On the Relevance of Accounting and Finance Research for Society: Reflections from an Editor, Reviewer and Author Perspective

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FMARC 2019 Conference.
Limassol. April 2019
Introduction

- Increasing pressure for research that is more useful to society:
  - Research funding linked to knowledge transfer and benefits for society.
  - Departmental / School assessments increasingly also linked to this.
  - Faculty members evaluations also increasingly linked to this.
- Measures to capture the impact on society are not obvious, especially for our field.
- How is accounting / finance research impacting society?
- My views as author and reviewer, but also as editor (ABR) and HoD – Dean (Carlos III Business Department)
Session’s overview

1. Societal impact of accounting and finance research
   1.1. Through education
   1.2. Through evidence-based policy-making

2. Challenges to evidence-based policy-making
   2.1. Difficulties to isolate causality and lack of data
   2.2. Reliability of prior research
   2.3. Transfer of research findings to society

3. Examples of how ABR helps in creating bridges between research and the society

4. Reflections from the editor’s, HoD’s and dean’s perspectives
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4. Reflections from the editor’s, HoD’s and dean’s perspectives
1.1. Impact through education

- Are more research oriented departments / universities able to educate better future professionals / citizens / regulators?

- Some evidence in research policy journals, but, we could agree that the most prestigious institutions (overall) are also the ones with better research outcomes. And graduates from most prestigious institutions have better future opportunities/careers.

- Faculty members with better research records better able to transmit more critical thinking, state of the art techniques, needs for evidence-based decision making, etc…
1.1. Impact through education

- Does society believe that universities with better research records educate better?
  - Interesting evidence in García Arthus and Muiño (2019 WP).
    - Spain: Funding for public universities independent from research.
    - Evidence that more research productive universities have higher entry marks.
    - Nice research design trying to isolate causal effects.
    - We can come back and criticize this slide later on (endogeneity issues and regulatory advice)
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1.2. Impact through contributing to policy-making

- 2) Through contributing to evidence-based policy-making
  
  See Leuz (2018 *Accounting and Business Research*): “Evidence-based policymaking: promise, challenges and opportunities for accounting and financial markets research”
1.2. Impact through contributing to policy-making

- 2) Through contributing to evidence-based policy-making

  - See Leuz (2018 *Accounting and Business Research*): “Evidence-based policymaking: promise, challenges and opportunities for accounting and financial markets research”

  - “In principle, using sound theory and robust empirical evidence should lead to better policies and regulations.”

  - “many challenges related to the difficulty of providing relevant causal evidence, lack of data, the reliability of published research and the transmission of research findings.”
2. Challenges to evidence-based policy-making

- 1) Causal inferences and lack of data
- 2) Reliability of published research
- 3) Transmission of research findings /reach to regulatory and professional bodies, and society at large
2. Challenges to evidence-based policy-making

- 1) Causal inferences and lack of data
- 2) Reliability of published research
- 3) Transmission of research findings/reach to regulatory and professional bodies, and society at large
Challenge #1: Causal inference and lack of data

- Should we make regulatory decisions, or make regulatory advice based on associations?
  - Careful then, as we might end up accepting that Aspirins, Ibuprofen and Paracetamol cause headaches.
- Isolating causal effects very challenging in our discipline, because of lack of randomized experiments.
- Let’s take several examples from very relevant research questions:
Challenge #1: Causal inference and lack of data

Do (audited) financial reports benefit private firms?

See Minnis & Schroff (2017 ABR), Vanstraelen & Schelleman (2017 ABR) for overviews.

Very difficult to isolate causality in a voluntary setting. Also in compulsory settings.

Good attempt: Breuer et al. (2018 RFS) – Regression discontinuity design.


Do independent directors affect firm outcomes?

Results on the passages of several SEC and NYSE regulations, and SOX. But how exogenous are these? See Klein (2002 JAE), Armstrong et al. (2014 JFE).

Closer to true exogenous event: Ahern & Dittmar (2012 QJE). Norwegian female directors quota

They find negative effects of the quota. How is this reconciling with prior research and some commonly held views?
Challenge #1: Causal inference and lack of data

Is short selling good or bad for the economy?

2005-2007 SEC pilot program exempting some firms (1/3 of Russell 3000 firms) from short selling price tests. Part of Reg. SHO.

Completely unexpected (random choice of firms by the SEC). Randomized experiment.

Fang et al. (2016 Journal Finance) show that pilot firms decreased earnings management during the affected years.

Is auditing as we know it working?

Many recent financial scandals in US and elsewhere. Some strong opinions (i.e. Coffee, 2019, ABR) of auditing firms not competing on quality, but on minimizing costs. Review work: DeFond & Zhang (2014 JAE).

Truly randomized experiment: Duflo et al. (2013 QJE).

BUT: Generalizability?
Challenge #1: Causal inference and lack of data

- From the editor (and reviewer) perspective:
  - Avoid causal language when you do not provide causal evidence.
  - When implementing endogeneity tests, describe in the text the type of problem that you are trying to solve with your tests, and why the specific text you are using would solve it. Is it reverse causality? Why would it exist? Is it correlated omitted variables? Observable? Unobservable?
  - Sometimes, showing an association might make a contribution to the literature if the result is novel enough.
2. Challenges to evidence-based policy-making

- 1) Causal inferences and lack of data
- 2) Reliability of published research
- 3) Transmission of research findings /reach to regulatory and professional bodies, and society at large
Challenge #2: Reliability of published research

- Evidence of unintentional research biases in many fields:
  - Fanelli (2010 *PLOS one*): “Like all human beings, scientists are confirmation-biased (i.e. tend to select information that supports their hypotheses about the world), and they are far from indifferent to the outcome of their own research: positive results make them happy and negative ones disappointed.”
  - Ashenfelter et al. (1999 *Labour Economics*). There is a “selection bias in favor of significant and positive returns to education”
  - Relation between CSR and financial performance, results from ‘ethics oriented journals’ are more supportive of a positive relation than results in economics, finance and accounting journals (Orlitzky, 2011 *Business Ethics Quarterly*).
Challenge #2: Reliability of published research

- Are there biases in accounting (and finance) research:
  - Authoritative voices seem to think this is the case.
  - Ball (2013 *Accounting Horizons*): Prior research on the information content of earnings “tends to exaggerate its relative magnitude”. See also Ball and Shivakumar (2008 JAR). And see also, on the overgeneralization of Beaver (1968 JAR), Bamber et al. (2001 *Accounting Organizations and Society*).
  - Ball (2013 AH): “A powerful cocktail of authors’ strong priors, strong ethical and moral views, limited knowledge of the determinants of accruals in the absence of manipulation, and willingness to ignore correlated omitted variables in order to report a result, seems to have fostered a research culture that tolerates grossly inadequate research designs and publishes blatantly false positives.”
Challenge #2: Reliability of published research

- Are there biases in accounting (and finance) research:

  ▶ Authoritative voices seem to think this is the case.

  ▶ **Ohlson (2015 *Abacus*):** “the majority of prolific researchers are quite happy with the state of affairs in the sense that they sincerely believe that the great bulk of papers have been carefully executed and accordingly have arrived at worthwhile conclusions. I will argue to the contrary”

  ▶ “the research frames the analyses to minimize the probability of a false acceptance of the null hypothesis. But this comes at a cost, namely, a maximization of the probability of a false positive (false rejection of the null)”. See also “**Star Wars: The Empirics strike back**”, Brodeur et al. (2016 AEJ).

  ▶ So, somehow, research driven towards desired results (accounting is important for x or y).

  ▶ Not different from biases in other disciplines: CSR is value enhancing, there are positive returns to education. Not necessarily untrue, but biases are observed and reported.
Challenge #2: Reliability of published research

- Also, replicability issues:
  - Use of standard databases permits easier replication than in other disciplines.
  - The issue might be more problematic with less standardized databases, with experiments, etc…
  - Can biases incentivise fraud:
    - Can there be “Star Wars”, that is, some sort of impression management to influence readers’ perceptions through “stars” in tables? Can biases be also increased (deviating from unintentional) because of publication pressure (see Fannelli, 2010 PLOS One, who shows that there are more biases in states where there is more publication intensity).
    - So, can authors intentionally respond with biases to unintentional biases of reviewers and editors?
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Challenge #3: Transferring research findings

- Several channels:
  - Presence of academics in regulatory and standard-setting bodies:
    - FASB (always one representative of five), IASB (1 among many: Mary Barth, Ann Tarca). In Europe, through the EFRAG (Begoña Giner, Araceli Mora), now EFRAG academic panel. The UK’s FRC has also academic panel.
    - Important to transmit what the core of the discipline shows, and not just provide papers to *cherry pick* results by regulators (some sort of “menu of options”).
  - Connections and events that senior faculty members, journals, etc., organize with regulatory bodies, standard setters and professionals.
    - *Accounting and Business Research* as an example:
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Published since 1970

Sponsored by the ICAEW (Institute of Chartered Accountants in England and Wales)

Well placed in research rankings (i.e., 3* in ABS list)

Approx. 30 papers per year.

Approx. 400 submissions per year.

Current editors: M. Clatworthy (Bristol), E. Lee (Manchester), myself.
Journal Impact Factor Trend 2017

1.271
2017 Journal Impact Factor

JIF
BUSINESS, FINANCE
Scimago / Scopus SJR scores-rankings
3. ABR and Transferring research findings

- ABR has several channels to transfer knowledge to society:
  - **PD Leake lecture.** Every year, in October, at the ICAEW premises in London. By a well known academic, addressing one of the big questions for the discipline. With a response from a regulator, standard setter or professional (auditors, investors, analysts,…).
  
  - **Information for Better Markets Conference (IFBM).** Every year, in November, at the ICAEW premises in London. 4 well known academics on a broad topic from different perspectives, and responses from regulators, standard setters or professionals.

  - The 5 presentations become papers, are subject to review, and if review is successful, published in Issue 5 (International Accounting Policy Forum Special Issue) of every year’s volume, accompanied by their respective responses.

  - [Link to web site of the events, with video webcasts, papers and additional materials](#)
3. ABR transfers to society: example IFBM 2018

- 2018 IFBM conference on Financial Scandals.
- Paper by John Coffee (one of the most cited law researchers on financial regulation): “Why do auditors fail?”
- Negative view of the auditing profession and of the system (competition on prices, not on quality)
- Reply by ICAEW’s CEO.
3. ABR transfers to society: example IFBM
3. ABR transfers to society: ex. PD Leake lectures

- 2018 PD Leake lecture by Craig Lewis (Vanderbilt professor, and former SEC’s economist in chief).

- Paper about how to use textual disclosures for different purposes, including fraud detection.

- During the presentation it came out that in the SEC they use discretionary accruals as a starting point, valuable signal, to identify firms that might have been involved in some sort of fraud.

- 2017: The previously mentioned paper by C. Leuz on evidenced-based policy making.

- Prior PD Leake lectures by Ray Ball, Phil Brown, Katherine Schipper, Mary Barth,…
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4. Reflections from editor’s, HoD’s & dean’s view

- From the editor perspective:
  - Avoid overselling your results:
    - Claiming that your paper adds a regulatory debate without explaining how it does so, tend to not be useful and reviewers and editors tend to not like it.
    - If the explanations are not convincing, based on non-causal evidence, etc…, this might play against the odds of the paper being published.
    - In my view, the key point is whether the contribution to prior literature is there.
4. Reflections from editor’s, HoD’s & dean’s view

- From the HoD’s and dean’s view:
  - How do we assess the impact (also for society) of the faculty member’s research, for example, for promotion processes (especially for junior faculty members):
    - Coming back to Leuz (2018) remarks on what makes good policy relevant research (even if it is not enough): “In principle, using sound theory and robust empirical evidence should lead to better policies and regulations”
    - So, basically, research that should benefit society the most is the one with the largest academic impact.
    - Therefore, we can just use academic impact to assess social impact.
4. Reflections from editor’s, HoD’s & dean’s view

- Then, what about academic impact?
  - From my point of view, one would obtain the largest impact by publishing in the more generalist journals possible.
  - Even working in accounting and/or finance, one would achieve the highest impact possible publishing in the top science generalist journals (perhaps, also, less affected by unintentional biases):
    - Science
    - Nature
    - Proceedings of the National Academy of Sciences (PNAS)

- But, can we publish there accounting/finance papers?
Gender differences in financial risk aversion and career choices are affected by testosterone

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\textsuperscript{a}Kellogg School of Management, Northwestern University, Evanston, IL 60208; \textsuperscript{b}University of Chicago Booth School of Business, Chicago, IL 60637; and \textsuperscript{c}Department of Comparative Human Development, University of Chicago, Chicago, IL 60637

Communicated by James J. Heckman, The University of Chicago, Chicago, IL, July 1, 2009 (received for review December 15, 2008)

Women are generally more risk averse than men. We investigated whether between- and within-gender variation in financial risk aversion was accounted for by variation in salivary concentrations of testosterone and in markers of prenatal testosterone exposure in a sample of >500 MBA students. Higher levels of circulating testosterone were associated with lower risk aversion among women, but not among men. At comparably low concentrations of salivary testosterone, however, the gender difference in risk aversion disappeared, suggesting that testosterone has nonlinear effects on risk aversion regardless of gender. A similar relationship between risk aversion and testosterone was also found using markers of prenatal testosterone exposure. Finally, both testosterone levels and risk aversion predicted career choices after graduation: Individuals high in testosterone and low in risk aversion were more likely to choose risky careers in finance. These results suggest that testosterone has both organizational and activational effects on risk-sensitive financial decisions and long-term career choices.

testosterone exposure. This was done in two ways: first, we used the ratio between the length of the 2nd (index) finger and the 4th (ring) finger (2D:4D ratio) as a marker of prenatal testosterone exposure. Fingers have receptors for sex steroid hormones and their length is affected by hormone exposure in utero; in particular, the 2D:4D ratio has been shown to be negatively correlated with prenatal testosterone exposure and to be lower in men than in women (15, 16). Second, prenatal testosterone has been shown to affect a child’s sociability and ability to empathize (17), which, in turn, can be reliably measured by the “Reading the Mind in the Eyes” test developed by Baron-Cohen (18). This test involves guessing the feeling expressed in 34 pairs of eyes. Lower prenatal testosterone exposure is associated with higher performance on this test, and women typically score higher than men (18). Hence, as another proxy for prenatal exposure to testosterone, we used the Baron-Cohen test.

Subject population was a large (\(n = 550\)) cohort of MBA students at the University of Chicago. Although these students may not be representative of human populations in general, we believe that they represent an optimal subject population for this study for several reasons. First, MBA students are familiar with
4. Reflections from editor’s, HoD’s & dean’s view

The most general: Science, Nature, PNAS

Econ. General: AER, QJE, JPE, Econometrica, RES.
Examples: Fudenberg & Tirole (1995 JPE); Duflo et al. (2013 QJE).

Then top field, and good ones in the field:
- Finance: JF, RFS, JF. Also others: JFQA, RF, JME, JFI, JBF, JCF,…
- Accounting: JAE, JAR, TAR. RAST, CAR, AOS.
  Also others: EAR, ABR, JBFA, JAPP, AH.

And also tops in related fields: Mngment Sc, AMJ, AMR, ASQ, SMJ,…
How hard is it to publish in accounting journals?

- The “market” for accounting papers is very thin.
- Few journals, and few papers per number/volume.
- Given specificity of the topic, relatively low impact factor (number of citations) relative to other disciplines.

- Discouraged faculty because:
  - Do not make it to top journals
  - Second tier journals not properly valued as compared to other disciplines and JCR-sm causing serious problems.
  - Difficulties in promotion processes, in access to funding in competitive projects,…

- Negative effects:
  - Faculty publishing in journals of other disciplines.
    - Fine as long as journals are good quality. Not always the case. Sometimes just a search for a good impact factor (sometimes even within the discipline)
  - Under-citation of second tier accounting journals.
How hard is it to publish in accounting journals?

BUT,

Is all of this real?
Some interesting statistics (1/2):

<table>
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Some interesting statistics (2/2):

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Is there anything we can do about it?

- We should try to publish in the 3-5 top accounting journals, but…

- For a European accounting academic, a publication in a European Accounting journal should be a big hit!!!!
  - Let your university/department know this is the case
  - Actively promote European accounting journals wherever adequate

- Read and cite European research. There are many interesting papers published by the European journals that because of the focus on US journals tend to go unnoticed.
  - Brown (2013 AH): “I do get a bit short when I review papers that fail to appreciate that the ideas they are dealing with have long yet uncited histories, sometimes in journals that are not based in North America.”

- If you publish outside the discipline, being read by accounting academics will be more difficult, especially if published outside the top journals of the related disciplines.
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Summary – Main take-aways

• Searching and assessing social impact is a good idea.

• But we should not lose focus:
  
  ▶ Impact comes from good research, which leads to better education and impact on regulatory processes.
  
  ▶ But impact on the regulatory process is hard because:
    
    ▶ Problems to identify causality and lack of data
    ▶ Reliability of prior research
    ▶ Not easy to reach regulators and professionals
  
  ▶ In the end, the best research (academic-wise) in the one that should have more social impact.

• Wider efforts (like the examples from ABR) is what should link research to society.

• Promotion processes should be implemented wisely.
Thanks!!!
On the Relevance of Accounting and Finance Research for Society: Reflections from an Editor, Reviewer and Author Perspective

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FMARC 2019
Conference. Limassol. April 2019