Accounting Recruiting Seminar
Alberta School of Business
Department of Accounting, Operations, and Information Systems

Presents:
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Topic:
Toward an Accounting-Centric Principal-Agent Framework: Theory and some Applications.

Tuesday February 12, 2019
10:00am – 11:30am
BUS Room 4-04 (CA Conference Room)

ABSTRACT
I develop a principal-agent framework that reflects double-entry accounting. Agents take actions that influence the firm's accounts, which can serve as performance measures themselves or can be aggregated to construct other measures such as earnings. My framework is tractable and facilitates optimal closed-form solutions without assuming preferred actions or imposing exogenous restrictions on contractual form. I apply the framework to several settings and a consistent theme emerges: it is cheaper to motivate efficiency improvements than revenue growth. This is driven by a seemingly trivial property of double-entry systems, that debits and credits are bounded below by zero. I find that this accounting feature influences optimal team size, firm strategy, job design, and aggregation rules. My analyses produce many readily-testable predictions and can help explain empirical regularities; for example, I predict that the low pay-performance sensitivities empirically observed in loss firms may be driven in part by life cycle. My findings demonstrate that when studying the optimal use of accounting information, the double-entry systems which generate that information should be taken seriously.

(Copies of the paper are available in the AOIS Department offices)