Session A1: Financial Accounting (Room: E01)

Session Chair: Lies Bouten (IESEG School of Management)

Paper 1: Debt Contracting and Information Shock: The Effect of Bankers on Accounting Conservatism

Pietro Bonetti, Elisabetta Ipino, Antonio Parbonetti (University of Padova)

Using an informational shock to the information environment, this paper examines the relationship between non-affiliated financial executives (bankers) on boards of directors and the level of accounting conservatism. We exploit IFRS mandatory adoption as an exogenous shock that might exacerbate the debt holder–shareholder conflict because of the wider use of fair value to analyze bankers' roles on accounting conservatism. The results show that the level of conservatism for firms with banker representation significantly increases after the information shock/mandatory IFRS adoption. No such effect occurs if bankers are not on boards. These findings hold even after we account for other country-level factors that might play a role in shaping the demand of conservatism. In further analysis, we find that the effect of bankers on the change in accounting conservatism is conditional on firm-specific incentives.

Discussant: Sofie Van Der Meulen (IESEG School of Management)

Paper 2: Corporate participation in the due process of international accounting standard setting: An analysis of antecedents

Ann Jorissen (University of Antwerp), Nadine Lybaert, Raf Orens, Leo van der Tas

Prior studies examining constituents' formal participation by analysing the comment letters sent in the discussion paper and exposure draft stage of the due process revealed that preparers are the most active group in this lobbying process. With this paper we zoom in on those preparers that are active in the discussion paper and exposure draft stage of the due process of international accounting standard setting and analyse their antecedents, their overall strategy of corporate political activities (CPA) towards the standard setter and the outcome of this CPA. By combining insights from the management literature on corporate political activities with the results of the participation literature on accounting standard setting, we develop hypotheses on the influence of firm-level, industry-level and institutional antecedents on the propensity of individual corporate preparers to contribute to the standard setting process of the IASB by using an information strategy and/or a financing strategy. Based on the comparison of the profile of companies engaging in a relational information strategy versus a transactional information strategy (or being habitual versus occasional participating preparers), we observe a significant association between firm size, available firm slack, regulated -industry origin and originating from an institutional background characterized by high quality enforcement and the engagement in a relational information strategy (= habitual lobbyer) towards the IASB. Moreover we notice a significant correlation between a preparer's participation intensity in the discussion paper and exposure draft phase of the due process and the

decision to engage in a financing strategy. Considering the membership of committees in the international accounting standard setting structure as an outcome of the CPA then we observe that a financing strategy is more effective for obtaining a seat on one of the committees than the writing of comment letters. Over the period 1995-2012 we notice that corporate preparers being frequent lobbyers towards the IASB stem from G4+1 countries, Germany or Switzerland.

Discussant: Sofie Van Der Meulen (IESEG School of Management)

Session A2: Auditing (Room: E02)

Session chair: Christoph Endenich (IESEG School of Management)

Paper 1: The relationship between audit firm size, audit office size and audit quality in Belgium: evidence from going-concern opinions and audit pricing

Sanne Janssen (University of Antwerp), Kris Hardies

Recent research in the US indicates that there is a relationship between audit office size and audit quality. To date, however, there exists little evidence on this relationship from European data. Therefore, we examine in this paper the relationship between audit quality and audit office size in Belgium. We use both the likelihood that an auditor issues a going-concern opinion (GCO) and audit pricing as indicators of audit quality. Using a sample of 10,731 financially distressed Belgian companies, our results suggest that the propensity to issue a GCO is higher for larger audit offices and larger audit firms. We find that auditors of Grant Thornton, BDO and non-Top 6 audit firms are less likely to issue GCO's. Furthermore, using a sample of 15,407 Belgian companies, we also find a positive association between audit firm size, audit office size and audit fees. The results show that auditors of Grant Thornton, BDO and non-Top 6 audit firms charge lower audit fees. More specifically, auditors at small offices of non-Top 6 audit firms provide the lowest audit quality.

Discussant: Yannick de Harlez (IESEG School of Management)

Session B1: Auditing ((Room: E01)

Session chair: Kris Hardies (University of Antwerp)

Paper 1: Audit partners' economic incentives and discretionary accruals

Simon Dekeyser (KU Leuven Kulak), Ann Gaeremynck, Marleen Willekens

Economic incentives are fundamental for understanding an auditor's behavior and hence his/her ability to remain independent (see for example, Liu and Simunic, 2005). We contribute to this debate by investigating audit quality effects of 1) partner wealth, 2) partner debt and 3) the extent to which a partner's compensation is based on the amount of audit fees (s)he generates. More specifically, we test the association between these partner-level incentives and the percentage of client discretionary accruals for a sample of 9,375 Belgian Big 4 audit clients over the period 2007-2010. We find no significant association between discretionary accruals and partner wealth, but do find a negative association with partner debt and a positive association with the extent of a partner's fee-based compensation. We also test whether reputation risk mitigates the documented adverse quality effects and find that this is the case.

Discussant: Diane Breesch (Vrije Universiteit Brussel)

Paper 2: Professionalism versus commercialism. The inherent conflict in audit firms?

Marie-Laure Vandenhaute (Free university Brussels), Diane Breesch

Although heavily debated in academic literature, the causes and consequences of the inherent conflict of professionalism versus commercialism in audit firms are still undecided. It has been argued that the commercialisation process entered the audit profession; facing a culture shift from 'being a professional' to 'being profitable' and an organisational shift from 'small' professional partnerships to 'large' managed professional businesses. This paper elaborates on the commercialisation process audit firms went through and discusses the effects of commercialism on audit quality in light of prior research findings. It advocates that the internal environment of audit firms and, more specifically, the incentives given to audit partners via a.o. compensation schemes could moderate commercial behaviour and enhance audit quality.

Discussant: Christoph Endenich (IESEG School of Management)

Session B2: Management Accounting (Room: E02)

Session chair: Yannick de Harlez (IESEG School of Management)

Paper 1: Who influences the design of management accounting systems?

Sophie Hoozée (ESE Erasmus University Rotterdam), Falconer Mitchell

This is an exploratory study of a potentially important topic that has been neglected by management accounting researchers. It investigates the relative influence of managers and management accountants on the design of management accounting systems (MAS). Data were gathered by surveying 86 senior executives and management accountants in 50 Belgian companies. Results indicate that on average and in the majority of management accounting subareas, management's influence is the stronger than that of management accountants. The existence of parent companies and the involvement of consultants are negatively (positively) associated with the level of managerial (management accountant) influence on MAS design. The former's association extends to all subareas of management accounting while the latter is restricted to performance measurement and reward systems only. Finally, A higher (lower) level of managerial (management accountant) influence on MAS design is associated positively with MAS success in relation to performance measurement and reward systems but not to any other subareas of management accounting. These results are of relevance to those interested in explaining the different forms that management accounting takes and how it develops over time.

Discussant: Yan Du (IESEG School of Management)

Paper 2: The impact of CEO gender on planning, control, evaluation and rewarding practices in SMEs

Kris Hardies , Parichart Maneemai, Ann Jorissen (University of Antwerp)

Together with the increasing attention for gender diversity on regulators' and governments' agendas, gender research received increasing attention in accounting research. Studies have now explored the impact of CEO gender, CFO gender, board gender diversity, audit committee gender diversity, and auditor gender on earnings management, accounting quality, analyst's expectations, audit quality and audit processes. However, the impact of gender on management accounting and management control processes in organizations has received much less research attention (Parker, 2008). In response to this lack of gender research in management accounting and control, this paper sets out to study whether or not a gender impact can be detected in the planning, evaluating, rewarding and control practices of CEOs used in SMEs. The data for this study were collected from privately held Thai SMEs because Thailand is an appealing setting to study gender differences as this country has a high number of female CEOs (Grant Thornton, 2013). Our hypotheses are developed based on prior literature showing that people display behavior that is congruent with their gender role, on findings concerning women's greater risk-aversion and on the evidence that women apply more interactive and participative styles of management. In a first step we examine whether or not gender differences

are present while controlling for the traditional contingency variables (firm size, PEU, strategy, firm age) used in the MCS literature and CEO-demographics. In a second step we introduce variables that capture the firm's context (industry; financial situation and firm growth) in the model in order to single out whether differences in the use of MCS practices are driven by context or by CEO-gender. The findings allow us to conclude that male and female CEOs do not differ in the evaluation and rewarding practices they use towards their employees. We do, however, observe gender differences with respect to the performance measurement system applied by the CEO to evaluate company performance. Male CEOs use more financial indicators and forward looking indicators focusing on learning and growth opportunities in all circumstances. Only with respect to customer-related performance information do we not detect gender differences. Male CEOs use performance information always significantly more in a diagnostic way than female CEOs do. We do not detect a gender influence on the interactive use of performance information, despite claims in the literature that women adopt a more interactive and participative style of management than male CEOs (Burke and Collins, 2001; Kim and Shim, 2003; Trinidad and Normore, 2005). On average, male CEOs engage more in strategic planning. However, when controlling for firm growth and firm performance this gender difference disappears. So, female CEOs start to plan when the economic situation of the firm weakens or when the firm needs resources to support its growth. Whereas weaker financial performance or company growth instigates female CEOs to engage in planning, it does not trigger them to use more financial and forward looking objective performance indicators and to use performance information in a diagnostic way. Only a weakening profitability drives a small change in this behavior.

Discussant: Sophie Hoozée (ESE Erasmus University Rotterdam)

Session C1: Accounting and corporate governance (Room: E01)

Session Chair: Ann Jorissen (University of Antwerp)

Paper 1: Impact of board characteristics on firm performance: post-financial crisis evidence from IPOs in Dach-countries

Marc SAGER, Alex SOPPERA (University of St. Gallen)

We investigate the potential impact of board characteristics on firm performance. The research is based upon a sample of 35 Initial Public Offerings (IPOs) in Germany, Austria and Switzerland (DACH-countries) that were completed between 2008 and 2012. We study and compare different board characteristics (size, age, gender, education, committees, tenure, financial expertise, holdings and external mandates) of 166 directors at the time the firms went public. We further investigate potential relations between these board characteristics and subsequent firm performance (Tobin's Q, return on assets and return on equity) through correlation and simple linear regression analysis. According to our sample the vast majority of the analysed directors are highly educated, male and over 52 years old. Partially in line with our expectations and with previous research, board size, board tenure and age diversity appear to have a lagged positive relation to accounting-based measures of performance. Contrary to our expectations, we find somewhat contradicting results for our market-based measure of performance. We suggest extending the analysis to farther-reaching time periods as well as to other institutional contexts.

Discussant: Arnt Verriest (EDHEC Business School)

Paper 2: Disclosure of CEO Compensation: Governance, Benchmarking or the Better-than-Average Effect?

Bart Dierynck (Tilburg University), Annelies Renders

Disclosure of CEO compensation is assumed to lead to lower compensation levels since it improves investor scrutiny. However, through efficient benchmarking and the better-than-average effect, disclosure of CEO compensation may in contrast lead to an increase in the average compensation levels. In this study, we examine the effect of the introduction of a corporate governance code recommending the publication of CEO compensation for listed firms in Belgium. We find a dual effect of disclosing CEO compensation in which the influence of disclosure on CEO compensation is driven by the difference between the compensation of the CEO and the average compensation of the reference group. First, disclosure has the expected governance effect, since CEOs who are relatively overpaid compared to their peer group are faced with a decrease in compensation. Second, disclosure of CEO compensation also leads to an increase in compensation levels as compensation levels that are below the average of the peer group show an upward trend. We find that this upward trend is driven by the better-than-average effect, rather than efficient benchmarking, since it is more pronounced in firms with a less independent board of directors and/or remuneration committee.

Discussant: Heidi Van der Bauwhede (Gent University)

Paper 3: Trapped Cash: The Impact of Tax Repatriation Costs on Cash Value and Market Uncertainty

Michele Fabrizi (University of Padova), Elisabetta Ipino, Antonio Parbonetti

In this paper, we develop and test the hypothesis that holding large cash amounts abroad because of tax incentives affects cash value and market uncertainty. From a large sample of U.S. firms during the 1991–2012 period, we document that cash held abroad to avoid tax repatriation costs (i) is worth less than domestic cash; (ii) is associated with higher analyst dispersion, lower forecast accuracy, and lower precision of common and private analyst information; and (iii) generates uncertainty among investors in terms of abnormal trading volume. These findings help shed light on the economic consequences of the accumulation of cash in foreign countries.

Discussant: Christof Beuselinck (IESEG School of Management)

Session C2: Financial Accounting (Room: E02)

Session chair: Georgios Voulgaris (Warwick Business School)

Paper 1: Asymmetric flows of good versus bad news

Vasiliki Athanasakou (London School of Economics), Norman Strong, Martin Walker

We construct a novel measure of asymmetric timing in information flows based on the difference in the dispersion of positive relative to negative abnormal stock returns within the financial year. We posit that the tendency of managers to delay the reporting of bad news, compared with their eagerness to release good news, leads to predictable differences in the dispersion of good relative to bad news. Our measure is positively associated with information uncertainty and managerial incentives and constraints to decelerating (accelerating) bad (good) news. Our measure is also positively associated with lower quality in reported earnings and higher risk of subsequent shareholder litigation. Our results suggest that the relative dispersion of good versus bad news is associated with the quality of the firm's information environment.

Discussant: Romain Boulland (IESEG School of Management)

Paper 2: Conformity to intra-industry benchmarks in financial reporting and analyst forecast properties: The case of SG&A

Oveis Madadian (University of Antwerp)

Based on a sample of listed US firms over the period 2002 up to 2011, we study whether conformity to intra-industry benchmarks in reported SG&A (Selling, General and Administrative expenses) as a characteristic of a firm's cost behaviour, is associated with properties of analyst earnings forecasts (analyst forecast dispersion and analyst forecast accuracy) and with the number of analysts following the firm. Conformity to intra-industry benchmarks is argued to be used by financial analysts as an information-based cognitive heuristic in their forecasting work. Higher SG&A conformity to intra-industry benchmarks would mitigate financial analysts' assessment uncertainty with regard to a firm's ability to efficiently control overhead expenses and the appropriateness of its SG&A resource allocation and improve the precision of their predictions. We also conjecture that intra-industry SG&A conformity affects analyst coverage. Our results show a positive association between the level of conformity to intra-industry benchmarks in reported SG&A and both analyst consensus on one-year ahead earnings (implying lower forecast dispersion) and accuracy of analyst earnings forecasts. We also document a negative relationship between conformity to intra-industry benchmarks in reported SG&A and the number of analysts following the firm.

Discussant: Georgios Voulgaris (Warwick Business School)

Paper 3: Rhetorical style of the CEO letter to shareholders and institutional setting: Comparing UK and US companies

Beibei Yan (University of Antwerp), Walter Aerts

We explore rhetorical impression management in the letter to shareholders using linguistic style properties of the narrative. We identify dominant rhetorical style profiles and, after controlling for performance-related determinants, investigate whether a company's institutional environment affects rhetorical stance. Institutional environment inferences are examined by comparing rhetorical style patterns of UK and US companies. We use automated text analysis procedures to capture linguistic style characteristics and discern three composite style profiles with distinct rhetorical effect: an acclaiming or assertive stance, a more defensive framing position and a logic-based cognitive impression management orientation. These rhetorical profiles and inherent sense-giving go far beyond financial performance commentary and tend to substitute for financial accountability. All three dominant rhetorical profiles are significantly more prominent in US letters than in UK letters, suggesting higher incentives for rhetorical impression management in the US. However, higher expected scrutiny in the US institutional environment tends to sharpen sensitivity to credibility issues and litigation risk with the effect of significantly attenuating assertive and logic-based rhetorical impression management, while marginally increasing the less litigation-sensitive defensive framing style in US letters.

Discussant: Lies Bouten (IESEG School of Management)