



Contents lists available at ScienceDirect

Journal of Accounting and Economics

journal homepage: www.elsevier.com/locate/jacceco

Identification and generalizability in accounting research: A discussion of Christensen, Floyd, Liu, and Maffett (2017)[☆]

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ARTICLE INFO

Article history:

Received 7 August 2017

Accepted 8 August 2017

Available online xxx

JEL classification:

C12

C51

M40

M41

Keywords:

Causal inference

Accounting research

Quasi-experimental methods

Generalizability

ABSTRACT

Christensen et al. (2017) provide evidence that the dissemination of mine safety information in SEC filings has real effects on mine safety. We discuss the extent to which Christensen et al.'s results generalize to a research question that we consider of broader interest to accounting researchers, specifically where and when mandated disclosure in SEC filings can increase the dissemination of information. We also discuss identification of causal effects and generalizability concerns more broadly in the context of large sample studies and quasi-natural experiments, as well as potential ways authors might address these concerns in accounting research.

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1. Introduction

Identification of causal effects has become a front-and-center issue in accounting research in recent years. This is not surprising given its growing prominence in economics and finance research, and is largely warranted given the large number of research topics where convincingly documenting causal relationships has proven challenging. Because the perfectly identified and generalizable research design is rare, if not unattainable, identifying causal relationships for important accounting research questions is most likely to come from a mosaic of studies that collectively update our priors. We refer to this mosaic as a “Bayesian approach to causal inference,” in the sense that each well-executed study on a particular topic offers evidence that researchers use to update their priors on the applicability and generalizability of the theory being tested. This approach, discussed in the context of the research questions addressed by Christensen et al. (2017), will be the focus of our comments.

Issues of generalizability feature prominently in our discussion since research studies that are perhaps the best identified are often the least generalizable, and vice versa. Our discussion is meant to complement the methodological literature that discusses the frequent tradeoff between internal and external validity faced by researchers (e.g., Shadish et al., 2002; Leuz and Wysocki, 2016). We believe that the most important research questions in accounting require a general understanding

[☆] We thank Chris Armstrong, Terrence Blackburne, John Core (editor), Bob Holthausen, Rick Lambert, Christian Leuz, and Dan Taylor for helpful comments and suggestions.

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of the phenomenon, and there is ample room for both broad sample and narrow sample research designs to update the priors of the academic community.

Christensen et al. ask the interesting question of whether the mandated disclosure of social responsibility information in SEC filings can have real effects on the disclosing firms, even when the information has been previously disclosed. They motivate this question with the observation that U.S. policymakers appear to be increasingly interested in mandating disclosure of social responsibility information in SEC filings. To explore this question, the authors identify a regulatory change in the mining industry where safety violations were mandated to be disclosed in SEC filings, even though this information was already required to be disclosed on a government website in a timelier manner. Specifically, following the tragic explosion at Massey Energy's Upper Big Branch mine in April 2010, policymakers required SEC-registered firms to disclose mine-safety violations in their periodic 10-K and 10-Q reports (hereafter referred to as "MSD"), and to report immediately imminent danger orders in an 8-K filing. These violations, however, were already required to be publicly disclosed on the government's Mine Safety and Health Administration (MSHA) website, typically within 24 h. The authors argue that mandated disclosure can nonetheless influence the behavior of mining firms, investors, and other interested parties if the disclosure in SEC filings disseminates mine safety information to a wider audience.

To facilitate convincing identification in this setting, the authors take advantage of a control group of private mining firms that were not subject to the SEC disclosure requirements. To the extent that these private mining firms are similarly affected by all of the other economic factors that affected public mining firms, the authors can compare the change in the behavior between the groups following the regulatory shock to estimate a causal treatment effect. Thus, this regulatory shock provides a plausibly well-specified quasi-natural experiment (QNE) to explore whether safety violations disclosed in mining firms' SEC filings reach a broader audience than the same safety violations disclosed on the MSHA website.

The authors provide convincing evidence that mining firms' SEC filings disseminate mine safety violation information to a wider audience than does the MSHA website, and that this dissemination has real effects on public mining firms. Specifically, they document negative announcement returns and negative effects on holdings by mutual funds that identify as socially responsible, as well as increased media and analyst attention, when safety violations are disclosed in the 8-K. Further, because working conditions and worker safety are important corporate social responsibility (CSR) issues, the authors also explore whether this greater dissemination of safety violation information induces public mining firms to improve safety conditions for workers. Consistent with this "real effect," the authors find that public mining firms do improve safety, as evidenced by a lower incidence of safety violations and injury rates for public mines relative to private mines following MSD. Safer mines undoubtedly save lives, and Christensen et al.'s findings provide valuable insights into the SEC's role in effecting change through mandated disclosure requirements.

Although the real effects documented by Christensen et al. are interesting, we do not view these tests as the most important aspect of the paper for a general accounting audience. As noted by the authors in their literature review, a large body of prior research documents real effects on firm behavior when information is conveyed to investors, creditors, employees, suppliers, customers, and regulators. And, in light of this prior work, the authors acknowledge that their work, "contributes to this prior work primarily because mine-safety records are already publicly available outside of a firm's financial reports, which allows us to isolate and estimate the incremental effect of including information in financial reports as opposed to the effects of disclosing information not previously publicly released elsewhere." We agree with this assessment, and would argue that the most interesting and novel question that Christensen et al. address relates to advancing our understanding of how information is disseminated via SEC filings, as opposed to whether dissemination of information can have real effects.

Corporations have a number of mediums at their disposal to disseminate information, including financial reports, conference calls, press releases, social media, and the corporation's own website. Prior research has documented that some mediums disseminate information more broadly than others.¹ However, our current understanding of the dissemination "pecking order" for disclosure mediums, and how this order varies across firms and economic contexts, is at best limited.

The results in Christensen et al. are intriguing, and identify a setting where SEC filings appear to disseminate a specific type of information more widely than the website-based medium that was previously used to provide that same information. At the same time, it is reasonable to ask how far the study has advanced the broad and provocative question that is likely to be of interest to a general accounting audience; that is, when and where mandated disclosure in SEC filings can increase the dissemination of information that has been previously disclosed publicly? Although the authors argue that their findings contribute to the broad literature on the real effects of disclosure and financial reporting, how far has their work advanced our understanding of the pecking order of disclosure mediums in terms of their ability to disseminate information? To answer this question, a natural starting point is to assess the generalizability of the authors' inferences from their QNE research setting.

2. Assessing generalizability

To assess the generalizability of inferences, one might begin by considering the specific features of a research setting. In this case, specific features include the following facts: 1) the public dissemination of the safety disclosures is via the gov-

¹ E.g., Bushee et al. (2010), Engelberg and Parsons (2011), Drake et al. (2012), Blankespoor et al. (2013), Peress (2014), Drake et al. (2015).

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