A Response to “Are a Few Huge Outcomes Distorting Financial Misconduct Research?”

Andrew C. Call¹, Nathan Y. Sharp², and Jaron H. Wilde³

LINK TO ABSTRACT

Kuvvet’s paper discusses extreme observations in research on financial misconduct and also examines the robustness of the findings in Call, Martin, Sharp, and Wilde (2018, Journal of Accounting Research) (hereafter CMSW) to the removal of these observations.

The published version of CMSW empirically addresses the role of extreme observations in enforcement actions with an estimator designed specifically to handle skewed data (Poisson pseudo-maximum likelihood) and with additional robustness tests, including one focused on the incidence rather than the magnitude of penalties. Other claims offered by Kuvvet reflect a misunderstanding of both the enforcement action setting and the whistleblower designations in CMSW. For example, unlike many other settings in accounting, finance, and economics where the focus is often on the average firm, the enforcement action setting is inherently extreme. As another example and as explained in the published paper, CMSW’s “tipster” and “non-tipster” whistleblower designations are defined specifically in relation to the enforcement process and are not an attempt to identify the individual who first uncovered the misconduct. Lastly, Kuvvet argues that CMSW’s findings speak to correlation rather than causation. The published version of CMSW makes this point clearly throughout the paper.

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References


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