

Accounting 5: Accounting and Governance - Fall 2025

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The class aims at providing knowledge of empirical literature on corporate governance issues in accounting and finance, covering a variety of topics such as board of directors, managerial compensation policy, political connections, and ESG/CSR issues, as well as financial analysts. The objective is to expose the students to the fundamental topics in corporate governance in accounting and finance and foster their ability in critical thinking about how empirical research addresses agency conflicts, as well as their ability in developing research ideas in corporate governance.

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 we will collect at the beginning of each class (they should be typed with 12 point font, double-spaced, and one-inch margins). We 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. We 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, we 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:

F	0 - 280
C	280 - 315
C+	315 - 345
B-	345 - 380
B	380 - 410
B+	410 - 440
A-	440 - 470
A	470 - 500
A+	500 -

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: Theory of boards – Advisory vs. Monitoring Roles

Linck, J.S., Netter, J.M., Yang, T., 2008, The Determinants of Board Structure, *Journal of Financial Economics* 87, 308–328.

Coles, J., N. Daniel and L. Naveen, 2008. Boards: does one size fit all? *Journal of Financial Economics*, 87, 329-356.

O. Faleye, R. Hoitash and U. Hoitash 2011. The costs of intense board monitoring. *Journal of Financial Economics*, 160-181.

Kim, K., E. Mauldin, and S. Patro. 2014. Outside directors and board advising and monitoring performance. *Journal of Accounting and Economics* 57, 110–131

Adams, R., A. Akyol and P. Verwijmeren, 2018. Director skill sets. *Journal of Financial Economics*, 130, 641-662.

Dick, A., Lins, K.V., Toth, L., Towner, M., and H.F. Wagner. 2023. Renewable Governance: Good for the Environment? *Journal of Accounting Research* 61, 279-327.

Week 2: Managerial Incentives

Jeffrey L. Coles, Naveen D. Daniel and L. Naveen, 2006. Managerial incentives and risk-taking, *Journal of Financial Economics* 79, 431–468.

Burns, N. and S. Kedia, 2006. The impact of performance-based compensation on misreporting, *Journal of Financial Economics* 79, 35-76 (2006).

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

Hayes R., M. Lemmon and M. Qiu, 2012. Stock Options and Managerial Incentives for risk-taking: Evidence from FAS 123R, *Journal of Financial Economics* 105, 174-190.

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.

Chen, J., Su C., Tian X., and B. Xu, 2022. Does customer-base structure influence managerial risk-taking incentives? *Journal of Financial Economics* 143: 462-483.

Week 3: Managerial Compensation

Guojin Gong, Laura Yue Li, and Jae Yong Shin, 2011. Relative Performance Evaluation and Related Peer Groups in Executive Compensation Contracts. *The Accounting Review* 86, 1007-1043.

Bennet, B., Bettis, J.C., Golapalan, R., and T. Milbourn. 2017. Compensation goals and firm performance. *Journal of Financial Economics* 124, 307-330.

Guay, W., Kepler, J.D., and Tsui. 2019. The role of executive cash bonuses in providing individual and team incentives. *Journal of Financial Economics* 133, 441-471.

Kramer, S. and M Matejka. 2024. Disturbing the quiet life? Competition and CEO Incentives. *The Accounting Review* 99, 279-305.

Shaefer, P. 2023. Relative Performance Evaluation and Strategic Differentiation. *The Accounting Review* 223, 419-453.

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

Thomas, J., Yao, W., Zhang, F., Zhu, W., 2022, Meet, beat, and pollute. *Review Accounting Studies* 27, 1038–1078.

Raghunandan, A. 2021, Financial misconduct and employee mistreatment: Evidence from wage theft. *Review of Accounting Studies* 26, 867–905.

Fiechter, P., Hitz, J. and Lehmann, N., 2022, Real effects of widespread CSR reporting mandate: Evidence from the European Union's CSR directive, *Journal of Accounting Research* 60, 1499-1549.

Caskey, Judson, N. Bugra Ozel, 2017. Earnings expectations and employee safety, *Journal of Accounting and Economics* 63, 121-141.

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

Sautner, Zacharias and van Lent, Laurence and Vilkov, Grigory and Zhang, Ruishen, 2023. Firm-level Climate Change Exposure. *Journal of Finance* 78, 1449-1498.

Raghunandan, Aneesh and Rajgopal, Shivaram, 2022. Do ESG Funds Make Stakeholder-Friendly Investments? *Review of Accounting Studies* 27, 822-863.

Week 6: Financial Analyst

Green, T. C., R. Jame, S. Markov, M. Subasi, 2014. Access to management and the informativeness of analyst research. *Journal of Financial Economics* 114, 239-255.

Cohen, L., A. Frazzini, C. Malloy, 2010. Sell-side school ties. *Journal of Finance* 65, 1409-1437.

Peng, L., S. H. Teoh, Y. Wang, J. Yan, 2022. Face value: Trait impressions, performance characteristics, and market outcomes for financial analysts. *Journal of Accounting Research* 60, 653-705.

Aslan, H., 2022. Personal financial distress, limited attention. *Journal of Accounting Research* 60, 97-128.

deHaan, E., J. Madsen, J. D. Piotroski, 2017. Do weather-induced moods affect the processing of earnings news? *Journal of Accounting Research* 55, 509-550.

Jung, J. H., A. Kumar, S. S. Lim, C-Y. Yoo, 2019. An analyst by any other surname: Surname favorability and market reaction to analyst forecasts. *Journal of Accounting & Economics* 67, 306-335.

Rupar, Kathy, Sean Wang, and Hayoung Yoon, 2024. Do sell-side analysts react too pessimistically to bad news for minority-led firms? Evidence from target price valuations, *Journal of Accounting and Economics*, 101707.

Dong, Y., Liu, X., Lobo, G.J. et al., 2024. Overprecise forecasts. *Review of Accounting Studies* 29, 276-326.

Huang, Allen H., An-Ping Lin, and Amy Y. Zang, 2022. Cross-industry information sharing among colleagues and analyst research, *Journal of Accounting and Economics* 74, 101496.