eaa newsletter

The official newsletter of the European Accounting Association

16, Issue 4/2006

Editorial

In a recent white paper, the executives of the main international audit networks suggested the development of a new business reporting model that should better fulfil the task of delivering relevant and reliable information in a timely way. Its main message is that investors and other stakeholders would require more non-financial information that is more customized to the user and that can be accessed more frequently than today.

Dissatisfaction with the current regime of financial reporting has repeatedly been expressed in the academic accounting literature as well. Various suggestions have been made of how corporate governance and accountability might be improved. In this issue of the newsletter, Michael Jensen conveys his thoughts on corporate governance in an extensive interview. He makes a plea for more integrity in financial reporting and argues that much of what is considered

as “strategic choices” in financial reporting often boils down to simple lying. He also takes a critical stance with respect to the idea of value maximization and contends that this might not always be the best goal to strive for. When the stock market value of a company becomes too high compared with the true underlying value, investors and other stakeholders might be worse off in the medium to long run.

Not only in financial reporting do numbers play a vital role. The general significance of accounting numbers for the management of social and organizational practices is high. In some contexts, numbers might even be said to “rule” practices and actors. In this respect, the newsletter features a retrospective of a conference dedicated to this social rule of numbers that took place in Frankfurt in November. A workshop with a similar topic, namely on “Managing by numbers - and beyond” will be held in Paris next year, and the call for papers for this event is also included in the newsletter.

Having just returned from a great conference on new directions in management accounting in Brussels, let me tell you that the February issue of the newsletter will contain a retrospective of this event.

In the meantime, I wish all of you a Merry Christmas and a good start into the new year!

Martin Messner

messner@hec.fr

Highlights

News on the *European Accounting Review*

Following the policy of rotations within the editorial team, Anne Loft, Begoña Giner and Frank Hartmann will be stepping down as associate editors of *European Accounting Review*. At this time, I would like to warmly thank Anne, Begoña and Frank's contributions to the *Review*. Their work as associate editors has been instrumental in positioning the journal in the elite of accounting research periodicals. Furthermore, I am certain that their imprint will remain in *European Accounting Review* for many years.

Tony Davila (IESE Business School), Jennifer Francis (Fuqua School of Business Duke University), and Ann Vanstraelen (University of Antwerp) will become new associate editors as of 1 January 2007. Tony, Jennifer and Ann are very well regarded scholars and I look forward to working with them closely. At this time, please, join me in welcoming them to the editorial team.

The Book Review Section of *European Accounting Review* has become increasingly important during the past years. Associate Editor Begoña Giner has played a fundamental role to ensure high quality reviews of influential books and research monographs. However, as the number of paper submissions increased substantially, the management of book reviews has become progressively complex. Accordingly, a need was felt to specifically designate book reviews editors to continue the tradition with same efficiency. In this respect, Ariela Caglio (Bocconi University) and Paolo Quattrone (Saïd Business School, University of Oxford) will become book review editors as of 1 January 2007. I would like to welcome Ariela and Paolo to the position of book reviews editors, wishing them every success in this important job.

Salvador Carmona

Editor

Articles forthcoming in the EAR vol. 15, issue 4

Contracting on the Stock Price and Forward-Looking Performance Measures *(Shane S. Dikolli and Igor Vaysman)*

On the Relationship between Voluntary Disclosure, Earnings Smoothing and the Value-Relevance of Earnings: The Case of Switzerland *(Pascale Lapointe-Antunes, Denis Cormier, Michel Magnan and Sophie Gay-Angers)*

Special Section: Conservatism in Accounting

Introduction *(James Ohlson and Laurence van Lent)*

Identifying Conditional Conservatism *(Stephen G. Ryan)*

International Differences in Conditional Conservatism – The Role of Unconditional Conservatism and Income Smoothing *(Joachim Gassen, Rolf Uwe Fuelbier and Thorsten Sellhorn)*

Capitalization of Costs and Expected Earnings Growth *(Kenton Yee)*

Some Informational Aspects of Conservatism *(Avraham Beja and Dan Weiss)*

Conditional Conservatism and the Value Relevance of Accounting Earnings: An International Study *(William D. Brown, Jr., Haihong He and Karen Teitel)*

The Impact of Accounting Conservatism on the Compensation Relevance of UK Earnings *(Vincent O'Connell)*

Other forthcoming articles

Auditing Stories about Discomfort: Becoming Comfortable with Comfort Theory *(Thomas Carrington and Bino Catasús)*

Customer Focus –An Accountability Dilemma *(Mikael Cäker)*

Extending Institutional Analysis through Theoretical Triangulation: Regulation and Activity-Based Costing in Portuguese Telecommunications *(Trevor Hopper and Maria Major)*

Making business partners: A case study on how management accounting culture was changed *(Marko Järvenpää)*

Corporate Compliance with Non-Mandatory Statements of Best Practice: The Case of the ASB Statement on Interim Reports *(Musa Mangena and Venancio Tauringana)*

The Relationship between Voluntary Disclosure and Independent Directors in the Presence of a Dominant Shareholder *(Lorenzo Patelli and Annalisa Prencipe)*

External Auditors, Audit Committees and Earnings Management in France *(Charles Piot and Rémi Janin)*

Debate on Endogeneity

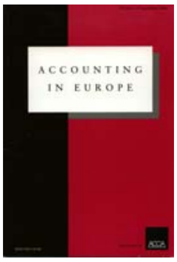
The Issue of Endogeneity within Theory-Based, Quantitative Management Accounting Research *(Robert H. Chenhall and Frank Moers)*

Endogeneity in Management Accounting Research: A Comment *(Laurence van Lent)*

Endogeneity and Empirical Accounting Research *(David F. Larcker and Tjomme O. Rusticus)*

Endogeneity: A Reply to Two Different Perspectives *(Robert H. Chenhall and Frank Moers)*

News on *Accounting in Europe*



In 2007 this latest addition to the EAA's publications will move to a new publishing format. It will appear twice a year, initially in electronic form, to be followed by a once a year hard copy combining the two issues.

In its early volumes "Accounting in Europe" has focused primarily on issues related to the adoption of IFRS in Europe, as part of its commitment to current, practice-related, and policy questions. However, the journal is neither exclusively focused on IFRS or financial reporting: articles from any area of accounting are welcome, including management accounting, public sector accounting, corporate governance etc.

Submissions are dealt with on a continuous basis, and should be made electronically to the Editor of the journal (e-mail: walton@essec.fr.) The style guide is the same as that for European Accounting Review.

Expanding Research Horizons with the Marie Curie Early Stage Training Programme

Early stage researchers working towards a PhD in countries across the EU can carry out some, or indeed all, of their studies outside their home country with the help of a Marie Curie Fellowship.

One researcher who has benefited from the scheme is Anna Samsonova from Russia. Anna registered to study for a PhD at the Åbo Akademi University in Turku, Finland in August 2002. Her research focused on the development of western-style auditing in Russia. In April 2005 she moved to Manchester in the UK where she studied as a Marie Curie fellow under two professors of accounting at **Manchester Business School** in the University of Manchester. Six months later she returned to Finland and in April 2006 successfully defended her thesis. Anna is now back in the UK where she has embarked on an academic career.

There are a number of reasons why doctoral candidates may want to study outside their home country or institution, but generally speaking geography is not one of them. Anna's choice of host institution was driven not by its location but by what she knew of its audit research activities. "I knew that MBS had a well-established auditing research stream and I wanted to join the research group and be supervised by some of the top researchers in the field of auditing in Europe" she says. While in some cases the research interests and expertise of particular individuals may be the draw, in other cases access to additional resources can give a significant boost to a fellow's research progress. Mirco Pegurri, a visiting Marie Curie fellow from Italy, commented as follows: "The vast electronic databases and library resources available made a meaningful contribution to my PhD thesis on European mergers and acquisitions. I built two databases, one containing data on M & A intensity and characteristics in 24 European countries, and the other on more than 400 European deals that took place between 1994 and 2003. With this data I was able to start some preliminary empirical analysis."

Marie Curie Early Stage Training (EST) fellowships support both full-time PhD studies (36 months) and short research visits (between 3 and 12 months) within an existing PhD programme. Once a host institution has secured the funds from the EU, it has complete autonomy over the selection of fellows. For most host institutions this will mean following the same admissions process that they use for their full-time doctoral programme candidates. They must satisfy themselves that candidates meet their own requirements for PhD entry as well as those laid down by the EU for the Marie Curie EST programme.

Most Marie Curie candidates are from EU countries, although it is possible for candidates from third countries (non-EU) to apply. The aim of the programme is to **promote the mobility of young researchers** between EU countries as part of the European Union's broader aim of permanently reshaping the landscape of research in Europe. Candidates cannot therefore apply to a host institution in their home country.

Host institutions can benefit enormously from receiving Marie Curie fellows. In the last five years Manchester Business School has hosted three full-time PhD fellows and 18 visiting fellows from a wide range of EU countries and beyond, with more to come. Jointly and individually they have contributed to the richness of the research activities and output in the School, benefiting both academic colleagues and fellow doctoral researchers.

Anna is very happy to have been the recipient of a Marie Curie EST fellowship. "Without the Marie Curie funding I would not have been able to take my research in the direction I have, which means that my PhD thesis would have looked very different from the way it does today" she concluded.

Information on all Marie Curie programmes can be obtained from:
http://cordis.europa.eu/research_openings/fellowships.htm

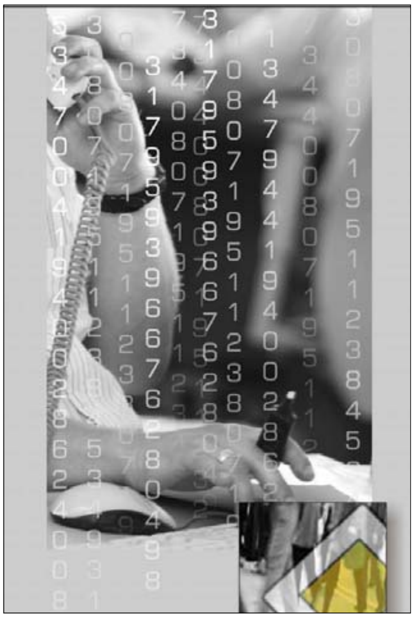
Barbara Beeby

Manchester Business School

“The Social Rule of Numbers” – An Interdisciplinary Conference at the University of Frankfurt

On November 16th and 17th, about 70 researchers from the fields of critical accounting theory, industrial sociology, political sciences and economic sociology met in a historical building in Frankfurt to participate in a conference on the “Social Rule of Numbers”. Once the headquarters for the notorious IG-Farben Konzern, and later on used by the US-Army, this building today forms part of one of Germany’s most impressive university sites. The conference had been jointly organized by the *Institut für Sozialforschung* in Frankfurt and the *Institut für Sozialwissenschaftliche Forschung* in Munich. The intention behind the conference was to react to the dissonance between an increasing interest in critical accounting research in Germany and the fact that there is still no solid foundation in dealing with accounting from a critical perspective in this country. Considering that German economics in Gestalt of “Betriebswirtschaftslehre” still doesn’t show a deeper interest for critical accounting studies, it was no surprise that only a few German economists and management scholars found their way to the conference.

The event was opened by Axel Honneth who, as the director of the IfS, pointed out that a critical analysis of the social relevance of numbers can already be found in the work of George Lukács, one of the most influential German philosophers particularly with respect to the formation of the so-called Frankfurt School. After Lukács, it was Adorno and Horkheimer who coined the expression that “number became enlightenment’s canon” in their famous “Dialectic of Enlightenment”. Honneth drew a sharp line between the Anglo-American and the continental way of dealing with “Herrschaft” respectively “governance”. Even if some participants were hesitant to readily accept this notion of a deeply rooted theoretical divide in critical research, in the course of the conference it became obvious that there are still distinguished national traditions in dealing with the social relevance of accounting. Nevertheless the participants succeeded in interweaving these traditions in a fascinating and productive manner. Uwe



Vormbusch (Frankfurt) began with an outline of the theoretical concept of “Sociocalculation”. In analyzing this ubiquitous way of governing he drew on the works of Habermas and Foucault as well as Peter Miller and Michel Callon. Peter Miller (LSE) then talked about the “interweaving of dreams” by calculation, empirically referring to the way Moore’s Law enables actors to build networks, the way it is shaping fundamental expectations of dispersed actors and thereby helps establishing “technology roadmaps” that are shaping our future lives. Albrecht Becker (Innsbruck) asked if all of us were “doing what the numbers say”. He opened up the discussion about agency and accounting, drawing on the work of Anthony Giddens. At the intersection of past and future there are not only numbers but knowledgeable actors opening up and making use of the “black box of accounting” (Latour). The two following panels dealt with the “sociology of calculative practices” (Herbert Kalthoff, Hermann Kocyba, Sabine Pfeiffer) and the “institutional field of accountancy” (Gerard Hanlon, Thomas Sablowski, Andreas Nölke). On the second day, Rudi Schmiede (Darmstadt) spoke about the concept of “informatization”, pulling together theories and empirical evidence from the fields of industrial sociology, social theory and informational sciences. His talk was followed by a panel with Andrea Mennicken, Carlos Ramirez and Michael Power who discussed the globalization of accounting as well as new practices of organizational risk management. Kira Marrs, Dieter Sauer and Wilfried Glißmann presented empirical studies from the fields of health work and informational work in the context of the “new control of organizations”. Finally, Eve Chiapello (Paris) had the privilege of the concluding plenary session. She talked about the construction of the economy as well as economics by accounting, going back to Max Weber’s and particularly Werner Sombart’s early work. Accounting practice not only has a major structuring impact on the economy, but must be regarded as a major source of inspiration for economics, too.

There can be no doubt that the conference contributed a lot to the international exchange of ideas and empirical evidence from the field of accounting, particularly to the dissipation of concepts invented in the Anglo-Saxon context in Germany. Not only accounting practice, but also critical accounting theory is a field in which “travelling concepts” are of crucial importance. Moreover, the conference showed that even if there is much interest in critical accounting studies in Germany today, the discussion is still in its early stages. It is encouraging that many participating researchers expressed their feeling and their interest to deepen this exchange in order to give answers to the urgent question how and why numbers are ruling our contemporary world – and how and why they are doing so in a different way than in the past.

Uwe Vormbusch

Institut für Sozialforschung, Frankfurt

Call for Papers

"Managing by numbers - and beyond"

16-19 May 2007, Paris

This is a call for papers for the track "Managing by numbers - and beyond" at the next European Academy of Management Conference (EURAM), 16-19 May 2007, Paris.

Track chairs:

Thomas Ahrens, Warwick Business School, thomas.ahrens@wbs.ac.uk

Allan Hansen, Copenhagen Business School, ah.om@cbs.dk

Martin Messner, HEC School of Management, Paris, messner@hec.fr

Track description:

Modern management is significantly shaped by the 'finance conception of control' (Fligstein, 1990), which to a large extent relies on accounting numbers to justify and rationalize organizational practice. Popular sayings such as **'You can't manage what you don't measure'** or **'What is counted, counts'** bear witness of the power that accounting numbers often have in shaping organizational reality. It is this power of accounting that has over the last three decades motivated many researchers to consider accounting not simply as a collection of techniques but as a social and institutional practice that is intrinsic to the way in which modern organizations function (Miller and Hopwood, 1994). Drawing from social sciences and humanities, such research has not only pointed to the functionality of accounting for pursuing organizational goals; importantly, it has also taken a critical stance with respect to such a 'management by numbers' by addressing the limitations and dysfunctionalities of seeing and managing organizations through the lens of accounting.

Building upon this research tradition, our track seeks contributions that try to **improve our understanding of the practice of managing with and without numbers**. Generally speaking, we are interested in how accounting numbers are produced within organizational practices; how they are mobilised within such practices; how they shape or even dominate practices; how they might be resisted by organizational members; and how one may practise management without such numbers.

We particularly welcome papers which feature an **empirical investigation** into accounting and management practices, but we also encourage **conceptual contributions** which discuss the relative merit of **different theoretical perspectives** on accounting and management.

The range of issues addressed within our track may cover (but is certainly not limited to) the following questions:

1. Wherein lie the uses and limitations of 'management by numbers'?
   - What rationales for a reliance on numbers can be observed in practice?
   - Is there a particular 'quality' of numbers that facilitates their use in practice?
2. Under what circumstances can particular versions of 'management by numbers' be observed?
   - How does the use of numbers vary with different types of organizations or with different types of organizational practices?
   - How do different versions of 'management by numbers' imply different 'styles of accountability'?
3. What are the organisational, social, and economic processes by which 'management by numbers' becomes institutionalised?
   - How do particular 'management by numbers' regimes evolve over time?
   - How do notions of performance become institutionalised and to what extent do they remain fragile?
4. How have the social sciences and the humanities provided insights into 'management by numbers' and how are those insights likely to evolve?
   - To what extent do these positions represent 'alternatives'? And what does 'alternative' mean?
   - What theoretical perspectives are needed to understand the impact of numbers on practice?
5. What critiques of 'management by numbers' have been offered and how are they related?
   - In which sense do some of the more recent management tools and instruments, such as the Balanced Scorecard, Intellectual Capital or Corporate Social Responsibility Accounts, differ from conventional forms of 'management by numbers'?
   - What are the alternatives to 'management by numbers' and what trends are likely to influence them?

Submissions:

The deadline for paper submissions is **January 2, 2007**. We give priority to **full papers** but we encourage the submission of **abstracts**, which may be accepted under the condition that the full paper follows in due course. Also, we particularly encourage submissions of research papers by advanced doctoral students.

Special Issue AOS:

There will be a special section in a future issue of ***Accounting, Organizations and Society*** that will be dedicated to the track theme. After the conference, the track organisers will invite promising papers for submission to this section. All submissions will be subject to the normal review process.

More detailed information on the submission procedure, on registration, and on other related issues are posted on the conference website: www.euram2007.org.

Doctoral and Post-Doctoral Research Fellowships INTACCT Research Network

"The European Financial Reporting Revolution: Compliance, Consequences and Policy Lessons"

The INTACCT Network involves research teams at 10 European universities. The Network is coordinated by Lancaster University Management School (UK) and also includes HEC, Paris (France), Johann Wolfgang Goethe – Universität Frankfurt (Germany), University of Cyprus (Cyprus), University of Ljubljana (Slovenia), University of Macedonia (Greece), University of Porto (Portugal), University of Valencia (Spain), Tilburg University (Netherlands), and Varna University of Economics (Bulgaria). The Network will be funded by a Euro 2.4 million grant over the period 2007-2010 under the European Commission's 6th Framework Marie Curie Programme.

The Network will be organising an extensive **Research Training Programme** for a group of researchers who will subsequently work in the Network on a series of related research projects under a coordinated Scientific Programme. The Training Programme will commence in spring 2007. The Scientific Programme will focus on empirical financial reporting research, with special emphasis on the context and consequences of IFRS adoption by European listed companies.

Applications are invited for:

- Early Stage (doctoral-level) Researcher Fellowships at all network universities. Mobility of researchers within the Network will be encouraged. Therefore positions may be held at more than one of the network universities over the life of the Network.
- Experienced (post-doctoral) Researcher Fellowships at Lancaster and Tilburg.

Applicants must satisfy the eligibility criteria defined under the **Marie Curie Programme** rules set by the European Commission. The eligibility criteria include a requirement that researchers must be nationals of a State other than that of the host organisation (university) where they will work. Further, they may not have resided in the country of their host organisation for more than 12 months in the last three years (excluding holidays).

Further details on the Research Fellowships, including the eligibility criteria and the procedure for submitting an application, can be found at the following URL:

http://www.intacct-research.org/howtojoin/.

General information on the INTACCT Network can be found by visiting http://www.intacct-research.org/intacct/.

Further enquiries should be sent by e-mail to intacct@lancaster.ac.uk in the first instance.

Book announcement

Kees Camfferman and Stephen A. Zeff

Financial Reporting and Global Capital Markets

A History of the International Accounting Standards Committee, 1973-2000

Oxford University Press, February 2007 (estimated publication date)

Description

Standardization and harmonization of accounting practices is a fundamental element of a global business environment. Achieving this is a complex process that involves technical and political negotiation. The International Accounting Standards Committee (IASC) was the organization that pioneered this process on a world-wide basis.

The IASC prepared the way for the International Accounting Standards Board (IASB) and its International Financial Reporting Standards, which since 2005 have held the dominant influence over the financial reporting of thousands of listed companies in the European Union, as well as in many other countries.

The forces and influences that shaped the formation of the IASB were intimately connected with the historical organization and operation of its predecessor, the IASC, and so to understand the standards enforced in financial reporting today, a historical understanding of the IASC is required. *Financial Reporting and Global Capital Markets* does just this. It examines the history of the IASC from 1973 to 2000, including its foundation, operation, changing membership and leadership, achievements and setbacks, the development of its standards, and its restructuring leading up to the creation of the IASB in 2001.

The book also studies the impact of the IASC's standards on national standard setting and on accounting practice in developed and developing countries, as well as the impact on the IASC of the policies and positions of the UN, the OECD, the US Securities and Exchange Commission, the International Organization of Securities Commissions, and the European Commission. It will be of vital interest to all concerned with accounting developments in a global environment, be they academics, policy-makers, or professionals.

Readership: Academics and researchers of accounting, corporate finance, corporate governnace, and securities market regulation; Accounting practitioners.

Call for Papers

6th International Conference on Corporate Governance

May 21-22, 2007, Geneva

The HEC department of the University of Geneva, the Management department of the University of Fribourg (Switzerland) and the Chair of governance and forensic accounting of HEC Montreal jointly organize the 6th International Conference on Corporate Governance in Geneva on May 21- 22, 2007.

Previously held in Montreal (Canada), Mons (Belgium) and Strasbourg (France), this event provides since 2002 a forum for scholars interested in corporate governance. Because it is at the **crossroad of several disciplines**, corporate governance can be approached from several perspectives: **finance, law, accounting, organisation, strategy, human resources**, etc.

Submitted papers can thus adopt various theoretical backgrounds and methodologies, depending on their provenance. Below are some issues that could be addressed:

- conditions for an efficient corporate governance
- impact of governance quality on the market value of companies
- corporate governance and the quality of human relations
- corporate governance and strategic decisions
- the cultural dimension of corporate governance systems
- the history of governance systems

Papers and abstracts, in English or in French, must be e-mailed to cig2007@unifr.ch before **January 15, 2007.**

They will be blind reviewed by two members of the scientific committee composed of specialists of the various disciplines relating to corporate governance. Priority will be given to full papers.

Abstracts will also be considered, provided that they are sufficiently detailed to give reviewers a clear idea of the paper (500 words minimum). Authors will be notified of the acceptation decision

from February 28, 2007.

For papers accepted on the basis of an abstract, the acceptation will be conditional on receiving the full paper by March 31, 2007.

Organizing committee:

Prof. Pascal Dumontier, University of Geneva

Prof. Dušan Isakov, University of Fribourg

Prof. Bernard Raffournier, University of Geneva

Information:

http://www.hec.unige.ch/congres_gouvernance or www.hec.ca/cgj

ESRC Seminars in Accounting, Finance and Economics: ‘SAFE’

SAFE aims to provide:

- For the first time in the UK a common arena for those working at the accounting, finance and economics interface, providing points of contact currently lacking in universities at departmental levels
- A face to face forum for the generation of new ideas for research and the development of best practice
- An internet communications and information service, pooling knowledge and expertise of members
- A mentoring framework for newcomers and the tyro, helping them to confer with established figures through SAFE’s mail-base, and network meetings

The **objectives** of SAFE are to stimulate:

- Areas of mutual interest in the economics, accounting & finance area, in order to develop a cohesive, shared research framework
- Greater interaction between practitioners (in the professions, industry and government) and academics, with a view to stimulating research, and in turn to converting research findings into practice
- A greater flow of high quality research output in economics, accounting & finance in leading academic journals, and books with the quality academic press, based on contributions to selected meetings
- As a complement to the above, the further dissemination of research ideas in accessible form in practitioner publications.

For **further information** or to join our mailing lists, email:

SAFE-request@jiscmail.ac.uk

Or visit the web site:

http://www.jiscmail.ac.uk/lists/SAFE.html

Chairman:

Professor Gavin C Reid

Director, Centre for Research into Industry, Enterprise, Finance and the Firm (CRIEFF), University of St Andrews

Secretary and Treasurer:

Dr Julia A Smith

Strathclyde Business School

Call for papers
APIRA 2007
8-10 July, 2007, Auckland (NZ)

Scope

This interdisciplinary accounting conference is dedicated to the advancement of accounting knowledge and practice. It provides a platform to discuss the interaction between accounting/auditing and their social, economic, institutional and political environments.

Conference sessions and papers will critique contemporary theory and practice, examine historical and interdisciplinary dimensions of accounting, debate policy alternatives, and explore new perspectives for understanding and change in the accounting discipline.

Past Conferences

This conference rotates on a three year cycle with the Interdisciplinary Perspectives on Accounting conference (IPA2006, Cardiff, UK) and the Critical Perspectives on Accounting conference (CPA2005, New York, USA). Together, these conferences provide an international forum and showcase for research on the social, political, and institutional aspects of accounting theory and practice.

The first Asia Pacific Interdisciplinary Research in Accounting Conference was held at the University of New South Wales, Sydney, in 1995; the second at Osaka City University, Japan in 1998 (APIRA 1998); the third at the University of Adelaide in 2001 (APIRA 2001); and the fourth at the Singapore Management University in 2004 (APIRA 2004)

Conference Format

The organizers aim to encourage discussions, debates and the interchange of ideas in an informal atmosphere. Included in the program are plenary sessions and research paper presentations on selected themes and issues.

Submission

Researchers interested in contributing to the conference should send **papers** for review and selection no later than **31 January 2007**. Earlier enquiries or requests for information are welcomed - contact Stewart Lawrence at apira@mngt.waikato.ac.nz.

To submit a paper go to the submissions page at the website:

http://www.bsec.canterbury.ac.nz/apira2007

Refereeing

All papers will be blind refereed by scholars worldwide, selected from the editorial board of *Accounting Auditing and Accountability Journal* (AAAJ) and over 100 ad hoc international referees. Only full papers will be admitted to the refereeing process (abstracts alone will not be acceptable).

Authors of accepted and rejected papers will be supplied with referees' comments where appropriate and as provided by the referees.

Authors of papers accepted subject to revisions will be supplied with referees' comments and revision recommendations.

Emerging Scholars' Colloquium

This colloquium for doctoral research degree students, new faculty and emerging researchers will take place on Friday 6 July (evening) and Saturday 7 July (day and evening) immediately before the main APIRA conference. Participants will have the opportunity to discuss their research with peers and senior research faculty in a structured facilitated colloquium as well as informally during breaks and shared mealtimes. Space will be limited, so applications for entry to the colloquium will be competitively assessed.

Colloquium Objectives

- To provide participants with research and mentoring in the fields and methodologies relevant to the APIRA 2007 Conference.
- To provide networking opportunities between emerging scholars.
- To provide opportunities for emerging scholars to present their current work for discussion in small group settings.

Professor Lee Parker, University of Adelaide, will facilitate the colloquium.

30th EAA Congress
Lisbon prepares for great education and great experiences

Lisbon will host the 30th European Accounting Association Congress from 24 to 27 April 2007. The organisers have already received a record-breaking number of abstracts which are currently under revision. The Congress is taking place at the state-of-the-art Lisbon Congress Centre facing the river Tagus with social events scheduled to showcase the city by using venues ranging from the 12th to the 21st century. A myriad of tailor-made tours and special pre and post programs to chose from will be available on the webpage from January 2007. “We are working on having a magnificent scientific program, after all content is king. However Lisbon is a very special city and we want everyone to also enjoy traditional Portuguese hospitality so we are making every effort to provide delegates and accompanying persons with a memorable take-away spirit of this city of light” say the organisers. In fact Lisbon is a very family friendly city and very easy to move around in. As most of the hotels are in the city centre everything will be easily accessible. The Congress will also have a large exhibition area where sponsors and any interested company, publisher or educational institution can showcase their products to the expected 1500 delegates. For more information visit the congress webpage www.eaa2007lisbon.org or contact the congress secretariat eaa2007@licom.pt.

Interview with Michael Jensen

On corporate governance, value maximization, and integrity

He had laid important foundations for economics-based finance and accounting research, and has over time increasingly become concerned with extant problems in corporate governance and managerial agency. Michael Jensen, Professor Emeritus at Harvard University, regards much of what is going on in financial reporting today as pure lying. Many managers intentionally and strategically mislead the public, often motivated by analysts whose expectations are far from being realistic. What they lack is integrity, which Prof. Jensen defines as either keeping one's commitments or cleaning up any mess that resulted from commitments that were not held. When Prof. Jensen was awarded the honoris causa professorship from HEC Paris this November, I had a chance to talk to him about these issues and about his perspectives on current finance and accounting research.

MM: What was your motivation to start thinking about such issues like integrity? What was the trigger that made you think that this was an important topic?

MJ: The basic trigger was the lifelong ambition I have had to make organisations and human groups work better, both at the level of their individual lives as well as in organizations. And I mean if you look at the work I have been doing basically since the beginning, since I stopped doing work on efficient markets – and even that is related to it a little bit –, it has all been about that. And then I ran into some clues that somehow integrity was important. I was driven to figure out what it really is and to give it a rigorous definition. I found two co-authors who had spent considerable time thinking about these issues and we began to work on the issues together. And then, my own experiments and observations, both with my own life and with my own company, and with other people, tell me that it is very, very powerful. So we eventually began to write it up and give talks about it.

MM: You said that writing on integrity has changed your life. In which sense?

MJ: Well, in the process of working on this, there is a bunch of stuff that was invisible to me – like what happened in our meetings in my company and so on – and that I suddenly could begin to see. I began to observe the waste and inefficiency and damage we were doing to each other. And I also realized the sloppiness with which I took commitments, giving my word and then not keeping it, being late, etc. So currently, for example, I had a book manuscript to do a year ago and I am now committed to the publisher that they will have it on the 2 of January. And I am going to do that. And partly that, my own experimentation in my own life, allows me to see how much better things work if I personally behave more as I described in terms of honouring one's word.

MM: It is probably fair to say that topics like integrity are not really at the mainstream of accounting and finance research…

MJ: … but I intend to make it mainstream!

MM: You have witnessed the evolution of finance and accounting research for more than three decades. How have you perceived the evolution of this research?

MJ: I think it has been very rich. What has been going on in terms of the finance research on corporate governance, which has now become a subfield in finance, what has been picked up by legal scholars, what is going on in the accounting domain — some of that got started way back in Rochester, when we were working on these things. I was away from it for a long time, and when I got interested in integrity and in what was going on in the capital markets, I now had occasion to look at much of that literature again, and I found it very rich and very powerful. There is still a lot to be discovered but the field has obviously matured a lot. So there is much documentation in that work about the lack of integrity (as we define it) in those markets. And I am now talking about the relationship between the capital markets and managers. And it also happens to fit the series of ongoing scandals that we are observing, of corrupt behaviour, which is an extreme form of lack of integrity, and billions and billions of dollars of damage being done. So that makes it highly salient. There is a lot of moralizing going on, and a lot of that stuff does not leave me with a much hope that it is going to change behaviour. What we need is research that shows how to get access to behaviour, so that people can actually do things differently.

What is generally thought about as ‘strategic choices’ in financial reporting often boils down to lying.

MM: What do you think are the research issues that need to be taken up in the future in this respect?

MJ: Well, there is already a lot of it going on. Measuring the effects of various kinds of reporting policies or reporting strategies, for example. There is a group that is interested now in better or worse ways of doing that. My own belief is that we have got to be much more blunt in this world about the fact that what is generally thought about as “strategic choices” in financial reporting often boils down to lying.

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Either the journals or the scholars that are doing the work have chosen not to use that term, lying is thought of as a value-laden term. But lying means simply saying something that is either untrue or misleading. Whether you think that is good or bad is your value judgment. A liar is somebody who tells untruth, and there is a lot of that going on, but I have not seen it framed that way in the financial reporting literature. What I mean by that language is that when you are making decisions to affect the financial reports, and when you are making those decisions for reasons other than maximizing the value of the firm, then you are lying. I have seen, from a distance, because I haven't been involved in that research directly, that the refereeing process seems to have in many cases taken out from the literature any flat out stand on what is going on. When a paper is about outright lack of integrity, it does not get published, or it gets published in some marginal journal. And partly that is because there are scholars who think that it does not matter, that efficient markets will take care of it all, and others really don't want to be applying what they think are value judgements to what is going on. The nice thing about our definition of integrity is that it does not say whether it is good or bad. It is a positive definition, and people can choose whether that is good or bad, to behave with integrity. Getting scholars in financial reporting out of the business of allowing all of this to be portrayed merely as "strategic choices" is a very important thing. I have written a paper on budgeting titled "Paying People to Lie". My own estimates are that productivity would double if boards of directors and managers would take responsibility for eliminating that system in their organizations. The costs are huge and current practice really does undermine integrity and morality in organizations by rewarding people for lying. I recently had a discussion with somebody who is working for a bank whose stated policy is to under-promise and over-deliver. Translated into my language that means: lie and lie.

It is becoming popular to reintroduce values into research these days, but I think that a lot of introduction of values that goes on in ethics is frankly unintellectual and misled. It is people giving their own opinion about what they like or don't like. I'd like to see much more research taking place that involves these values, but we have to be careful when doing it to make sure that we do not let our own values come in through the backdoor.

MM: You have criticized stakeholder approaches to management for not being very useful for maximizing a company's long-term value. Why?

MJ: Let me say what I think is good about stakeholder theory. An organization cannot be successful if it ignores or maltreats any major constituency. You can't mistreat your customers, because that will lead you into big trouble. You cannot mistreat your employees, because that will get you into trouble. You can't mistreat the community, and so on. So I do not have any quarrel whatsoever with stakeholder advocates who are interested to make sure that firms - either out of ignorance or short-term malfeasance - don't do unnecessary damage to the world. I am 100 hundred percent behind that. Where I part company with the stakeholder literature is in its refusal to specify the tradeoffs in dealing with different constituencies or different ends - or even admit that there is a problem in not dealing with the trade-offs with those matters. I cannot arbitrarily make my employees happy without in the end hurting my customers. I can't arbitrarily make my customers better off without hurting my employees. There are no free lunches, and if I make one group better off, another one likely gets hurt - so long as I am on the efficient frontier of choices. So the real problem in my mind is: how do organizations go about assessing what those trade-offs are? And we know from the standpoint of marginal analysis that you should stop devoting resources to satisfying each community at the point where an additional dollar spent for making them better off is valued by them at little bit more than a dollar. And if we don't come to grips with the necessity to specify the trade-offs or even think about them, we are being irresponsible. And in some cases, I think, it is intentional. In these cases, people are not interested to get the right answer, they simply want to change who it is that is making the decisions. They want to shift power from one group of people to another. And there are all kinds of people outside of organizations who have no stake in it at all who want to have a say in the allocation of those resources by threats, boycotts, trouble-making, and things like that. And all of the stakeholder arguments are very easily picked up by these people.

The stakeholder literature refuses to specify the tradeoffs in dealing with different constituencies or different ends.

On the other hand, the kind of naïve finance view of maximizing value does not lead to maximum value - and it is real out there in the world. People who are focused on just maximizing the value of the firm will seldom end up maximizing the value of the firm. That leads to destroying value through mistreating customers, employees and other constituencies critical to the long run interests of the firm. And it is that kind of thing that has led managers to mistakenly get too devoted to looking at value which is only a score on a scorecard. That's nuts. I have seen organizations making disastrous decisions to increase short-run cash flows or profits at the expense of great damage in the long run. So what I am saying is that the right combination would be to take the notion that what the finance guys have got right is a pretty clear-cut way of specifying those trade-offs in terms of value and then combine them with a sensitive view of what are the costs and benefits associated with improving the health of the environment, the health and welfare of our employees, the role we play in the community, and that's not just lip service on my part.

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So the great contribution that the stakeholder literature and the stakeholder theorists have made is to provide a view of this that is much richer than what exists in many organizations and certainly in a lot of the finance literature.

MM: This is linked to another argument that you have put forward, that is that managers should oppose what the market says if the feel that the market is not right.

MJ: Exactly.

MM: At the same time one could argue that this proposal means that the public should believe in managers' judgement as to what the intrinsic value of their firm is rather than believing in what the market says.

MJ: Well, only in situations where the company is overvalued. That is the case when the market is making mistakes, and when managers, especially if they hold substantial equity, are inclined to contribute to the misguided nature of market opinion in that situation. My point is to get the board to see that in the process of trying to defend and prolong the overvaluation, which feels great – that's why I made the analogy with heroin – they are in fact laying the seeds of very destructive results not too far down the way. Just as in cases of Enron or Arthur Andersen.

MM: Do you think that in cases such as Enron or Worldcom, what we could witness there was the fraudulent behaviour of individuals, CEOs, CFOs, or the outcome of structural features in the economic system which support this kind of behaviour?

MJ: Both. In some cases, managers were just thieves. In other cases, when we sift through the details, we would find out that there were a lot of cases where there were ordinary human beings, with an ordinary relationship to integrity, got caught up in this massive overvaluation which led to disastrous decisions. In the case of Enron — I am not an expert on it — but my guess is that Kenneth Lay was not actively involved in the fraud, but it happened on his watch, and that Skilling and Fastow were. It could have been avoided, had they been stronger, had they been able to follow the example of Warren Buffet who quite regularly throughout history has warned the public when he thought they were overvaluing his stock. But there are not many managers who are brave enough to say that.

And we in finance never thought about that fact. We always talked about maximizing the stock price. We had never dealt with the highly unproductive incentive effects of overvalued equity. When we were saying that the objective is to maximize the value of the stock, none of us ever stopped and thought: What would happen if we got a stock priced substantially above what the true underlying value was? We thought that it was all driven by true underlying value. If the stock price gets substantially above the true underlying value, then managers, especially if they have equity holdings, get scared — because they don't want the overvaluation to go away on their watch. This then leads them to take ever more desperate actions until they eventually walk around the corner and commit fraud.

MM: Would you then also say that finance research has to take part of the blame, because for a long time it has suggested models as optimal which are actually not?

MJ: Well, yes, although as soon as we become aware of it, and that is the nature of research, as soon as we become aware of an inadequacy or that we missed something, we fill it in. And that is what I was doing by saying that: Look, this is the problem we have never really thought much about. And statements like "The objective of the management is to maximize the value of the stock" have to be stated much more carefully than we have done in the past. There is a general rule about this stuff, namely the proposition that "the seeds of tomorrow's problems are always found in today's solutions to today's problems".

MM: Thank you for the interview.

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