Regulations and corporate financial and investment policy

The special issue has its primary focus on topics involving regulatory, financial and investment content. The rich mix of empirical papers exploring regulations, practices, models, etc., from the world of business explains how those impact mood and decisions in corporate finance across major markets. The research studies establish several factors that can affect finance in practice and as a discipline ranging from social media to legislations and financial reporting to modeling. These studies contribute to the growing literature on the impact of policy on corporate activities.

The paper by Mishra et al. (2019) seeks to understand any possible connection between the appointment of chief financial officer (CFO) and debt-equity choice of a firm. During their research, it was unraveled that an internal candidate, primarily in “value firms,” in the CFO position can substantially decrease information asymmetry (IA) leading to lesser risk in market and thereby reduced cost of equity financing. However, in firms with high IA, even internally chosen CFO was found to prefer debt financing due to its “disciplining role.”

The relevance of information is further emphasized by Amin et al. (2019) in their article that examines the potential role played by social media in the “information dissemination and information generation” when it comes to corporate performance forecasts by analysts. The study reveals that there is no positive responsiveness between the two; in fact a negative relationship has been observed. However, the research confirms that social media’s part, as a source of fresh information that can potentially enhance an analyst’s accuracy, is increasing.

On the other hand, Guo et al. (2019) aim to test “if relative asset purchase values differ” amid single and dual-class purchasers. The results are positive for dual-class purchasers, only for family-controlled firms. The other factors that can impact the gap happen to be dual-class structures, extent of family ownerships and board composition.

On the contrary, in another research, potential impacts due to regulatory changes were studied. Bhabra and Rooney (2019) explore the post Sarbanes-Oxley (SOX) era for possible “changes in the market’s assessed value of capital expenditures” and its potential impact(s) on corporate governance in firms. It finds that the market reacted to the regulatory changes by shifting to value assessment which holds consistent with the agency theory. However, although inferences from the study suggest that agency conflicts have decreased after SOX implementation, evidence exists that there are firms that had to shoulder heavy compliance costs and/or witness managers become too disinclined at risk-taking.

The role of legislation has been further studied by Bhabra et al. (2019) in their work, covering the history and journey of Canadian Sarbanes-Oxley (popularly referred to as C-SOX or Bill-198) regulation. In their work, they have discussed the causalities that paved the way, among skepticism, for the regulation in Canada. Different aspects regarding the regulation were also studied and compared, where possible, with the US equivalent, i.e. US SOX. The review found that although there were a lot of positive aspects to the regulation, it has its critics as well.

Trends in reporting has been given priority by Karim and Sarkar (2019), and using a large sample of financial statement footnotes for their analysis, they find that firms audited by Big 4 auditors have fewer footnotes than firms audited by non-Big 4 auditors and conclude that firms that use non-Big 4 auditors tend to obfuscate annual reports by using more footnotes and in turn reduce earnings persistence.

Finally, from an internal operations perspective, the case study by Lelkes and Krueger (2019) is aimed at explaining the benefits of recent models, “Duration-Based Costing (DBC)
and its affiliate Modified Duration-Based Costing” which is time based, against traditional cost allocation method followed at companies. The suitability and/or viability of either of the two new methods, however, remain dependent on the organizational capacity and requirement to “separate fixed and variable costs.”

Ashrafee Tanvir Hossain  
University of Ottawa, Telfer School of Management, Ontario, Canada, and  
Harjeet Bhabra  
Saint Mary’s University, Halifax, Canada

References