

University of Illinois at Urbana-Champaign

Accountancy 492

Accounting Research Orientation

Fall 2003

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Required Materials:

1. Kerlinger, F.N. & H.B. Lee. 2000. *Foundations of Behavioral Research*. Fourth Edition.
2. Shadish, W.R., T.D. Cook, and D.T. Campbell. 2002. *Experimental and Quasi-Experimental Designs*. Houghton Mifflin.
3. Various articles and working papers as outlined in the course calendar.

Prerequisite:

ACCY 411 AND 421, AND COURSES IN BEHAVIORAL SCIENCE, MATHEMATICS, AND ECONOMICS; OR, AN EQUIVALENT BACKGROUND AND ADMISSION TO THE ACCOUNTANCY PHD PROGRAM; OR CONSENT OF DEPARTMENT.

Course Objectives:

This seminar focuses on alternative accounting-research methodologies and conceptual frameworks as well as on their application to selected classic and current research issues central to the development of accounting thought, both theoretical and empirical.

The course objectives are for you to improve your: 1) understanding of the essentials of the scientific method of inquiry, both in concept and in practice, 2) ability to analyze critically the strengths and weaknesses of accounting research, 3) verbal presentation and argumentation. By pursuing these objectives, you will have begun your socialization process into the academic accounting community and increased your chances of significantly contributing to this community.

Course Requirements:

To successfully complete this course, you must:

- a. Study and master all the assigned readings and research papers.
- b. Participate actively in each session.
- c. Effectively lead class discussion when you are the designated discussion leader.
- d. Develop and hand-in 5 cogent and constructive written critiques.

Class Structure:

There are two basic parts of this class. In Part I, we'll cover issues related to the philosophy of social science. I will introduce most issues, but you must become actively involved in the discussion quickly as the class progresses. You have the responsibility to share your understanding, beliefs and judgments with the class to advance the group's collective skills and knowledge.

Drawing on what we learn in Part I, we will begin our survey and study of accounting research studies in Part II. We will cover some of the classic accounting studies as well as some more

recent studies. In doing so, we also will have the opportunity to learn from and with several other UIUC accountancy faculty who will be our guests for several classes.

For each reading assigned during Part II, one student will be the designated discussion leader (of course, all students must actively participate in discussion). As applicable, the discussion leader must become familiar background papers in addition to mastering the assigned paper. Discussion leaders also have a dual role of being an advocate and a critic of the assigned paper.

The Advocate Role : It may help to imagine that you are the author. What were you trying to learn going into 'your' study, and what, in fact, can be learned from your study. How did you decide on your methodology? What other methods could have been used?

The Critic Role: It may help to imagine that you are a colleague of the author who is critiquing the author's paper. Assess the assigned paper's motivation, theory/framework, experimental design, analysis, and conclusions. You have a collegial responsibility to be candid and tough, but you should avoid being condescending or inflammatory. If you observe weaknesses, consider their implications and suggest ways that the researcher might have avoided the weaknesses. Keep in mind that trade-offs are common and sometimes necessary in research. Offer constructive criticism in class and in the future as a reviewer.

What you distribute to others when you're the discussion leader:

- Distribute a handout that clearly communicates your thinking. This handout should include something akin to a paper summary sheet (a template is attached).

Written critiques: Social scientists criticize each other's attempts to draw causal inferences, and in answering to these criticisms, modify/improve their research methods. To grow your ability to critique thoroughly yet constructively, you must turn in five written critiques in this course. Four of these five will address research papers that we cover in Part II of the course. Of these four, I will assign three and you will choose one. The fifth critique will be weighted twice as much as the others for grading purposes, and it will serve be the course's final exam. It will assigned near the end of the course and will be due by 5 pm, Wednesday, December 17. This last critique will be based on a newspaper (i.e., one we have not and will not cover directly in class).

When preparing critiques, be mindful that a good critique offers a *constructive* perspective and looks ahead to research questions and research designs that should be pursued in future studies. Good critiques also generally address the following:

1. What is the accounting research question? Why is it interesting? What is the purpose and importance of this particular study?
2. What framework, theory or literature underlies the study?
3. What are the hypothesized relations among variables, both conceptually and operationally?
4. What method is adopted and what threats to validity exist? (With respect to:
 - a. Design
 - b. Task
 - c. Experimental procedures
 - d. Data sources (subjects, archival databases, time-horizon, sample-selection issues,)).
5. What inferential tests and statistical analyses are employed? (Emphasize the intuition behind the inferential tests that are being (should have been) used for hypothesis-testing purposes. To considerably less extent, also assess the appropriateness of chosen statistical techniques. Specifically, try to assess whether tests are biased towards or against the hypotheses, and whether they have low power. If biased or if of low power, what better tests could have been applied?)

6. How reasonable are the paper's conclusions? What alternative explanations of results exist? What research questions or research designs could be used in future studies for extension purposes? What limitations have been insufficiently acknowledged and what are the implications of any such limitations?

In communicating your criticisms, make salient their **importance** in terms of (1) the magnitude and direction of the “defect” on the results and conclusions of the study, and (2) the availability of good solutions to the discovered problem. Also consider the contribution of the paper given its strength and weaknesses (not just its weaknesses).

Course Grade: I will use the University's plus and minus grading system and base final grades on the following allocation:

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| Class participation (discussion) | 40% |
| Four written critiques | 40% |
| Final critique | 20% |

Course Calendar: Assignments for Part 1 of the course follow. Assignments for Part 2 will come at a later date. Assignments are subject to change (i.e., grow in number), and any such changes will be announced in class.

Final Note: Let's have a great semester!

Course Calendar - Part I - Philosophy of Science

| Date | Topic | Readings / Other Activities |
|--------------|------------------------------|--|
| 1. August 28 | Introduction | So you want to be a social scientist? Identify the disciplines that influence accounting thought, both theoretical and empirical. |
| 2. Sept. 4 | Philosophy of Science | Kerlinger Ch. 1 - 3 Shadish, Cook, and Campbell Ch. 1-3 |
| 3. Sept. 11 | Philosophy of Science | Kerlinger Ch. 18-19 Shadish, Cook, and Campbell Ch. 11-14 |
| 4. Sept. 18 | Problems & Ethics in Science | Kerlinger Ch. 17 Shadish, Cook, and Campbell Ch. 9-10 National Academy of Science Reading http://www.nap.edu/readingroom/books/obas/ascii.txt MacCoun (1998) <i>Annual Review Psychology</i> |

Course Calendar - Part II - Introduction to Accounting Research

| Date | Topic | Readings / Other Activities |
|---------|---|--|
| 1. 9/25 | Capital Markets Research: Overview | Background: Beaver TAR 2002; Kothari JAE 2001; Lee JAE 2001 (These are not acceptable for a critique) |
| | Classic Post Announcement Drift Studies | <i>Archival</i> -Ball and Brown JAR 1968; Bernard and Thomas JAR 1989 |
| 2. 10/2 | Capital Mkts Cont. | |
| | More Recent Post-Announcement Drift Studies | <i>Archival</i> --; Burgstahler, Jiambalvo and Shevlin JAR 2002; Mendenhall JAR 2002 <i>Experimental</i> - Maines and Hand TAR 1996 |
| 3. 10/9 | Capital Mkts Cont. | <i>Background</i> : Libby, Bloomfield, and Nelson 2001 AOS (This is not acceptable for a critique). Burgstahler and Dichev JAE 1997 |
| | More Recent Earnings/Disclosure Mgmt | <i>Archival</i> : Das and Zhang JAE 2003; <i>Experimental</i> : Krische 2003 working paper; |
| | Value Relevance | <i>Archival</i> : Collins, Maydew, and Weiss JAE 1997; Francis and Schipper JAR 1999 |

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| 4. 10/16 | Accounting Expertise Research | <i>Background:</i> Libby's chapter in the 1995 Cambridge Press Monograph edited by Ashton & Ashton; Ashton JAR 1974 (a "classic"); Davis and Solomon JAL 1989 (These are not acceptable for a critique) |
| | Classic on Expertise | <i>Experimental</i> Bonner and Lewis JAR 1990 ; Tan and Libby JAR 1997 |
| | More recent expertise studies | <i>Archival:</i> Mikhail, Walther, Willis JAR 1997; Mikhail, Walther, Willis JAE 2003 |
| | | <i>Archival/Experimental:</i> Ashton TAR 1991 |
| 5. 10/23 | Audit Research | <i>Background:</i> Solomon and Shields 1995 (This is not acceptable for a critique) |
| | Independence and Objectivity | <i>Experimental:</i> Hackenbrack and Nelson TAR 1996; Kadous, Kennedy, and Peecher TAR 2003 |
| | | <i>Archival:</i> Frankel, Johnson, and Nelson, TAR 2003; Ashbaugh, LaFond, and Mayhew TAR (forthcoming). |
| 7. 10/30 | Tax Research Background | <i>Background:</i> Shackelford and Shevlin JAE 2001; Maydew, JAE 2001 (These are not acceptable for a critique) |
| | Guest: Bryan Cloyd | <i>Archival:</i> Ayers, Cloyd, and Robinson, 2003 (working paper) <i>Experimental:</i> Kadous and Magro, CAR 2001 <i>Analytical:</i> Davis, Hecht, and Perkins, TAR 2003 |
| 8. 11/6 | Testing Models Using Experimental Markets | <i>Background:</i> |
| | Guest: Rachel Schwartz | Schwartz TAR 1997 King and Schwartz TAR 2000 |
| 9. 11/13 | Archival Financial Research | Abdel-khalik 2003 (working paper on SSRN) |
| | Guest: Rashad Abdel-khalik | |
| 10. 11/20 | Valuation | Lee, Myers, and Swaminathan, Journal of Finance 1999 Hanlon, Myers, and Shevlin, JAE 2003 |

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| 11. 12/4 | Management Accounting Research | Ittner and Larker JMAR 1998 Shields and Luft AOS |
| | Guest: Annie Farrell | TBA |

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| 12. Dec 11 | Day off to Polish Work on Final Critique. |
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Seminar in Behavioral Science Applied to Accounting
(Accountancy 492 - Fall 2003 - Peecher)
Paper Summary Sheet

Your name: _____

Paper (e.g., Kachelmeier and Messier 1990)¹:

Please fill out the boxes below to identify the paper's framework/theory² as well as the relations among its conceptual and operational variables, a.k.a. "Libby boxes" (Libby 1981, p. 11).

Nature of framework or theory guiding the empirical examination:

| | | | |
|-------------------------|---------------------------|---|-------------------------|
| Conceptual Question | Independent construct(s): | → | Dependent construct(s): |
| Operational Question | Independent variable(s): | → | Dependent variable(s): |

¹ Thanks to S. Kachelmeier since this form is similar to one that he developed.

² When applicable, identify a specific theory by name (e.g., accountability theory). In addition, identify whether you think the focus of the theory predominantly is normative, descriptive, or prescriptive as well as whether you think the degree of scientific understanding provided by the theory predominantly is exploratory, descriptive, or explanatory.