2013 Schedule

Thursday, November 7, 2013

12:00 pm	Buffet lunch Charles F. Knight Executive Education Conference Center (main dining hall)
	(Nick's birthday cake will be served after dinner at the Whittemore House)
1:00 pm	*Welcome to the conference!* By: Dean Mahendra Gupta
1:15 pm	*Accounting Conservatism and Creditor Recovery Rate* John Donovan, Richard Frankel and Xiumin Martin, Olin Business School, Washington University in St. Louis Xiumin Martin, Olin Business School, Washington University in St. Louis Discussant: Nemit Shroff, MIT Sloan School of Management We examine the relation between accounting conservatism and creditor recovery rates for firms in default. We also test the link between conservatism and the length of distress resolution proceedings. We find creditors of firms with more conservative accounting prior to default have significantly higher recovery rates. Conservative firms are more likely to violate debt covenants prior to default and file for bankruptcy protection more quickly following negative economic performance. We also find that the duration of bankruptcy resolution is significantly shorter for more conservative firms. Last, conservative firms experience lower asset write-downs after entering bankruptcy and show a significantly higher probability of emerging from bankruptcy. These results suggest accounting conservatism preserves creditor value conditional on default. (10-minute discussion) (10-minute break)
2:30 pm	*Political Standards: Accounting for Legitimacy* (All rights reserved. Please do not circulate, cite, or quote without explicit permission.) Karthik Ramanna, Harvard Business School Discussant: K. Ramish, Jones Graduate School of Business, Rice University (10 min) The book assembles a large body of evidence on the political process of corporate accounting rule-making. The evidence documents that, in subtle but significant ways, corporate accounting rules are captured to benefit one or more special-interest groups - industrial corporations, financial firms, and audit firms. This is significant because accounting rules define fundamental notions of corporate profitability and accountability, upon which depend the efficiency of the market system and the distribution of wealth therein. The evidence also illustrates a distinctive kind of regulatory challenge - producing public policy in a "thin political market." Accounting rules cannot be determined without the substantive expertise and experience of the special-interest groups that, by definition, also have strong commercial interests in the outcome and enjoy little political opposition from the general interest because of the abstruse nature of the subject matter. These conditions together define a thin political market. Thin political markets are distinct from political processes with active public involvement - e.g., the political market for Social Security reform. They are also distinct from political processes where expertise for regulation does not necessarily reside with corporate interests - e.g., the political market for environmental regulation, where climate scientists possess substantial know-how. The co-mingling of regulatory expertise and economic interest within corporations, together with the paucity of political opposition, makes thin political markets particularly challenging. The special-interest groups in thin political markets are individually acting in their own interests, seeking to increase their own profits in a manner that embodies the capitalist spirit articulated by Milton Friedman: "The social responsibility of business is to increase its profits." But the ethics of profit-increasing behavior are premised on the logic of competitive markets, and, as the evidence in this book demonstrates, this logic breaks down in thin political markets. Thin political markets necessitate a distinct ethical response from corporate managers. Just as there is widespread recognition among managers of their agency responsibility to shareholders - as seen in Milton Friedman's quote - so too must managers recognize their agency responsibility to the market system when lobbying in thin political markets. The book concludes with examples of how this change can be accomplished.

	(10-minute discussion) (10-minute break)
3:50 pm	*Pricing and Mispricing in the Cross-Section* James Wahlen and Matt Wieland, Kelley School of Business, Indiana University Craig Nichols, Whitman School of Management, Syracuse University James Wahlen, Kelley School of Business, Indiana University Discussant: Marilyn Johnson, Broad College of Business, Michigan State University (10 min) This study examines the extent to which parsimonious and general cross-sectional valuation models, restricted to include only publicly-available historical accounting information, explain share prices in the cross-section and identify mispriced shares. A model that simply includes historical book value, earnings, dividends, and growth explains a large proportion of the cross-sectional variation in share prices, with an average adjusted R-square of 62.4 percent in annual estimations across 1988-2010. We examine the extent to which the residuals from these cross-sectional valuation models indicate model misspecification or mispricing. Portfolios based on the lowest (highest) quintile of value residuals each year generate an average annual size-adjusted return of 11.5 percent (-1.1 percent). A hedge-portfolio strategy, controlling for other firm characteristics that explain returns, generates an average annual abnormal return of 8.9 percent. We also predict and find that the model is better specified and the residuals are better predictors of future abnormal returns: (a) among firms that are not covered by analysts; (b) among firms that face fewer accounting measurement challenges; and, (c) when we estimate value model parameters by industry/year. This study contributes a new straightforward approach to identify mispriced shares using the mapping of accounting fundamentals into share prices. (10-minute discussion)
5:00 pm	Cocktails & Seated Dinner at the Whittemore House

Friday, November 8, 2013

7:30 am	Continental breakfast - John E. Simon Hall, room 110
8:00 am	*Intrafirm Trade, Pay-Performance Sensitivity and Organizational Structure* Tim Baldenius, NYU Stern Beatrice Michaeli, Columbia Business School Discussant: Frank Gigler, Carlson School of Management, University of Minnesota We study a model of a decentralized firm with moral hazard and intrafirm trade. Relationship-specific investments, by making internal trade more profitable at the margin, result in greater expected trade volume and thereby greater compensation risk borne by division managers. Formally accounting for this investment/risk link overturns some key findings in prior incomplete contracting studies. First, managers facing high-powered pay-performance sensitivity (PPS) invest less in relationship-specific assets. Hence, the optimal PPS will have to trade off investment and effort incentives. Second, incomplete contracting may result in overinvestment if the benefits from intrafirm trade are highly volatile, because the investing manager internalizes only a portion of the incremental trade-related risk premium. Third, the model can shed new light on the perennial question of organizing business units as investment or profit centers. Specifically, we derive conditions under which both divisions involved in intrafirm trade should be organized as investment centers, each choosing its own investment, and conditions under which one division should be in charge of choosing all investments while the other division is "downgraded" to profit center status without any investment authority. (10-minute discussion) (10-minute break)
9:20 am	*The Effects of Headquarters Co-location on Firms' Information Environment* Jared Jennings and Joshua Lee, Olin Business School, Washington University in St. Louis Dawn Matsumoto, Foster Business School, University of Washington Jared Jennings, Olin Business School, Washington University in St. Louis Discussant: Mike Minnis, The University of Chicago Booth School of Business(10 min)

	We examine how the co-location of firms in the same industry affects management's communication with external market participants and analysts' cost of gathering and processing information. The prior research finds evidence consistent with increased knowledge sharing between firms that are in the same geographic area. We examine whether managers communicate their knowledge about other firms in the same industry and geographic location to analysts and investors. Consistent with our prediction, we find that the likelihood of managers referencing another firm in the same industry increases as the distance between them decreases. We also argue that the increased knowledge sharing between firms in the same geographic area affects the information set of financial analysts. Consistent with this conjecture, we find that analysts follow fewer firms when following firms located farther away from other firms in the same industry and that these firms have lower analyst following and less timely forecast revisions. We also find that the difficulty of forecasting earnings increases the additional costs that analysts incur when following distant firms. Finally, we provide evidence that managers attempt to partially offset the increased analyst costs by providing more voluntary disclosure: firms that are farther away from other firms in the same industry have a higher likelihood of providing earnings guidance. This paper provides additional evidence that the co-location of firms in the same industry not only affects operating and strategic decisions (as documented in the existing literature) but also managers' communication with external market participants as well as analysts' costs of gathering and analyzing information. (10-minute discussion) (10-minute break)
10:40 am	*Managerial Incentives to Increase Firm Volatility Provided by Debt, Stock and Options* Joshua D. Anderson and John E. Core, MIT Sloan School of Management John Core, MIT Sloan School of Management Discussant: Dan Taylor, The Wharton School, University of Pennsylvania We measure a manager's risk-taking incentives as the total sensitivity of the manager's debt, stock, and option holdings to firm volatility. We compare this measure to the option vega and to relative measures used by the prior literature. Vega does not capture risk incentives from managers' stock and debt holdings, and does not reflect the fact that employee options are warrants. The relative measures do not incorporate the sensitivity of options to volatility. The new measure explains risk choices better than vega and the relative measures. Our measure should be useful for future research on managers' risk choices. (10-minute discussion)
12:00 pm	Buffet lunch Charles F. Knight Executive Education Conference Center (main dining hall)