

Accounting Research Workshop (ARW) - WT2016/2017

Speaker: Arnt Verriest

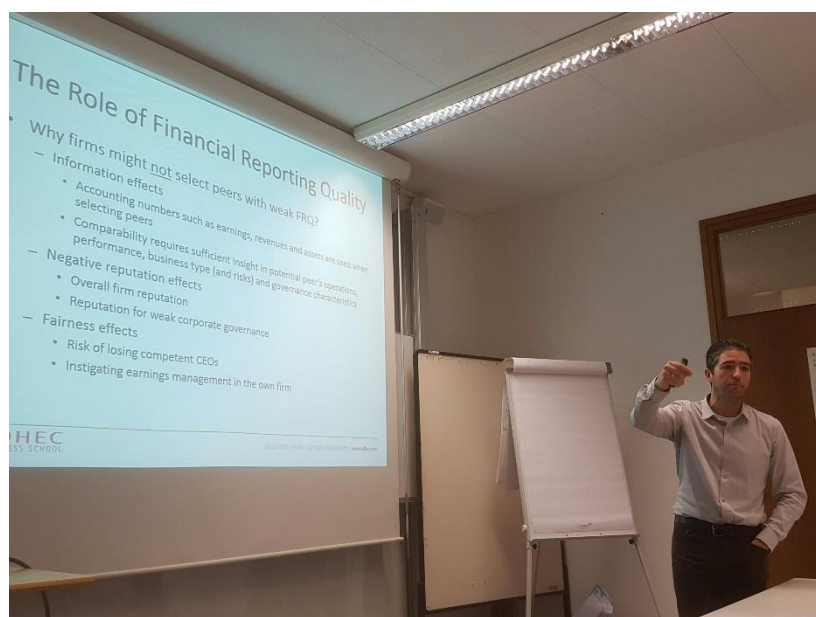
University: Associate Professor – Speciality: Accounting, EDHEC Business School

Research: Corporate financial reporting, reporting quality, compensation

Date: January 31, 2017

Topic: “Financial Reporting Quality and Peer Group Composition”

Abstract: “Firms often compose peer groups to benchmark the compensation package of the CEO and/or to benchmark the performance of the firm as part of a relative performance evaluation. When justifying the composition of the peer group, firms often claim that the peer firms are similar with respect to accounting-based and market-based measures. An implicit assumption in this argument is that the accounting numbers of the potential peer firms are accurate. In this study, we examine the relationship between financial reporting quality of a potential peer firm and the probability of being included in the peer group of another firm. We hypothesize that firms with weaker financial reporting quality are less likely to be included in the peer group of another firm because of the increased information asymmetry between the potential peer firm and the selecting firm and the potential contagious effects of selecting a firm with weak financial reporting quality. Based on data about the composition of compensation and performance peer groups of the S&P 900 firms from 2006 until 2011, we document that firms with weaker financial reporting quality are, after controlling for the known determinants of peer group composition, less likely to be included in the peer groups that are used to benchmark the compensation package of the CEO and/or the performance of the firm. Additional tests suggest that this effect is driven by the increased information asymmetry and the potential contagious effects as developed in our theory.”



We are very pleased that we had the possibility to take part in the interesting presentation of Arnt Verriest who we invited in our Accounting Research Workshop. We wish him all the best for his research project.