Research In-Progress Report

The faculty at Smith School of Business, Queen's University, advance management and society through exceptional research. At any given time, Smith's faculty have multiple research initiatives underway. This report summarizes the current efforts.

For more information about Smith, our faculty, and research, visit **smithqueens.com/research**

Faculty Featured

GOCE ANDREVSKI

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Research Project 1

(just published)

Forbearance: Strategic Nonresponse to Competitive Attacks.

Academy of Management Review. In press.

Research collaborators: Andrevski, G. and Miller, D

Research project summary: Evidence suggests that firms often do not respond even when they are aware of an attack and have the capability to counter it. We believe that this is because they engage in a form of nonresponse that we designate as strategic forbearance, a phenomenon that has been mostly neglected by scholars of competitive dynamics. We view such forbearance as a critical component of competitive strategy – an attempt to situate responses to attacks within a more complex and nuanced strategic, organizational and environmental context. Forbearance, we argue, represents managers' mindful attempts to transcend reflexive responses by expanding the range of considerations a) beyond an attacker to other stakeholders and rivals, b) beyond the immediate attack to its historical setting and long-term relational implications, and c) beyond unitary tactics to those concerning global strategic coherence and adaptation. We define formally and tentatively operationalize strategic forbearance, before deriving propositions concerning its five general transcending drivers. Ultimately, we believe, the study of forbearance can bring scholars of competitive dynamics closer to the heart of reflective competitive strategy.

RESEARCH PROJECT 2

So Many Things to Consider? A Study of Tactical Actions

Research collaborators: Andrevski, G., Miller, D., Le Bretton-Miller, I., and Ferrier, W

Research project funding agency: SSHRC

Research project summary: With its keen focus on the dyadic interactions among head-to-head competitors, the field of competitive dynamics has generated significant insights into the nature, intensity, and drivers of competitive rivalry. Unfortunately, explanations of the intentions and motivations—the rationales—for competitive actions and responses have been limited to anecdote or to inferences based on characteristics of the actions themselves, the firms involved, or the competitive context. As we know little about these actual rationales of decision makers, competitive dynamics scholars have evolved overly simple, abstract and rational models of competitive behavior. In this qualitative study, we explore the micro-rationales expressed by leaders for their tactical actions in a highly competitive setting. We find that current models of competitive behavior are lacking in multiple respects: they focus too much on rivalrous explanations versus internal considerations; they neglect important social utilities; and they ignore forbearance as a vital competitive tool. They also neglect critical human, social, temporal and configurational utilities, which endow tactical repertoires with a complexity and inscrutability that make them difficult to predict, react to, and neutralize, and thereby render them potentially powerful strategic weapons.

RESEARCH PROJECT 3

Untangling the Corporate Social Responsibility-Financial Performance Paradox: The Role of Competitive Activity

Research collaborators: Lee, H., Andrevski, G., and Ferrier, W

Research project summary: This study advances research on the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP). We argue that the paradoxical tension between CSR and competitive activities of firms is a manageable resource allocation decision. By disaggregating competitive activity into its different forms—intensity and complexity—we develop a model that explains how firms can manage and alleviate the resource allocation tension to improve CFP. High CSR firms can improve short-term CFP by reconfiguring their resource base and reducing competitive intensity—the frequency of competitive actions. Alternatively, high CSR firms can improve long-term CFP by transforming their resource base and increasing competitive complexity—the variety and novelty of competitive actions. These interaction effects are also robust across competitive environments with different levels of competitive pressure. Overall, our empirical findings suggest that the positive effect of CSR on CFP is contingent on the ability of firms to adjust the intensity and complexity of their competitive activities.

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RESEARCH PROJECT 1

The Effects of Downstream Competition on Upstream Innovation and Licensing

Research collaborators: Bulat Gainullin, Huafang Liu, David T. Robinson

Research project summary: We study how competition between two downstream firms affects an upstream innovation strategy, which includes selecting how much innovation to produce and whether to license this innovation to one (targeted licensing) or both (market-wide licensing) downstreamcompetitors. Our model points to a U-shaped relationship between downstream competition andupstream innovation: at low levels of competition, market-wide licensing is optimal and competitionreduces innovation, while at high levels of competition targeted licensing is optimal and competitionincreases innovation. Empirical analysis using a large panel of U.S. data provides clear support forthese predictions linking competition, innovation and licensing.

RESEARCH PROJECT 2

Corporate Social Responsibility under Imperfect Regulatory Oversight

Research collaborators: Huafang Liu and David T. Robinson

Research project summary: We study a model in which corporate social responsibility (CSR) arises endogenously in response to imperfect regulatory oversight. In our model, a firm, a regulator, and workers interact. The firm generates profits but creates negative spillovers that can be attenuated through regulation. A regulator who cannot perfectly monitor firm compliance may have to set inefficiently loose regulation in order to ensure firm compliance. The firm may then hire a socially responsible worker who enjoys over-complying with regulation and taking actions to ameliorate the negative spillovers; the firm then benefits by extracting rents created by allowing this worker to engage in CSR. The key prediction of our model is that a reduction in regulatory oversight leads to an increase in CSR. We test the model in two ways. Using UK data we find that firms on average had lower CSR ratings after the introduction of mandatory greenhouse gas emissions disclosures compared to firms from the other 15 European countries which did not have a mandatory disclosure policy in place. Using US data, we find that industries most hit by outsourcing and globalization are those that increase their CSR scores the most. Both sets of results support the predictions of the model.

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Research Project 1

Corporate Hedging During the Financial Crisis

Research collaborators: Evan Dudley

Research project funding agency: Montreal Institute of Structured Finance and Derivatives

Project status: Submitted for publication and currently under review

Research project summary: We study the effects of a supply shock to corporate hedging during the 2007-2008 financial crisis. We find that corporate over-the-counter hedging programs are fragile. When a firm's counterparty in derivative transactions suffers losses on its loan portfolio, the firm is more likely to lose access to this type of hedging. This supply shock has more pronounced effects on firms that are financially constrained, and whose hedging programs involve derivatives with large credit risks for the counterparty. Affected firms respond by cutting back on capital expenditures and net working capital.

RESEARCH PROJECT 2

SEC Scrutiny Shopping

Research collaborators: Wei Wang and Serena Wu

Research start and end dates: Editing for Revise and Submit at Journal of Corporate Finance

Research project summary: We examine whether firms exploit enforcement heterogeneity in response to risks and costs arising from investigations by regional Securities and Exchange Commission (SEC) enforcement offices. We find that firms facing high SEC scrutiny risk are more likely to relocate outside the jurisdiction of their SEC regional office. The likelihood of relocation becomes at least two times higher after exogenous local enforcement shocks. High scrutiny-risk firms tend to migrate to regions with weaker SEC enforcement history and regions with more peers engaging in misbehavior. Scrutiny shopping is more salient for firms with lower costs of relocation.

RESEARCH PROJECT 3

Complex Instrument Allowance at Mutual Funds

Research collaborators: Fabio Moneta and Selim Topaloglu

Research start and end dates: Editing for revise and resubmit at Critical Finance Review

Research project summary: We study the loosening of restrictions on the use of leverage, derivatives, and illiquid assets by mutual funds. In contrast to previous studies, we find that the allowance of these complex instruments is associated with poor performance and higher risk. The underperformance is most acute during market downturns and among weakly monitored funds. We also find that mutual funds that actually use these instruments underperform. Overall, our results suggest caution in allowing funds to use these complex instruments.

RESEARCH PROJECT 4

Experts in the Boardroom: Director Connections in the Mutual Fund Industry

Research start and end dates: Under second round review at Contemporary Accounting Research

Research project summary: This paper studies boardroom connections that form when corporate executives sit on mutual fund boards, and the potential for these connections to facilitate information transfers between firms and funds. I find that fund trades in the executive's firm anticipate future earnings news and stock returns during the period the fund and firm are connected, but not before or after. These results are robust to tests that address concerns about the timing of fund trades and returns; they also strengthen in environments where there is likely to be greater information asymmetry and among more experienced firm executives and fund managers. Furthermore, I find evidence that funds also trade informatively in stocks in the same industry segment as the executive's firm. These results suggest that the role of fund directors extends beyond their formal monitoring responsibilities and that they can be important conduits of information flow.

YOLANDE CHAN

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RESEARCH PROJECT

Digital Innovation in University Incubators and Startups

Research collaborators: Dr. Michael Barrett, Cambridge University

Research project funding agency: SSHRC

Research start and end dates: 2017-2023 (incl. the automatic extension year)

Research project summary: Today's universities are economic engines – critical drivers of regional and national development. Within universities and the startups they spawn, digital technology can be used to spur and catalyze a wider innovation ecosystem.

Yolande Chan is undertaking a five-year SSHRC-funded study of university incubators that house startups. She is examining how common, readily available digital technologies like social media, mobile applications, analytics, and cloud computing (SMAC) are facilitating innovation.

Michael Barrett of Cambridge University is Chan's research collaborator. Doctoral students, Carol Li and Arman Sadreddin, and postdoctoral fellow, Rashmi Krishnamurthy, are completing related research projects. Doctoral students Ali Ghawe and Patrick Egbunonu recently joined the project team which has been travelling across Canada completing case studies during the past two years. Over 100 interviews have already been conducted.

The theoretical foundations include dynamic capabilities and micro-foundations perspectives as well as affordance theory. Analyses and publications are in progress that shed light on how digital technology capabilities and knowledge strategies influence the performance of university incubators and the startups located in them. These insights into digitally-enabled innovation are intended to assist researchers, incubator decision-makers, and startup founders.

SEAN CLEARY

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RESEARCH PROJECT 1

Post-Crisis Mergers and Acquisitions and the Impact of Financial Constraints

Research collaborators: Ashrafee Hossain

Research project funding agency: Smith School of Business at Queen's University

Research project summary: We find that mergers and acquisitions (M&As) occurring after the 2007–2009 financial crisis were significantly more value enhancing than pre-crisis M&As, in both the short and long term. This superior post-crisis performance can be attributed to an increase in external financing constraints following the crisis that caused a decline in general financing availability. This decline restricted the universe of potential acquiring firms to those that were less financially constrained, whereas the typical post-crisis target firm was more financially constrained. As a result, post-crisis acquirers were able to obtain targets at more attractive prices relative to their intrinsic value during the pre-crisis period when external financing was much less constrained. We also find that the typical post-crisis acquirer had greater long-term focus than their pre-crisis counterparts, and used their financial strength to capitalize on strategic opportunities.

RESEARCH PROJECT 2

Sustainable Finance: A Literature Review

Research collaborators: Neal Willcott

Research project funding agency: Institute for Sustainable Finance, Smith School of Business at Queen's University

Research project summary: This paper reviews the vast academic literature in the field of sustainable finance. Our survey is conducted in five main areas: 1) policy papers and expert panel reports; 2) environmental, social, and governance (ESG) issues; 3) ESG-related investment strategies; 4) investment policy considerations; and, 5) climate change risk. Within our review, we conclude that there is significant depth in some areas, such as cost of capital and ESG considerations. However, we also find that there are significant avenues that need further exploration, such as the investment performance literature. In each section, we discuss individual paper contributions within the context of sustainable finance and examine future research ideas to extend current models and expand the field.

RESEARCH PROJECT 3

Real Options for our Climate Future: The Cost of Delaying to Invest

Research collaborators: Neal Willcott

Research project funding agency: Institute for Sustainable Finance, Smith School of Business at Queen's University

Research project summary: We use the McDonald and Siegel (1986) real options model to examine the value of climate change investments. We create our dataset by updating and extending the 2016 DICE model to create Value-at-Risk (VaR) projections by incorporating climate damage into GDP. Using these data points we determine a timeframe in which climate change investments would be most optimally executed.

The decline in the option value over time illustrates a cost of delaying to invest as a result of increasing climate damage. This finding is an opposing result from McDonald and Siegel (1986) which shows net benefits of delaying to invest in real options. Our paper discusses the implications of these results for policy-makers and both public and private investors with respect to future actions and research.

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RESEARCH PROJECT 1

Social Capital and Entrepreneurial Financing Choice

Project status: Working paper - awaiting permission from the Kauffman Foundation to submit for publication

Research project funding agency: SSHRC, Kauffman Foundation, National Opinion Research Center (NORC)

Research start and end dates: Data sample spans 2004-2011

Research project summary: This paper investigates the influence of social capital on young firms' financing arrangements. Using a sample of U.S. start-ups, I find that social capital, as captured by secular norms and social networks in the entrepreneur's county, increases access to outside financing and reduces reliance on owner equity to finance the new venture. I further find that the effects of initial levels of social capital (i.e. in the start-up year) are persistent, determining larger start-ups' financing arrangements well into their eighth year of existence. Social capital also has real effects on the firm: start-ups located in U.S. counties with higher levels of social capital reach peak output sooner and survive longer than firms located in low social-capital counties.

RESEARCH PROJECT 2

Financing from Family and Friends: First or Last Resort Source of Financing?

Project status: Preliminary data analysis, applying for funding

Research collaborators: François Derrien (HEC Paris)

Research project funding agency: To be determined

Research start and end dates: Data sample spans 2010-2018

Research project summary: We examine the role of family and friends in startup financing. Using a sample of French firms, we document that financing from family and friends amounts to 10-15% of initial financial capital in the first two years of existence of young firms. Startups are more likely to rely on financing from family and friends when they have less tangible assets and lower profit margins. We find, by exploiting a legal change in the French corporate law code facilitating the pledging of inventory as collateral, that young firms with more inventory increase their reliance on financing from family and friends by 2% (i.e. a 20% increase in Family and Friends financing) of total assets compared to similar firms before the rule change. Our results highlight the importance of informal financing for young firms in developed economies.

RESEARCH PROJECT 3

Corporate Hedging During the Financial Crisis

Project status: Submitted for publication and currently under review

Research collaborators: Paul Calluzzo (Smith School of Business)

Research project funding agency: Canadian Derivatives Institute, Smith School of Business General Research Grant

Research start and end dates: Data sample spans 2007-2011

Research project summary: We study the effects of a supply shock to corporate hedging during the 2007-2008 financial crisis. We find that corporate over-the-counter hedging programs are fragile. When a firm's counterparty in derivative transactions suffers losses on its loan portfolio, the firm is more likely to lose access to this type of hedging. This supply shock has more pronounced effects on firms that are financially constrained, and whose hedging programs involve derivatives with large credit risks for the counterparty. Affected firms respond by cutting back on capital expenditures and net working capital.

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RESEARCH PROJECT 1

Partisan Auditors

Research collaborators: Luke Phelps

Research project funding agency: SSHRC

Research start and end dates: Sep 2019 to present

Research project summary: In this project, we aim to fill the void in the literature and study whether and how one important personality trait of audit partners, their political preference, affects their behaviours and audit outcomes. This personality trait is particularly salient given the large increase in polarization across political parties in the US (e.g., Iyengar, Sood, and Lelkes 2012; Boxell, Gentzkow, and Shapiro 2017) and the extent to which political preferences capture broad aspects of personality that may impact the audit process (e.g., conservatism). Our results are expected to inform regulators such as the SEC and professional organizations such as the American Institute of Certified Public Accountants (AICPA) and CPA Canada to improve their professional and ethical standards, and further enhance the quality of audit service. Given the importance of quality audit services in capital markets, the results will deepen our understanding of the role of audit partners, and in turn strengthen investors' confidence and increase the efficiency of capital markets.

RESEARCH PROJECT 2

Spillover Effects of Patent Litigation Initiated by Non-Practicing Entities: Evidence from the Capital Market

Research collaborators: Feng Chen, Gordon Richardson

Research project funding agency: SSHRC and Smith General Research Fund

Research start and end dates: Feb 2018 to present

Research project summary: We analyze the potential spillover effects from patent-infringement litigation initiated by non-practicing entities (NPEs). When a firm is sued by NPEs, its at-risk technology peers also experience significant market value losses around the litigation filing date, losses that are much greater than those around patent litigations initiated by practicing entities. We also show that state anti-troll laws mitigate the spillover effects. Technology peers that are not subsequently sued by NPEs experience negative operational impacts, including a decline in R&D innovation efficiency following NPE litigations. Overall, our evidence suggests that there are more big losers from NPE litigation than what has been identified in the existing NPE litigation literature.

RESEARCH PROJECT 3

CEOs' Legal Expertise and Strategic Disclosures of Litigation Loss Contingencies

Research collaborators: Feng Chen, Gordon Richardson, Barbara Su

Research project funding agency: SSHRC

Research start and end dates: Aug 2019 to present

Research project summary: We examine how CEOs' legal expertise may help shape firms' litigation loss contingency disclosure, which is both fraught with uncertainty and strategically important to the underlying firms and their stakeholders. We utilize a large hand-collected sample of litigation loss contingency disclosures over the life cycle of lawsuits from U.S. companies' 10-Qs and 10-Ks between 2000 and 2018. We plan to use a hazard model and duration analysis to examine whether firms with lawyer CEOs issue first disclosures and pre-warnings about litigations in their SEC filings on a timelier basis. Our research is of interest to investors and regulators who are concerned with the implementation of SFAS 5 disclosure requirements. Our evidence will add timely evidence to our limited understanding of how CEOs' legal expertise affects corporate disclosure.

RESEARCH PROJECT 4

Opinion Shopping through Same-Firm Audit Office Switches

Research collaborators: Feng Chen, Jere R. Francis

Research project funding agency: SSHRC

Research start and end dates: July 2017 to present

Research project summary: We investigate the potential for a client to use a same-firm office switch as a mechanism for audit opinion shopping, relying on the framework developed by Lennox (2000). Opinion shopping in this context could either be →

> *"...comparability between an industry leader and an industry follower is greater than between two followers or between two industry leaders."*

informationally motivated (Dye 1991) or driven by managerial opportunism. Using U.S. data from 2000-2017, we find that client companies successfully avoid going concern audit opinions through audit office-switch decisions. More importantly, we find that successful office-level opinion shopping is more prevalent among low bankruptcy-risk client companies. We also find that successful opinion-shopping companies tend to choose audit offices with low Type I errors, and they exhibit higher subsequent earnings quality than non-successful counterparts. Overall, the evidence suggests that same-firm audit office switching is not opportunistic, but is primarily informationally motivated and improves audit quality.

RESEARCH PROJECT 5

Do Firms Mimic Their Neighbors' Accounting?Industry Peer Headquarters Co-Location and Financial Statement Comparability

Research collaborators: Gus De Franco, Mark (Shuai) Ma

Research start and end dates: July 2017 to present

Research project summary: Motivated by institutional theory, we investigate the effect of headquarters co-locations on financial statement comparability and find results consistent with firms imitating the accounting of peers headquartered in the same location. Using a large sample of observations from 1993 to 2017, we provide evidence that firms have higher financial statement comparability with industry peers located in the same MSA than with industry peers not located in the same MSA. Further, comparability between an industry leader and an industry follower is greater than between two followers or between two industry leaders. Importantly, the higher comparability between followers and leaders exists regardless of whether the leaders have high or low accounting quality. In addition, the effect of headquarters co-location on comparability is more pronounced between firms with stronger networks and those operating in industries with greater uncertainty. Overall, our study contributes to a better understanding of the determinants of financial statement comparability.

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RESEARCH PROJECT

Auditing During the Covid-19 Pandemic

Research start and end dates: March 2020 – ongoing

Research project summary: On March 11, 2020, the World Health Organization declared the novel coronavirus outbreak a pandemic. In response, many countries and regions declared a state of emergency, enacting unprecedented restrictions on travelling, commercial and public activities, and calling for social distancing in professional and private life. The aim of the proposed study is to investigate and document the impact of the novel coronavirus pandemic on auditing practices in Canada. According to the Center of Audit Quality, "audit firms are committed to maintaining high standards of audit quality as they serve their audit clients during this crisis while supporting the health and safety of their employees". Exactly how this commitment can be fulfilled, however, is unclear. Many auditing engagements require travelling and extensive physical interactions with the client—particularly during the tax-filing and reporting season. In addition, operations of many companies have been severely disrupted by the pandemic, affecting their auditing engagements. In light of these challenges, I seek to address the following questions: How does the pandemic affect auditing? How do auditing firms respond to the pandemic? How do they maintain the standards of audit quality during the pandemic, while supporting the health and safety of their employees?

MURRAY LEI

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RESEARCH PROJECT

Revenue Management under Trade-in Programs

Research collaborators: Sean Zhou, Zhuoluo Zhang, both from the Chinese University of Hong Kong

Research start and end dates: Started February 2020, still ongoing

Research project summary: Trade-in programs for electronics products, e.g., mobile phones, have been increasingly popular. These programs target at customers who seek to salvage or upgrade their old devices. There are two widely adopted trade-in options: trade-in-for-upgrade, for which the customer trade in their used products for upgraded substitutes, and trade-in-for-cash, for which the customer sells the used product to the firm. In this project, we consider a firm that offers both programs. The firm resells the refurbished products together with new products over a finite selling horizon. By controlling the trade-in incentives and the selling prices jointly, the firm seeks to optimize the total revenue. We study the optimal dynamic policy and characterizes several useful properties. We further propose computationally efficient policies that have a good performance guarantee. We are working with Aihuishou, one of the leading C2B platform for recycling and selling second-hand electronic items, on implementing our dynamic pricing policies.

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RESEARCH PROJECT 1

Intercultural Sensemaking in the Audit Process: Lessons from Indigenous Engagements in the Canadian North

Research collaborators: Laurence Daoust (HEC Montreal); Oriane Couchoux (Queen's University)

Research project summary: The first project examines micro-processes of intercultural dynamics in the auditor-client relationships in the context of Indigenous communities in Northern Canada. Our findings identify two major "cues" triggering significant perceptions of cultural distance and interpretive activities: Indigenous living conditions and Indigenous work culture. We show that auditors' interpretations of cultural distance are not stable: they vary in time and space. At the beginning of the engagement, or at a distance (i.e., imagined from their home office), auditors tended to idealize the work in the North as a meaningful experience, prompting attitudes of curiosity and open-mindedness. However, as the engagement progressed on the ground, the fatigue and tension increased, putting more strain on auditors' patience and their ability to step back and contextualize their experience.

The cultural distance was then interpreted more emotionally and critically. Auditors' sensemaking activities translate into group, relational, and professional cultural adjustments aimed at restoring the flow of interactions and actions disrupted by culture bumps and frictions.

RESEARCH PROJECT 2

Assessing the Impact of the COVID 19 Crisis on Audit Firms' Processes in China

Research collaborators: Yi Luo (Queen's University)

Research project summary: We are conducted interviews with Chinese auditors (most of them being senior managers) in Big Four to understand the impact of the COVID 19 crisis on audit firms' processes. Preliminary findings suggest that the firms have put in place a variety of mechanisms to mitigate the impact of confinement on audit processes and audit quality. However, there may be some unintended consequences in terms of competitive pressures within the firms and increased workload.

RESEARCH PROJECT 3

Towards a Cognitive Understanding of the Role of Expertise in Standard Setting Processes

Research collaborators: Pamela Murphy (Queen's University); Stephanie Donahue (Queen's University)

Research project summary: Accounting researchers have long been interested in the political forces that shape and undermine the integrity of the standard-setting process, and in particular the great variety of lobbying activities affecting the formation of the outcome of that process in order to serve self-interested economic interests. In "thin political markets" (Ramanna 2014), such as rule making for accounting or auditing, the possession of "substantive experiential expertise" (Ramanna 2014) constitutes a privileged vehicle for special-interest groups to impose their views and agendas to standard-setters who rely considerably on field expertise and on the input of market participants with deeper subject-matter knowledge.

As a result, the role of expertise in the standard-setting process has been primarily addressed as a political matter taking place mainly at the organisational or field level. In this study, our research objective is to move from this political approach to a more micro-level cognitive approach, examining the activation and mobilization of experts' "cognitive frames" (Weick 1995) as they are consulted to provide their opinion on a new standard, that is, the possibility that their knowledge structure may influence their perception of a new regulatory innovation.

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RESEARCH PROJECT 1

Should Standard Setters Rely on Experts' Opinions?

Research collaborators: Stephanie Donahue and Bertrand Malsch

Research project funding agency: Smith Research Grant

Research start and end dates: Started winter/spring 2019, now in process of completing data analysis and writing

Research project summary: This project uses interviews and a thought protocol to gather the opinions of experts regarding a proposed new audit standard. Specifically, we interviewed 22 investment managers and financial analysts, not only to obtain their opinion of a proposed key audit matter (KAM) reporting requirement, but also to assess the veracity of their opinions using cognitive entrenchment theory. Conventional wisdom states that standard setters should seek the opinions of experts when proposing something new, yet our expectation and findings call this into question. We find that expert interviewees who displayed more symptoms of cognitive entrenchment were more likely to be indifferent to KAM reporting. Many standards setters might conclude that if experts are indifferent to KAM reporting, there is little benefit to implementing it. We raise another possible conclusion: experts may not always be the best group to ask. Our research points to the need to more thoroughly and carefully vet a new standard. Perhaps standard setters should seek the opinions of more varied groups of stakeholders, or rely more heavily on academic research that should be less biased.

RESEARCH PROJECT 3

Mysterious Analytics = Less Ethical Decisions?

Research collaborators: Pujawati (Estha) Gondowijoyo, Michael Davern, University of Melbourne

Research project funding agency: University of Melbourne

Research start and end dates: Started1 ½ years ago, currently under review at an FT-50 journal

Research project summary: Using an experiment with participants having management experience, we examine sales forecast decisions when using an opaque versus transparent data analytics system. Participants have private information suggesting that the forecast significantly underestimates sales, making the forecast – and their bonus – easily achievable unless adjusted. We explore the extent to which participants act less ethically by not adjusting the sales forecast upwards. We employ a 2 ´ 2 between-subjects design, manipulating the description of the forecasting system as opaque or transparent, and measuring feelings of responsibility in the presence (absence) of a prompt before making the adjustment decision. We find that participants make less ethical decisions when the system is opaque than when it is transparent, but feelings of responsibility overcome this problem. We also find that the least ethical participants use both more rationalizations and more self-interested reasons than those whose decisions are not as unethical, supporting the use of both economic and psychology theory when studying ethical decision-making. Our results suggest that organizations should attempt to make data analytics systems more transparent to decision-making users. However, when they cannot, they should ensure that decision-makers feel responsible for their decisions; for example, with a prompt or decision aid.

RESEARCH PROJECT 4

Layers of Accountability: The Influential Factors that Push Individuals to Participate in Group Fraud or Support their Resistance

Research collaborators: Pujawati (Estha) Gondowijoyo, Christie Hayne, University of Illinois →

> *"We find that participants make less ethical decisions when the system is opaque than when it is transparent, but feelings of responsibility overcome this problem.*

Research project funding agency: CPA–Queen's Centre for Governance

Research start and end dates: Started several years ago (very long approval process with prisons)

Research project summary: We are examining the factors that are present within organizations that either help push someone to join a group fraud or help someone resist joining a group fraud. We find that those who participated in a group fraud were higher in the dark triad traits (psychopathy, narcissism and Machaivellianism). Regarding management controls in place at the time a fraud began, we find that the climate of the organization matters a great deal, both for pushing and resisting fraud. We find that the combination of climate and reward systems together can create a strong push toward fraud. We are still analyzing the data and writing the paper, so stay tuned...

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RESEARCH PROJECT 1

Individual, Situational and Contextual Factors Related to Academic Integrity

Research collaborators: Kate Rowbotham

Research project funding agency: SSHRC Institutional Explore Grant + Smith Research Pool

Research start and end dates: Jan 2019 – Mar 2019 (research pool); May 2019-May 2021 (SIG)

Research project summary: In this project we investigate the frequency with which students violate different types of academic integrity as well as students' understanding of and support for current academic integrity policies, the seriousness with which they view different types of violations and how frequently they perceive peers to be engaging in violations of academic integrity. We also study how students' priorities, area(s) of study, well-being, levels of social support, and/or feelings about academic integrity correlate with the frequency and types of violations in which they engage. Finally, we evaluate how students navigate the grey areas of academic integrity such as identifying when they feel that it is okay to collaborate with others on assignments and/or share information about in class quizzes. In addition to providing us with a better understanding of when students violate academic integrity, the knowledge gained from our analyses enable us to design programming and interventions meant to reduce students' propensities to violate academic integrity.

RESEARCH PROJECT 2

Integrity in Academy (and Beyond) and the Seven Grandfather Teachings

Research collaborators: Kate Rowbotham and Kayla Neveu-Gordon (Comm '20 student who was our RA)

Research project funding agency: D.I. McLeod Term RA

Research start and end dates: Sep 2019-Apr 2020 (funding); research ongoing

Research project summary: In this project we frame current research on integrity (first in academia and then business) in relation to the Seven Grandfather Teachings (humility, bravery, honesty, wisdom, truth, respect and love).

RESEARCH PROJECT 3

Evaluating the Effectiveness of Work Integration Social Enterprise in the Mental Health Sector (aka WISE Impact Study)

Research collaborators: Rosemary Lysaght (P.I., School of Rehabilitation Therapy), Terry Krupa (School of Rehabilitation Therapy), Kathy L. Brock (School of Policy Studies), Lori Ross (Social and Behavioural Health Sciences Division of the Dalla Lana School of Public Health, University of Toronto), Michael Roy (Yunus Centre for Social Business and Health, Glasgow Caledonian University)

Research project funding agency: Employment and Social Development Canada, Research Program on Effectiveness of Work Integration Social Enterprise

Research start and end dates: June 2017-April 2022 (initial funding); March 2020 – April 2022 (expansion funding)

Research project summary: This project is a 5 year study of work integration social enterprises (WISEs) in Ontario, and how they can impact the lives of people with mental illnesses and change communities. The project brings together WISE experts and researchers in a collaborative process that is systematically examining WISE outcomes over time.

The research team of interviewers in 5 cities works one on one with new and seasoned WISE workers to collect information on health, social and economic factors. Interviews are repeated every 18 months, and changes that occur over time are identified. The main goals of the project are to answer these questions:

- Who works in WISEs – and why do they choose WISE?
- How does WISE participation impact social and labour market integration for people with serious mental illness?
- What differences can be seen in the level and nature of change in socio-economic indicators for people who remain in a WISE as compared with those workers who move on to other learning or employment options?

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RESEARCH PROJECT 1

Effectiveness of Planning Prompts on Organizations' Likelihood to File their Overdue Taxes: A Multi-wave Field Experiment

Research collaborators: Julian House and Nina Mazar

Research project summary: This paper investigates the effectiveness of planning prompts on organizations' tax compliance behavior. We conducted a large-scale, multi-wave field experiment examining the tax-paying behavior of all organizations that failed to file timely annual returns for a payroll tax in the province of Ontario. Organizations were randomly assigned to receive one of two letters: Ontario's standard late notice (control) and a revised experimental late notice, which included step-by-step instructions of when, where and how to file a return. Our data indicate that planning prompts are effective at increasing organizations' timely tax payment. In addition to replicating these findings across two waves, we demonstrate that while our intervention did not appear to have effects that persisted across tax years, organizations also did not habituate to our manipulation and its effects were consistent across repeated exposures. Our study is among the first to demonstrate that a simple behavioral intervention that has typically been applied to individuals to help them to act upon their existing motivations can be effective in the realm of tax compliance and organizational behavior.

RESEARCH PROJECT 2

Increasing Organ Donor Registrations with Behavioral Interventions: A Large-Scale Field Experiment

Research collaborators: Nina Mazar, Claire Tsai, Avery Haviv, Elizabeth Hardy

Research project summary: Although prior research has advanced our understanding of the drivers of organ donation attitudes and intentions—e.g., knowledge and altruistic motivation—little is known about how to increase actual registrations.

Some empirical evidence suggests that labor intensive educational programs and costly mass media campaigns might be effective for increasing registrations, however, these are neither scalable nor economical solutions. To address these limitations, we conducted a large-scale field experiment (N = 3,330) in the province of Ontario where we tested four low-cost, easy-to-scale behavioral interventions targeting knowledge and altruistic motives on actual in-person registrations. Two of our interventions, providing an information brochure, and prompting perspective taking with a reciprocal altruism persuasive message (If you needed a transplant would you have one? If so, please help save lives and register today) nearly doubled individuals' likelihood of registering as an organ donor. This paper contributes to the limited empirical evidence for applied behavioral solutions that reduce the intention-action gap in the context of organ donation and has important implications for public policy and enhancing societal welfare.

RESEARCH PROJECT 3

Pain of Paying? A Metaphor Gone Literal: Evidence from Neural and Behavioral Science

Research collaborators: Nina Mazar, Hilke Plassmann and Axel Lindner

Research project summary: How do individuals evaluate prices of everyday goods when making purchase decisions? Standard economic theories assume an analytical process: individuals consider the opportunity cost. More recent behavioral economic theories suggest an additional, hedonic process: Individuals consider the immediate displeasure or "pain of paying" the price. This paper is the first to present direct empirical evidence that the metaphor is more than a theoretical concept; it describes a literal pain experience. The authors characterize this pain primarily as an affective as opposed to somatosensory (i.e., physical) pain experience across three incentive-compatible experiments. First, an fMRI experiment was suggestive of a primarily affective pain experience when making payment decisions. Second, a behavioral experiment revealed that facilitating pain perception affected willingness to pay (WTP) primarily when affective but not somatosensory pain perception was facilitated. Third, a follow-up behavioral experiment manipulating misattributions of pain perception via placebo drugs found that affective pain placebos primarily influenced WTP and did so in opposite directions for pain enhancers versus relievers. Misattribution of somatosensory pain perceptions did not alter WTP. A meta-analysis across our entire set of empirical →

> *"**The current work investigates a novel consequence of gifting: a shift in recipients' self-identity toward those specifically implied by the gift.***

evidence confirmed that the pain of paying can indeed be more reliably qualified as an affective rather than somatosensory pain.

RESEARCH PROJECT 4

Being Gifted an Identity: How Gifts Can Change Recipients' Self-Identities

Research collaborators: Philp, Matt, Laurence Ashworth, Nicole Robitaille and Suzanne Rath

Research project summary: Gift-giving is an important social, cultural, and economic phenomenon. Yet, despite the evidence that gift-givers are motivated to use gifts to symbolically communicate meaning to the receiver, little research has examined how gift-receivers are actually influenced by gifts. The current work investigates a novel consequence of gifting: a shift in recipients' self-identity toward those specifically implied by the gift. We argue that this occurs because gifts provide a strong indication about what products givers think recipients identify with. And because individuals' beliefs about others' views of them (reflected appraisals) can affect individuals' views of themselves (self-identity), then gifts can be a source of self-identity formation and transformation. Furthermore, since self-identity is instrumental to consumption practices, we further show that gift-receipt influences subsequent consumption behaviors. Seven studies support this effect, distinguish the proposed mechanism from alternative explanations such as ownership, positive affect, and identity priming effects, and show that changes in recipients' self-identity from a gift affect actual consumption decisions.

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RESEARCH PROJECT 1

Integrity in Academy (and Beyond) and the Seven Grandfather Teachings

Research collaborators: Kelley Packalen and Kayla Neveu-Gordon (Comm '20 student who was our RA)

Research project funding agency: D.I. McLeod Term RA

Research start and end dates: Sep 2019-Apr 2020 (funding); research ongoing

Research project summary: In this project we frame current research on integrity (first in academia and then business) in relation to the Seven Grandfather Teachings (humility, bravery, honesty, wisdom, truth, respect and love).

RESEARCH PROJECT 2

Individual, situational & contextual factors related to academic integrity

Research collaborators: Kelley Packalen

Research project funding agency: SSHRC Institutional Explore Grant + Smith Research Pool

Research start and end dates: Jan 2019 – Mar 2019 (research pool); May 2019-May 2021 (SIG)

Research project summary: In this project we investigate the frequency with which students violate different types of academic integrity as well as students' understanding of and support for current academic integrity policies, the seriousness with which they view different types of violations and how frequently they perceive peers to be engaging in violations of academic integrity. We also study how students' priorities, area(s) of study, well-being, levels of social support, and/or feelings about academic integrity correlate with the frequency and types of violations in which they engage. Finally, we evaluate how students navigate the grey areas of academic integrity such as identifying when they feel that it is okay to collaborate with others on assignments and/or share information about in class quizzes.

In addition to providing us with a better understanding of when students violate academic integrity, the knowledge gained from our analyses enable us to design programming and interventions meant to reduce students' propensities to violate academic integrity.

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RESEARCH PROJECT 1

Anticipatory Shipping and Price Dynamics

Research collaborators: Konstantinos Serfes, School of Economics, LeBow College of Business, Drexel University

Research start and end dates: Ongoing, first draft expected by December 2020

Research project summary: We analyze optimal price dynamics when retailers ship products even before customers order these products (anticipatory selling). More specifically, we develop a model where a retailer can ship a product sequentially to potential customers until a customer accepts the product (or the product is returned to the warehouse). We show that it can be optimal for the retailer to initially offer products at high prices, and then to reduce prices over time to increase the probability of acceptance. Moreover, with strategic customers we find that offering price discounts upon product rejection is more likely to be optimal for products that appeal to many potential customers, in areas with low transportation costs (e.g. urban areas). We then analyze the effects of customer-specific and product-specific learning through sales on optimal price dynamics.

RESEARCH PROJECT 2

Investor Power and Company Valuations

Research collaborators: Thomas Hellmann, Saïd Business School, University of Oxford

Research start and end dates: Under revision

Research project summary: This paper examines the effect of investor power in a model of staged equity financing. It shows how the usual effect where market power reduces valuations can be reversed in later rounds. Once they become insiders, powerful investors may use their market power to increase, not decrease valuations. Even though powerful investors initially lower valuations, companies who cannot avoid them altogether prefer to bring them inside to leverage their power in later financing rounds. The paper also makes predictions about investor returns, and issues a warning that unrealized interim returns can be misleading predictors of final realized returns when powerful investors distort interim valuations.

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RESEARCH PROJECT

Prescriptive Analytics for Smart and Connected Products

Research collaborators: Roozbeh Yousefi (Queen's), Alireza Farhang Doost (Queen's), Tian Xie (Queen's), Xueze Song (UIUC)

Research project funding agency: NSERC Discovery Grant

Research start and end dates: September 2019 - August 2024

Research project summary: Today's smart product transmit streaming sensor data to enable real-time monitoring, remote diagnosis, and performance optimization. Such products have revolutionized many industries, transforming traditional manufacturers into service providers. However, how to make the best use of these streaming data, how to turn the sensor information into smart business decisions, remains understudied. In this research program, we develop new methodologies and software tools for making data-driven real-time decisions.

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RESEARCH PROJECT 1

Bankrupt Innovative Firms

Research collaborators: Song Ma (Yale) and Joy Tong (Duke)

Research project funding agency: SSHRC

Research start and end dates: 2017-present

Research project summary: We study how innovative firms manage their innovation portfolios after filing for Chapter 11 reorganization using three decades of data. We find that they sell off core (i.e., technologically critical and valuable), rather than peripheral, patents in bankruptcy. The selling pattern is driven almost entirely by firms with strong secured creditor control, and the mechanism is secured creditors exercising their control rights on collateralized patents. Creditor-driven patent sales in bankruptcy have implications for technology diffusion---the sold patents diffuse more slowly under new ownership and are more likely to be purchased by opportunistic patent trolls.

RESEARCH PROJECT 2

Dissecting Bankruptcy Frictions

Research collaborators: Winston Dou (Wharton), Luke Taylor (Wharton) and Wenyu Wang (Indiana)

Research start and end dates: 2018-present

Research project summary: How efficient is corporate bankruptcy in the U.S.? Two economic frictions, asymmetric information and conflicts of interest among creditors, can cause several inefficiencies: excess liquidation, excess continuation, and excess delay. We quantify these inefficiencies and their causes using a structural estimation approach. We find that the bankruptcy process is quite inefficient, mainly due to excess delay. Eliminating information asymmetries would increase average total payouts by 4%, and eliminating conflicts of interest would increase them by an additional 18%. Without these frictions, an extra 14% of cases would be resolved before going to court, and the remaining court cases would be 73% shorter. With less delay, the direct and indirect costs of bankruptcy would be much lower. In contrast, we find that inefficiencies from excess liquidation and excess continuation are small.

RESEARCH PROJECT 3

Rent Extraction by Super-priority Lenders

Research collaborators: B. Espen Eckbo (Dartmouth College) and Kai Li (UBC)

Research start and end dates: 2018-present

Research project summary: We present strong evidence of supra-competitive pricing of debtor-in-possession (DIP) loans to large firms in Chapter 11 bankruptcy. Over-collateralized and with super-priority, strong covenants, rollups, and debtor-funded monitoring costs, these loans are almost risk-free. Nonetheless, loan spreads average 600 basis points, which is 60% higher than leveraged-loan (\junk") spreads charged the same firms within three years before bankruptcy filing. While prepetition lenders have a strong bargaining position when supplying DIP loans, spreads are no lower when DIP loans are supplied by new lenders. Junior claimants often contest DIP-loan terms in court - to little avail.

RESEARCH PROJECT 4

Financial Costs of Judicial Inexperience

Research collaborators: Ben Inverson (Brigham Young), Joshua Madsen (Minnesota) and Qiping Xu (UIUC)

Research start and end dates: 2018-present

Research project summary: Exploiting the random assignment of corporate bankruptcy filings, we estimate financial costs of judicial inexperience. Despite bankruptcy judges' significant prior legal experience, formal education, and rigorous hiring process, cases assigned to new judges spend more time in bankruptcy, realize lower creditor recovery rates, and lower return on assets post bankruptcy, but similar refiling rates. Judges' learning curve for the average filing is one year but rises to four years for the most complex cases. Exposure to more corporate cases and a greater diversity of businesses accelerates judges' learning. Overall, the results are consistent with lower-quality restructuring by less experienced judges. Conservative estimates suggest that slight policy adjustments to the case assignment process could, in aggregate, reduce legal fees and increase creditor recoveries by approximately $10 billion for our sample period. →

> *"Exposure to more corporate cases and a greater diversity of businesses accelerates judges' learning.*

RESEARCH PROJECT 5

Do Lawyers Exploit Legal Networks? Evidence from Corporate Bankruptcies

Research collaborators: Vidhan Goyal (HKUST) and Joshua Madsen (Minnesota)

Research project funding agency: RBC Fellowship and Internal Funding

Research start and end dates: 2019-present

Research project summary: Exploiting the fact that selection of lead counsel lawyers occurs before the random assignment of bankruptcy judges, we examine if past interactions between lead counsel lawyers and judges influence corporate bankruptcy outcomes. Debtors' counsel who are familiar with the judge speed up the bankruptcy process---connected cases resolve 15% faster compared to otherwise similar cases with no connections. The most influential connections arise through previous clerkships and in-court interactions, and effects concentrate in cases with smaller legal teams where connected lawyers have more influence. We find no evidence that connections lead to favoritism or pro-debtor biases. The results suggest that lawyers use knowledge of judges' judicial discretion to improve the efficiency of court processes.

RESEARCH PROJECT 6

Simultaneous Debt-Equity Holdings and the Resolution of Financial Distress

Research collaborators: Yongqiang Chu (University of North Carolina), Ha Diep-Nguyen (Purdue University), Jun Wang (Western University), and Wenyu Wang (Indiana University)

Research project funding agency: RBC Fellowship and Internal Funding

Research start and end dates: 2018-present

Research project summary: We study the effect of financial institutions' simultaneous holdings of debt and equity on the resolution of financial distress using a comprehensive data set of financially distressed firms that restructured out of court or in bankruptcy from 2000-2014. We find that simultaneous holdings are positively associated with the likelihood of out-of-court restructuring versus bankruptcy filing. The effect is stronger when the expected bankruptcy costs are higher. Our results hold after correcting for endogeneity issues. The evidence suggests that simultaneous holdings help mitigate the conflict of interest between debt holders and equity holders and facilitate cost-effective distress resolution.

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