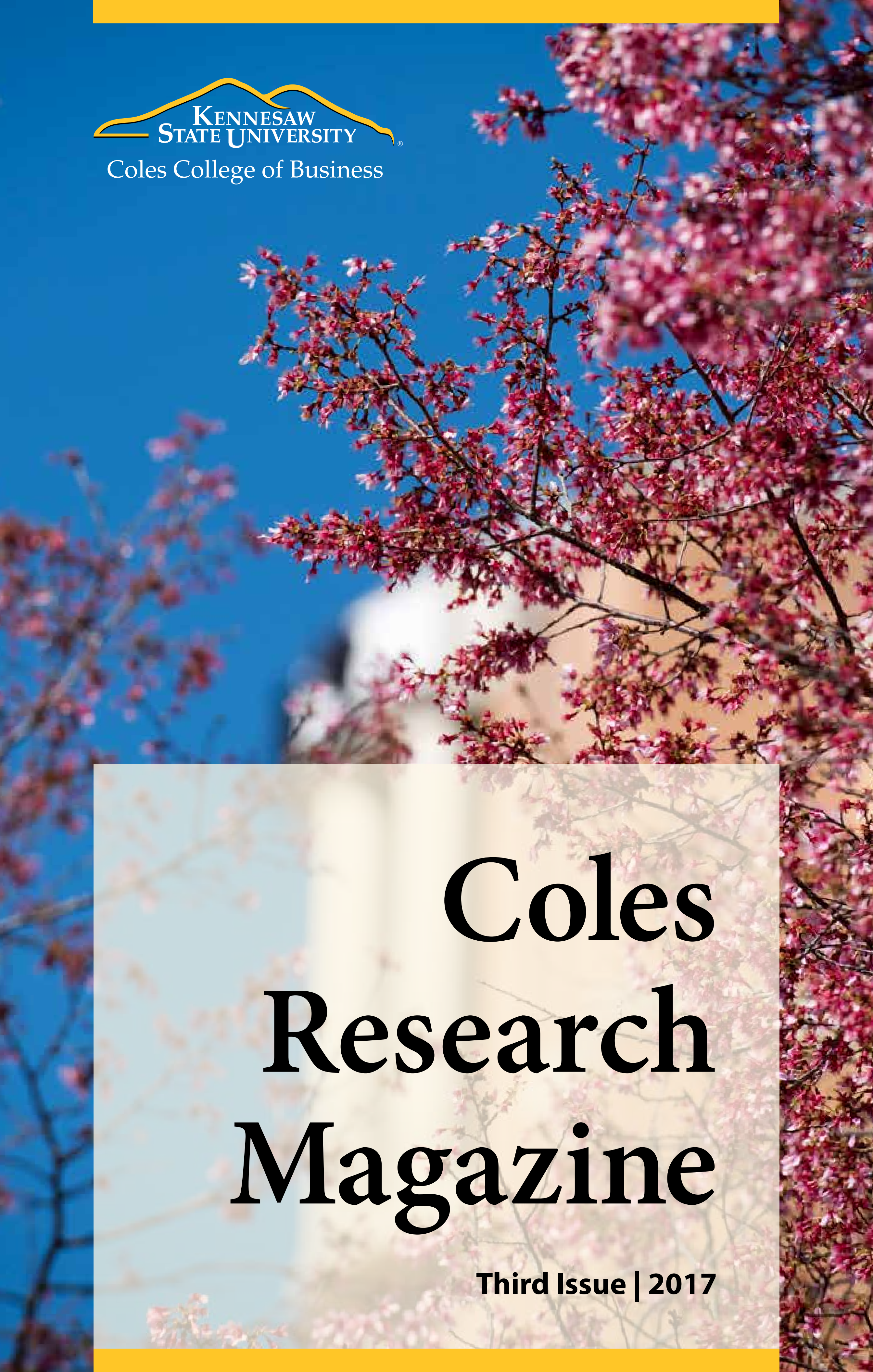

Kennesaw State University

Coles College of Business

Coles Research Magazine

Third Issue | 2017

Message From the Dean

Welcome to the third edition of the Coles Research Magazine.

The articles featured in this issue of the Coles Research Magazine represent the brand of research that we value at the Coles College where having an impact on both practice and theory matters. Our faculty members do research that is applicable, relevant, and translatable to business. At the same time, their work impacts their academic communities through knowledge discovery and dissemination. Many of our faculty members work in close collaboration with corporate partners who invest in their research because they know it has an impact in the business world as well in the classroom.

Research in this current issue represents the diverse interests of our faculty and covers topics like corporate governance, entrepreneurship, social media, family business and taxation strategies. Based on the articles published in this edition, I think you will agree with me that our scholars continue to advance our mission of excellence in research by addressing important questions of interest to business, to students and to the academic community.

Kathy S. Schwaig
Dean
Michael J. Coles College of Business
Kennesaw State University

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** Coles College of Business faculty highlighted in bold.*

The Nominating Committee Process: A Qualitative Examination of Board Independence and Formalization

Richard Clune, Dana R. Hermanson, James G. Tompkins and Zhongxia (Shelly) Ye

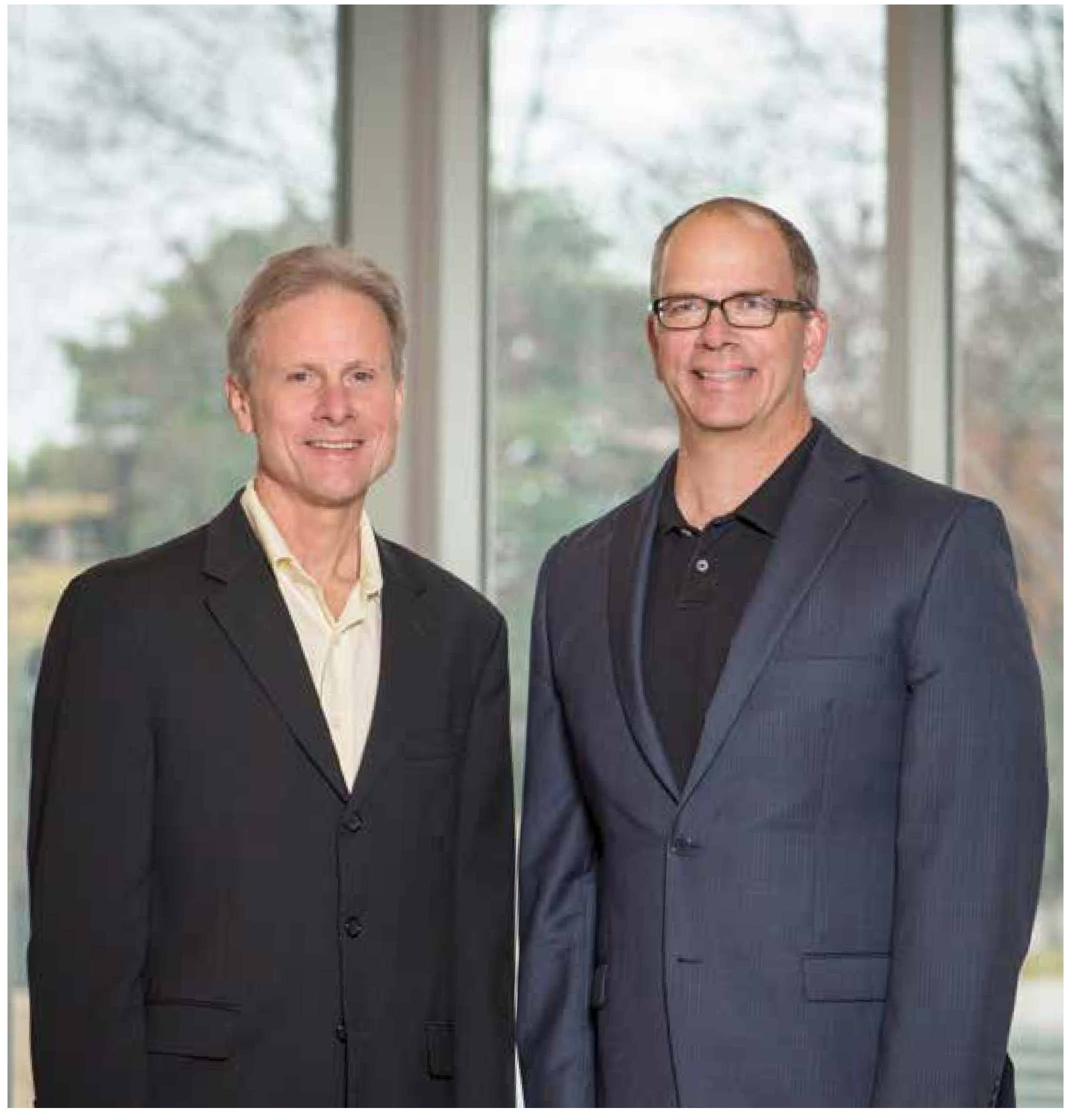
Contemporary Accounting Research,
Vol. 31, Issue 3 (June) 2014, pp. 748-786

Overview

The nominating committee (NC) of the board of directors identifies and nominates individuals for board service, thus establishing the board's membership. Despite this important role, relatively little is known about how NCs search for new directors. Based on interviews of 20 U.S. public company NC members, we focus on two primary questions: (1) how much influence does the Chief Executive Officer (CEO) have over director searches; and (2) how formal are director searches? We find that CEO influence in the director nomination process varies widely, from little CEO influence to near total control by the CEO. Also, there is considerable variability in the formalization of the director nomination process. Finally, we find that many interviewees have professional or personal ties to the CEO and that nearly all of the NCs focus on "chemistry" and comfort in the director nomination process, where the often-stated goal is to enhance the board's ability to function effectively and to reduce risk.

Executive Takeaways

- Nominating committees play a key role by identifying new director candidates.
- Despite regulation, CEO influence over director searches remains a risk in some cases.
- CEO influence also can help some companies to attract talented directors.
- A board's focus on chemistry and comfort can reduce director independence.
- Such a focus also may enhance board operations and collegiality.



James G. Tompkins, Professor of Finance
Dana R. Hermanson, Professor, Dinos Eminent Scholar Chair of Private Enterprise

Private Equity Firms' Reputational Concerns and the Costs of Debt Financing

Rongbing Huang, Jay R. Ritter and Donghang Zhang

Journal of Financial and Quantitative Analysis, Vol. 51, Issue 1 (November) 2016, pp. 29-54

Overview

Private equity (PE) firms, also known as buyout groups, are major shareholders of many companies. PE firms are controversial, with many commentators arguing that these financial sponsors gain at the expense of other stakeholders. PE firms have an incentive to push their portfolio companies to pursue risky projects and pay themselves big dividends. If potential bondholders are concerned about such wealth expropriation incentives, they will "price protect" themselves by asking for higher interest rates on the bonds. The reputational concerns of PE firms can help to alleviate their incentives to expropriate bondholders. PE firms generally have more than one portfolio company and often deal with bond investors repeatedly. If one of these companies exploits its bondholders, all companies owned and to be owned by the PE firm will likely face a higher interest rate on their bonds and more restrictive covenants. Using bonds offered during 1992-2011 by companies after their initial public offerings (IPOs), we find that interest rates on bonds offered by PE-backed companies are on average 70 basis points lower, holding other things constant. We also find that PE-backed companies have more conservative investment and dividend policies after bond offerings compared to non-PE-backed companies. These results suggest that PE firms' reputational concerns dominate their wealth expropriation incentives and help their portfolio companies reduce the costs of debt.

Executive Takeaways

- A large fraction of IPOs in the U. S. are sponsored by private equity firms.
- PE firms' reputational concerns alleviate their incentives to expropriate bondholders.
- On average, PE-backed IPO companies have lower costs of debt than other IPO companies.
- On average, PE-backed IPO companies pursue conservative investment and dividend policies.

Rongbing Huang, Professor of Finance

Entrepreneurial Passion and Burnout – Disentangling the Connections

David L. Witt (DBA Student),
Susan L. Young (Committee Co-Chair),
Joseph E. Coombs (Committee Co-Chair) and
Torsten M. Pieper (Committee Member)

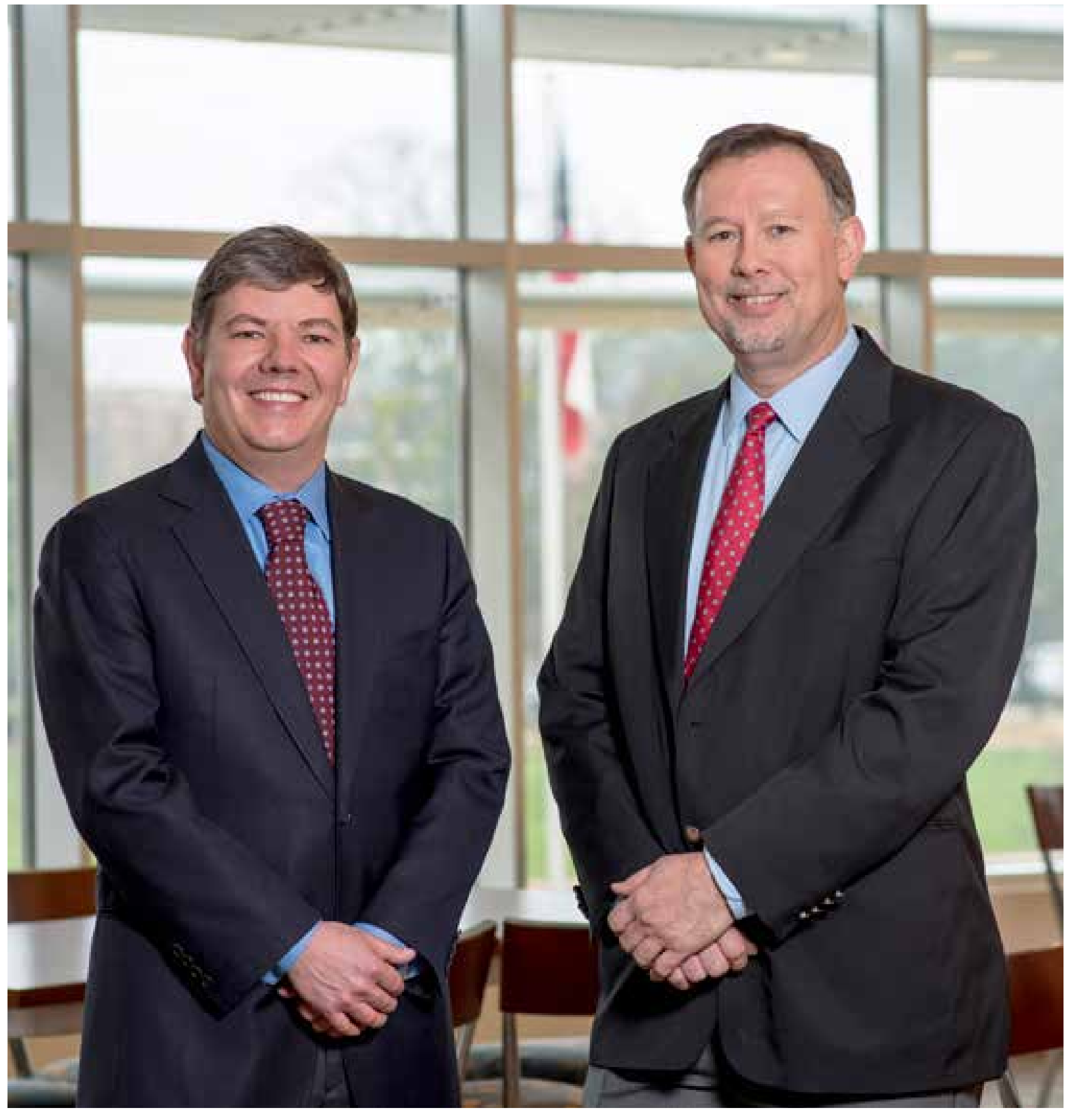
Overview

Entrepreneurs are passionate about their ventures. Fueled by passion, many put tremendous amounts of effort and energy into their endeavors. However, such great effort over time may cause exhaustion, eventual burnout, and loss of productivity. How can entrepreneurs leverage passion's benefits while limiting the potentially detrimental effects of overextending themselves? Present research differentiates passion into harmonious or obsessive, and characteristics of entrepreneurs as: analyzers, who prefer to carefully assess available choices before taking action; and doers, who prefer change and performing something different even if that may still need to be determined. According to our conjecture, when an entrepreneur of a "doer" type engages in duties of an "analyzer" type, stress likely results, and similarly in the opposite case. Stress contributes to exhaustion and leads to burnout, but passion likely acts as a buffer. Harmonious passion is expected to limit "doer" stresses whereas obsessive passion likely limits "analyzer" stresses. The proposed research will use surveys with actual entrepreneurs to explore these relationships empirically. The findings will contribute to better understanding the intricate dynamics underlying passion and burnout and will provide entrepreneurs and their advisors with useful strategies for coping effectively with burnout, stress, and other potentially negative effects of entrepreneurship.

Executive Takeaways

At study completion, useful findings shall include:

- As new firms develop and needs evolve, entrepreneurs must reconsider their job design.
- Entrepreneurs may consider designing their jobs to match their doer/analyzer preference.
- Passion should be assessed regularly to assure entrepreneurial stresses are manageable.
- Investors and boards should consider and monitor entrepreneur job fit and passion.



Torsten M. Pieper, Associate Professor of Management
David L. Witt, DBA Student

The Influence of Internal Tax Resources on Observable Corporate Tax Outcomes

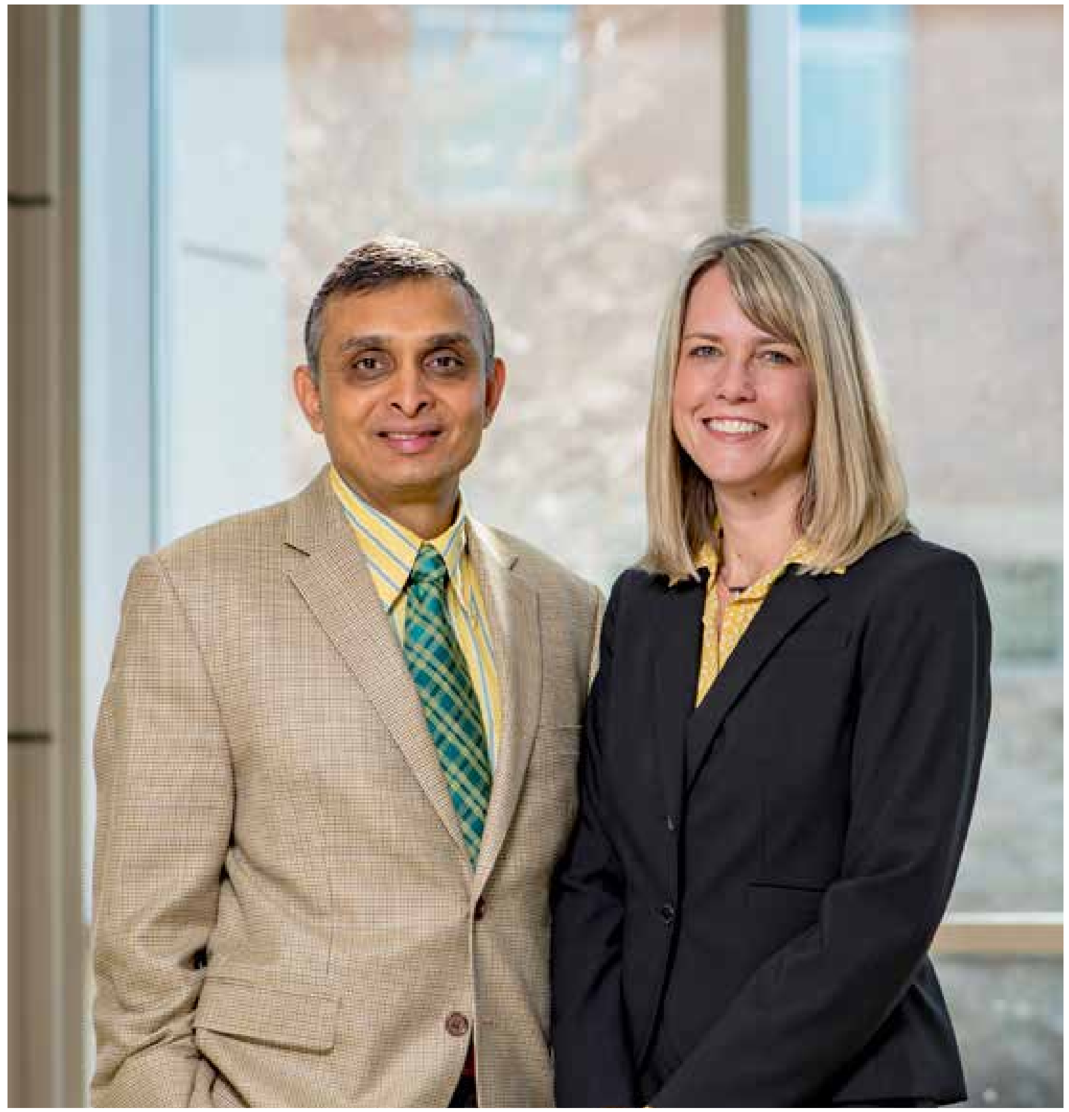
Kim Honaker (DBA Graduate),
Divesh S. Sharma (Committee Chair),
Marshall A. Geiger (Committee Member) and
Jennifer K. Schafer (Reader)

Overview

U.S. corporations' tax saving strategies generate regulator, public market, and the media scrutiny and motivate accounting research on corporate tax outcomes. Although resources such as the internal tax department (ITD) and the senior tax executive (STE) are instrumental in corporate taxation, extant research has not considered these factors due to data limitations. After developing a unique database, we examine how an ITD and characteristics of the STE are associated with two observable tax outcomes: avoidance and aggressiveness. We measure avoidance using book effective tax rates (ETRs) and measure aggressiveness using uncertain tax benefits (UTBs). First, we find ITDs are associated with lower book ETRs and higher UTBs. Second, we find STEs with international tax experience or longer tenure are associated with lower book ETRs and higher UTBs, and STEs who are alumni of external auditors are associated with lower book ETRs but not with UTBs. Third, we find external auditors can dampen the ITD's influence on both of these outcomes through the provision of auditor-provided tax services (APTS). Finally, we find audit committee legal and tax experts impose some level of conservatism on tax outcomes, while Chief Financial Officers (CFOs) with a tax background are associated with more tax aggressiveness.

Executive Takeaways

- Firms with internal tax resources yield beneficial tax reporting outcomes, but some strategies may be aggressive.
- Auditors providing consulting tax services tend to dampen an internal tax department's influence on tax outcomes.
- Senior tax executives who are an alumnus of the client's audit firm are associated with lower effective tax rates.
- Audit committee members with legal or tax expertise are associated with lower uncertain tax benefits.
- CFOs with a tax background are associated with higher uncertain tax benefits.



Divesh S. Sharma, Professor of Accounting
Jennifer K. Schafer, Associate Professor of Accounting

Ernst & Young (EY) - KSU Global Family Business Survey

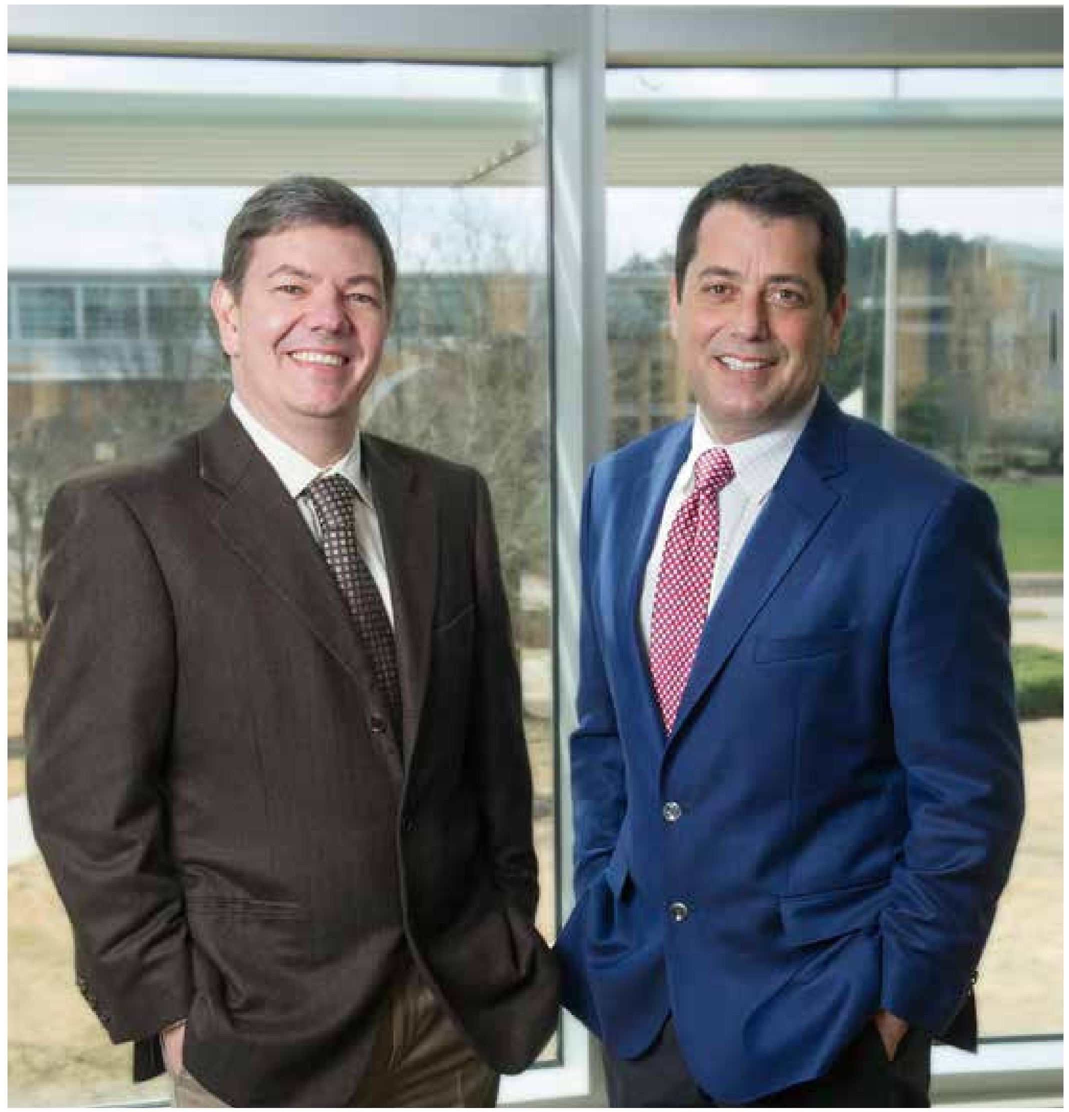
Joseph H. Astrachan and Torsten M. Pieper

Overview

The EY-KSU Global Family Business Survey, the first-ever global investigation of its kind, is a comprehensive study that identifies, analyzes and benchmarks the competitive advantages and challenges facing large entrepreneurial family businesses around the world. Toward this aim, we surveyed the largest family businesses in each of the top 21 global markets (n=1,000), through phone interviews in the respective country language conducted by a professional survey firm, and we uncovered the sources of their everlasting success. What we found is that these companies optimize both family cohesion and profitable business growth. If too much emphasis is placed on one over the other, both are likely to suffer. More specifically, we were able to identify several key strategies that contribute to striking this delicate balance. The most successful family businesses actively nurture harmonious family relationships; they consciously brand themselves as family businesses; they invest in sustainable business practices; they focus on the future, preparing the next generation to enter the business; they use governance mechanisms to keep the family involved in the business (not to shut it out); and they value and actively encourage women leaders.

Executive Takeaways

- Family businesses are thriving around the world.
- We investigate 1,000 of the largest family businesses in the top 21 global markets.
- Our report identifies the secrets of their longevity and success.
- Strengthening family cohesion and businesses sustainability are keys to success.



Torsten M. Pieper, Associate Professor of Management
Joseph H. Astrachan, Professor, Wells Fargo Eminent Scholar Chair of Family Business

Solving the Mystery of Social Media for Small Business Ventures

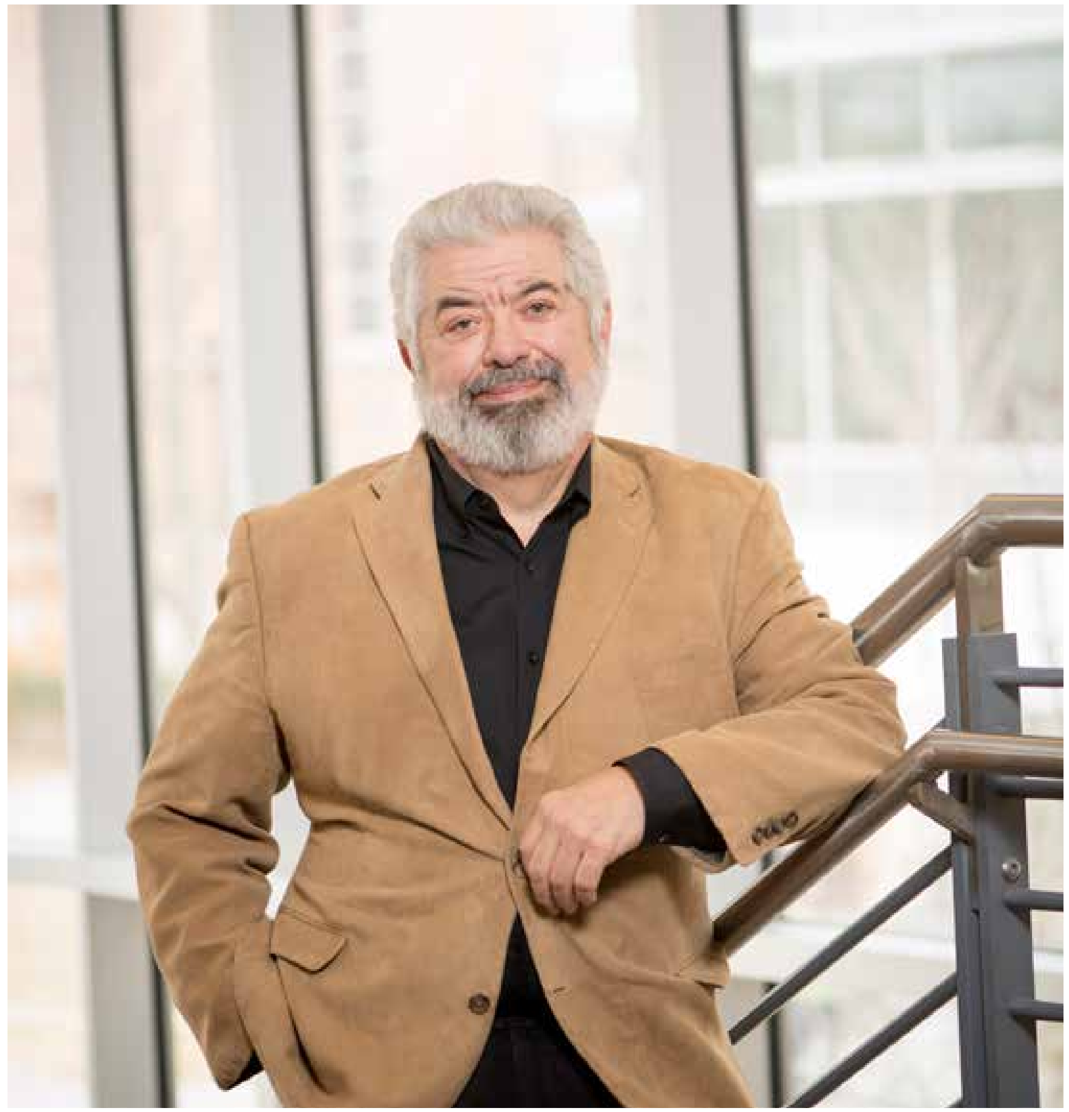
Michael Serkedakis

Overview

Since beginning to teach in 2006, I have had frequent had anecdotal discussions with students concerning specific application of marketing principles and promotional techniques in entrepreneurial small enterprises in my marketing courses. Requests for marketing plans and integrated communications plans from students, friends, and students' families were numerous. In 2010, I designed a course, MKTG 4666, Marketing for Small Ventures, to meet this need. Since then, I have conducted the class 12 times with 408 students, serving local clients in Kennesaw. Each received customized marketing plans, market studies and campaigns. The net gain for students is an opportunity to utilize their marketing education and skills to assist a real world, local business with marketing expertise and social media plans. The net gain for clients is help with marketing efforts at minimal cost and often, with new customers and increased business. Clients visited class and students visited the client's site or future site. The City of Kennesaw has been involved with students and has been providing economic and demographic data.

Executive Takeaways

- Most entrepreneurs do not understand marketing campaigns.
- Most entrepreneurs do not understand the business application of social media.
- Few entrepreneurs appreciate the need to analyze social media data.
- Small businesses have minimal appreciation for research in making decisions.
- Government entities have little experience in entrepreneurial engagement.



Michael Serkedakis, Lecturer of Marketing & Professional Sales

National Science Foundation Grant:

Establishment of a Mentored Cybersecurity Research Workshop for Graduate Students and Support for the Conference on Cybersecurity Education, Research, and Practice

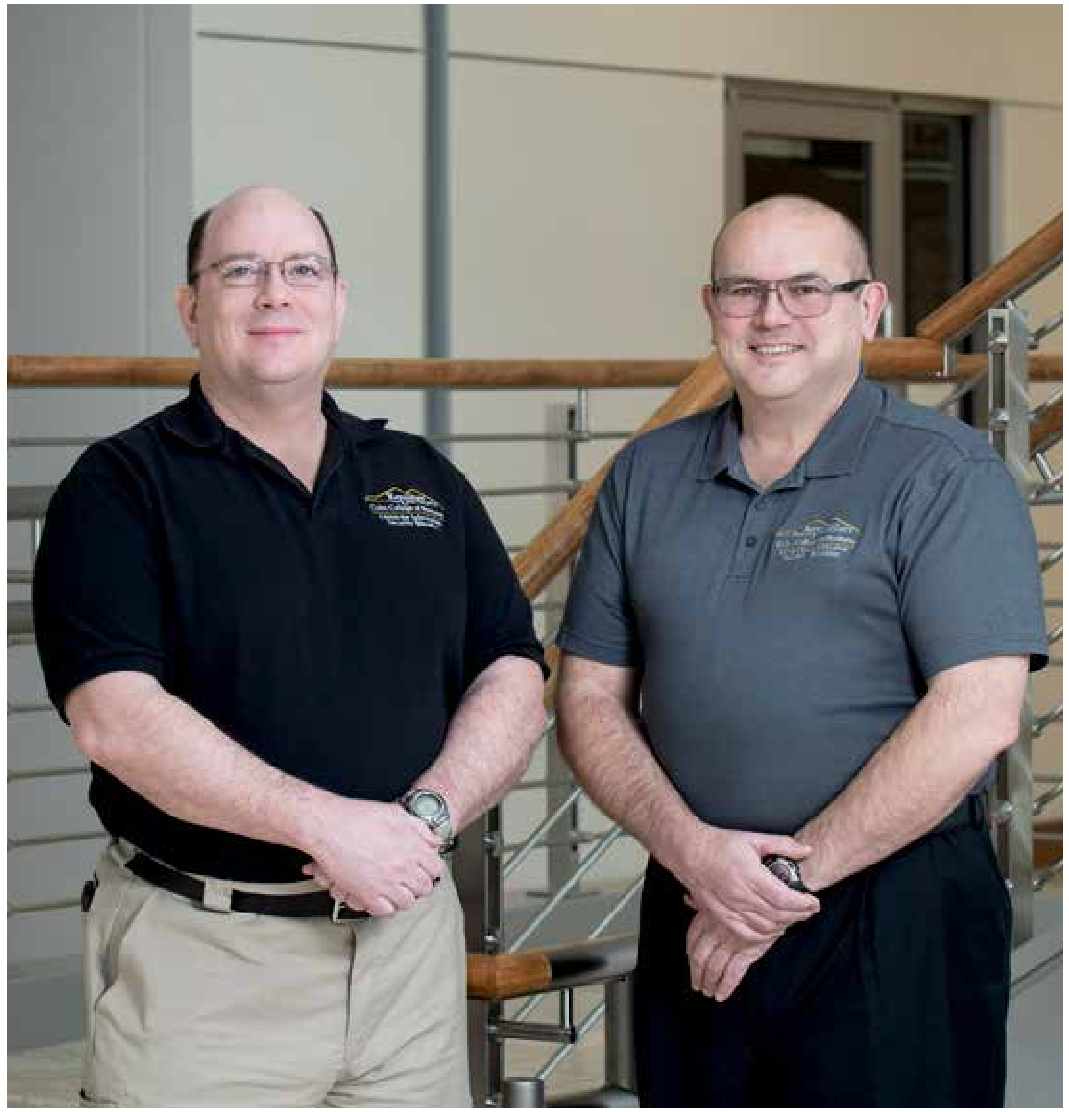
Michael E. Whitman and
Herbert Mattord

Overview

As evidenced in the public media, the U.S. has a severe shortage of qualified cybersecurity professionals, with forecasts showing that demand is increasing at a growing rate. The objective of this project was to facilitate increased interest in cybersecurity careers and cybersecurity hygiene through a research workshop for graduate students interested in cybersecurity. To encourage participation, the project provided support to students to attend the workshop and associated Conference on Cybersecurity Education, Research, and Practice (CCERP). The project also supported undergraduate research in Cybersecurity Hygiene, also known widely as Security Awareness, by funding stipends for undergraduate students to attend the conference and conduct poster sessions. The final component was the use of keynote speakers to address the dual themes of workforce development and cybersecurity hygiene. The keynote speakers were invited to serve on a panel discussion later in the conference to share their insights. Both the faculty recruited as mentors and the keynote speakers received support to attend the event.

Executive Takeaways

- Improved visibility and understanding of cybersecurity in the academic community.
- Opportunity to increase the number cybersecurity professionals in both academics and graduating to industry.
- Support for national initiatives such as National Initiative for Cybersecurity Education (NICE).



Michael E. Whitman, Professor of Information Systems
Herbert Mattord, Associate Professor of Information Systems

Responsible Management Education in the Coles College

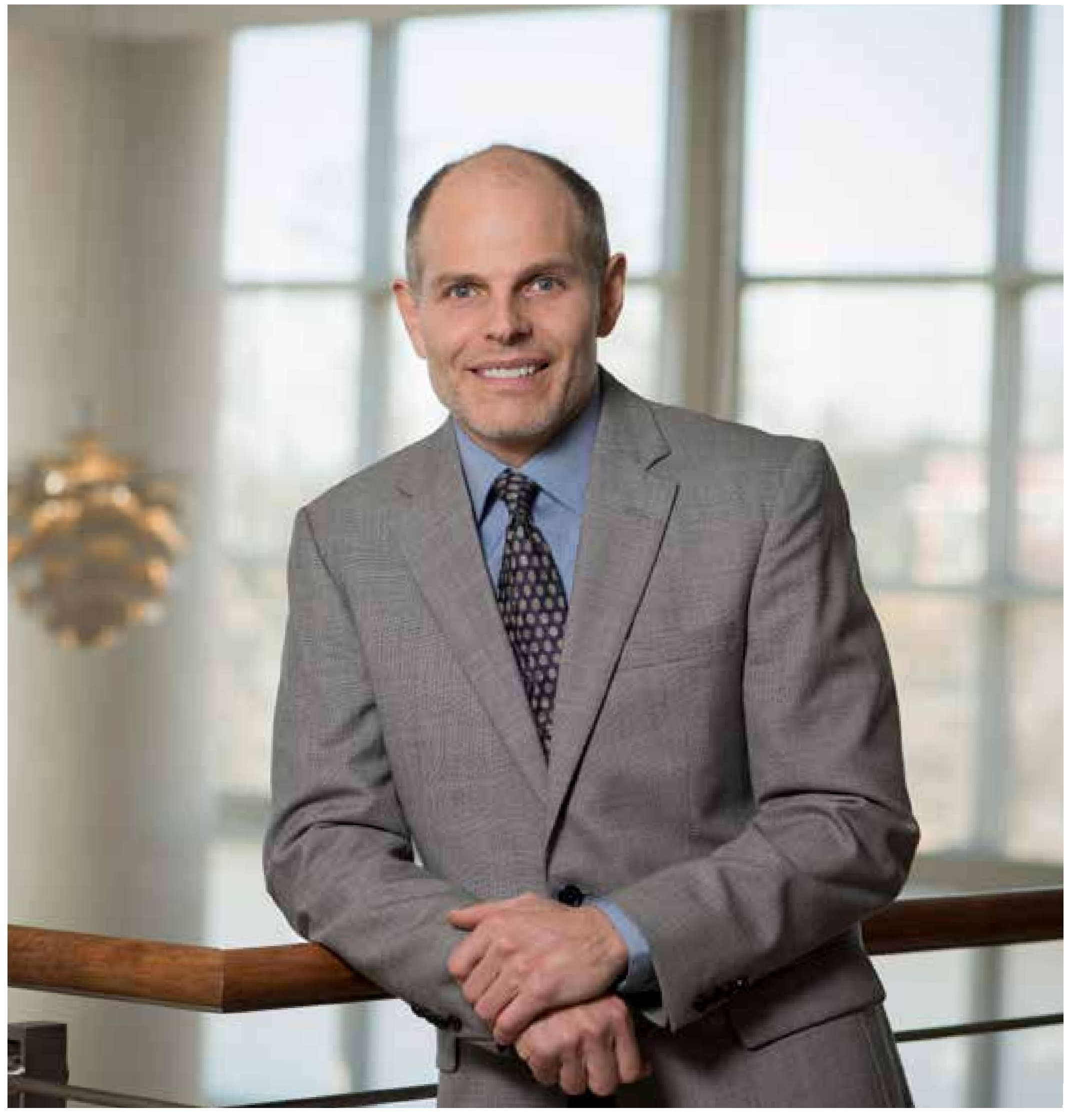
Michael J. Maloni

Overview

Recurring disclosures of large scale corporate scandals like that at Volkswagen and Wells Fargo enhance the significance of developing the next generation of ethical global business leaders. The Coles College of Business is a signatory of the United Nations Principles of Responsible Management Education (U.N. PRME), which promotes "an engagement structure for academic institutions to advance social responsibility through incorporating universal values into curricula and research." We recently surveyed more than 1,000 Coles students about their attitudes and perceptions about responsible management education. We found that students in the early stages of their education maintain a naïve level of confidence in their responsible management skills. Yet as they progress, they recognize the complexities and challenges of responsible management and in turn, lose a degree of confidence in their skills. As they near graduation however, the students regain their confidence, reflecting the impact that an effective PRME program has in preparing students for their careers. We are currently collecting Coles faculty perspectives to compare to the student results in order to drive continuous improvement of responsible management education in the college. We are also attempting to collect data from other PRME institutions to benchmark best practices in responsible management education.

Executive Takeaways

- Business students start with a naïve level of confidence in responsible management.
- Students later recognize the difficulty in applying responsible management in practice.
- By graduation however, students reaffirm their confidence based on their coursework.
- The results therefore depict the importance of applied responsible management education.



Michael J. Maloni, Associate Professor of Management & Entrepreneurship

Agency Theory and Corporate Governance in China: A Meta-analysis

Canan C. Mutlu, Marc Van Essen, Mike W. Peng and Sabrina F. Saleh

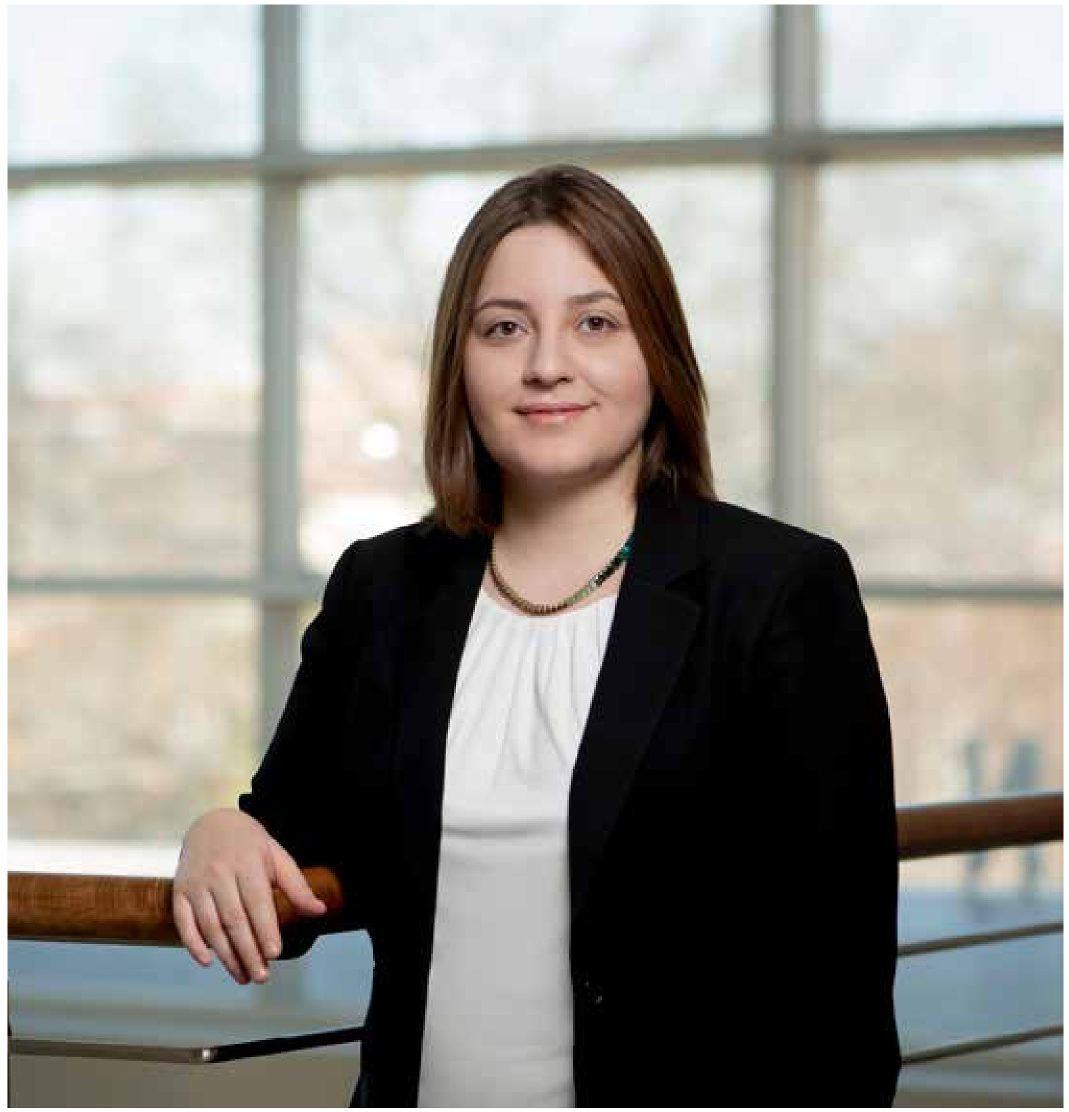
Coles Working Paper Series, FALL16-10, November 2016

Overview

Do "good corporate governance" principles apply to China? A straightforward answer to this question is lacking because evidence is inconclusive across studies. Leveraging a database consisting of 81 studies and 272 effect sizes, along with 200,739 firm observations and 636,713 firm-year observations between 1991 and 2008, we endeavor to fill this gap by conducting the first meta-analysis on the China literature with two foci. First, we assess the impact of (i) board independence, (ii) board leadership structure, and (iii) managerial incentives on firm performance, as these elements have been central to Chinese corporate governance reforms. Second, we extend current theorizing by showing support for the temporal hypothesis which states that over time, with the improvement in the quality of market institutions and development of financial markets, the monitoring mechanisms of the board become more important whereas the incentive mechanisms lose their significance.

Executive Takeaways

- "Good" corporate governance mechanisms help firm performance in China.
- Board independence and managerial incentives matter for higher firm performance.
- Institutional advancements over time become a significant factor in this relationship.



Canan C. Mutlu, Assistant Professor of Management

Interpersonal Affect, Accountability and Experience in Auditor Fraud Risk Judgments and the Processing of Fraud Cues

Jennifer K. Schafer and Brad A. Schafer

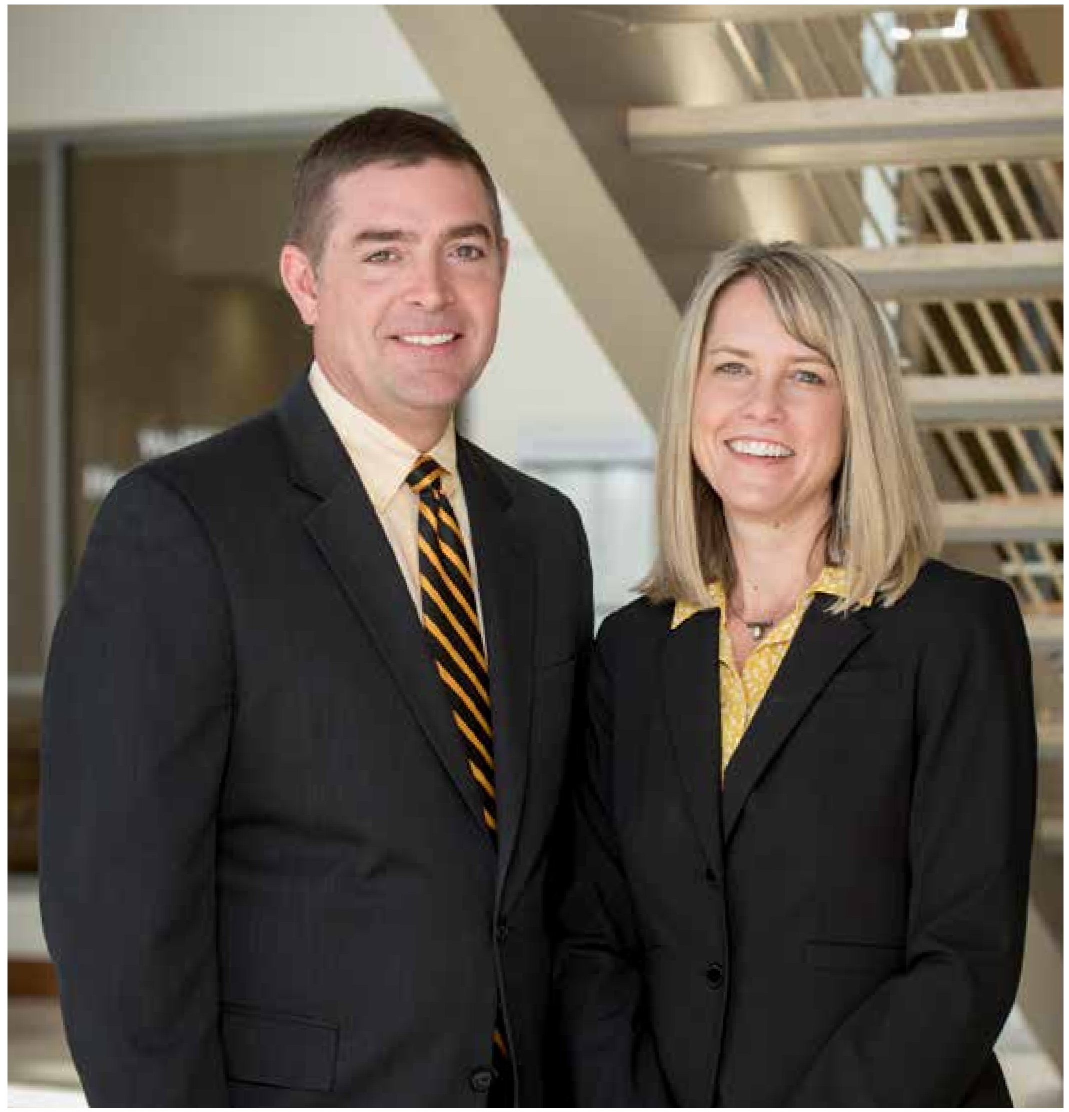
Coles Working Paper Series, SPRING17-04, March 2017

Overview

Auditors must contend with an array of management personalities during the course of an audit engagement. Some clients by their nature are more likeable, while others may create a stressful or unpleasant environment for the engagement. This paper examines whether management likeability that is unrelated to fraud risk influences an auditors' fraud likelihood judgments for the manager's company. The paper also examines whether accountability and experience, which have been shown to improve auditor judgments in other settings, reduces the consideration of manager likeability as a factor in fraud judgments. Results indicate that more likeable (dislikeable) clients cause auditors to judge the likelihood of fraud to be lower (higher). Accountability (informing auditors they will be required to explain their judgment) moderates this effect, but only for experienced auditors. Results also indicate that client likeability influences inexperienced auditors' fraud assessments by biasing specific evidence cues that refer to management. That is, a manager's statements related to his or her pressures or attitudes are rated as more (less) indicative of fraud when made by a dislikeable (likeable) manager. These findings suggest that education and training can be improved to better differentiate relevant and irrelevant cues in fraud judgments, particularly for less experienced auditors.

Executive Takeaways

- A client's likeability can irrationally influence auditor fraud judgments for that firm.
- Requiring justification reduces the influence of likeability for experienced auditors.
- Inexperienced auditors attribute irrelevant affect to relevant management fraud cues.



Brad A. Schafer, Associate Professor of Accounting
Jennifer K. Schafer, Associate Professor of Accounting

Multiechelon Lot Sizing with Intermediate Demands and Production Capacity

Ming Zhao and Minjiao Zhang

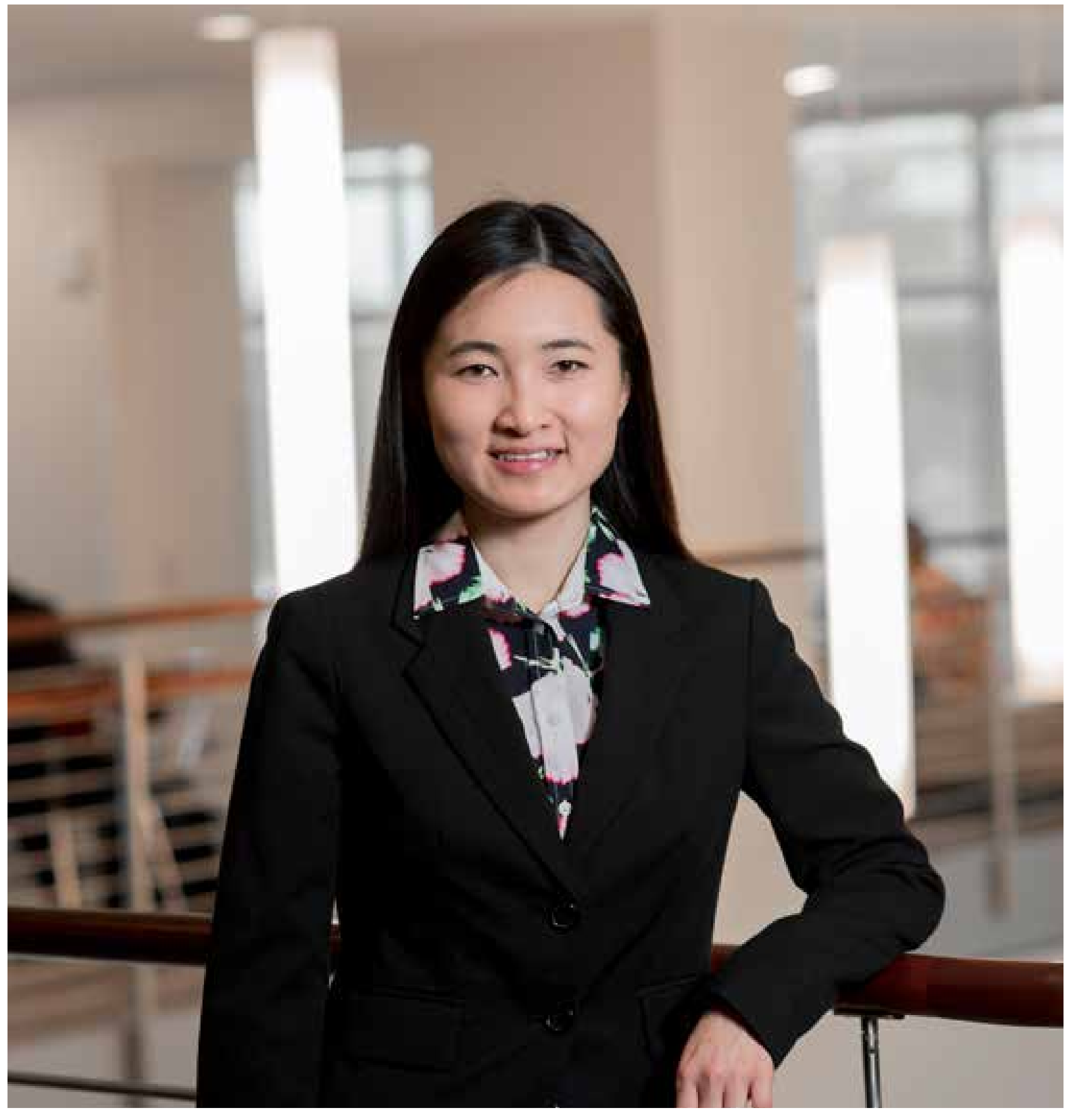
Coles Working Paper Series,
FALL16-02, November 2016

Overview

We study a multiechelon supply chain model where production takes place at the first echelon and the products are either stored as inventory or transported to the next echelon. Demands can exist in the production echelon as well as any transportation echelons. With the presence of stationary production capacity and general cost functions, our model integrates production, inventory and transportation decisions, and generalizes existing literature on many multi-echelon lot-sizing models, most of which allow demands at the end echelon only. We prove that the multi-echelon lot-sizing problem is NP-hard. For uncapacitated cases, we propose an algorithm to solve the multi-echelon lot-sizing problem with general concave costs. With fixed-charge costs, an innovative algorithm is developed, which outperforms known algorithms for different variants of the multi-echelon lot-sizing problem and gives a tight, compact extended formulation with much fewer variables and constraints. For cases with stationary production capacity, we propose efficient dynamic programming based algorithms to solve the problem with general concave costs as well as the fixed-charge transportation costs without speculative motives. More importantly, our algorithms improve the computational complexities of many lot-sizing models with demand occurring at end echelon only, which are the special cases of our multi-echelon lot-sizing model.

Executive Takeaways

- Intermediate demands practically exist in multiechelon system and should be considered.
- The multiechelon lot-sizing problem, in which demands can exist in any echelon, is NP-hard.
- We study variants of multiechelon lot-sizing problems and propose efficient algorithms.
- Our algorithms outperform the best known methods proposed in the literature.



Minjiao Zhang, Assistant Professor of Quantitative Analysis

Analysts' Revenue Forecasts and Discretionary Revenues

Sunay Mutlu

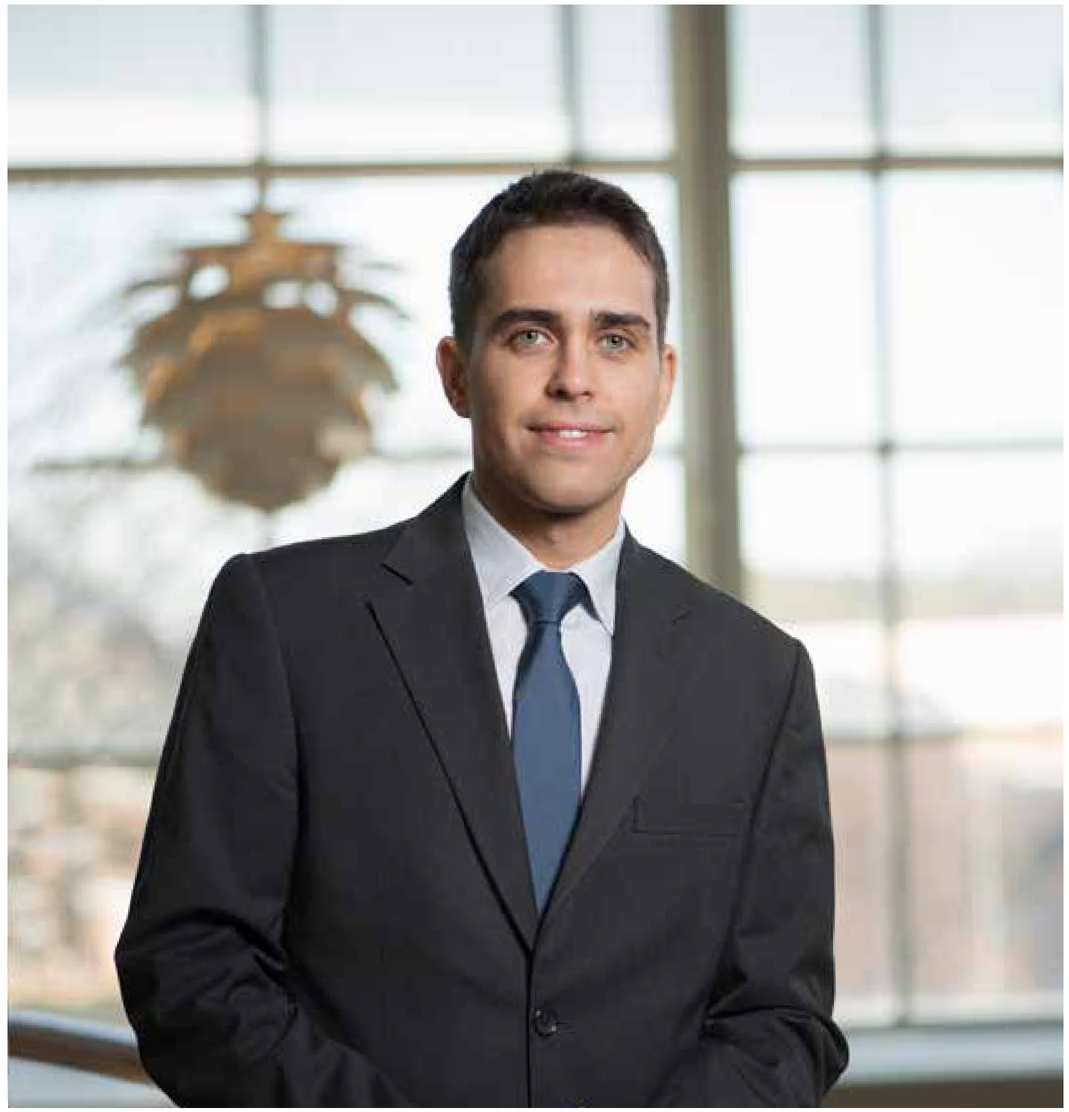
Coles Working Paper Series,
FALL16-13, November 2016

Overview

I investigate whether the initiation of analysts' revenue forecasts has an effect on discretionary revenues in firms. Analyzing quarterly data, I find evidence that the initiation of analysts' revenue forecasts is associated with a decrease in the magnitude of discretionary revenues in firms, controlling for several firm characteristics. The evidence is consistent with the disciplining role of financial analysts. The results are robust to different specifications of benchmark samples. The results are also robust to the entropy balancing procedure, which minimizes the covariate imbalance between treatment and control samples. Further analyses show that the magnitude of discretionary revenues are generally higher before the first initiation of the revenue forecast, but it decreases immediately after the first initiation. I also find that the initiation of revenue forecasts is also associated with a decrease in the magnitude of total discretionary accruals.

Executive Takeaways

- Financial analysts start their earnings estimation with a revenue forecast.
- Public dissemination of analysts' revenue forecasts affects firms' revenue reporting.
- Existence of analysts' revenue forecasts restricts a firm's discretion over revenues.
- Financial analysts play a disciplining role over financial reporting.



Sunay Mutlu, Assistant Professor of Accounting

Robust Inference in Fuzzy Regression Discontinuity with Multiple Forcing Variables

Rong Ma, Ang Sun
and Zhaoguo Zhan

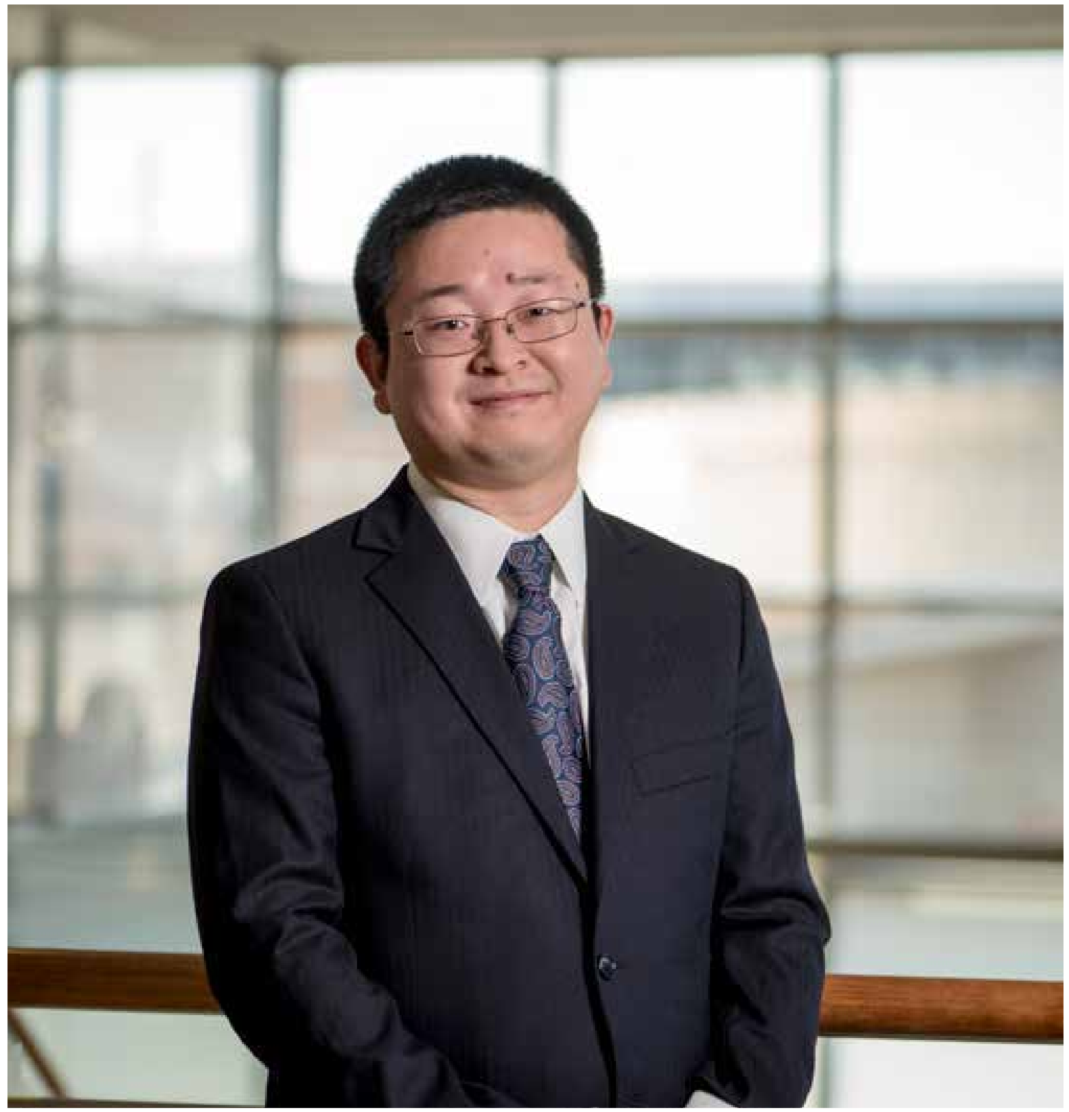
Coles Working Paper Series,
FALL16-08, November 2016

Overview

Regression Discontinuity (RD) identifies causal effects by exploiting the discontinuity in treatment assignment. Since the late 1990s, it has become a standard tool of applied researchers. We propose a novel test on the causal effect in RD designs since the commonly used t-test potentially suffers from size distortion. Our test is particularly appealing when RD designs are associated with multiple forcing variables for treatment assignment and/or non-substantial magnitude of discontinuity in the probability of receiving treatment. For illustration, we use the proposed test to study whether the awareness of hypertension decreases fat intake. Based on the outcome of the test, we cannot reject that fat intake remains unaffected by hypertension awareness, nor can we reject that fat intake decreases by the amount reported in the existing literature.

Executive Takeaways

- Regression Discontinuity allows multiple forcing variables to determine treatment assignment.
- When the magnitude of discontinuity in receiving treatment is small, the outcome by t- test is unreliable.
- Our test is robust to magnitude of discontinuity, and is applicable with multiple forcing variables.
- Whether the hypertension diagnosis decreases fat intake needs further investigation.



Zhaoguo Zhan, Assistant Professor of Economics

Special thanks to the following faculty and committees for their significant contributions to the Coles Research Magazine.

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