palepu (2001).
	Botosan (1997); Graham et al (2005); Field et al. (2005) Optional: Kim and Skinner (2011)	
Week 1, 7 Mar:	Disclosure regulation.	Critique an introduction.
	Heitzman et al. (2010); Baber and Gore (2008) Optional references: Bushman and Landsman (2010); Watts and Zimmerman (1986) – regulation chapter; Gore (2004) – see Figure 1; Leftwich (1980)	
Week 1, 8 Mar:	Impact of monitoring – unions and shareholder activism.	One-page research idea is due, on any empirical financial topic.
	DeAngelo and DeAngelo (1991); Klasa et al. (2009); Del Guercio et al. (2008) Optional: Leung et al. (2009); Farber et al. (2010); Karpoff (2001); Bainbridge (2005); Liberty and Zimmerman (1986)	
Week 1, 9 Mar:	Disclosure and debt markets (including under financial shocks).	Present your 1-2 page research idea to the class: this can be on any empirical financial topic, or (with instructor approval) something else you're working on
	Graham et al. (2008); Watts and Zuo (2011) Optional: Hutton et al. (2009); Campello et al. (2010)	
Week 2, 16 Apr:	Corporate governance overview.	Paper assigned for which a referee report is due (on day 3)
	Armstrong et al. (2010); Adams et al. (2009). Optional: Hermalin and Weisbach (1998); Shleifer and Vishny (1998)	
Week 2, 17 Apr:	Governance determinants and measuring governance.	
	Linck et al. (2008); Larcker et al. (2007); Gompers et al. (2003) Optional: Klein (1998)	
Week 2, 18 Apr:	Political connections, performance, and accounting transparency.	

	Faccio et al. (2006); Chaney et al. (2011) Optional: Blanes et al. (2010); Faccio (2006)	
Week 2, 19 Apr:	Nonprofit governance.	Referee report due (from paper assigned on day 1)
	Aggarwal, Evans and Nanda (2011); Core et. al. (2006); Chen et al. (2011) Optional: Van Lent (2012)	
Week 2, 20 Apr:	How to make a good paper great (and how to get a decent one published).	Research impact assignment due.
	Brown (2005); Zimmerman (1989); Clarkson (2012) Optional: Heck (2009)	

Papers:

Week 1:

Baber and Gore, 2008. Consequences of GAAP disclosure regulation: evidence from municipal debt. *The Accounting Review* 83 (3): 565-591.

Beyer, Cohen, Lys, and Walther, 2010. The financial reporting environment: review of the recent literature. *Journal of Accounting and Economics* 50: 296-343.

Botosan, 1997. Disclosure level and the cost of equity capital. *The Accounting Review* 72: 323-350.

DeAngelo and DeAngelo, 1991. Union negotiations and corporate policy: A study of labor concessions in the domestic steel industry during the 1980s. *Journal of Financial Economics* 30: 3-43.

Del Guercio, Seery, and Woidtke, 2008. Do boards pay attention when institutional investor activists 'just vote no'? *Journal of Financial Economics* 90: 84-103.

Field, Lowry, and Shu, 2005. Does disclosure deter or trigger litigation? *Journal of Accounting and Economics* 39: 487-507.

Graham, Harvey, and Rajgopal, 2005. Economic implications of corporate financial reporting. *Journal of Accounting and Economics* 40: 3-73.

Graham, Liu, and Qiu, 2008. Corporate misreporting and bank loan contracting. *Journal of Financial Economics* 89: 44-61.

Healy and Palepu, 2001. Information asymmetry, corporate disclosure, and the capital markets: a review of the empirical disclosure literature. *Journal of Accounting and Economics* 31: 405-440.

Heitzman, Wasley, and Zimmerman, 2010. The joint effects of materiality thresholds and voluntary disclosure incentives of firms' disclosure decisions. *Journal of Accounting and Economics* 49: 109-132.

Klasa, Maxwell, and Ortiz-Molina, 2009. The strategic use of corporate cash holdings in collective bargaining with labor unions. *Journal of Financial Economics* 92: 421-442.

Watts and Zuo, 2011. Accounting conservatism and firm value: Evidence from the global financial crisis. Unpublished working paper, ssrn.

Optional references (week 1):

Bainbridge, 2005. Shareholder activism and institutional investors. Unpublished working paper, ssrn.

- Bushman and Landsman, 2010. The pros and cons of regulating corporate reporting: a critical review of the arguments. Unpublished working paper, ssrn.
- Campello, Graham, and Harvey, 2010. The real effects of financial constraints: Evidence from a financial crisis. *Journal of Financial Economics* 97: 470-487.
- Core, 2001. A review of the empirical disclosure literature: a discussion. *Journal of Accounting and Economics* 31: 441.
- Farber, Hsieh, Jung, and Li, 2010. Labor unions and accounting conservatism. Unpublished working paper, ssrn.
- Gore, 2004. The effects of GAAP regulation and bond market interaction on local government Disclosure. *Journal of Accounting and Public Policy* 23 (1): 23-52. (See figure 1)
- Karpoff, 2001. The impact of shareholder activism on target companies: A survey of empirical findings. Unpublished working paper, ssrn.
- Kim and Skinner, 2011. Measuring securities litigation risk. *Journal of Accounting and Economics*, forthcoming.
- Klein, 1998. Firm performance and board committee structure. *Journal of Law and Economics* 41 (1): 275-303.
- Leftwich, 1980. Market failure fallacies and accounting information. *Journal of Accounting and Economics* 2: 193-211.
- Leung, Li, and Rui, 2009. Labor union (sic) and accounting conservatism. Unpublished working paper, ssrn.
- Liberty and Zimmerman, 1986. Labor union contract negotiations and accounting choices. *The Accounting Review* 61 (4): 692-712.
- Watts and Zimmerman, 1986. *Positive Accounting Theory*, disclosure regulation chapter, 156-178.

Week 2:

- Adams, Hermalin, and Weisbach, 2009. The role of boards of directors in corporate governance: a conceptual framework and survey. Unpublished working paper, ssrn.
- Aggarwal, Evans, and Nanda, 2011. Nonprofit boards: Size, performance and managerial incentives. *Journal of Accounting and Economics*, forthcoming.

Armstrong, Guay, and Weber, 2010. The role of information and financial reporting in corporate governance and debt contracting. *Journal of Accounting and Economics* 50: 179-234.

Brown, 2005. The importance of circulating and presenting manuscripts: evidence from the accounting literature. *The Accounting Review* 80: 55-83.

Chaney, Faccio, and Parsley, 2011. The quality of accounting information in politically connected firms. *Journal of Accounting and Economics* 51 (1-2): 58-76.

Chen, Kido, and Weber, 2011. The influence of elections on the accounting choices of governmental entities. *Journal of Accounting Research conference paper*, Unpublished working paper, ssrn.

Clarkson, 2012. Publishing: Art or science? Reflections from an editorial perspective. *Accounting and Finance*, forthcoming; available on ssrn.

Core, Guay, and Verdi, 2006. Agency problems of excess endowment holdings in not-for-profit firms. *Journal of Accounting and Economics* 41: 307-333.

Faccio, McConnell, and Masulis, 2006. Political connections and corporate bailouts. *Journal of Finance* 61 (6): 2597-2635.

Gompers, Ishii, and Metrick, 2003. Corporate governance and equity prices. *Quarterly Journal of Economics* 118: 107-155.

Larcker, Richardson, and Tuna, 2007. Corporate governance, accounting outcomes, and organizational performance. *The Accounting Review* 82 (4): 963-1008.

Linck, Netter, and Yang, 2008. The determinants of board structure. *Journal of Financial Economics* 87: 308-328.

Zimmerman, 1989. Improving a manuscript's readability and likelihood of publication. *Issues in Accounting Education* 4 (2): 458-466.

Optional references (week 2):

Blanes, Draca, and Fons-Rosen, 2010. Revolving door lobbyists. Unpublished working paper, ssrn.

Faccio, 2006. Politically connected firms. *American Economic Review* 96 (1): 369-386.

Heck, 2009. Most prolific authors in the accounting literature over the past half century: 1959-2008. Unpublished working paper, ssrn.

Hermalin and Weisbach, 1998. Endogenously chosen boards and their monitoring of the CEO. *American Economic Review* 88: 96-118.

Hutton, Marcus, and Tehranian, 2009. Opaque financial reports, R2, and crash risk. *Journal of Financial Economics* 94: 67-86.

Shleifer and Vishny, 1998. Survey of corporate governance. *American Economic Review* 88: 96-118.

Van Lent, 2012. Discussion of the influence of elections on the accounting choices of governmental entities. Unpublished working paper, ssrn.

General optional methodological pieces that you may use as references:

Lee and Lemieux, 2009. Regression discontinuity designs in economics. Unpublished working paper, ssrn.

Thompson, 2011. Simple formulas for standard errors that cluster by both firm and time. *Journal of Financial Economics* 99: 1-10.