



**McLaughlin Prize for Ethics  
in Accounting Research:  
LESSONS LEARNED**

## Forwards:

Wayne Thomas .....	1
Glen McLaughlin .....	2
Frances L. Ayres .....	3
Dipankar Ghosh .....	4
Terry Shevlin .....	5
Stephen Loeb .....	5
McLaughlin Prize Search Committee Members .....	6

Award Year	Paper Selected for Prize	Authors
1998-1999	Values as the Foundation for Moral Judgment: Theory and Evidence in an Accounting Context.	Patricia Casey Douglas and Bill N. Schwartz
1999-2000	Honesty in Managerial Reporting.	John Harry Evans III, R. Lynn Hannan, Ranjani Krishnan and Donald V. Moser
2000-2001	Impact of Cognitive Moral Judgment Ability on Knowledge of Red Flags.	John Koeplin and Diane Roberts
2001-2002	The Reputation Effects of Earnings Management in the Internal Labor Market.	Steven E. Kaplan and Susan P. Ravenscroft
2002-2003	A Reexamination of Behavior in Experimental Audit Markets: The Effects of Moral Reasoning and Economic Incentives on Auditor Reporting and Fees.	Jeffrey Schatzberg, Galen R. Sevcik, Brian Shapiro, Linda Thorne and R.S. Olusegun Wallace
2003-2004	The Effects of Information Systems on Honesty in Managerial Reporting: A Behavioral Perspective.	R. Lynn Hannan, Frederick W. Rankin and Kristy L. Towry
2004-2005	Optimal Contracting with Endogenous Reporting Norms.	Paul Fischer and Steven Huddart
2005-2006	The Relation Between Executive Compensation and Earnings Management: Changes in Post-Sarbanes-Oxley Era.	Mary Ellen Carter, Luann J. Lynch and Sarah Zechman
2006-2007	Corporate Governance Ratings and Financial Restatements.	Mohammad J. Abdolmohammadi and William J. Read

<b>2007-2008</b>	Whistle-Blowing: Target Firm Characteristics and Economic Consequences.	Robert M. Bowen, Andy Call and Shivaram Rajgopal
<b>2008-2009</b>	Why do CFOs Become Involved in Material Accounting Manipulations?	Mei Feng, Weili Ge, Shuqing Luo and Terry J. Shevlin
<b>2009-2010</b>	Internal Audit Outsourcing and the Risk of Misleading or Fraudulent Financial Reporting: Did Sarbanes-Oxley Get it Wrong?	Doug Prawitt, Nathan Sharp and David A. Wood
<b>2010-2011</b>	SEC Enforcement: Does Forthright Disclosure and Cooperation Really Matter?	Rebecca Files
<b>2011-2012</b>	The Impact of Rank and File Stock Options on Employee Whistleblowing.	Andy Call, Simi Kedia and Shivaram Rajgopal
<b>2012-2013</b>	Honoring One's Word: CEO Integrity and Accruals Quality.	Shane Dikolli, William Mayew and Thomas Steffen
<b>2013-2014</b>	Changes in Corporate Governance Following Allegations of Fraud Against Shareholders Versus Fraud Against the Government.	Lakshmana K. Krishna-Moorthy
<b>2014-2015</b>	Stock Trades of SEC Employees.	Roger White and Shivaram Rajgopal
<b>2015-2016</b>	Boiling the Frog Slowly: The Immersion of C-Suite Financial Executives Into Fraud.	Ikseon Suh, John T. Sweeney, Kristina Linke and Joseph Wall
<b>2016-2017</b>	Improving Experienced Auditors' Detection of Deception in CEO Narratives.	Jessen L. Hobson, William Mayew, Mark Peecher and Mohan Venkatachalam
<b>2017-2018</b>	Factors that Impair Auditors' Ability to See the Ethical Implications of Their Behavior on Actual Audits.	Michele Frank and Vicky Hoffman
<b>2018-2019</b>	The Value of Assurance and Ethics in Difficult Times: Corporate Social Responsibility Disclosures and Investor Decisions.	Andrew C. Stuart, Jean C. Bedard and Cynthia E. Clark
<b>2019-2020</b>	Audit Partners' Judgments and Decision Making Processes in the Audit of Internal Control over Financial Reporting.	Jeffrey Cohen, Jennifer Joe, Jay Thibodeau and Greg Trompeter

\* The table of contents references the paper titles and authors winning the awards. In some cases, there were author and/or title changes prior to publication. Individual pages reference the current status, title and authors of each paper.

# The Glen McLaughlin Prize for Accounting Ethics

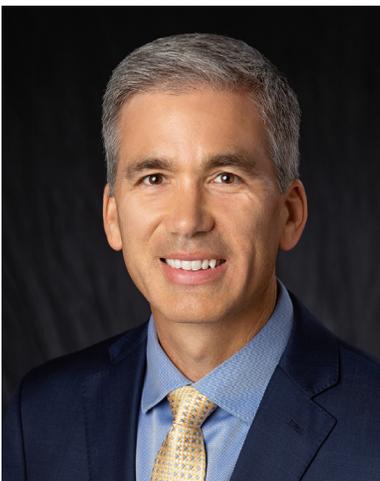
The Glen McLaughlin Prize for Accounting Ethics has become known as the “gold standard” around the country for highlighting important studies in accounting ethics. The award has brought top scholars from some of the most prestigious universities across the country to the Norman campus. Our faculty have been able to interact in a meaningful way and to consider deeply the impact that ethics has not only in accounting, but at the core of any institution.

Beyond what the award has meant to the John T. Steed School of Accounting, the award portrays the very essence of the Michael F. Price College of Business. Price College assumes a leadership role on the University of Oklahoma Norman campus, representing the largest professional college and educating more than 4,500 students each year in our undergraduate, graduate, Ph.D. and executive programs. As Mr. McLaughlin has made so evident, ethics must be at the core of leadership and lasting success. It is an honor to have this award and the McLaughlin name associated with the Steed School of Accounting and the Price College of Business.

I also want to express my sincere appreciation to Mr. McLaughlin for his generous support over the years. His willingness to provide funding for this award, as well as the McLaughlin Chair in Accounting Ethics, has truly made a difference to the College. He represents the finest of our alumni. His financial support has provided a path to national prominence for Price College, and his focus on ethics in business practices will leave a legacy that will influence how accountants think about ethical issues long into the future.

Sincerely,

*Wayne Thomas*



**Wayne Thomas**

Interim Dean

W.K. Newton Chair of Accounting

George Lynn Cross Research Professor



Glen McLaughlin graduated from the University of Oklahoma in 1956. As an OU student, he received many awards for academic distinction, including the Gold Letzeiser for Outstanding Senior Man and the Pe-et Honor Society, composed of the top 10 seniors. Following OU graduation, McLaughlin served six years' active duty as a pilot in the U.S. Air Force. He went on to earn an MBA from Harvard University and directed the financial operations of several major corporations. For 11 years, McLaughlin was senior vice president and CFO of Four-Phase Systems, a company that in 1971 shipped the world's first solid-state computer for distributed data processing. He raised \$750 million to help finance the company's growth. And in 1995, McLaughlin co-founded the "Band of Angels," a Silicon Valley venture capital group still considered one of the best in the country. In 1989, when OU began a \$100 million centennial fundraising campaign,

McLaughlin was on board and, with the guidance of Accounting Professor Frances Ayres, he established the Glen McLaughlin Prize in accounting ethics. In addition, he endowed the Glen McLaughlin Chair in Business Ethics within the Steed School of Accounting at Price College.

A venture capital "angel" investor and philanthropist, he has made substantial contributions to nonprofit organizations and has founded more than 15 companies to see them prosper and merge with some of Silicon Valley's high-tech giants. McLaughlin has served on the boards of over 30 corporations, provided hundreds of millions of dollars in start-up capital for emerging companies and contributed millions more to worthy causes.

An Eagle Scout in his youth, he has continued to serve and support the Boy Scouts of America. He is on the BSA National Executive Board and has contributed generously to the organization. From 1993 to 2000, McLaughlin and his wife, Ellen, led the Scouts' Western Region Endowment Campaign, which raised more than \$1 billion for local Scouts councils. In his honor, the Boy Scouts of America created the McLaughlin Award, given for outstanding leadership in endowment development.



The McLaughlin Prize for Research in Accounting Ethics grew from conversations with Glen McLaughlin around 1997, early in my term as director of the Steed School of Accounting. Glen was a member of the Steed School of Accounting Board of Advisors at that time. From his experience in banking and venture capital, Glen had developed a passion about the need to better educate students and the business community about ethics in accounting.

The McLaughlin prize was created to honor excellence in unpublished accounting research focused on ethics. The importance of this was made more salient by an increase in accounting fraud such as Enron, WorldCom, Waste Management, and others in the early 21st century.

The program is now in its 22nd year and has grown to national and international prominence. Over the years, the number of submissions has more than doubled with over 40 submissions annually. Winning papers have been published in top-tier journals in accounting, and a number of authors have gone on to publish additional work in accounting ethics. Several authors have received the McLaughlin Prize multiple times.

The program has been headed since its inception by Professor Dipankar Ghosh. Through his diligent efforts to publicize the program by personal outreach and selection of top-tier faculty to serve on the selection committee, the program has increased greatly in prominence and visibility over the years. Recognizing the visibility of the program and to make the prize comparable to the Pulitzer Prize in journalism, the award was increased to \$15,000 annually in 2018.

We decided to prepare a “Lessons Learned” commemorating over 20 years of McLaughlin Prize Awards. We asked authors to provide a short statement summarizing the paper and noting what they saw as the key “Lesson Learned” from their paper. The answers vary widely and are wonderful to read. Authors commented not only on what the paper revealed about ethical behavior, but also about the importance of the award to their own careers and future research directions. I hope you enjoy reading it.



**Frances L. Ayres**

Associate Dean for Faculty and Research Innovation  
The Dale Looper Chair in Accounting  
The University of Oklahoma



*Cynthia Cooper and Dipankar Ghosh with participants at the 10-year conference for the McLaughlin Prize, April, 2008*

Each year, the Steed School of Accounting at the University of Oklahoma awards the Glen McLaughlin Prize for the best unpublished research paper in accounting ethics. The prize includes an award of \$15,000. Papers are invited that examine the implications of ethics for accounting, organizational design, reporting and disclosures, assurance services, control systems, economic consequences of firms, and investment and financing of firms. The development of the ethical concepts in the paper may be rooted in ethical philosophy, but authors are allowed to draw upon ethical insights from other disciplines such as sociology, psychology, biology, economics and humanities. The paper is best viewed as interdisciplinary work, contributing to the understanding of ethical concepts and then applying this understanding to accounting issues in an effective way.

Since the award's inception in 1997, with an endowment from Mr. McLaughlin, it has grown considerably in national stature, attracting the works of some of the best scholars working in the areas of accounting and ethics. Very often the manuscripts selected for the prize get subsequently published in premier academic journals.

### **Dipankar Ghosh**

David Ross Boyd Professor  
Executive Director, Energy Institute  
ConocoPhillips Chair in Accounting  
The University of Oklahoma



“ As a past winner and past member of the selection committee of the McLaughlin Prize for Ethics in Accounting Research, I think I am well placed to say how much this prize has stimulated high-quality research in accounting around many dimensions of ethics. I served on the selection committee for five years, and over that time, the number and quality of papers submitted increased dramatically, so much so, that it was very difficult to pick a single best paper. I think without this prize much less attention would have been paid by accounting researchers to this extremely important topic. Ethics pervades all dimensions of business and accounting. ”



**Terry Shevlin**

Associate Dean of Research and Doctoral Programs  
Paul Merage Chair in Business Growth  
Professor of Accounting  
University of California, Irvine

“ From its inception, the McLaughlin Prize for Research in Accounting Ethics has been of singular importance in advancing ethics instruction and ethics research in the accounting academy. The prize symbolizes, honors and encourages high-quality scholarly accounting ethics research. The winning papers are exemplars of excellence in accounting ethics research. The prize serves as a beacon that helps attract accounting faculty to both teaching and research in the discipline of accounting ethics. For more than a generation, the McLaughlin Prize has been a pioneering force in advancing accounting ethics in the accounting academy. ”



**Stephen E. Loeb**

Professor Emeritus of Accounting and Information Assurance  
Robert H. Smith School of Business  
University of Maryland, College Park

## **MCLAUGHLIN PRIZE COMMITTEE MEMBERS**

The following individuals have served on the McLaughlin Prize Committee over the years. We are grateful for their help in selecting the outstanding papers represented here.

**Frances L. Ayres, University of Oklahoma**

**Dipankar Ghosh, University of Oklahoma**

**Lynn Hannan, Tulane University**

**Karen Hennes, University of Oklahoma**

**Steve Loeb, University of Maryland**

**Linda Myers, University of Tennessee**

**Dan Ostas, University of Oklahoma**

**Terry Shevlin, University of California, Irvine**



**John Harry Evans III**  
University of Pittsburgh



**R. Lynn Hannan**  
Tulane University



**Ranjani Krishnan**  
Michigan State University



**Donald V. Moser**  
University of Pittsburgh

---

### LESSONS LEARNED

One of the important lessons from our paper is that people's preferences may not conform to the assumptions of conventional wealth maximization models. Our results indicate that a substantial number of individuals have preferences for honesty. Control systems that incorporate heterogeneous preferences can outperform systems that disregard such heterogeneous preferences.

---

### PUBLICATION / CURRENT STATUS

Evans III, J.H., Hannan, R.L., Krishnan, R., & Moser, D.V. (2001). Honesty in Managerial Reporting. *The Accounting Review*, 76(4), 537-559.

## “IMPACT OF COGNITIVE MORAL JUDGMENT ABILITY ON KNOWLEDGE OF RED FLAGS”

### LESSONS LEARNED

---

We were honored to receive the third prize awarded in fall 2000 and to present in February 2001. Our paper, like the Glen McLaughlin Prize for Research in Accounting Ethics, predated the Enron scandal and broader awareness of the importance of accounting ethics. The dedication and commitment of the scholars at the Oklahoma Center for Accounting Research to accounting ethics research was inspirational.

Accounting ethics remains integral to our research, teaching and service. Diane was the chair of the American Accounting Association Professionalism and Ethics Committee and twice the director of the AAA's Symposium on Accounting Ethics. John was the University of San Francisco rector, an adviser to the USF president on university activities to achieve USF's Jesuit mission. We both include ethical aspects in all our courses, and Diane has taught the Accounting Ethics course needed for CPA licensure in California. We published a joint paper on environmental and sustainability reporting. John extended his ethics research into values and their impact on education and business. Diane's ethics research focuses on historical development of accounting professional ethics and equality of opportunity.

We each have our Glen McLaughlin Prize plaques on the walls of our offices, a tangible daily reminder of an exquisite day of research fellowship and meeting remarkable accounting scholars.



**Diane Roberts**  
University of San Francisco



**John Koeplin**  
University of San Francisco

### PUBLICATION / CURRENT STATUS

---

Roberts, D.H. & Koeplin, J.P. (2002). Impact of Cognitive Moral Judgment Ability on Knowledge of Red Flags. *Research on Accounting Ethics*, 8, 125-143.

### LESSONS LEARNED

---



**Steven E. Kaplan**

Arizona State University

This was an experimental study involving graduate students as subjects. We studied respondents' reactions to a scenario in which a manager they read about decided whether or not to engage in earnings management under various incentive conditions. Generally, not engaging in earnings management improved a manager's reputation, but the effect was stronger if the manager acted against their own economic interests. We also found that managers who previously had a very high reputation for ethical behavior suffered a greater cost to their reputation if they strayed from their past behavior. We argued that the reputation a manager gains has important implications for their careers in the internal labor market.



**Susan P. Ravenscroft**

Iowa State University

I remember one of the judges (the economist, I believe) saying he liked the paper because it showed that people care about and reward (when they can) ethical behavior, and don't say, sure, that's the smart thing to do!

### PUBLICATION / CURRENT STATUS

---

Kaplan, S.E. & Ravenscroft, S.P. (2004). The Reputation Effects of Earnings Management in the Internal Labor Market. *Business Ethics Quarterly*, 14(3), 453-478.

## “A REEXAMINATION OF BEHAVIOR IN EXPERIMENTAL AUDIT MARKETS: THE EFFECTS OF MORAL REASONING AND ECONOMIC INCENTIVES ON AUDITOR REPORTING AND FEES”

### LESSONS LEARNED

---

We used experimental markets to investigate how moral reasoning influences auditor reporting. We hypothesized that subjects who played the role of auditors and who scored higher on the moral reasoning Defining Issues Test would more often truthfully report what they observed compared to subjects who scored lower on the DIT. To our surprise, we found instead that auditor misreporting was significantly more likely with higher than with lower moral reasoning. We concluded that the relation between moral reasoning and behavior is more complex than was commonly assumed in the accounting literature.

Our empirical exploration of the joint influence of ethical and economic considerations on professional accountants' actions revealed surprising results, which demonstrated the complexity of how their ethical responses are jointly influenced by real-world considerations and the moral framework by which professionals view the audit.

### PUBLICATION / CURRENT STATUS

---

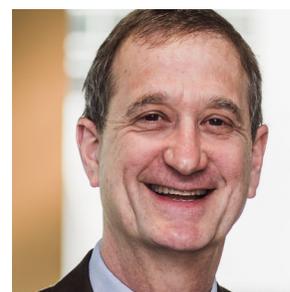
Schatzberg, J.W., Sevcik, G.R., Shapiro, B.P., Thorne, L., & Wallace, R.O. (2005). A reexamination of behavior in experimental audit markets: The effects of moral reasoning and economic incentives on auditor reporting and fees. *Contemporary Accounting Research*, 22(1), 229-264.



**Jeffrey Schatzberg**  
University of Arizona



**Galen R. Sevcik**  
Georgia State University



**Brian Shapiro**  
University of St. Thomas



**Linda Thorne**  
York University

## “THE EFFECTS OF INFORMATION SYSTEMS ON HONESTY IN MANAGERIAL REPORTING: A BEHAVIORAL PERSPECTIVE”



**R. Lynn Hannan**  
Tulane University

---

### LESSONS LEARNED

One of the expected benefits of increasing the precision of an information system is that it will improve decision making by generating more accurate estimates of various parameters. Our research demonstrates that this may not always be the case because, counterintuitively, a more precise information system can motivate less truthful disclosures of private information within the firm. This potential drawback should be considered when designing information systems.



**Frederick W. Rankin**  
Colorado State University

---

### PUBLICATION / CURRENT STATUS

Hannan, R.L., Rankin, F.W., & Towry, K.L. (2006). The Effect of Information Systems on Honesty in Managerial Reporting: A Behavioral Perspective. *Contemporary Accounting Research*, 23(4), 885-918.



**Kristy L. Towry**  
Emory University

## “OPTIMAL CONTRACTING WITH ENDOGENOUS REPORTING NORMS”

### LESSONS LEARNED

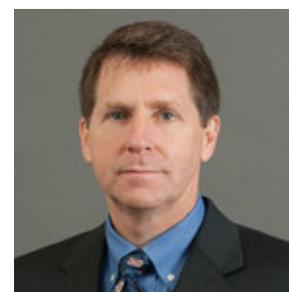
---

Individual behavior is shaped both by financial incentives and a desire to adhere to norms. A norm is the typical behavior of members of a group; for example, the degree to which members of the group, on average, shade the truth when reporting what they know. Because financial incentives affect individual behavior, financial incentives applied to an entire group of people will affect every person's behavior and so change the norm. In turn, the altered norm changes each person's behavior. Thus, financial incentives are reinforced (or undermined) by the change they induce in the norm, which has implications for who is included in the group and what level of financial incentives is best.

### PUBLICATION / CURRENT STATUS

---

Fischer, P. & Huddart, S. (2008). Optimal Contracting with Endogenous Social Norms. *American Economic Review*, 98(4), 1459-75.



**Paul Fischer**

University of Pennsylvania



**Steven Huddart**

Pennsylvania State University

## “THE RELATION BETWEEN EXECUTIVE COMPENSATION AND EARNINGS MANAGEMENT: CHANGES IN POST-SARBANES-OXLEY ERA”



**Mary Ellen Carter**  
Boston College



**Luann J. Lynch**  
University of Virginia



**Sarah Zechman**  
University of Colorado at Boulder

---

### LESSONS LEARNED

Our study suggests that when accounting standards hold executives more accountable for financial report, boards trust that earnings reflect executive effort more than earnings manipulation and are willing to place greater reliance on them in determining executive pay.

---

### PUBLICATION / CURRENT STATUS

Carter, M.E., Lynch, L.J., & Zechman, S.L. (2009). The Relation Between Executive Compensation and Earnings Management: Changes in the Post-Sarbanes-Oxley Era. *Review of Accounting Studies*, 14(4), 480-506.

## “CORPORATE GOVERNANCE RATINGS AND FINANCIAL RESTATEMENTS”

### LESSONS LEARNED

---

Using corporate ratings and financial data from 150 firms that restated their financial statements and a matched sample of 150 firms that did not restate their financial statements is associated with weaknesses in corporate governance. We find that restatement firms have significantly lower governance ratings. This finding is attributable primarily to board characteristics, such as director independence in the restated year. We also find that test firms improve board governance in the year following the restated year to the extent that significant differences with the control firms no longer exist. Specifically, we find for the restatement firms a significant increase in those controlled by a majority of independent outside directors as well as more independence in their nominating and compensation committees. Finally, we document a significant increase in the number of test firms where board performance is reviewed regularly and where boards have the express authority to hire outside advisers. The “lesson learned” from this study is that strong corporate governance in the form of a majority of independent outside directors plays an important role in helping to ensure credible financial reporting.

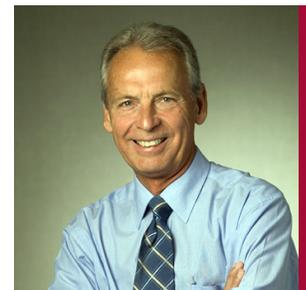
### PUBLICATION / CURRENT STATUS

---

Abdolmohammadi, M.J. & Read, W.J. (2010). Corporate Governance Ratings and Financial Restatements: Pre and Post Sarbanes-Oxley Act. *Journal of Forensic & Investigative Accounting*, 2(1), 1-44.



**Mohammad J. Abdolmohammadi**  
Bentley University



**William J. Read**  
Bentley University

## “WHISTLE-BLOWING: TARGET FIRM CHARACTERISTICS AND ECONOMIC CONSEQUENCES”



**Robert M. Bowen**  
University of Washington



**Andy Call**  
Arizona State University



**Shivaram Rajgopal**  
Columbia University

---

### LESSONS LEARNED

Our study was among the first to document that whistle-blowing events are impactful for the firms in question, in that stock prices decline upon the revelation of these allegations and other long-term consequences follow. Several other important studies on the topic of whistle-blowing have followed in the years since, and we are pleased that our study played a role in opening this avenue of ethics research.

---

### PUBLICATION / CURRENT STATUS

Bowen, R.M., Call, A.C., & Rajgopal, S. (2010). Whistle-blowing: Target Firm Characteristics and Economic Consequences. *The Accounting Review*, 85(4), 1239-1271.

## “WHY DO CFOs BECOME INVOLVED IN MATERIAL ACCOUNTING MANIPULATIONS?”

### LESSONS LEARNED

---

We examine factors that may lead CFOs to engage in accounting manipulations. Using instances of corporate fraud and a comprehensive sample of Accounting and Auditing Enforcement Releases issued by the U.S. Securities and Exchange Commission from 1982 to 2005, we find that CFOs are likely to become involved in material accounting manipulations because they succumb to CEO pressure, not because they seek immediate financial benefit.

CFOs may compromise their role of watchdog for financial reporting quality under CEO pressure. This suggests that altering executive pay practice alone may not dissuade executives from “cooking the books.” Rather, it is important to improve CFO independence by alleviating the pressure of CEOs on CFOs.

### PUBLICATION / CURRENT STATUS

---

Feng, M., Ge, W., Luo, S., & Shevlin, T. (2011). Why do CFOs Become Involved in Material Accounting Manipulations? *Journal of Accounting and Economics*, 51(1-2), 21-36.



**Mei Feng**  
University of Pittsburgh



**Weili Ge**  
University of Washington



**Shuqing Luo**  
University of Hong Kong



**Terry Shevlin**  
University of California, Irvine

## “INTERNAL AUDIT OUTSOURCING AND THE RISK OF MISLEADING OR FRAUDULENT FINANCIAL REPORTING: DID SARBANES-OXLEY GET IT WRONG?”



**Doug Prawitt**  
Brigham Young University



**Nathan Sharp**  
Texas A&M University



**David A. Wood**  
Brigham Young University

### LESSONS LEARNED

---

We investigate the decision by U.S. lawmakers to prohibit public companies from outsourcing internal audit work to their external auditor through a provision of the Sarbanes-Oxley Act in 2002. Based on a comparison of companies that either did or did not outsource internal audit work to their external auditor prior to SOX, our results suggest it is unlikely that this restriction improved financial reporting quality. Our study is a cautionary reminder that unanticipated consequences sometimes outweigh the anticipated benefits of well-intentioned regulatory interventions.

### PUBLICATION / CURRENT STATUS

---

Prawitt, D.F., Sharp, N.Y., & Wood, D.A. (2012). Internal Audit Outsourcing and the Risk of Misleading or Fraudulent Financial Reporting: Did Sarbanes-Oxley get it Wrong? *Contemporary Accounting Research*, 29(4), 1109-1136.

## “SEC ENFORCEMENT: DOES FORTHRIGHT DISCLOSURE AND COOPERATION REALLY MATTER”

### LESSONS LEARNED

---

This study examines the conditions under which the Securities and Exchange Commission offers leniency to firms following financial misconduct. Two key insights emerge. First, firms that publicly announce the initiation of an internal investigation more than double their odds of being sanctioned by the SEC, all else equal. However, these firms are subsequently rewarded for their cooperative actions through a meaningful reduction in monetary penalties. Second, the SEC is particularly lenient towards firms that provide timely disclosures about the misconduct to market participants

### PUBLICATION / CURRENT STATUS

---

Files, R. (2012). SEC Enforcement: Does Forthright Disclosure and Cooperation Really Matter? *Journal of Accounting and Economics*, 53(1-2), 353-374.



**Rebecca Files**  
The University of Texas at Dallas

## “THE IMPACT OF RANK AND FILE STOCK OPTIONS ON EMPLOYEE WHISTLEBLOWING”



**Andy Call**  
Arizona State University

---

### LESSONS LEARNED

Our study documents that, just as governments can offer incentives to encourage employees to blow the whistle, misreporting firms can also take action to discourage whistleblowing. As whistleblowing has become an increasingly important governance mechanism, it is important for regulators and investors to consider the dynamic nature of this environment.



**Simi Kedia**  
Rutgers University

---

### PUBLICATION / CURRENT STATUS

Call, A.C., Kedia, S., & Rajgopal, S. (2016). Rank and File Employees and the Discovery of Misreporting: The Role of Stock Options. *Journal of Accounting and Economics*, 62(2-3), 277-300.



**Shivaram Rajgopal**  
Columbia University

---

### LESSONS LEARNED

---

Behavioral integrity refers to the perceived congruence between an individual’s words and deeds. We developed a linguistic-based method of measuring CEOs’ behavioral integrity, and our evidence suggests that it impacts firm outcomes. High behavioral integrity of a CEO is associated with lower audit fees and better firm performance.

---

### PUBLICATION / CURRENT STATUS

---

Dikolli, S. S., Keusch, T., Mayew, W. J., & Steffen, T. D. (2020). CEO Behavioral Integrity, Auditor Responses, and Firm Outcomes. *The Accounting Review*, 95(2), 61-88.



**Shane Dikolli**  
University of Virginia



**William Mayew**  
Duke University



**Thomas Steffen**  
Yale University



**Shivaram Rajgopal**  
Columbia University



**Roger White**  
Arizona State University

---

### LESSONS LEARNED

We obtain data on stock trades of SEC employees using a FOIA request. We find that purchases of equity securities by SEC employees does not predict future stock returns on those securities. However, employees' sales of equity robustly predicts negative abnormal future stock returns. The evidence is consistent with SEC employees selling stock before bad news hurts stock prices. The SEC has suggested that agency policy requires employees to divest themselves of stock before beginning an enforcement probe.

---

### PUBLICATION / CURRENT STATUS

Rajgopal, S. & White, R.M. (2017). Stock Trades of Securities and Exchange Commission Employees. *The Journal of Law and Economics*, 60(3), 441-477.

## “BOILING THE FROG SLOWLY: THE IMMERSION OF C-SUITE FINANCIAL EXECUTIVES INTO FRAUD”

### LESSONS LEARNED

---

What we did: We relied on face-to-face interviews of 13 C-suite fraudsters with open-ended questions directed at accessing empirical traces of discursive behavior and conducted a detailed, nuanced examination of the narrative transcript. Our interviewees were all directly involved in issuing false financial statements in their positions as either chief financial officer, chief accounting officer, controller, director of finance, or chief operating officer. The average annual revenue of the companies in which our interviewees were employed was over \$8 billion dollars.

What we found: All participating financial executives were employed at companies experiencing rapid expansion, including via mergers, acquisitions and initial public offerings. While describing their company's background information, executives often portrayed top leaders as having a “bottom line mentality” driven by a financialized corporate environment focused on meeting the expectations of investors and Wall Street. With one exception, the narrative accounts emphasize our participants' often unrecognized socialization into fraud as they became immersed in increasingly inappropriate reporting behavior over a period of time. The executives' psychological and economic motives (e.g., need for approval, need to keep job) dove-tailed with the extant situational characteristics (e.g., “grey” accounting rules and broken accounting systems) and the attitudes or behaviors of proximal or distal social actors (e.g., earnings pressure, imitation of exemplars) to gradually, often imperceptibly, cause the executives to slip across the line.

The incremental progression of questionable financial reporting by our executives under the miasma of grey accounting may explain why many participants had difficulty remembering or pinpointing the moment when they crossed the line, even prompting a denial of wrongdoing by some of the convicted fraudsters. Our findings collectively suggest that accounting and auditing research should re-focus its model of financial statement fraud, calling attention to ‘micro-sociological’ explanations while de-emphasizing the economically motivated, individualistic perspective embodied in the ‘fraud triangle.’

### PUBLICATION / CURRENT STATUS

---

Suh, I., Sweeney, J.T., Linke, K., & Wall, J.M. (2020). Boiling the Frog Slowly: The Immersion of C-suite Financial Executives Into Fraud. *Journal of Business Ethics*, 162, 645-673.



**Ikseon Suh**

University of Nevada, Las Vegas



**John T. Sweeney**

University of Kansas



**Kristina Linke**

University of Groningen



**Joseph Wall**

Marquette University

## “IMPROVING EXPERIENCED AUDITORS’ DETECTION OF DECEPTION IN CEO NARRATIVES”



**Jessen L. Hobson**  
University of Illinois



**William Mayew**  
Duke University



**Mark Peecher**  
University of Illinois at Urbana-Champaign



**Mohan Venkatachalam**  
Duke University

### LESSONS LEARNED

---

In our study, only experienced auditors have the capability to detect fraud signals from CEO speech. Even experienced auditors overlook these fraud signals, however, unless they receive an explicit prompt to watch for signs of cognitive dissonance. The prompt unlocks their fraud detection capacity, so that they detect signs of fraud at a rate that is well above what one would expect by chance.

### PUBLICATION / CURRENT STATUS

---

Hobson, J.L., Mayew, W.J., Peecher, M.E., & Venkatachalam, M. (2017). Improving Experienced Auditors’ Detection of Deception in CEO Narratives. *Journal of Accounting Research*, 55(5), 1137-1166.

## “FACTORS THAT IMPAIR AUDITORS’ ABILITY TO SEE THE ETHICAL IMPLICATIONS OF THEIR BEHAVIOR ON ACTUAL AUDITS”

### LESSONS LEARNED

---

In situations where it is relatively clear that a decision is inconsistent with auditors’ professional values, auditors’ values exert a stronger influence on their judgments than do auditors’ self-interested concerns. However, when faced with an ambiguous decision, auditors’ professional values exert a stronger influence on their decisions only when auditors evaluate the situation from a distant perspective. This finding is problematic given the current institutional setting in which auditors are relatively close to their clients, making it unlikely they would adopt such a distant perspective. Although the results of this study suggest that such a setting is far from optimal, they also suggest that enhancing the perceived sense of distance between auditors and their clients may be a way to improve this situation.



**Michele Frank**  
Miami University

### PUBLICATION / CURRENT STATUS

---

Frank, M.L. (2019). When Do Auditors’ Professional Values Constrain the Biasing Effects of Self Interest? An Experimental Investigation. Forthcoming, *Behavioral Research in Accounting*.



**Vicky Hoffman**  
University of Pittsburgh

## “THE VALUE OF ASSURANCE AND ETHICS IN DIFFICULT TIMES: CORPORATE SOCIAL RESPONSIBILITY DISCLOSURES AND INVESTOR DECISIONS”



**Andrew C. Stuart**  
Suffolk University



**Jean C. Bedard**  
Bentley University



**Cynthia E. Clark**  
Bentley University

### LESSONS LEARNED

---

We study whether nonprofessional investors’ reactions to corporate social responsibility disclosures are contingent on management’s purpose for undertaking CSR activities and management’s choice to purchase independent assurance of their disclosures. In the absence of negative news, we find that investors focus on the possibility of financial rewards from CSR. However, when a negative event has been reported in the business press, investors prefer CSR undertaken solely for the social good, viewing this as a sign of ethical management. Importantly, investors also view the purchase of assurance on CSR disclosures as an ethical signal. Thus, when a negative event occurs, willingness to invest is similar for companies that undertook CSR for expected financial rewards and chose to have their disclosures assured, and companies undertaking CSR for social good. Our results demonstrate a value for CSR assurance that companies should consider when assessing costs and benefits of purchasing that service.

### PUBLICATION / CURRENT STATUS

---

Stuart, A.C., Bedard, J.C., & Clark, C.E. (2020). Corporate Social Responsibility Disclosures and Investor Judgments in Difficult Times: The Role of Ethical Culture and Assurance. *Journal of Business Ethics*, 1-18.

## “AUDIT PARTNERS’ JUDGMENTS AND DECISION MAKING PROCESSES IN THE AUDIT OF INTERNAL CONTROL OVER FINANCIAL REPORTING”

### LESSONS LEARNED

---

The process behind the internal control over financial reporting audits has remained largely a “black box” that has been relatively unexplored. Based on interviews with 20 highly experienced audit partners, our findings suggest that the subjectivity inherent in the ICFR evaluation task contributes to resistance against ICFR audit findings and counterarguments from management. In addition, auditors perceive that managers have difficulty accepting that a material weakness can exist without a detected error, that management’s reflexive reaction is to deny/avoid a material weakness finding, and that managers routinely claim that management review controls would have caught the detected control deficiency. Auditors cope with management’s defenses by consulting with their national office and leveraging support from strong audit committees. However, the area will probably always be a contentious area of audit because of the subjectivity involved in coming up with an agreed upon objective standard of what exactly is a strong ICFR.

### PUBLICATION / CURRENT STATUS

---

Cohen, J.R., Joe, J.R., Thibodeau, J.C., & Trompeter, G. (2020). Audit Partners’ Judgments and Challenges in the Audit of Internal Control Over Financial Reporting. Forthcoming: *AUDITING: A Journal of Practice & Theory*.



**Jeffrey Cohen**  
Boston College



**Jennifer Joe**  
University of Delaware



**Jay Thibodeau**  
Bentley University



**Greg Trompeter**  
University of Central Florida



Created by the Oklahoma Territorial Legislature in 1890, the University of Oklahoma is a doctoral degree-granting research university serving the educational, cultural, economic and health-care needs of the state, region and nation. The Norman campus serves as home to all of the university's academic programs except health-related fields. The OU Health Sciences Center, which is located in Oklahoma City, is one of only four comprehensive academic health centers in the nation with seven professional colleges. Both the Norman and Health Sciences Center colleges offer programs at the Schusterman Center, the site of OU-Tulsa. OU enrolls more than 30,000 students, has more than 2,800 full-time faculty members, and has 21 colleges offering 171 majors at the baccalaureate level, 152 majors at the master's level, 79 majors at the doctoral level, 32 majors at the doctoral professional level, and 35 graduate certificates. The university's annual operating budget is \$941 million. The University of Oklahoma is an equal opportunity institution.

The University of Oklahoma in compliance with all applicable federal and state laws and regulations does not discriminate on the basis of race, color, national origin, sexual orientation, genetic information, sex, age, religion, disability, political beliefs, or status as a veteran in any of its policies, practices or procedures. This includes but is not limited to admissions, employment, financial aid and educational services. For questions regarding discrimination, sexual assault, sexual misconduct, or sexual harassment, please contact the Office(s) of Institutional Equity as may be applicable -- Norman campus at (405) 325-3546/3549, the Health Sciences Center at (405) 271-2110 or the OU-Tulsa Title IX Office at (918) 660-3107. Please see [www.ou.edu/eoo](http://www.ou.edu/eoo)

This publication, prepared by Price College of Business, is issued by the University of Oklahoma. Digital copies have been prepared and distributed at no cost to the taxpayers of the State of Oklahoma.

