

FEBRUARY 2008 RESEARCH REPORT

COLLEGE OF MANAGEMENT

NC STATE UNIVERSITY

Newly accepted refereed journal articles

Mark Beasley, Joe Carcello, Dana Hermanson, and Terry Neal, "The Audit Committee Oversight Process," *Contemporary Accounting Research*

Relatively few studies have examined the audit committee oversight *process* – the activities that link audit committee inputs and financial reporting outcomes. To study this process, we conducted extensive interviews of 42 U.S. public company audit committee members. We explore six audit committee process areas, offer insights into the state of audit committee processes in the post-Sarbanes-Oxley (SOX) environment, and consider our results in light of agency theory and institutional theory. We find that many audit committee members strive to provide effective monitoring of financial reporting and seek to avoid serving on ceremonial audit committees, but within each of the six process areas we find evidence of both substantive monitoring and ceremonial action, such that neither agency theory nor institutional theory fully explains our results. We also find that many responses vary with personal and company characteristics, with particularly notable differences related to audit committee members' accounting expertise and time of appointment to the audit committee (pre-SOX versus post-SOX). We discuss implications and directions for future research and theory development.

Mark Beasley, Bruce Branson, and Bonnie Hancock, "Title: Rising Expectations: The Audit Committee's Role in Risk Oversight," *Journal of Accountancy*

Recent events such as the massive trading losses at Société Générale, the subprime lending crisis in the financial sector, and product recalls associated with Mattel's international toy manufacturing operations continue to shock financial markets and negatively impact shareholder value. These events have also fostered rising expectations for boards of directors to exert greater oversight of their organization's risk management processes, leading in turn to the growth of enterprise risk management (ERM) as a strategic planning tool. Not only are key stakeholders pressuring boards to get a better handle on management's process for identifying, assessing and responding to specific risks, but stakeholders are also expecting boards to more effectively anticipate far-horizon risk exposures and to continually monitor those risks to ensure that strategic and operational decisions remain aligned with the organization's risk appetite. In response, more companies are turning to ERM. This article explores the audit committee's role in ERM oversight.

Joe Brazel and Li Dang, "The Effect of ERP System Implementations on the Management of Earnings and Earnings Release Dates," *Journal of Information Systems*

ERP systems have become the system of choice for the majority of publicly traded companies and have radically changed the way accounting information is processed, prepared, audited, and disseminated. In this study, we examine whether ERP system implementations have affected the extent to which firms manage earnings amounts and release dates. We find, for a sample of ERP adopters, that implementations led to increases in the absolute value of discretionary accruals (i.e., greater earnings management). We also find a positive relationship between the extent of ERP module adoption and the extent of earnings management. With respect to earnings release dates, firms with incentives to increase the timeliness of their release dates experienced a decrease in reporting lag after implementing ERP systems. These results should be of interest to financial statement preparers initially adopting or implementing new versions of ERP applications,

auditors serving clients with ERP systems, and regulators overseeing the financial markets and consolidation in the ERP industry.

Mehmet Caner, Dan Berkowitz and Ying Fang, "Are Nearly Exogenous Instruments Reliable?" *Economics Letters*.

We show that when instruments are nearly exogenous, the two stage least squares t-statistic unpredictably over-rejects or under-rejects the null hypothesis that the endogenous regressor is insignificant and Anderson-Rubin test over-rejects the null. We prove that in the limit these tests are no longer nuisance parameter free.

Publications

Fay Cobb Payton, "Analytics: Unpacking AIDS Policy in the Black Community," *Encyclopaedia of Healthcare Information Systems*

Deepak Sirdeshmukh, Glenn Voss, and Zannie Voss, "The Effects Of Slack Resources And Environmental Threat On Product Exploration And Exploitation," *Academy of Management Journal*, February, 2008 Vol. 51, No. 1, pp. 147-164. This paper was also included in *Executive Briefings*, a joint product of the Economist-Harvard Business School Publishing (January, 2008).

Presentations

Lynda Aiman-Smith, "Collaborative innovation: Of bazaars, ecosystems, and boundary spanners," presented Feb 7, 2008 at IBM research seminar on Open Collaboration in Somers, NY

Paul Bergey presented a research paper titled: "Characterizing Complexity Bounds for the Electric Power Districting Problem" with Cliff Ragsdale at the 32nd Annual Meeting of the Southeast Decision Sciences Institute, Orlando, Fla., Feb 20-23.

Fay Cobb Payton made the following presentations:

- "Not In the Numbers: Analytics and HIV/AIDS Disparities," NCSU Edward P. Fitts Department of Industrial and Systems Engineering
- "U.S. Health Care System," Chinese Delegation, NCSU International Affairs
- Program Committee, Theme: Towards an ICT Research Agenda for African Development, IFIP WG 9.4-University of Pretoria (South Africa) Joint Workshop 2008

Roby Sawyers presented "When Worlds Collide: Applying the Nonobviousness and Novelty Requirements of Patent Law to Tax Strategy Patents" (with David L. Baumer and Wade M. Chumney) at the American Taxation Association Midyear Meeting, February 22, 2008, Memphis, Tennessee.