

Accounting Research Workshop (ARW) - WT2016/2017

- Speaker:** Florian Sabac
- University:** Professor of Accounting, Operations and Information Systems, Alberta School of Business, University of Alberta
- Research:** How does the institutional setting in which accounting performance information is used affect its value?
- Date:** November 29, 2016
- Topic:** Implicit Aggregation And Controllability Of Non-Contractible Information
- Abstract:** We examine the interaction between implicit incentives, such as career concerns, arising from non-contractible information and explicit incentive contracts. Renegotiation of long-term contracts implicitly aggregates the same non-contractible information that gives rise to career concerns such that the resulting aggregate can be effectively contracted on. This implicit aggregation of the non-contractible information is determined by the (contractible) performance measures used in explicit contracts and is thus fixed, but the incentive weights on the implicit aggregate can be adjusted along with the weights on the contractible performance measures. Career concerns also implicitly aggregate the non-contractible information in a fixed way, but the corresponding incentive weights are fixed externalities in the contracting process. Total managerial incentives include both the fixed effects of career concerns and the controllable incentives on the effectively contractible aggregate. When the controllable incentives span the fixed effects of career concerns, the latter have no real effects with regard to total managerial incentives—they would optimally be the same with or without career concerns. In particular, this happens when the non-contractible information that gives rise to career concerns is effectively contractible. Long-term contracts with renegotiation dominate time-consistent short-term contracts because the latter can only generate fixed incentives on the same implicit aggregate of non-contractible information, and these fixed incentives are a contracting externality similar to career concerns.



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