

Measuring the Prevalence of Earnings Manipulations: A Novel Approach

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Motivation

- Provide reliable estimates of the proportion of U.S. companies that manipulate financial reports.
- Help regulators identify which manipulation methods/techniques are most prevalent.

Project Description

- Ask Chief Accounting Officers about their experiences with manipulating financial reports.
- Employ a novel survey technique that elicits honest responses about unethical/illegal behaviors.
- Distribute surveys via LinkedIn paid messages and USPS mailed boxes.

Context

- Executives conceal financial manipulations, making their prevalence difficult to estimate.
- Executives are often the only persons aware of manipulations that have alluded public detection.
- Executives likely respond dishonestly when asked directly about their manipulations, rendering traditional surveys ineffective.
- Our novel survey technique provides unparalleled privacy protections, allowing executives to respond honestly without the fear of negative repercussions (e.g., lawsuits).



We **survey** thousands of Chief Accounting Officers to estimate the respective **prevalence of five different forms of deceptive financial reporting practices.**

Project Deliverables

- Peer-reviewed publication in the *Journal of Account Research (JAR)*
 - Our planned study has been accepted “in-principle” at *JAR*, which means *JAR*’s editors have agreed to publish our study once we execute our planned procedures.
- Practitioner-oriented research report

Potential Impact

- Produces the first estimates of the prevalence of financial reporting manipulations based on executives’ reports about their own behaviors.
- Helps regulators assess whether prior efforts to detect manipulations have been successful.
- Informs researchers about a novel survey technique that could be used to estimate the prevalence of other unethical/illegal accounting- and finance-related behaviors.
- Provides evidence on the efficacy of two methods for recruiting executives, who are notoriously difficult to recruit.

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