

Do Major Accounting Events Impact Managerial Ability on the Accuracy of Corporate Environmental Capital Expenditure Projections?

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Abstract

We examine whether managerial ability (MA), the passing of Sarbanes-Oxley in 2002 (SOX), and corporate operational complexity affect the accuracy of environmental capital expenditure projections of the environmentally sensitive industries (ESI). Prior studies found that firms in the ESI manipulated their projected environmental capital expenditures as a tool to achieve corporate legitimation and suggested that human factors must be examined to determine whether they are part of the determinants. We use MA to proxy for the latent human factors to examine whether MA affects the accuracy of financial disclosures in the ESI. To expand Chen and Chen (2020), we further investigate whether (1) SOX and (2) firms with complex operations and financial reporting in conjunction with MA affect firms' projection accuracy. We find, overall, that MA is positively correlated with firm's projection accuracy in the annual 10-Ks. Furthermore, results suggest that SOX has a positive, yet temporary, effect on MA and that leads to better accuracy. Finally, MA matters for firms with more complex operations and financial reporting to make less projection errors than their less-complex counterparts. These results suggest that MA is a determinant that affects the accuracy of environmental capital expenditure projections for the firms in the ESI.

Keywords: Accuracy of Corporate Environmental Capital Expenditure Projection, Complexity of Operations, Environmentally Sensitive Industries, Managerial Ability, SOX