

Wanli Zhao, Ph.D.
Department of Accounting
wanli.zhao@unibocconi.it

The class will cover a variety of topics in accounting from the perspective of governance. The objective is to introduce students to the basic issues in governance in accounting research.

Expectations

Any PhD seminar course is a prominent investment in your human capital for your career. Generally speaking, you should expect to spend a significant amount of time each week outside of the classroom. So plan your schedule accordingly to have sufficient time for this class. Active and frequent participation is required for all students. You should have read assigned articles thoroughly prior to class. A lack of preparation compromises the learning experience and outcome for you and your classmates. Please consider your preparation as a basic courtesy to your colleagues.

Seminar Format

In each session there will be several assigned papers for presentations/discussions. This is not a lecture course. Instead we will discuss several papers per session on a particular topic. The papers will be assigned to you for presentation in class. In addition, for each paper every student should prepare a maximum-two-page critique, which I will collect at the beginning of each class (they should be typed with 12 point font, double-spaced, and one-inch margins). I would highly recommend you to do the same to the unassigned papers.

The Summary/Presentation Format

Each student will be assigned a presentation on one paper at least once every Session. In your presentation, you should include (1) Statement of the problem studied; (2) Brief survey of the literature; (3) Concise, intuitive, explanation of the argument producing the major results (for theory papers) or the empirical methodology; (4) Summary of the main results; (5) Critical examination of the paper; (6) Sketch of major extensions to the paper with specific suggestions about possible solution techniques or empirical methodology/data for these extensions. In your assessment, be clear about 1) the marginal contribution of the paper (at the time) to our understanding of the issue; and 2) any remaining theoretical or empirical issue in the paper that needs to be addressed further. I also expect you to discuss any potential errors of the paper, which may include any flaws in writing/presentation or empirical tests. The presenter must also distribute a handout to all the participants.

Participation

You are expected to read the papers that we are going to discuss in each session and be ready to join the debate/discussion and contribute to the learning experience. Be professional and candid to your peers.

Research Proposal

Each student is required to complete a research proposal in this class. The proposal should outline the research question, review the relevant literature, elaborate on the importance and contribution of the research, describe the empirical approach (methodology, data, handling of endogeneity), and offer what is expected to find and some interpretations. The proposal is due 2 weeks prior to the semester end. The goal is for each student to have a start on his/her original research paper or dissertation.

Specifically, the proposal should cover the following:

1. **Selection of A Topic** (be as specific as you can be, but we can talk about it if you do not have a topic in mind).

- a. Do a careful search on prior studies including working papers to ensure that your topic is original
- b. Explain why this topic interests you.

2. **Literature Review**

- a. Based on a thorough search on relevant literature with your topic, write a summary of each study, and more importantly highlight the contributions of each paper.
- b. Discuss how each paper is relevant to your proposal.
- c. Elaborate how your topic fits into this line of research and how your proposal would contribute to the literature.

3. **Research Proposal**

- a. What is the research question; be specific
- b. How will you address the question empirically? What methodology and specifications will you use? How do you measure each variable? Where would you obtain the data?
- c. What is the specific econometric challenge in your proposal (e.g., endogeneity). And how would you deal with it? Be very specific.

Overall, I would suggest a maximum page limit of 15 pages (single spaced; font size 12 with times new roman). It is up to you to distribute pages between the sections above (but it is hard to imagine that selection of the proposal topic would take 10 pages).

Evaluation

Presentations/Summaries:	200 Points
Participation:	100 Points
Proposal:	<u>200 Points</u>
TOTAL	500 Points

Grade

To earn a particular grade you need to obtain the following number of points:

A	450 – 500
B	400 – 449
C	350 – 399
D	300 – 349
F	0 – 299

Suggested background readings:

Theoretical Foundations of Corporate Finance, João Amaro de Matos, 2001, Princeton University Press.

Econometric Analysis of Cross Section and Panel Data, Jeffrey Wooldridge, 2001, MIT Press.

Mostly Harmless Econometrics: An Empiricist’s Companion, Joshua Angrist and Jörn-Steffen Pischke, 2009, Princeton University Press.

Endogeneity in Empirical Corporate Finance, Michael Roberts and Toni Whited, Handbook of the Economics of Finance.

Ball, R. and P. Brown. 2014. Ball and Brown (1968): A retrospective. The Accounting Review 89, 1-26.

Kothari, S. P. 2001. Capital markets research in accounting. Journal of Accounting and Economics 31, 105-231.

Weekly Schedule: Topics and Papers

Week 1: Managerial Incentives

Armstrong, C., D. Larcker, G. Ormazabal, and D. Taylor, 2013. The relation between equity incentives and misreporting: The role of risk-taking incentives. *Journal of Financial Economics* 109, 327-350.

Core, J., and W. Guay, 2002. Estimating the value of employee stock option portfolios and their sensitivities to price and volatility. *Journal of Accounting Research* 40, 613-630.

Lafond, R., and S. Roychowdhury, 2008. Managerial ownership and accounting conservatism. *Journal of Accounting Research* 46, 101-135.

Wang, C., F. Xie, and X. Xin, 2018. CEO inside debt and accounting conservatism. *Contemporary Accounting Research* 35, 2131-2159.

Week 2: Board of Directors

Defond, M. L., R. Hann, and X. Hu, 2005. Does the market value financial expertise on audit committees of boards of directors? *Journal of Accounting Research* 43, 153-193.

Ahmed, A., and S. Duellman, 2007. Accounting conservatism and board of director characteristics: An empirical analysis. *Journal of Accounting and Economics* 43, 411-437.

Krishnan, J., Y. Wen, and W. Zhao, 2011. Legal expertise on corporate audit committees and financial reporting quality. *The Accounting Review* 86, 2099-2130.

Srinivasan, S., 2005. Consequences of financial reporting failure for outside directors: Evidence from accounting restatements and audit committee members. *Journal of Accounting Research* 43, 291-334.

Week 3: Fraud and Scandals

Amiram, D., Z. Bozanic, J.D. Cox, Q. Dupont, J.M. Karpoff, and R. Sloan, 2018. Financial reporting fraud and other forms of misconduct: A multidisciplinary review of the literature. *Review of Accounting Studies* 23, 732-783.

Hail, L., A. Tahoun, and C. Wang, 2018. Corporate scandals and regulation. *Journal of Accounting Research* 56, 617-671.

Agrawal, A., and S. Chadha, 2005. Corporate governance and accounting scandals. *Journal of Law and Economics* 48, 371-406.

Karpoff, J., D. Lee, and G. Martin, 2008. The consequences to managers for financial misrepresentation. *Journal of Financial Economics* 88, 193-215.

Kedia, S., and S. Rajgopal, 2011. Do the SEC's enforcement preferences affect corporate misconduct? *Journal of Accounting and Economics* 51, 259-278.

Week 4: Political Connections

Christensen, D. M., M. B. Mikhail, B. R. Walther, and L. A. Wellman. 2017. From K Street to Wall Street: Political connections and stock recommendations. *The Accounting Review* 92, 87-112.

Faccio, M., 2006. Politically connected firms. *American Economic Review* 96, 369-386.

Correia, M., 2014. Political connections and SEC enforcement. *Journal of Accounting and Economics* 57, 241-262.

Mehta, M. N., and W. Zhao, 2020. Politician careers and SEC enforcement against financial misconduct. *Journal of Accounting and Economics* 69, 101302.

Wellman, L. A., 2017. Mitigating political uncertainty. *Review Accounting Studies* 22, 217-250.

Week 5: CSR and ESG

Gao, F, L. Lisic, and I. Zhang, 2014. Commitment to social good and insider trading. *Journal of Accounting and Economics* 57, 149-175.

Dhaliwal, D.S., S. Radhakrishnan, A. Tsang, and Y.G. Yang, 2012. Nonfinancial disclosure and analyst forecast accuracy: International evidence on corporate social responsibility disclosure. *The Accounting Review* 87, 723-759.

Cheng, B., I. Ioannou, G. Serafeim, Y. Kim, M.S. Park, and W. Benson, 2012. Is earnings quality associated with corporate social responsibility? *The Accounting Review* 87, 761-796.

Blaconiere, W. G., and D. M. Patten, 1994. Environmental disclosures, regulatory costs, and changes in firm value. *Journal of Accounting and Economics* 18, 357-377.

Matsumura, E. M., R. Prakash, and S. C. Vera-Munoz, 2014. Firm-value effects of carbon emissions and carbon disclosures. *The Accounting Review* 89, 695-724.

Khan, M., G. Serafeim, and A. Yoon, 2016. Corporate sustainability: First evidence on materiality. *The Accounting Review* 91, 1697-1724.

Week 6: Treating Endogeneity (exogenous shock, IV, RDD)

Gao, F., J. Wu, and J. Zimmerman, 2009. Unintended consequences of granting small firms exemptions from securities regulation: Evidence from the Sarbanes-Oxley Act. *Journal of Accounting Research* 47, 459-506.

Tang, T., 2009. Information asymmetry and firms' credit market access: Evidence from Moody's credit rating format refinement. *Journal of Financial Economics* 93, 325-351.

Ramanna, K., and S. Roychowdhury, 2010. Elections and discretionary accruals: Evidence from 2004. *Journal of Accounting Research* 48, 445-475.

Ball, R., and L. Shivakumar, 2005. Earnings quality in UK private firms: Comparative loss recognition timeliness. *Journal of Accounting and Economics* 39, 83-128.

Barton, J., and G. Waymire, 2004. Investor protection under unregulated financing reporting. *Journal of Accounting and Economics* 38, 65-116.

Cunat, V., M. Gine, and M. Guadalupe, 2012. The vote is cast: The effect of corporate governance on shareholder value. *Journal of Finance* 67, 1943-1977.