Session I – 1st Paper

The Impact of Risk Management and Audit Characteristics on Corporate Tax Aggressiveness: An Empirical Analysis

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Abstract

This paper examines the impact of risk management and audit characteristics on corporate tax aggressiveness. Utilizing an 812 firm-year dataset based on the top 300 Australian publicly-listed firms over the 2006–2009 period, our regression results show that if a firm has established an effective risk management system and internal controls, engages a big-4 auditor, its external auditor's services involve proportionally fewer non-audit services than audit services and the more independent is its internal audit committee, it is less likely to be tax aggressive. Our additional regression results also indicate that the interaction effect between board of director composition (i.e., a higher ratio of independent directors on the board) and the establishment of an effective risk management system and internal controls jointly reduce tax aggressiveness.

Executive Directors' Pay, Networks, and Operating Performance: The Influence of Ownership Structure

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Abstract

This paper examines how the ownership structure influences the board of director's social networks relation with executive directors' compensation and the relation with the firm future operating performance. As in previous research, we find empirical evidence suggesting that higher network activity of executive directors is associated with larger compensation figures. Our data set of Spanish listed companies, with a high average ownership concentration, shows that this compensation is higher for firms with dispersed ownership as compared to firms with concentrated ownership. Also, the extra compensation relationship with future operating performance is contingent on the ownership structure.

Session I – 3rd Paper

The Impact of SOX on Changes in Monitoring Mechanisms – Evidence from the Bond Market

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Abstract

This study investigates the changes in the market participants' reliance on five types of monitors (auditors, corporate governance, equity analysts, credit analysts, and banks) after the implementation of Sarbanes-Oxley Act (SOX). We decompose the interest spread from a bond yield spread model using variables capturing the five monitoring mechanisms and an indicator of pre- and post- SOX. The coefficients on the pre- and post- SOX interactions with the five monitoring mechanisms provide an estimate of the change in the bondholders' reliance on the five monitoring mechanisms. We find that bondholders appear to have relied more on the monitoring of equity analysts, audit committee, and banks, but less on auditors and credit rating agencies post-SOX.

Session II – 1st Paper

Predictive versus opportunistic earnings management, executive compensation and firm performance

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Abstract

We examine the association between earnings management and an important component of corporate governance, the incentives provided through compensation. We argue that firms with predictive (opportunistic) earnings management, in which discretionary accruals do (do not) relate to future cash flows, provide a more (less) ideal setting for the use of compensation as incentives. Our empirical tests show that CEO compensation levels (measured by salary, bonus and total compensation) are positively related to predictive earnings management and negatively related to opportunistic earnings management. We also find that predictive earnings management is positively associated with future returns, whereas opportunistic earnings management is negatively associated with future returns. Overall, our results suggest that firms provide more incentives if their earnings are also more informative because of discretionary accruals. Therefore, we confirm that earnings management plays a positive role and caution against regulation aimed at limiting earnings management.

Session II – 2nd Paper

The Effectiveness of Mandatory Disclosure of Independent Directors' Opinions: Empirical Evidence from China

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Abstract

Since 2001, the regulatory authority of the Chinese Stock Market has required independent directors of listed firms to disclose their opinions on important board decisions. Using a novel dataset of independent directors" opinions, this study examines the effectiveness of that mandatory disclosure. We find that the stock market reacts negatively to announcements of independent directors saying „no". Firms with more severe agency problems between controlling shareholders and minority shareholders are prone to experiencing independent directors saying „no". Independent directors are more likely to say „no" when they have financial expertise, multiple directorships, lower remuneration, longer tenure, or live in places other than where the firms they serve are located. Furthermore, firms are more likely to report poor operating and stock performance, receive a modified audit opinion, obtain "special treatment", and be subject to regulatory enforcement actions in the year following independent directors saying „no". Overall, the results indicate that independent directors saying „no" can help to protect the interests of minority shareholders and thus lend support to the regulation that mandates the disclosure of independent directors" opinions.

Session II – 3rd Paper

How do Firm- and Country-Level Governance Mechanisms Affect Firms' Disclosure?

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Abstract

This paper investigates the interaction of firm- and country-level governance mechanisms with firms' disclosure policy. Disclosure is measured by an innovative artificial intelligence approach, firm-level governance by a comprehensive index of 52 variables. For a sample of 1,044 firms from 16 European countries we find varying implications at the firm- and country-level. On the firm-level, governance and disclosure are more complementary than substitutive. On the country-level firms respond to a weak investor protection environment by increasing their disclosure level to overcome the competitive disadvantage at international capital markets.

Session III – 1st Paper

The Impact of Voluntary Audit and Governance Characteristics on Accounting Errors in Private Companies

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Abstract

This paper examines the extent to which private UK firms' corporate governance and financial reporting choices are associated with accounting misstatements. Little is known about financial reporting or governance characteristics in the private corporate sector, despite its economic importance. Furthermore, the freedom and lack of regulation which characterizes this sector provides an informative setting for studying the impact of governance and financial reporting and audit choice. Using a large sample of over 1 million UK private firms, we examine the effects of financial expertise and board gender balance, along with disclosure and audit choices and find that governance, disclosure and audit characteristics are significantly associated with accounting errors. Our results have important implications for companies, as well as for regulators who are considering exempting more UK firms from audit and disclosure requirements. In addition to contributing to the literature on the positive role of corporate governance on financial reporting quality, our results show that voluntary audits lead to a lower likelihood of companies restating their accounts.

Session III – 2nd Paper

Types of Agency Cost, Corporate Governance and Liquidity

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Abstract

We study the relationship between governance and liquidity when the agency costs of entrenched management and self-serving controlling shareholders are present. Using a sample of Chinese firms, we show a positive relationship between governance and liquidity. We also find a striking difference between firms faced with different types of agency conflicts. Specifically, governance measures such as management compensation, controlling shareholder monitoring and board independence are more effective in lowering the spread for state-owned enterprises that are prone to management entrenchment. In contrast, multiple layers of corporate structure and higher separation between control and cash flow rights are associated with higher spreads in non-state firms that are characterized by self-serving controlling shareholders. Our study highlights how governance might affect liquidity differently for firms faced with different types of agency conflicts.

Session III – 3rd Paper

Voluntary Earnings Forecasts and Corporate Governance Structure: UK Evidence

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Abstract

We complement prior research by re-examining the value-relevance of voluntary disclosures of earnings forecasts in the narrative sections of annual reports. We also contribute to existing disclosure literature by examining the impact of corporate governance mechanisms on earnings forecast disclosures for a large sample of UK non-financial firms. We use a methodology developed by Hussainey et al. (2003) to measure levels of voluntary disclosures of earnings forecasts and hand-collect corporate governance data. The resulting sample size is comparable to those in US studies using quantitative management earnings forecasts as a proxy for voluntary corporate disclosures.

The evidence from a panel of 5,489 non-financial UK companies during 1996-2007 shows that several corporate governance mechanisms explain why companies voluntarily disclose earnings forecasts in their annual report narratives. Specifically, we find that board size, board composition and directors' ownership are the main drivers. This indicates that better corporate governance mechanisms could strengthen the practice further. Consistent with prior research, we also find that narrative-based earnings forecasts improve investors' ability to anticipate future earnings. Therefore, our findings provide empirical evidence to inform the current debate on improving narrative reporting in the UK.