
Fall Term 2020

Seminar ACC 750

Corporate Communication Strategy and its Credibility

Prof. Holger Daske / Prof. Dirk Simons

I. Admission and Seminar Dates

We are happy to announce our seminar for the upcoming fall term in 2020. The seminar consists of a written seminar paper and a presentation of your work to your fellow students. We accept applications until **June 5, 2020**.

The seminar registration form, topics and the required literature can be downloaded from ILIAS (search for “ACC 750” in HWS 2020 using Portal² and join the group). In case you are interested in taking part in our seminar, please download and read the referenced papers before choosing your topics of interest. Further details about the topics are provided in this announcement.

For the seminar writing phase, you can choose between **two eight-week periods**: the **fast-close period** spans from **June 18, 2020 to August 13, 2020** and the **final-close period** spans from **September 7, 2020 to November 2, 2020**. Please indicate in your registration document the period in which you intend to write your seminar thesis.

The acceptance of a maximum of **24 students** will be communicated on **June 15, 2020**. The allocation of paper topics for period 1 students will be published via email on **June 18, 2020** and for period 2 on **September 7, 2020**. The seminar presentations will take place over two days on **November 13 and 20, 2020**.

Please consult the relevant examination regulation and module catalog for information on minimum admission requirements. Please submit your application via e-mail (office-simons@bwl.uni-mannheim.de) by **June 5, 2020**. Your application should include the seminar registration form, your bachelor's certificate, and a recent transcript of records. The final topic will be assigned according to your preferences as far as possible.

For further questions, please contact Ms. Hala Jada (hjada@mail.uni-mannheim.de).

II. Preliminary Remarks

As much as information on firms has become omnipresent, so have the ways in which information is selectively reported, publicly disclosed, transmitted, commented by intermediaries, and processed by recipients. This seminar aims at illuminating the determinants that shape the corporate information environment and at exposing the effects and interdependencies resulting from it. In particular, three blocks structure our analysis of firms' communication strategies: (a) corporate reporting decisions, (b) assessment of reporting credibility, and (c) the economic effects of companies' information sharing.

Corporate disclosures are subject to regulatory restrictions. Still, firms are left with significant leeway with respect to their individual reporting decisions. The first set of seminar topics (a) is concerned with questions relating to *what* information firms disclose, *how* they share information, and *how* corporate disclosure *interacts* with third-party intermediaries. Despite a significant expansion of disclosure requirements over the past decade, the first section of this seminar acknowledges firms' incentives for choosing a particular reporting regime or for deviating from country-specific reporting rules.

Whereas the first part (a) focuses on the sender of information, the firm itself, the second set (b) takes into consideration that shared data is received and processed by users. In particular, this section addresses the question as to whether receivers can trust the communicated information. If firms can virtually report anything they want, one might ask why users should pay any attention to potentially distorted reporting. In fact, there might be no value for firms in telling the truth if shared data is not *perceived* to be truthful by receivers. One approach of increasing the credibility of corporate reporting is having an independent third party, traditionally the auditor, assuring the truthfulness of the firm's information. Besides external verification, the second part of the seminar considers alternative ways that firms might employ for enhancing the credibility of their information.

The third set of seminar topics (c) examines the economic effects of corporate disclosure resulting from different characteristics of signal receivers. Typically, financial reporting aims at reducing information asymmetries and at mitigating agency problems that result from the separation of ownership and control. However, receivers of corporate disclosure might face significant costs in processing shared data and may possess private information that influence the interpretation of companies' reporting. Furthermore, corporate information sharing might have unintended consequences.

To prepare for your own seminar topic as well as for your fellow students' presentations, we require the reading of the following publication:

Beyer, A., D. Cohen, T. Lys, and B. Walther (2010), *The financial reporting environment: Review of the recent literature*, Journal of Accounting and Economics, Vol. 50, p. 296-343.

III. Topics

Part A: Corporate Reporting Decisions

Topic 1: Firms' accounting choices

Firms' reporting choices such as the selection of accounting standards and options within the standards affect the information provided to the stakeholders such as the quality of earnings, comparability and understandability of information. The aim of the thesis is to provide a review of studies that investigate firms' accounting choices and their effect on these characteristics. The student should also discuss on the measurement of the dependent variables in these studies.

- Barth, M.E., W.R. Landsman, M.H. Lang, and C.D. Williams (2018), *Effects on Comparability and Capital Market Benefits of Voluntary IFRS Adoption*, Journal of Financial Reporting, Vol. 3 Issue 1, p. 1–22.
- Fields, T.D., T.Z. Lys, and L. Vincent (2001), *Empirical Research on Accounting Choice*, Journal of Accounting and Economics, Vol. 31 No. 1-3, p. 255-307.
- Stadler, C. and C.W. Nobes (2014), *The Influence of Country, Industry, and Topic Factors on IFRS Policy Choice*, Abacus, Vol. 50 No. 4, p. 386–421.

Topic 2: Large-sample based evidence on firms' choices to deviate from their country-specific IFRS version

Since its formation in 2001, the International Accounting Standards Board strives to “develop [...] a single set of [...] accounting standards” (IFRS Foundation, 2018), but evidence suggests that different national versions of IFRS still exist (e.g., Pacter, 2005; Nobes and Zeff, 2010). Nonetheless, the question of a firm's choice to adopt either version of an IFRS standard remains an open issue. Closely supervised by his or her supervisor, the student will use textual analysis techniques to empirically assess a firm's choice of the applied IFRS version on a global sample of annual reports.

- Alsarghali, S. and H. Daske (2019), *Dynamics and the Effectiveness of IFRS Implementation Methods*, UNCTAD Working Paper, as of: 25.09.2019.
- Pacter, P. (2014), *Global Accounting Standards-From Vision to Reality*, The CPA Journal, Vol. 84 No. 1, p. 6.
- Zeff, S.A. and C.W. Nobes (2010), *Commentary: Has Australia (or Any Other Jurisdiction) 'Adopted' IFRS?*, Australian accounting review, Vol. 20 No. 2, p. 178–184.

Topic 3: Tone of corporate disclosure

Linguistic choices of firms in their communication channels such as conference calls and annual reports may provide hints about their economic and financial performance. Therefore, recent research in accounting and finance also focuses on textual components of corporate disclosures. In particular, it investigates the three main attributes of qualitative information: tone (i.e. sentiment), readability and document similarity. The aim of this seminar paper is to prepare a review of the literature on disclosures' *tone*.

- Henry, E. and A.J. Leone (2016), *Measuring Qualitative Information in Capital Markets Research: Comparison of Alternative Methodologies to Measure Disclosure Tone*, The Accounting Review, Vol. 91 No. 1, p. 153–178.
- Kearney, C. and S. Liu (2014), *Textual Sentiment in Finance: A Survey of Methods and Models*, International Review of Financial Analysis, Vol. 33, p. 171–185.
- Larcker, D.F. and A.A. Zakolyukina (2012), *Detecting Deceptive Discussions in Conference Calls*, Journal of Accounting Research, Vol. 50 No. 2, p. 495–540.
- Loughran, T. and B. McDonald (2016), *Textual Analysis in Accounting and Finance: A Survey*, Journal of Accounting Research, Vol. 54 No. 4, p. 1187–1230.

Topic 4: The truth or the whole truth? Selective disclosure in the context of environmental related information

The existence of multiple signals provides firms with even more discretion in making disclosure decisions. Instead of simply revealing or withholding in a single-signal setting, firms now can disclose a selective subset of that information. Due to the multiple dimensions and different interpretations of firms' environmental performance, the disclosure in this context offers a great opportunity to observe such selective behavior. This thesis aims to investigate firms' environmental disclosure under the guidance of analytical models.

- Lyon, T.P. and J.W. Maxwell (2011), *Greenwash: Corporate Environmental Disclosure Under Threat of Audit*, Journal of Economics & Management Strategy, Vol. 20 No. 1, p. 3–41.
- Marquis, C., M.W. Toffel, and Y. Zhou (2016), *Scrutiny, Norms, and Selective Disclosure: A Global Study of Greenwashing*, Organization Science, Vol. 27 No. 2, p. 483–504.
- Milgrom, P. (2008), *What the Seller Won't Tell You: Persuasion and Disclosure in Markets*, Journal of Economic Perspectives, Vol. 22 No. 2, p. 115–131.
- Pae, S. (2005), *Selective Disclosures in the Presence of Uncertainty About Information Endowment*, Journal of Accounting and Economics, Vol. 39 No. 3, p. 383–409.

Topic 5: Always a one-way street? The interaction between firm's disclosure and analysts' forecast

Firms' information environment is far more complicated than a single sender-receiver setting. One aspect of such complications is the potential additional information provided by third parties. As one of such information intermediaries, analysts play a crucial role in the capital market. Numerous researches investigate the key decisions an analyst makes, such as whether to follow a firm, what kind of report to issue, etc. But other than a simple one-way street, there exist some interdependencies and interactions between a firm's disclosure and analysts' reports. This thesis focuses on how such interactions may look like.

- Frenkel, S., I. Guttman, and I. Kremer (2020), *The Effect of Exogenous Information on Voluntary Disclosure and Market Quality*, Journal of Financial Economics, forthcoming.
- Langberg, N. and K. Sivaramakrishnan (2008), *Voluntary disclosures and information production by analysts*, Journal of Accounting and Economics, Vol. 46 No. 1, p. 78–100.
- Lobo, G.J., M. Song, and M.H. Stanford (2017), *The Effect of Analyst Forecasts During Earnings Announcements on Investor Responses to Reported Earnings*, The Accounting Review, Vol. 92 No. 3, p. 239–263.

Part B: Reporting Credibility**Topic 6: When truth-telling is not enough: How to enhance the credibility of corporate disclosure?**

A central assumption in a large portion of analytical disclosure research is that shared corporate information must be truthful. However, there might be no value in telling the truth, if recipients of financial information cannot trust the reported information. If a signal does not have to reflect the truth and a firm can virtually report anything it wants, one might simply ask why the financial market should pay any attention to the shared data. This topic aims at identifying mechanisms that companies might exploit for enhancing the credibility of hardly verifiable corporate information.

- Cascino, S., M. Correia, and A. Tamayo (2019), *Does Consumer Protection Enhance Disclosure Credibility in Reward Crowdfunding?*, Journal of Accounting Research, Vol. 57 No. 5, p. 1247–1302.
- Gu, F. and J.Q. Li (2007), *The Credibility of Voluntary Disclosure and Insider Stock Transactions*, Journal of Accounting Research, Vol. 45 No. 4, p. 771–810.
- Stocken, P.C. (2000), *Credibility of Voluntary Disclosure*. The RAND Journal of Economics, Vol. 31, p. 359–374.

Topic 7: How do disclosures and information intermediaries influence IPOs?

IPO underpricing is a phenomenon for which there is long-standing evidence. Disclosures such as an IPO prospectus can facilitate a reduction of information asymmetries between IPO firms and prospective investors. However, underpricing cannot be fully overcome. The goal of this paper is to summarize empirical studies on the role of disclosures and information intermediaries in an IPO and the period shortly following an IPO. Further, the paper should comprise a brief summary of the IPO process and mandated disclosures as well as, from a theoretical perspective, elaborate on trade-offs firms face when deciding on the extent of information they intend to disclose during an IPO.

- Boone, A.L., I.V. Floros, and S.A. Johnson (2016), *Redacting Proprietary Information at the Initial Public Offering*, Journal of Financial Economics, Vol. 120 No. 1, p. 102-123.
- Bushee, B., M. Cedergrén, and J. Michels (2020), *Does the Media Help or Hurt Retail Investors During the IPO Quiet Period?*, Journal of Accounting and Economics, Vol. 69 Issue 1, 101261.
- Chahine, S., G. Colak, I. Hasan, and M. Mazboudi (2020), *Investor Relations and IPO Performance*, Review of Accounting Studies, forthcoming.
- Shi, C., K. Pukthuanthong, and T. Walker (2013), *Does Disclosure Regulation Work? Evidence From International IPO Markets*, Contemporary Accounting Research, Vol. 30 No. 1, p. 356-387.

Topic 8: Shared ethnicity and audit quality

Previous research examines the effect of personal client-auditor relationships on auditor independence and audit quality. In this research, the student is required to examine the effect of one personal characteristic that could influence auditor-client relationship and audit quality: The similarity in ethnic background of the client's financial manager and the audit partner (co-ethnicity). Prior research indicates that a shared ethnicity influences the formation and performance of businesses. The student is expected to review papers on auditor-client ties, and to perform some preliminary analysis on the effect of auditor ethnicity and shared auditor-CFO ethnicity on audit quality.

- Christensen, B.E., T.C. Omer, M.K. Shelley, and P.A. Wong (2019), *Affiliated Former Partners on the Audit Committee: Influence on the Auditor-Client Relationship and Audit Quality*, Auditing: A Journal of Practice & Theory, Vol. 38 No. 3, p. 95-119.
- He, X., J.A. Pittman, O.M. Rui, and D. Wu (2017), *Do Social Ties Between External Auditors and Audit Committee Members Affect Audit Auality?*, The Accounting Review, Vol. 92 No. 5, p. 61-87.
- Lennox, C. (2005), *Audit quality and executive officers' affiliations with CPA firms*, Journal of Accounting and Economics, Vol. 39 No. 2, p. 201-231.

- Lennox, C.S. and C.W. Park (2007), *Audit Firm Appointments, Audit Firm Alumni, and Audit Committee Independence*, Contemporary Accounting Research, Vol. 24 No. 1, p. 235–258.

Topic 9: Costs of auditor style

The term "auditor style" is used to characterize the unique set of internal working rules of audit firms. Prior literature documents that auditor style exists at the firm level and at the individual level, and that it increases financial statement comparability. Auditor style results from policies and procedures that centralize decision-making within the audit firm. A potential hazard of centralized decision-making is the propagation of decision errors throughout the entity. For this topic, the student is expected to review literature on auditor style and to provide some evidence on the potential costs of auditor style, such as the presence of common disclosure deficiencies.

- Baugh, M. and R. Schmardebeck (2019), *Auditor Style and Common Disclosure Deficiencies: Evidence From SEC Comment Letters*, Available at SSRN 3368511.
- Cai, Y., Y. Kim, J.C. Park, and H.D. White (2016), *Common Auditors in M&A Transactions*, Journal of Accounting and Economics, Vol. 61 No. 1, p. 77–99.
- Chen, J.Z., M.H. Chen, C.L. Chin, and G.J. Lobo (2019), *Do Firms That Have a Common Signing Auditor Exhibit Higher Earnings Comparability?*, The Accounting Review.
- Francis, J.R., M.L. Pinnuck, and O. Watanabe (2014), *Auditor Style and Financial Statement Comparability*, The Accounting Review, Vol. 89 No. 2, p. 605–633.

Part C: Economic Effects of Corporate Reporting

Topic 10: Information processing costs and corporate disclosure: A reciprocal relationship?

Extant empirical accounting research has looked into the readability or scriptability of corporate disclosure and its implications for information processing by users of (non)-financial information. In turn, information processing costs might also influence a company's disclosure choice. This topic aims at illuminating the relationship between information processing costs and corporate information sharing. In particular, the seminar thesis should critically investigate the empirical identification strategies that are exploited by researchers to generate causal evidence on the interplay between the two constructs.

- Allee, K.D., M.D. DeAngelis, and J.R. Moon Jr (2018), *Disclosure "Scriptability"*, Journal of Accounting Research, Vol. 56 No. 2, p. 363–430.

- Blankespoor, E. (2019), *The Impact of Information Processing Costs on Firm Disclosure Choice: Evidence From the XBRL Mandate*, Journal of Accounting Research, Vol. 57 No. 4, p. 919–967.
- Blankespoor, E., E. Dehaan, J. Wertz, and C. Zhu (2019), *Why Do Individual Investors Disregard Accounting Information? The Roles of Information Awareness and Acquisition Costs*, Journal of Accounting Research, Vol. 57 No. 1, p. 53–84.

Topic 11: Knowledge is power: Information flows between firms, competitors, and investors and its impact on corporate investment

Corporate disclosures contain an abundance of information about a firm and its business. This information is not only used by capital providers but also by competitors, customers, and suppliers potentially influencing investment decisions and the allocation of capital within firms. This seminar paper reviews academic literature examining the impact of disclosures on corporate investment decisions. The main part of the paper should focus on empirical studies examining investment effects based on the reception of disclosed information by investors as well as studies investigating how the disclosure of information affects investments by other firms, for example, suppliers. The paper should also include a brief section summarizing theoretical models on the relation between disclosure and investment.

- Bernard, D., T. Blackburne, and J. Thornock (2020), *Information Flows Among Rivals and Corporate Investment*, Journal of Financial Economics, Vol. 136 No. 3, p. 760-779.
- Chiu, T.T., J.B. Kim, and Z. Wang, (2019), *Customers' Risk Factor Disclosures and Suppliers' Investment Efficiency*, Contemporary Accounting Research, Vol. 36 No. 2, p. 773-804.
- Dutta, S., and A. Nezlobin (2017), *Dynamic effects of information disclosure on investment efficiency*, Journal of Accounting Research, Vol. 55 No. 2, p. 329-369.
- Jayaraman, S., and J.S. Wu (2019), *Is Silence Golden? Real Effects of Mandatory Disclosure*, The Review of Financial Studies, Vol. 32 No. 6, p. 2225-2259.

Topic 12: Do users' opinions matter? Predictive power of user-generated content on firm performance and stock market performance

From a corporate perspective, social media has the unique feature that information can also be produced and immediately disseminated by non-corporate users. Reflecting the “wisdom of crowds”, user-generated content on social media has been shown to have predictive power and may even influence capital markets and firm performance. As the phenomenon of user-generated content is rather new to accounting research, evidence on this topic is growing and researchers are developing different approaches to tackle

related research questions. The seminar thesis should provide a review of the literature that emerged around this topic.

- Bartov, E., L. Faurel, and P.S. Mohanram (2018), *Can Twitter Help Predict Firm-level Earnings and Stock Returns?*, The Accounting Review, Vol. 93 No. 3, p. 25–57.
- Cade, N.L. (2018), *Corporate Social Media: How Two-Way Disclosure Channels Influence Investors*, Accounting, Organizations and Society, Vol. 68, p. 63-79.
- Trinkle, B.S., R.E. Crossler, and F. B'elanger (2015), *Voluntary Disclosures Via Social Media and the Role of Comments*, Journal of Information Systems, Vol. 29 No. 3, p. 101–121.

III. Administration and General Information

1. Supervision

In general, you should contact your assigned supervisor shortly after the allocation of topics to discuss the general direction of your topic and the principles of writing an academic seminar paper. In addition, we expect that you present and discuss the structure and content of your term paper at one or two more meetings with your supervisor. Please check the list of topics and the chair's website on how to get in contact with your supervisor.

2. Formal Guidelines

Please check the "Guidelines for Academic Writing" („Richtlinien für die Anfertigung wissenschaftlicher Arbeiten"). Seminar papers need to be written in English. Students in the English-track of the MMM program must write their seminar papers in English. In general, seminar papers consist of 14 to 16 text pages, excluding indices and appendices. You should start your paper with a clear and concise introduction that motivates the topic and derives the main research question of your paper. The introduction should be approximately 1-1.5 pages in length and conclude with a short outline of the course of your study. Accordingly, your seminar thesis shall end with a conclusion that summarizes the main findings of your paper. You can find further details in the "Guidelines for Academic Writing".

3. Submission of Seminar Papers and Presentations

Please submit two printed copies of your written seminar thesis to Zdenka Pospisil (office assistant to Prof. Daske) or Caroline Simpson (office assistant to Prof. Simons) during the regular office hours. Seminar papers must not be bounded by hard- or paperback; stapled copies are sufficient. In addition, please submit a digital version of your paper on a USB

stick. The digital version shall include, if applicable, all relevant digital content of your thesis (such as MS Excel files, internet resources, the literature used, etc.). Seminar papers need to be submitted until 12 pm on the ending date of either the fast or final close period (*vide supra*). Extensions of the submission deadline are only possible in accordance with the examination regulation if you can present a medical certificate. Please note that it is not possible to extend the working period beyond the date scheduled for the seminar presentations. In addition to the written seminar thesis, you are required to prepare a presentation based on your submitted seminar paper. The language of the seminar is English. Details on the content and structure of your presentations will be available from your supervisors only after the submission of your written papers. The **presentation slides** have to be handed in on **November 11, 2020** at the very latest.

4. Grading

Grading is based on the **written paper (60%)** and the **presentation (40%)**. Active seminar participation is be appreciated. Attendance at all seminar sessions is mandatory, and all participants are expected to participate in the seminar discussions.

5. Seminar Preparation and Materials

To effectively prepare for the seminar and the discussions, we will provide all participants with relevant introductory literature as well as the final presentations via ILIAS. Further information on the availability of additional material will be announced in time.

6. Examiner / Supervisor

The students will be examined / supervised by the following Professor / Research Assistant:

Topic 1 (Part A)	Prof. Daske /Sara Alsarghali
Topic 2 (Part A)	Prof. Daske/ Matthias Uckert
Topic 3 (Part A)	Prof. Daske /Sara Alsarghali
Topic 4 (Part A)	Prof. Simons/ Qi Gao
Topic 5 (Part A)	Prof. Simons/ Qi Gao
Topic 6 (Part B)	Prof. Simons/ Thomas Simon
Topic 7 (Part B)	Prof. Daske/Philipp Mütsch
Topic 8 (Part B)	Prof. Simons/Hala Jada
Topic 9 (Part B)	Prof. Simons/Hala Jada
Topic 10 (Part C)	Prof. Simons/ Thomas Simon
Topic 11 (Part C)	Prof. Daske/ Philipp Mütsch
Topic 12 (Part C)	Prof. Daske/ Benjamin Tödtmann