Fair value measurement capabilities, disclosure, and the perceived reliability of fair value estimates: A discussion of Bhat and Ryan (2015)

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A B S T R A C T
Selecting an appropriate measurement basis for financial reporting is a fundamental and contentious accounting policy issue. While many argue that fair value is the most relevant measurement basis for financial reporting, other observers express concerns about the reliability (or “faithful representation”), and thus the usefulness, of fair value measurements. Bhat and Ryan (2015) consider the role of risk management technologies—in particular, market and credit risk modeling—in the estimation of fair values. In light of our discussion of Bhat and Ryan’s study, we argue that future research should aim to extend our understanding of the fair value estimation process and the factors that explain variation in the reliability of fair values as well as the channels through which investors learn about fair value measurement reliability.

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Introduction
Measuring and reporting fair values of assets and liabilities has long been a topic of substantial debate among academics, policymakers, and practitioners (see, e.g., Laux & Leuz, 2009 and Hodder, Hopkins, & Schipper, 2014). A central theme of the fair value debate is the tradeoff between the two fundamental qualitative characteristics of accounting information: relevance and reliability.¹ Advocates argue that fair value is the most relevant measurement attribute for financial reporting purposes because it increases transparency by providing more timely information. In contrast, critics contend that some fair value measurements are not useful to investors because the reliability of these estimates is diminished when they are susceptible to manipulation, prone to estimation error, and/or difficult to verify.²

Academic researchers have contributed to the fair value debate, in part, by determining whether and to what extent fair value measurements are relevant to investors for valuation. In tests of value relevance, which are joint tests of both relevance and reliability, capital market researchers commonly examine associations between fair value measurements and equity values (e.g., Barth, 1994; Barth, Beaver, & Landsman, 1996; Beaver & Venkatachalam, 2003; http://dx.doi.org/10.1016/j.aos.2015.05.003

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¹ The Financial Accounting Standards Board (FASB) recently replaced the term “reliability” with “faithful representation” (FASB, 2010). We use these terms interchangeably throughout our discussion in a way that is intended to be consistent with prior use of the term “reliability” in the academic literature and the commonality between the FASB’s definitions of both terms.

² The bias (noise) injected into financial reports as a result of unobservable managerial manipulation (estimation error) in determining fair values is particularly problematic when investors are unable to discern the direction and magnitude of misreporting, as in Fischer and Verrecchia’s (2000) analytical model.

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Abstract

I use the opportunity of commenting on Cassell, Myers, and Seidel (CMS) to discuss the broader issue of the relation between disclosure quality and reporting quality. Three aspects of this relation are worth exploring: (1) joint decision making, (2) incentives, and (3) temporal variation. I place CMS in the context of this research and point out avenues for future research.

Introduction

Cassell, Myers, and Seidel (2015, CMS) examine the relation between the transparency of disclosures about activity in the bad-debt allowance, inventory allowance, and deferred tax assets allowance accounts and accruals-based earnings management. The study finds that firms manipulate earnings through accruals to a smaller degree when they provide transparent disclosures about activity in these allowance accounts. The authors also find that the placement of such transparent disclosures, whether in a summary schedule presented after the financial statements and notes or spread throughout the notes to the financial statements, does not provide additional information about firms’ accruals-based earnings management. The findings suggest that users of financial reports may use firms’ disclosure behavior as a signal of firms’ reporting behavior.1

CMS is distinctive in three ways. First, CMS is one of a few studies that investigate the reporting of individual accounts for evidence of earnings management (Jackson & Liu, 2010; Marquardt & Wiedman, 2004; McNichols & Wilson, 1988; Schrand & Wong, 2003). Studying individual accounts for earnings management behavior not only overcomes some measurement problems that researchers face (e.g., what do unmanaged earnings look like? Which aggregate earnings do managers target?), but also provides insights into how earnings are managed.

Second, CMS is one of a limited number of studies that examine the disclosure of particular corporate activities. The vast majority of disclosure studies focus on management earnings forecasts (MEF)—managers’ projections of a summary operating performance measure. This focus is due to the importance of earnings in measuring performance and the availability of machine-readable data. In practice, managers provide many types of disclosures beyond MEF, either voluntarily or with discretion in deciding what to disclose and how to disclose mandatorily required items. Yet, very few studies have examined the disclosure of particular corporate activities (e.g., capital expenditures, inventory management, and warranties) and data in these studies are typically hand collected (Brown, Gordon, & Wermers, 2006; Cohen, Masako, Huang, & Zach, 2011; Sun, 2012). Examining particular activities complements traditional MEF research and helps

1 In this discussion paper, “reporting” means the reporting of accounting numbers in a company’s financial statements and “disclosure” means the firm’s presentation of information outside of the financial statements, such as in the notes, the Management Discussion & Analysis, and press releases.
Discussion of construal instructions and professional skepticism in evaluating complex estimates

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Introduction

Both auditing research (Bratten, Gaynor, McDaniel, Montague, & Sierra, 2013; Griffith, Hammersley, & Kadous, 2014) and PCAOB inspection reports (PCAOB, 2012) note that auditors have difficulty auditing complex accounting estimates. Rasso (2015) examines an intervention designed to improve the way auditors process evidence related to such estimates. The intervention provides auditors with documentation instructions “based on the precepts of construal-level theory (CLT)” to see if this improves audit effectiveness and increases auditors’ professional skepticism. Specifically, Rasso applies CLT to predict that auditors provided with instructions to use high-level construals will be more skeptical than both auditors provided with instructions to use low-level construals and those who do not receive documentation instructions. In this discussion, we highlight some comments on Rasso’s study from participants at the Accounting, Organizations and Society Conference on Accounting Estimates and share our own perspectives about the study’s conclusions and implications for research and practice.

CLT was initially developed in the psychology literature to explain how differences in an event’s temporal distance (i.e., whether it will occur in the immediate versus distant future) influence individuals’ judgments and choices with respect to the event (Trope & Liberman, 2011). In its earliest form, CLT predicted that when thinking about events that are expected to occur in the near future, individuals naturally interpret information about the event at a low-level, focusing on the details, specific steps, and any situational constraints related to the event’s occurrence. In contrast, when thinking about events that will occur in the distant future, individuals tend to interpret information at a high-level, thinking abstractly about the overall essence of the event. In explaining how CLT’s use has broadened over time, Trope and Liberman (2011) note that it is currently used to explain how factors that affect an individual’s psychological distance from a situation

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The impact of risk modeling on the market perception of banks' estimated fair value gains and losses for financial instruments

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Abstract

We examine whether and how measures of market and credit risk modeling identified from banks' financial reports enhance the returns-relevance of their estimated annual unrealized fair value gains and losses for financial instruments. To capture differences in market liquidity and fair valuation difficulties across types of financial instruments, we distinguish unrealized gains and losses that are recorded in net income versus recorded in other comprehensive income versus calculable using financial statement note disclosures. We predict and generally find that banks' market (credit) risk modeling enhances the returns-relevance of their unrealized fair value gains and losses, more so for less liquid instruments subject to greater market-risk-related (credit-risk-related) valuation difficulties and during periods for which market (credit) risk is higher. We obtain these findings both for banks' unadjusted risk modeling measures and for the portions of these measures that we model as attributable to banks' risk modeling activities, but not for the portions we model as attributable to banks' disclosure of these activities.

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Introduction

We examine whether and how banks' risk modeling enhances the returns-relevance of their estimated annual unrealized fair value gains and losses (FVGL) on financial instruments. FVGL are changes in fair value during periods that are not yet realized through cash received or paid. When the markets for banks' financial instruments are sufficiently illiquid that observable market inputs do not suffice to determine the fair values of those instruments, banks must estimate FVGL by developing valuation models and identifying the inputs necessary to implement those models. These activities require risk modeling both to predict uncertain future cash flows and to determine appropriate rates to discount those cash flows. To conduct risk modeling effectively, banks must invest in adequate personnel and information systems and apply managerial judgment appropriately and with discipline, with inadequate investment (self-interested application of judgment) introducing unintentional (intentional) noise and bias in FVGL. Banks' investment in risk modeling and other risk management activities that discipline fair value estimation appears to vary considerably across banks and time.

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Discussion of “The effects of forecast type and performance-based incentives on the quality of management forecasts” \footnote{I thank Robert Bloomfield, Shankar Venkataraman, and Donnie Young for helpful comments and Deloitte & Touche LLP for their generous funding of the 2014 Accounting, Organizations & Society Conference on Accounting Estimates. E-mail address: jeffrey.hales@scheller.gatech.edu}

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Abstract

In this paper, I provide a summary and discussion of Chen, Rennekamp, and Zhou (2015). Doing so allows me the opportunity to discuss three interrelated themes – forecasting, motivated reasoning, and disaggregation. Following my summary, I discuss specific opportunities to extend this line of research. I also offer examples of more general extensions related to the psychology and economics of disaggregation.

Introduction

In discussing Chen, Rennekamp, and Zhou (2015, CRZ), I will touch on three interrelated themes – forecasting, motivated reasoning, and disaggregation. To see how these themes relate, we can start by viewing accounting through the lens of information economics. In that light, accounting research can be characterized as the study of how particular types of information (e.g., sales forecasts, production estimates, external financial reports, etc.) affect the beliefs and actions of particular agents (e.g., managers, investors, creditors, auditors, etc.). I say affect, but the flow of causality is not unidirectional. As Christensen and Demski (2007) argue, the information in accounting systems is endogenous because requirements about what and how to measure can alter the supply of transactions that will be observed. Thus, we cannot take information as given, but rather must also understand how information is created and utilized in equilibrium. Beliefs, therefore, matter and motivated reasoning has much to say about how information will be formulated and interpreted.

In a world with strict assumptions about individual rationality and strong form market efficiency, one could assume away or marginalize many important accounting questions. However, as these assumptions are relaxed, the issues of information production and consumption become even more interesting as individual sources of information can no longer be summarily replaced by a single signal – market price – acting as a sufficient statistic for all available information. Suddenly, financial statements have meaning and not just because they are used to calculate earnings. The components matter as well.

Within the firm, things are similarly complex and interesting. Production managers make forecasts, superiors review budget requests, and divisions work to meet performance targets. All of these actions and decisions are based on data and convey information. As noted by Butterworth (1972):

[U]nderlying each standard input cost is an implied decision about the kind and amount of resource to be used and the nature of the market in which it is to be purchased. Behind each input/output relationship is an implied decision regarding the technical conditions under which the process should operate and the rate at which employees should work. In order to obtain solutions to one set of problems – those for which the output of a standard cost system will be considered useful – we must assume the solution of many others. Often, our assumptions turn out to be wrong. The dilemma is universal and is central to the problem of information system design.

[p. 1–2]

It is perhaps helpful to draw a distinction between information and data. Data typically must be analyzed
Commentary on “The effect of an audit judgment rule on audit committees’ questioning on accounting estimates” (Kang, Trotman, and Trotman)

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A B S T R A C T

These discussant comments address the Kang, Trotman, and Trotman study on whether introducing an audit judgment rule – which is analogous to the business judgment rule applied to corporate officers and directors – and deploying innovative audit procedures affect audit committee members’ questioning on accounting estimates. I believe that the authors have identified a very relevant and timely topic for analysis. In addition, the authors have done a good job motivating the importance of the topic given the increasingly regulated post-Sarbanes-Oxley environment. In these comments, I attempt to place the Kang, Trotman, and Trotman study into context and facilitate generation of research ideas by others. My comments are divided into three sections: introduction, the evolving roles and responsibilities of audit committees and independent auditors, and comments on research design and some directions for future research.

Introduction

The roles and responsibilities of independent auditors and audit committees have been evolving over the last two-and-a-half decades, owing in part to the changing economic and regulatory landscape that has shaped this period. First, the wave of corporate scandals in the 1990s provided impetus for new regulatory bodies and regulations that were built on the premise that public companies’ stakeholders should understand and have confidence in the work of independent auditors and audit committees. In addition, owing to the volatility of the global markets, business transactions have become increasingly complex, which has led to a growing use of judgments and complex accounting estimates for fair value measurements, asset impairments, and valuation allowances, among others (U.S. Department of the Treasury, 2008). This emphasis on judgments and accounting estimates in the financial reporting frameworks has led auditors’ decisions to be increasingly informed by the use of risk-based audit methodologies. In turn, high-risk areas of audit engagements are increasingly being scrutinized by the Public Company Accounting Oversight Board’s (PCAOB) inspections.

With the above institutional context as a backdrop, Kang, Trotman, and Trotman (current issue) (hereafter KTT) is based on the premise that auditors in general experience difficulty in auditing complex accounting estimates, thus suggesting that audit quality in this area may be compromised (Griffith, Hammersley, Kadous, & Young, 2015). KTT (current issue) reports the results of an experiment that is appropriately motivated by the need for evidence on the effects of (1) introducing (vs. not introducing) an audit judgment rule (AJR) and (2) deploying innovative (vs. standard) audit procedures on audit committee...
The effect of alternative accounting measurement bases on investors' assessments of managers' stewardship

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A B S T R A C T

We conduct a laboratory experiment to examine investors' assessments of managers' stewardship. We provide evidence that investors tend to attribute external (i.e., non-manager-related) causes of firm performance to managers' performance. We predict and find that fair value information enables investors to overcome this tendency and make better stewardship decisions than investors with amortized cost information. We also find that investors presented with amortized-cost-based financial statements perform better to the extent they access fair-value-based footnote information, while investors presented with fair-value-based financial statements perform worse to the extent they access amortized-cost-based footnote information. Collectively, our results suggest that investors' stewardship decisions are improved because fair value information more transparently provides the information required to properly consider the opportunity costs associated with managers' actions and disentangle endogenous actions by managers from exogenous market forces that are outside of managers' control.

Introduction

We investigate whether, when holding information constant, the use of fair value measurements in the primary financial statements improves financial statement users’ (hereafter, “investors”) judgments about managers' stewardship. Opponents of incorporating fair value measurements into the primary financial statements argue that fair values do not meet information needs relative to the stewardship objective of financial reporting, and maintain that amortized-cost-based financial statements are necessary to assess stewardship (e.g., Holthausen & Watts, 2001; Nissim & Penman, 2008). We propose that, compared to amortized-cost-based measurement, reported fair value measures in the primary financial statements provide information in a more transparent manner that will reduce the burden of processing and improve the accuracy of stewardship assessments.

As noted by the IASB (2005) staff, the word “stewardship” has many different meanings in the financial accounting standard-setting literature. Consistent with the root word “steward,” we propose that the focus of stewardship is the assessment of actions taken by stewards (i.e., managers) in the discharge of their responsibilities. In the modern corporation, these responsibilities relate to an agency relationship and the performance of some delegated activities on behalf of another party. These delegated activities include not only safeguarding of assets but also administering business resources in a way that generates an acceptable rate of return on those resources. Therefore, we define stewardship as the actions of managers in the discharge of their responsibilities to preserve the value of investors' capital investment and to earn a commensurate return on that investment.
Disclosure transparency about activity in valuation allowance and reserve accounts and accruals-based earnings management

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A B S T R A C T

We examine the relation between the transparency of disclosures about activity in valuation allowance and reserve accounts and accruals-based earnings management. We classify disclosures as being transparent if they provide detailed information about activity in the allowance and reserve accounts during the fiscal period. We find strong evidence that the extent of accruals-based earnings management is lower among companies with transparent disclosures than among companies without transparent disclosures. We also investigate whether the extent of accruals-based earnings management is lower for companies that provide transparent disclosures in one comprehensive schedule (i.e., the Schedule II) relative to those that provide transparent disclosures spread throughout the notes to the financial statements. Although regulators have expressed concern that the omission of a Schedule II could indicate a greater likelihood of earnings management, our results indicate that it is the omission of transparent disclosures rather than the omission of a comprehensive schedule outlining activity in the allowance and reserve accounts that affects earnings management. Our findings suggest that regulators, auditors, and investors should consider subjecting companies that fail to provide transparent disclosures to additional scrutiny.

Introduction

Accruals-based earnings management can be costly because questionable accounting practices are likely to be scrutinized by external auditors, investors, the board of directors, regulators, and other stakeholders. Valuation allowances and reserves provide managers with substantial flexibility to manage earnings because they are based on subjective estimates and are evaluated at higher levels of materiality, making them inherently difficult to audit (Griffith, Hammersley, & Kadous, 2013; Peecher, Schwartz, & Solomon, 2007; Peecher, Solomon, & Trotman, 2013). In addition, any differences identified by the auditor are more likely to be waived when the underlying accruals are more subjective (Joe, Wright, & Wright, 2011; Knapp, 1987; Wright & Wright, 1997).

Thus, prior research suggests that companies are more likely to attempt to manage reported earnings using these types of accounts. ¹

We examine the relation between the transparency of disclosure related to activity in valuation allowance and reserve accounts and accruals-based earnings management, where disclosures are classified as being transparent if they provide detailed information about activity in the accounts during the fiscal period (e.g., information about

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¹ For example, Nelson, Elliot, and Tarpley (2002) use a field-based questionnaire in which 253 auditors from one Big 5 audit firm described 515 specific instances in which they believed that their clients were attempting to manage earnings. The authors indicate that “by far the most frequently identified attempts involve reserves” (Nelson et al., 2002, 176).
Construal instructions and professional skepticism in evaluating complex estimates

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Abstract
This study investigates the use of audit evidence documentation instructions that promote the collection and processing of evidence with high-level construals (broad, abstract interpretations of the evidence). Abstraction can help a person piece together individual pieces of information or evidence and better enable a person to see the big picture of what the collective information portends. The results of an experiment suggest that auditors think and act with more professional skepticism when using the documentation instructions that promote high-level construals as compared with auditors using documentation instructions promoting low-level construals (specific, detailed interpretations of the evidence, akin to current audit practice) and with auditors not given documentation instructions. Further, the high-level construals foster better processing of the collected evidence. The study also provides preliminary evidence that task complexity could interfere with professional skepticism.

Introduction
Regulators have recently criticized auditors for failing to display a proper amount of professional skepticism in their audits of complex estimates (Bratten, Gaynor, McDaniel, Montague, & Sierra, 2013; IFIAR, 2012; PCAOB, 2012). One possible explanation for the lack of professional skepticism is that audits of complex estimates require the processing of numerous pieces of audit evidence collected over an extended period of time. This study explores whether and how construals (interpretations) of evidence affect an auditor's judgments and decisions relating to the collection and processing of audit evidence, particularly when all of the evidence is not yet available. Specifically, this paper examines whether documentation instructions that promote broad, abstract interpretations (high-level construals) of the audit evidence can be helpful in promoting effective processing of information throughout the evidence collection process. Studying the process of evidence collection is important because a central component of professional skepticism is the suspension of judgment until sufficient and competent evidence has been obtained (AU 230.07-.08; Hurtt, 2010). Auditing complex estimates, like many other audit tasks, involves a sequential judgment process through which auditors receive information and then need to make important decisions based on that information such as whether to continue collecting new evidence (Gibbins, 1984; Knechel & Messier, 1990). Failure to properly process evidence, particularly early in the evidence collection process, could lead to poor judgments such as a decision to end the evidence collection process prematurely (which would be judged ex post as a lack of professional skepticism). As support, experienced auditors recently reported that they have trouble processing and assimilating collected audit evidence, particularly negative evidence that ought to increase skepticism and suggest to an auditor that evidence collection should continue (Griffith, Hammersley, & Kadous, in press).

Construal-level theory (CLT) suggests that the manner in which individuals construe (interpret) information and...
The effect of an Audit Judgment Rule on audit committee members' professional skepticism: The case of accounting estimates

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ABSTRACT

Changes to the audit environment have led to suggested changes to the regulatory framework for evaluating auditors’ judgments including the introduction of an Audit Judgment Rule (AJR), whereby courts and inspectors will not second-guess auditors’ reasoned judgments provided they are made in good faith and in a rigorous manner. We examine the potential effect of the AJR on the skepticism of Audit Committee Members (ACMs) in terms of the extent to which they ask probing questions to external auditors, CFOs and Heads of Internal Audit concerning an accounting estimate. This level of professional skepticism is a critical element of the duties of an ACM in the oversight of the financial reporting and auditing processes, especially for complex and future orientated accounting estimates. Because an AJR would likely encourage adoption of innovative audit procedures, we further examine the effect of these procedures, as compared to standard procedures, on ACMs’ skepticism given an AJR. Our findings show that an AJR increases ACMs’ perceived accountability in ensuring the reasonableness of the financial statements, and that a movement towards more innovative audit procedures under an AJR framework increases ACMs’ perceived overall comfort regarding the treatment of the accounting estimate. On average, these factors do not affect the overall level of ACMs’ skepticism in terms of the number of questions asked or the extent to which the questions are probing. However, these results differ depending on the demographic background of the ACM participants.

Introduction

Internationally, regulatory inspectors have reported audit deficiencies with respect to the audit of estimates, and there have been calls for improved audit quality (ASIC, 2012; European Commission, 2010; FRC, 2013a; IFIAR, 2014; PCAOB, 2013). In turn, there is uncertainty about what is expected of an auditor given the complexity and future orientation of accounting estimates and the difficulty of inspectors concluding on the appropriateness of the auditors’ judgments (Peecher, Solomon, & Trotman, 2013). In response to these and related issues, there have been suggestions for change to the regulatory framework (e.g., Peecher et al., 2013; Pozen, 2008). One such change is the introduction of an Audit Judgment Rule (AJR), which Peecher et al. (2013) suggest should be applied by regulators in evaluating auditors’ professional judgments and motivating auditors to improve audit quality. This AJR is based on the Business Judgment Rule (BJR), which applies to directors in the USA, where directors cannot...
The effects of forecast type and performance-based incentives on the quality of management forecasts

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A B S T R A C T

Understanding forecasts is important because of their pervasiveness in business decisions such as budgeting, production, and financial reporting. In this study we use an abstract experiment to examine how the preparation of disaggregated forecasts interacts with performance-based incentives to influence the accuracy and optimism of forecasts. We manipulate two factors between subjects at two levels each: forecast type (disaggregated or aggregated) and performance-based incentives (present or absent). Consistent with our predictions, we find that (1) preparing disaggregated forecasts leads to greater improvements in forecast accuracy (compared to preparing aggregated forecasts) in the absence of performance-based incentives than in the presence of performance-based incentives, and (2) preparing disaggregated forecasts leads to greater increases in forecast optimism (compared to preparing aggregated forecasts) in the presence of performance-based incentives than in the absence of performance-based incentives. Our study contributes to our understanding of unintentional biases in the forecasting process. Our results have important practical implications for designers of management control systems who elicit internal forecasts from managers. Finally, our results also have important practical implications for those who either prepare or use external management forecasts.

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Introduction

Understanding forecasts is important because of their pervasiveness in business decisions such as budgeting, compensation, and financial reporting. Inaccurate forecasts can reduce the effectiveness of the production planning process and negatively impact production efficiency, cost management, and ultimately firm performance (e.g., Bruggen, Grabner, & Sedatole, 2013). To increase the chance of obtaining accurate forecasts from an agent, a principal needs to be careful in designing the management control system that elicits such forecasts from the agent (e.g., Osband, 1989).

One such control system that is commonly used is the planning and budgeting system of a firm (Merchant & Van der Stede, 2012). Within the planning and budgeting system, an important design choice is the level of aggregation at which the principal elicits forecasts from the agent. In practice, firms vary considerably in the level of aggregation of the information elicited by the planning and budgeting system (Merchant & Van der Stede, 2012). For example, top management can request that divisional managers prepare either an aggregated forecast (e.g., forecast total sales for the division) or a disaggregated forecast (e.g., forecast sales for individual products within the division) (see Kahn, 1998 and Lapide, 2006). Although...
Fair value measurement (FVM) in IFRS calls for a market-oriented representation of economic ‘reality’, whereby the values attributed to rights (assets) and obligations (liabilities) are in principle determined from the perspective of the ‘market participant’ rather than that of the reporting entity. We argue, however, based upon Searle’s analysis of institutional reality, that such rights and obligations exist and are knowable only under certain conditions, that when those conditions hold FVM is not distinctive, and that when they do not hold the requirements of FVM are wishful and incoherent. Based upon this analysis, and using case study data, we explore how FVM is applied in practice to non-financial assets. We find, for a predominance of core operating assets, that fair value is unknowable, because of the absence of the institutional reality on which the FVM idea implicitly depends. In these cases, actors’ representations of fair value were found to be expedient, unstable and ultimately in direct contradiction of the market participant’s perspective that is ‘wished-for’ in IFRS.

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The expressive role of performance measurement systems: A field study of a mental health development project

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Abstract

The management control systems (MCS) literature has long recognized the importance of values and beliefs (e.g., Ouchi, 1979; Simons, 1995). However, in this literature, values and beliefs are typically presented in the context of mission statements or company slogans that can play little substantive role in shaping actions and behaviors. In this paper we focus on how MCS can play a more active role in values expression, and examine the potential for performance measurement systems (PMS) to be used within organizations to express the values and beliefs of organizational members. This use of PMS, which we term its expressive role, is important as pluralistic and expressive forms of organizing are becoming more prevalent. Furthermore, prior research indicates that enabling the expression of values and beliefs by organizational members can generate energy and commitment that are important to the achievement of organizational objectives. In a field study of a mental health development project in a non-government organization, we examine the design and operational characteristics that are important for the expressive role of PMS. We also examine the interplay between the expressive role and the instrumental role of PMS and identify circumstances in which these roles can clash and/or be complementary.

Introduction

The management control systems (MCS) literature has long recognized that values and beliefs are important in the functioning of organizations (Ouchi, 1979; Simons, 1995). Scholars have questioned, however, whether those MCS often associated with values and beliefs, such as mission statements and company slogans, play any substantial role in shaping actions and behaviors (e.g., Argyres & McGahan, 2002: 48). Furthermore, even in contexts where MCS are envisioned to play a more prominent role, it is typically to promote conformance by organizational members with corporate values and beliefs espoused by senior management (Ouchi, 1979; Simons, 1995). In this way, there has been little attention directed toward the possibility for MCS to play a more active role in values expression, particularly in the context of enabling a wider variety of organizational members (and not only senior managers) to express their beliefs and values as part of their work in organizations.

Attention to a more active role for MCS in values expression is important because recent research indicates that organizations are increasingly operating in more pluralistic contexts characterized by multiple objectives (Denis, Langley, & Rouleau, 2007). In this context, in addition to a purely instrumental rationale focused on the pursuit of specific objectives, organizations can have an expressive purpose (Berry, 2005; Etzioni, 1961; Frumkin, 2005; Schultz, Hatch, & Larsen, 2000). This expressive purpose reflects a focus on helping individuals to express their values, commitment and faith through...