Rising Scholars Conference
Accounting II Student Research Presentations

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Ewelina Forker is a fourth year accounting PhD candidate at Emory University. Her 12 years of corporate manager experience influence her research interests which are focused on the design of effective control systems to improve managerial decision making. Partially driven by her son's fascination with AI, she is particularly interested in joint decision-making between humans and machines in the era of Big Data.

ABSTRACT:

(When) does human intervention in predictive analytics judgments help or hurt?

With the ever-increasing use of predictive analytics in practice, understanding the conditions under which predictive analytic models and human judgment can best work together is critical for the design of effective management control systems. This study utilizes proprietary firm data from an auto-parts retailer to examine questions unaddressed by prior research in augmented decision-making where human judgment jointly operates with predictive analytic models. a model'san organization's Specifically, we consider how predictive ability weakness and decision right design choices impact the quality of human judgment relative to predictive analytics alone. Based on theory from research on managerial intuition, we predict and find that human judgment is able to take advantage of model predictive ability weakness associated with greater environmental uncertainty and limited historical data. However, consistent with literature on the detrimental effects of certain forms of accountability, we find that model analysts faced with outcome specific accountability tend to comply with views held by their evaluators at the expense of judgment quality. Thus, we provide empirical evidence of the conditions under which manager intuition can be superior to predictive analytic models but decision right control choices around accountability can affect the value of human judgment in augmented decision-making.

Key Words: predictive analytics, human judgment quality, augmented decision-making, decision rights, accountability

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Eduardo Fuste is a doctoral candidate in the Department of Accounting at the Florida State University College of Business. Eduardo conducts financial archival research, with an emphasis on how investors perceive accounting information disclosed in a tax setting and on the information content of voluntary disclosures for the capital markets. Eduardo is joining the CUNY Baruch College in the Stan Ross Department of Accountancy beginning in Spring of 2022 as an assistant tenure-track professor.

ABSTRACT:

Do Investors Care About Non-Executive Employee Compensation? Evidence from the Tax Cuts and Jobs Act

We examine how investors react to firms' use of windfall proceeds to compensate workers. The Tax Cuts and Jobs Act (TCJA) reduced the U.S. corporate tax rate from 35% to 21%. The tax rate cut generated cash windfall for many companies and prompted firms to announce non-executive employee benefits. We hand-collect firm announcements of TCJA-tied non-executive employee benefits and compare the market reactions to these announcements of announcing firms with a matched control sample of non-announcers. A positive (negative) reaction suggests that investors perceive firms' use of windfall to compensate employees as associated with higher (lower) firms' future cash flows because supplemental compensation raises employee productivity (does not incentivize employees already working in shareholders' best interest). Further analysis suggests that investors react differently to long-term vs. short-term employee benefits. Overall, firm disclosure of windfall used to compensate workers affects capital market allocation of funds.

Keywords: Tax Cuts and Jobs Act; Public Law 115-97; worker; rank-and-file; non-executive; employee compensation; windfall

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Sinja is a 4th year accounting PhD student at the University of Chicago Booth School of Business and her research interests include CSR topics revolving around climate change, regulator activity, ESG disclosure, peer effects, spillovers, and real effects. Sinja is a foodie, dog mom, and former rugby player.

ABSTRACT:

Are Newspaper Deserts an Oasis for Leniency?
The Effect of Newspaper Closures on Regulator Activity

Publicizing information about regulator activity (such as audits or inspections) can lead to stakeholders revising their beliefs about firms as well as firms revising their beliefs about regulators. Deterrence effects increase with the potential for information dissemination which in turn can increase compliance (Johnson 2020). Thus, information dissemination about regulator activity can be an integral part of regulatory enforcement. Local newspapers often amplify deterrence effects by disseminating information about local regulator activity. Recently, the number of newspapers in the U.S. started decreasing at an alarming rate, turning many counties into so-called "Newspaper Deserts" (Abernathy 2020). Newspaper closures lead to a decrease in information production and dissemination about regulator activity which decreases deterrence. It is unclear whether and how regulators react to those changes in deterrence effects.

I develop a conceptual framework which shows that a decrease in information dissemination (and thus a decrease in deterrence) impacts the marginal benefit of additional regulator activity through two opposing channels. First, regulator activity becomes less effective ("direct channel"), which decreases the marginal benefit of additional regulator activity. Second, firms increase their noncompliance ("indirect channel"), which increases the marginal benefit of additional regulator activity. Since both channels can be at work simultaneously, the net effect on regulator activity is an empirical question. To the best of my knowledge, this is one of the first papers investigating whether and how regulator activity is determined by the availability of information dissemination channels.

Empirically, I estimate the net effect of a decrease in news coverage on OSHA (Occupational Health and Safety Agency) inspection rates using a difference-in-differences specification with a strict fixed effects structure. I find that a decrease in information dissemination leads to a net decrease in regulator activity (i.e., inspection rates), meaning that the direct channel has a larger impact on regulator activity than the indirect channel. This effect is stronger when the closed newspaper was more likely to cover regulator activity, the newspaper closure is more salient to the regulator, and the regulator is more resource constrained. In addition, the decrease in regulator activity leads to an increase in OSHA violations.

Regulators are becoming more resource constrained, making it harder for them to adequately monitor regulatory compliance (e.g., Berkowitz 2019). Thus, they might need to rely on amplification through information dissemination as an enforcement strategy (i.e., local newspapers) even more strongly. Local newspapers have been disappearing for decades without showing signs of slowing down. This study is relevant to regulators, local governments, and policymakers who wish to ensure that regulatory enforcement is adequate in all areas (including areas with low information dissemination). One possibility to ensure that regulators have incentives to conduct inspections in newspaper deserts is to implement alternative ways to amplify deterrence effects.

References

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