Accounting Research Workshop (ARW) – summer term 2019

Speaker: Professor Dr. Robert F. Göx
University: Professor of Accounting, Chair of Managerial Accounting, University of Zurich
Date: June 25, 2019
Subject: "Bayesian Persuasion, Incentive Contracting, and Performance Manipulation"

Abstract:
We study how the design of an information system about an agent's productivity implemented by a principal affects the agent's incentives to create value and manage earnings. We find that, in equilibrium, the principal's choice of an information system and the incentive contract that she offers to the agent are determined by the severeness of the multi-task problem and the real effects of earnings management. Specifically, we identify conditions for the existence of a unique threshold value for the relative marginal productivities of the agent's actions above (below) which the principal strictly prefers an uninformative (a perfectly informative) system. Surprisingly, we also find that the principal always strictly prefers a perfectly informative system if inflated earnings fully revert as cash outflows in future periods. In an extension, we examine the interplay between the firm's information and internal control systems and find that the firm is more inclined to implement a perfectly informative system, if the information it generates is also used to determine the optimal level of internal control.

We were pleased, that we could welcome Professor Göx at the Accounting Research Workshop at the faculty of Business Administration and wish him all the best for his future work and research projects!