



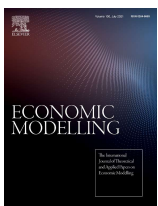
Reinhard Schrank now PostDoc at CAR



After being a member of the DART program for four years and obtaining a Ph.D. in accounting from the University of Graz I am happy to join CAR as a postdoctoral researcher. My main research interest is the interaction of professional

accounting and auditing services with firms' real economic decisions and their information policy. Having gained professional experience in tax advisory and auditing over the last two years, I look forward to expanding my research skills, enhance my network in the research community, and tackle some of the current key issues in accounting and auditing regulation. Apart from conducting high-quality research, my job responsibilities will include teaching accounting courses in the bachelor's and master's programs, as well as contributing to the dense network of the center's research activities. I particularly thank the faculty members Ralf Ewert and Alfred Wagenhofer for giving me the opportunity to further pursue my academic career in the fruitful research environment of the CAR.

"Why socially concerned firms use low-powered managerial incentives: A complementary explanation"



In this article, published in "Economic Modelling" in January 2021, CAR's Kopel and DART student Eva Putz study a duopoly market where a profit-maximizing firm and a socially concerned firm compete by offering differentiated products to consumers. Both firms delegate the quantity (price) decisions to a manager. The socially concerned firm employs an intrinsically motivated manager whose interest is partially aligned with the firm's objective. The firm's manager is simply interested in maximizing compensation which depends on firm profit. They find that depending on the substitutability of the firms' products and the level of the firm's social concern, the socially concerned firm might prefer – solely for strategic reasons – a flat wage for

compensating its motivated manager rather than a variable bonus. Their paper points to strategic motives as a complementary explanation for the observation that hybrid organizations with objectives other than profits frequently rely on different forms of compensation than their for-profit rivals.

Silke Runger completes Habilitation

On May 18, 2021, Assistant Professor Silke Runger (Institute for Accounting and Taxation) successfully completed her habilitation process. Her cumulative habilitation thesis "Taxes and Ownership" combines a



literature review on the effect of taxes on firm-level ownership with a total of 14 empirical papers that study the effect of taxes on

stock ownership, the effect of taxes on ownership structures of multinational enterprises, and the moderating effect of ownership in firm's capital structure decisions. Papers of the thesis have been published in leading journals, including European Accounting Review, International Tax and Public Finance, European Journal of Finance, and European Journal of Finance and World Tax Journal. Silke thanks Prof. Ewert, who served as the chair of her habilitation committee as well as the habilitation committee members, especially Prof. Schneider, Prof. Wagenhofer, and Thomas Kourouxous.

Discussion at the Ausschuss Unternehmensrechnung

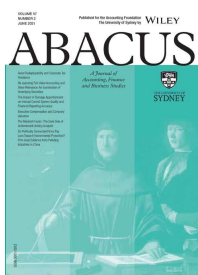
The Ausschuss Unternehmensrechnung im Verein fur Socialpolitik digitally held its annual conference on April 8-9, 2021. CAR and Ausschuss members Ewert, Niemann, Schneider, and Wagenhofer were present. Ralf Ewert chaired a session with a presentation by Mirko Heinle (Wharton) on relative performance evaluation and sabotage. Alfred Wagenhofer was discussant on a paper by Hui Chen (presenter) and Robert Gox (both University of Zurich), entitled "Voluntary Disclosure in Leader-Follower Games".

“Optimal internal control regulation: Standards, penalties, and leniency in enforcement”



In this article, published in May 2021 in the “Journal of Accounting and Public Policy” (JAPP), CAR’s Wagenhofer and former DART student Stefan Schantl (University of Melbourne) investigate how regulators increasingly rely on regulating firms’ internal controls (IC) over financial reporting to protect investors, but punish noncompliance only if an IC weakness enabled accounting manipulation. They develop an economic model with a manager who sequentially chooses IC quality and manipulative effort, and a welfare-maximizing regulator who determines an IC standard, the penalty size for IC weaknesses, and when to invoke such a penalty. IC regulation under manipulation-contingent enforcement not only provides incentives to invest in IC, but also improves manipulation deterrence when there are IC weaknesses. The optimal regulation takes advantage of this additional deterrence effect by using a very strict IC standard and an intermediate penalty that is only levied in the event of accounting manipulation. Overall, they rationalize why the commitment to lenient enforcement of IC regulation is optimal.

“The Impact of Damage Apportionment on Internal Control System Quality and Financial Reporting Accuracy”



In this article, published in ABACUS in June 2021, CAR’s Reinhard Schrank investigates how damage apportionment between auditors and auditees affects the quality of the internal control system (ICS), the supplied audit quality, and social welfare. The analysis takes place in a setting in which the audit is not only required to meet obligations towards the primary users of the

audited report, but the auditor assumes a public responsibility that also makes the auditor responsible for the losses of ‘foreseeable third parties’. Using a game-theoretic model, he shows that shifting liability away from the auditor towards the auditee can induce a higher audit quality but lower ICS quality. Furthermore, assigning all the damage payments to the auditor leads to a Pareto-efficient allocation of ICS quality and audit quality. This finding supports the common ‘deep pocket’ assumption in the auditing literature.

Defensio of Negin Attar

On May 5, 2021, Negin Attar successfully defended her Doctoral thesis “PCAOB-type Regulation and Audit Portfolio” at the University of Graz, supervised by CAR’s Ralf Ewert. Negin was a DART student for four years and an active participant in several DART and international seminars. She’s currently employed as a PostDoc at the Johannes Kepler Universität Linz.

Negin’s thesis studies the economic consequences of audit regulation and agency conflicts in three papers. First, she analyzes analytical and archival studies on PCAOB-type regulation. Second, she analytically examines under which conditions the benefits of the PCAOB regulations outweigh its costs born by inflexible audit standards. Last, she empirically studies how firms’ diversification affects audit fees.

Presentation at Accounting Design Forum

CAR’s Alfred Wagenhofer presented the paper “Rules-Based versus Principles-Based Accounting Standards: A Relevance-Enforceability Tradeoff”, co-authored with former DART-student Stefan Schantl (University of Melbourne) in the online Accounting Design Forum, which is an initiative by the Accounting Design Project of the Center for Excellence in Accounting and Security Analysis at Columbia University, New York, on April 21, 2021. The Accounting Design Project has a more normative focus and seeks to understand what is “good accounting” and “bad accounting” from theoretical and empirical research angles. More information:

<https://www8.gsb.columbia.edu/ceasa/accounting-design-project>

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