

CRAIG J. CHAPMAN

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SSRN Research Page: http://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=417740

Education

HARVARD BUSINESS SCHOOL, BOSTON, MA

Doctor of Business Administration degree, Accounting and Management, 2008.

Dissertation Committee: Professors Paul M. Healy, V.G. Narayanan & Thomas J. Steenburgh.

HARVARD BUSINESS SCHOOL, BOSTON, MA

Master of Business Administration degree, 2003. Graduated with High Distinction as a George F. Baker Scholar.

UNIVERSITY OF OXFORD – MAGDALEN COLLEGE, ENGLAND

Master of Arts degree in Mathematics, 1995

Bachelor of Arts degree in Mathematics, 1989. Graduated with Honors.

Publications

“Buy-Side vs. Sell-Side Analysts’ Earnings Forecasts” with Boris Groysberg and Paul M. Healy. The paper examines relative accuracy and bias of different analysts and proposes a number of possible explanations for the findings that the analysts at the Buy-side firm studied appear significantly less accurate and more optimistic than those working for sell-side firms. *Financial Analysts Journal*, July/August 2008, Vol. 64, No. 4: 25-39.

“An Investigation of Earnings Management through Marketing Actions” with Thomas J. Steenburgh.

Combining new, hand-collected data regarding firm performance with an existing and widely studied dataset, the paper examines how firms use marketing actions to manage earnings. We identify predictable changes in the frequency of marketing actions (aisle displays, feature advertisements, coupons, and price discounts) at the fiscal quarter ends and demonstrate how these vary in relation to recent financial performance of the manufacturer. *Management Science*, January 2011, Vol. 57, No. 1: 72-92.

Grants and Awards

Kellogg School of Management Chairs’ Core Course Teaching Award for excellence in teaching during 2010-2011

Larry Revsine Research Fellow, Kellogg School of Management, 2010-2011

Zell Center Faculty Fellow, Zell Center, Kellogg School of Management, 2009-2010

Working Papers

“Real Earnings Management in Sales, the Interaction with Finance and Appearance in Financial Reports” with Michael J. Ahearne, Jeffrey P. Boichuk, and Thomas J. Steenburgh. We conduct a comprehensive survey of sales leaders to determine the specific nature of real earnings management behaviors in the sales function. We find that sales leaders are more likely to be asked to manage expenses over revenues. Requests to do so come from CEOs and CFOs more frequently than from COOs and Board Members. The linkage between earnings management in the sales and finance functions is strong. Earnings management requests are closely related to: (i) the finance department’s involvement in strategy development; (ii) the level of earnings management the finance department engages in; and, perhaps consequently, (iii) the level of conflict between the sales and finance departments. Results also suggest that members of the sales function are somewhat rational; when they anticipate interference later in the fiscal year, they change behaviors earlier in the same year to mitigate the impact. Finally, comparisons with financial ratios show that firms most suspected of earnings management have slightly higher receivables and payables, but lower gross margins consistent with a “channel stuffing” or end-of-year “push” strategy and worse stock market performance over one- and five- year periods.

“The Effects of Real Earnings Management on the Firm, its Competitors, and Subsequent Reporting Periods”

Combining new supermarket scanner data with firm-level financial data, the paper considers ‘real’ earnings management behavior evidenced by price reductions relating to different benchmarks hypothesized in prior literature as being important to managers. It further examines the effects of such price reductions on competitor behavior as well as their persistence across multiple reporting periods. The evidence shows that firms reduce prices when key competitors are expected to have earnings management related incentives to discount prices and that the effects of price reductions associated with a single earnings management target are persistent over multiple reporting periods.

These findings suggest the effects of Real Earnings Management on subsequent reporting periods and competitor behavior are greater than previously thought.

“The Hangover Effects of Real Earnings Management: Patterns of Real Earnings Management and Subsequent Performance”

Using a new supermarket scanner data set for multiple product categories, this paper shows a relation between subsequent firm performance (in terms of earnings and stock prices) and retail prices. In a period of economic slowdown, these effects are different for price changes which are made at a firm's fiscal year-end than at other times of the year consistent with year-end price changes being associated with earnings management behavior. Further, these effects vary depending on how severe prior-year price changes were as well as the price elasticity of demand for each individual product.

“The Impact of Accounting Rules on the Systematic Risk of Pension Plans” with James Naughton. This paper examines how changes in disclosure and recognition requirements impact the market's ability to value risk associated with a firm's financial assets. We use defined benefit pension plans as the setting for this study due to the large magnitude of their risks as well as the variety of changes in both disclosure and recognition requirements over recent years. To more precisely examine the impact of accounting standards on pension risk, we introduce a new analytical framework that divides the contribution of pension risk to the total systematic risk of the firm into two parts: (1) the risk which is due to the funded status of the plan (“Deficit Risk”), and (2) the risk which is due the investment strategy of the plan (“Mismatch Risk”). We hypothesize and find the increased disclosure mandated by FAS132R allows for a better understanding of the Mismatch Risk, and that the recognition requirement of FAS158 allows for better understanding of the Deficit Risk. We also find improvements in the Mismatch Risk that are driven by a better understanding of the investment risk of the pension assets in the post-FAS158 period. Despite these improvements, we find that Pension Risk continues to be undervalued by the market.

“Estimating the Quality of US firms' Internal Control Systems: a Structural Approach” with Gary Chen and Ivan Marinovic. Recent theoretical research indicates that the quality of a firm's internal control system can affect both a manager's ability and her desire to manipulate financial reports and obfuscate the firm's true financial condition. Exploiting variation in the properties of firms' quarterly earnings reports, we are able to estimate structurally how the quality of firms' internal control systems evolve over time. We then relate these values to commonly used measures of earnings' quality, including measures of accrual based earnings management, real earnings management and the probability of restatement.

“An Investigation of the Relationship between Real Earnings Management and Capacity Utilization within Manufacturing Firms and Along the Supply Chain” with Ira Yeung. In spite of several attempts, prior research has been unable to isolate the effects of over-production behavior related to increased promotional and price cutting (which benefit current period earnings primarily through increased sales volumes) from that related to increases in end of period inventory (which benefit current period earnings primarily through the reduction in reported Cost of Goods Sold). In this paper we develop testable hypotheses regarding the prevalence of the two different forms of over-production in an earnings management setting. We then use capacity utilization data from the Survey of Plant Capacity Utilization (1974-2007) and the Annual Capital Expenditure Survey (1993-2005), in conjunction with proxies for firms' incentives to manage earnings, to test how "overproduction" is used as a real earnings management tool and whether the effects flow up the supply chain.

Research Interests

Earnings Management Through Managers Taking Real Actions – specifically the use of price discounts and other promotions close to the end of a measurement period causing customers to accelerate purchase decisions;
The Bias and (In)accuracy of Research Analysts and Other Forecasters;
The use of Fair Value Accounting in financial institutions; and
Risk Allocation and the Role of Real Options in Large Scale Projects.

On the PhD Dissertation Committee (initial placement in parenthesis)

Jingjing Zhang 2011 (McGill)

Jie Zhou 2012 (National University of Singapore)

Teaching Interests

Financial Accounting, Financial Statement Analysis, Managerial Accounting, Financial Forecasting

Teaching Experience

KELLOGG SCHOOL OF MANAGEMENT, MBA PROGRAM, 2009-2012

Accounting for Decision Making (ACCT 430/438B) for MBA students as well as cross-registrants in the LLM-K and JD-MBA programs. Average Teacher Course Evaluation 8.1 (out of 10.0)

HARVARD BUSINESS SCHOOL, MBA PROGRAM, 2004-7

Teaching Assistant. Financial Reporting and Control. Professors Narayanan and Hawkins. Offering twice weekly review sessions on Financial and Managerial Accounting Topics. Available to all MBA students.

HARVARD BUSINESS SCHOOL, PRE-MBA ANALYTICS PROGRAM, 2005-7

Head Teaching Fellow. Professors Narayanan, Piper and Hawkins. Leading team of 6 Teaching Fellows and running Financial Accounting and Excel tutorial sessions for pre-MBA students.

HARVARD BUSINESS SCHOOL, EXECUTIVE EDUCATION, 2006-7

Teaching Assistant. General Management and Leadership Development Programs. Professors Esty and Kaplan. Managing various online financial and managerial accounting tutorials with group/individual lectures and classes.

HARVARD UNIVERSITY, DEPARTMENT OF ECONOMICS, 2007

Tutorial Leader. Developing and taught a Case Based course on Project Finance and Large Scale Investment to Sophomore Economics Majors (Econ. 970). Average Evaluation 4.7 (out of 5.0)

Teaching Materials

Case and Teaching Note: Dragon Soup and Earnings Management – A & B, Kellogg School of Management, Case Numbers 5-211-251(A) and 5-211-251(B), Published 2011

Case and Teaching Note: Jimmy Fu and Moog Inc.: Understanding Shareholders' Equity, Harvard Business Publishing, Case Number 4203, Published June 2010

Case and Teaching Note: Biovail Corporation: Revenue Recognition and FOB Sales Accounting, Harvard Business Publishing, Case Number 4011, Published April 2009

Teaching Note for Merrimack Tractors and Mowers, Inc.: LIFO or FIFO. Harvard Business Publishing, Case Number 3219, Published December 2008

Editorial Positions

Editorial Board - El-Khazindar Business Research and Case Center, The American University in Cairo, Since 2009. American Accounting Association, Financial Accounting Research Section, Section Liaison for 2012 Annual Meeting in respect of Earnings Management submissions.

Invited Presentations/Conferences

- 2012 **The Impact of Accounting Rules on the Systematic Risk of Pension Plans**
American Accounting Association Annual Conference
- Real Earnings Management in Sales, the Interaction with Finance and Appearance in Financial Reports**
University of North Carolina, Charlotte
- 2010 **The Hangover Effects of Real Earnings Management: Patterns of Real Earnings Management and Subsequent Performance**
University of Notre Dame
- Financial Executives International (FEI) Conference on IFRS Convergence, Toronto Accounting Research Conference, Deloitte Trueblood Seminar for Professors**
- 2009 **The Hangover Effects of Real Earnings Management: Patterns of Real Earnings Management and Subsequent Performance**
The Ohio State University, Kansas University, The Wharton School of the University of Pennsylvania
- Toronto Accounting Research Conference, American Accounting Association New Faculty Consortium**
- 2008 **The Effects of Real Earnings Management on the Firm, its Competitors, and Subsequent Reporting Periods**
American Accounting Association Annual Conference, Columbia University, Dartmouth College, Harvard Business School, New York University, Northwestern University, Stanford University, University of North Carolina - Chapel Hill, Yale University.
- Journal of Accounting and Economics Conference, Rochester, NY**

2007 **An Investigation of Earnings Management through Marketing Actions**
 American Accounting Association Financial Accounting and Reporting Section (FARS) Midyear, London
 Business School Trans-Atlantic Doctoral Consortium, MIT Sloan School of Management
American Accounting Association – Deloitte – J. Michael Cook 2007 Doctoral Consortium

2006 **Do Buy-Side Analysts Out-Perform the Sell-Side?**
 American Accounting Association Financial Accounting and Reporting Section (FARS) Midyear

Professional Work Experience and Outside Activities

2012- **GLOBAL SOLAR ENERGY COMPANY (IDENTITY CONFIDENTIAL)**
Consultant and Audit Committee Member. Advising a private solar energy company seeking to both acquire and develop utility scale solar power projects in the US and around the world on all aspects of project financing.

FAMILY SERVICE OF WINNETKA-NORTHFIELD

Treasurer for a 501(c)3 community service organization that promotes the emotional well-being of individuals and families through quality, affordable counseling and psychotherapy.

1997 – 2001 **SITHE ENERGIES - INDEPENDENT POWER PRODUCER** **BEIJING, CHINA**
Vice President and General Manager

General Manager of Puqi Sithe Power Generating Company, responsible to the Board for entire development of \$500 million coal-fired power in central China.

- De facto Finance Director for Sithe in China, managing team of 20 plus multiple consultants, lawyers and commercial bank lenders.
- Led dedicated team to structure and negotiate construction, power sales, coal supply and other project contracts.
- Negotiated debt financing from international and domestic debt markets and guided lender due diligence process.
- Defined and implemented strategy to obtain first State approval for wholly foreign-owned company to borrow long-term debt in local currency from domestic banks.
- Advised project acquisitions teams in Korea and Australia on debt financing and valuation.

1994 – 1997 **BANK OF AMERICA** **LONDON, ENGLAND AND HONG KONG**
Vice President – Project Finance

Financial advisory, debt structuring and lending to leading project financings in power, petrochemical, and infrastructure in the UK, Australia, India, Taiwan, Thailand, and Malaysia.

- Advised British and German contractors on Britain's early private road and prison schemes.
- Evaluated first merchant power plant projects in Australia and advised project sponsors on financing for Taiwan's first privately financed power schemes.

1992 – 1994 **BANQUE NATIONALE DE PARIS** **LONDON, ENGLAND**
Corporate Banking Officer – Project Finance

Project finance with the leading bank group responsible for the Channel Tunnel Project dealing with borrower, syndicate lenders and public sector entities such as the European Investment Bank and the Bank of England.

- Negotiated and structured details of subordination of GBP 7 billion of Senior Debt from 220 banks.
- Performed financial modeling on behalf of bank syndicate and presented evidence to the Bank of England.

1989 – 1992 **MIDLAND / SAMUEL MONTAGU** **LONDON, ENGLAND**
Corporate Banking Officer – Commercial Banking

Graduate Development Program, incorporating transaction identification, debt structuring, negotiation and due diligence for project and acquisition financing for Channel 4 Television, Pizzaland Restaurants and multiple Themeparks.