Theories we Like

Ex. 1.

A theory from literature

Firms have an incentive to promote good news and to mitigate the spread of bad news. They thus strategically use social media to disseminate earnings information according to the direction of the news.

** what is the incentive? That is the theory. 2nd part is a deduction

** this sounds like what we might call impression management. Also status theory. To be successful, entities need to be seen as good, normal, competent, etc. If they aren't, they be treated poorly

** this theory implicitly includes stakeholders. There may be many implications one can derive by considering different kinds of stakeholders and which kind of media one uses to influence them

** some entities will be more or less immune to criticism and therefore will invest less in imp mgt

Why is it a good theory?

Mechanism: It explains why firms strategically disseminate earnings information.

** need to explain mechanism

Generality: It can be generalized and applied to individuals. People tend to post things that they believe to be positive about them on social media and mitigate the circulation of negative things about them by deleting posts, comments, etc.

Truth: With specific sets of data, research has found evidence to confirm this phenomenon.

Falsifiability: It is falsifiable. We can measure how many earnings-related tweets on a company's Tweeter account around the earning announcement date.

** and then what?

Parsimony: It is simple enough to understand.

** parsimony is about the number of entities, causal relations that have to be posited

Fertility: It can be applied to sociology.

** how?

Surprise: Perhaps it is not that surprising, but it debunks the idea that firms use social media consistently, regardless the direction of the news, because they want to build a reputation for transparency and trustworthiness.

** correct: not a surprise. But you have identified a different theory that makes different predictions. That’s a good thing

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Ex. 2

1. Theory: people perform tasks more efficiently after listening to classical music because the absence of words enhances brain activity which improves one’s ability to process information.

   ** is it after? If during, then compared to what? Why would it enhance brain activity? Wouldn’t words create even more activity? Should this be a neurological argument? Perhaps the real argument is about competing attention. A claim that ultimately we are single-processers

   a. I believe it’s a good theory, because there’s a process behind the theory (classical music doesn’t have words in it > lack of words enhances brain activity and allows one to process information better > increased information-processing power allows one to perform a task more efficiently).

      It is also general enough to be applied to a wide range of events, and is falsifiable (if one can show a person’s productivity to decrease after listening to classical music, the theory is proven false). It is simple, fertile with implications, and a novel theory as well.

      ** we can’t just claim that it is “simple, fertile with implications, and a novel theory “

   b. I feel like this is more of a collection of theories since there could be a lot of different effects that classical music produces—or one could also look at the effects that a different genre of music produces, or try and replicate the results with another genre of music that doesn’t have words. I think it resembles more of a “theoretical playground” one can play in.

      ** if there are different effects, then those are different implications of a single theory

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Ex. 3

Theory to discuss in class:

Construal-level theory: People perceive things that are more psychologically proximate in concrete, subordinate terms and less proximate things in more abstract, superordinate terms.

** not enough to go on, but this does look like theory rather than a marketing hypothesis

** note that a deeper propositio can serve as theory for a different hypothesis

** think about some specific implications

Ex. 4.

A good theory:

Annual reports of firms with negative earnings are harder to read (i.e. they use big words and are longer) as the management try to hide bad news from the investors. This is the "management obfuscation theory" proposed and tested by Li (2008).

**obfuscation is the theory. Not the first sentence, which is a clever implication

** when do companies obfuscate vs lie vs mount a defense, make excuses, reframe, etc?

** forms of bullshitting

Reasons that this is a good theory:

1. Mechanism

This theory has a sense of movement. Specifically, the management hides bad news from the investors by making the annual reports less readable and longer.

** yes, some action in response to bad situation. A rational thinker

2. Generality

This theory could be generalized from annual reports to other disclosure of the management's performance, such as the CEO's response to questions in the press release. In addition, the theory may not be restricted to a corporate setting. It could also apply to other disclosure that reflects a bad performance. For example, a politician's response to a journalist's question would be harder to understand and longer if the question is related to an issue that the politician mishandles.

3. Falsifiability

This theory is falsifiable. For example, if the theory is false, there would be no difference between firms with positive earnings and those with negative earnings in terms of the readability of their annual reports. Li (2008) tests and finds that annual reports of firms with negative earnings are harder to read and longer than those of firms with positive earnings.

** but, there are other ways to obfuscate

** and is it always clear what the real financial situation is?

4. Parsimony

The concept of hiding bad news is simple and easy to understand.

** suppose asians in lexington date whites more than in san fran. You could hypothesize something about local culture being stronger, and identifying with the culture, but a simpler theory is that

5. Fertility

The theory has a few insightful implications which could generate other research. For example, the fact that the management obfuscates the annual reports to hide bad news from the investors suggests that the management believes or observes that the investors have limited ability to process the information, implying the market is not fully efficient at least in a short run.

** ok, but by fertility we mostly mean making other predictions

** many behaviors that constitute obfuscation should be expected as well

6. Surprise

The theory has changed researchers' perceptions on how the management manipulates the financial statements to influence the investors. Specifically, researchers previously focused on how the management manipulates earnings components. This theory indicates that the management can change the linguistics features of the financial statements to influence the investors.

** the theory is not surprising. But the cool implication of bigger words does have the element of non-obviousness

Reference:

Li, F. 2008. Annual report readability, current earnings, and earnings persistence. Journal of Accounting and Economics 45 (2008) 221–247.

Ex. 5

The theory that I like most is middle-status conformity theory. According to the theory, conformity is high at the middle and low at either end of a status order. High-status actors are confident in their social acceptance so that they aren't afraid of deviating from conventional behavior. Low-status actors defy conventional behavior because they are already excluded regardless of their actions. Middle-status actors show conformity with the accepted practice because they are afraid of disenfranchisement and want to solidify their social standing. The theory is simple, but elegant. It can also be generalized to different settings. Middle-status conformity theory can be applied to understand organizational innovation. It can also be applied to understand organizational CSR.

** so, this is really a hypothesis. (google this?)

** the mechanism is the security/fear of disenfranchisement. It also requires some fatalism on the part of the low end. In adoption of innovation studies, results often show that only the high status adopts.

Ex. 6

GOOD THEORY

I believe that institutional theory is a very good example. Institution theory tries to answer one question: why do companies become increasing similar? This theory basically tells us that companies take certain practices or adopt certain company structures not because of efficiency, but because of the institutional pressure. Companies in the same institutional field are faced the same institutional pressure and to comply with the pressure in order to gain legitimacy, they become increasing similar—institutional conformity. For example, some companies have HR department not because they need that, but just because having an HR department is regarded as legitimate by their audience, such as employees or customers. Imagining that you work to an company for an interview, but this company even does not have an HR department, what will you think about this company? According to Lave and March's criteria, I will discuss institutional theory on these following dimensions:

(1) mechanism or process: Institution theory articulates the process through which companies become similar. There are three processes: coercive, mimetic and normative.

** so that should be in the theory description. Legitimacy is mentioned. That's part of mimetic Legitimacy. Audience reaction. Including shareholders, employees, stock analysts

** coercive refers to things like legal regulations for pollution control. Also powerful buyers controlling weaker suppliers

** normative. Professionalization. People learn best practices. There are accreditation issues

(2) Generality: this theory is very generalizable. We can see the institution effects on us in our daily life. What we wear, how do we behave, is largely the influence of the take-for-granted institutions.

(3) Truth: I am very convinced with this theory.

(4) Falsifiability: to some extent.

(5) simplicity: yes.

(6) fertility: yes. Easy to apply to other fields, such as strategic field.

(7) surprise: it makes me surprised. As an strategy scholar, all I learn is about how a company should differentiate itself from others. Institution conformity gives me a totally new angle.

** it is not about individual surprise. It is about being counter-intuitive or non-obvious

** what is an alternative theory that explains why organizations are similar?

- Organizational needs
    - Refineries are all structured similarly because the work they do structures their needs
    - Rational choice: this is the best way to do things
    - Bounded rationality: similar people will make similar decisions under similar circumstances
- Population ecology -- certain traits are adaptive, and the orgs that don't have them are selected out