

■ Editorial



Our association has got a new President, Ann Jorissen from Belgium. Congratulations Ann! She will summarise news from the annual congress held in Paris two weeks ago and tell us her thoughts about the future of the EAA in her first Presidential Letter. On behalf of our readers and myself, I would like to take this opportunity to thank Begoña Giner, the Past President of the EAA, for all the time and effort she has invested in our society.

Laurence van Lent, the Editor of the EAR, will tell us about recent updates regarding the EAR in his letter. This newsletter also provides two interesting conference reports. The first one is a report on the EAA Doctoral Colloquium and 36th Annual Congress - very beautifully written by a Doctoral Colloquium student Lisa Baudot. The second report is about the joint conference of the Accounting Section of the German Academic Association for Business Research (VHB) and the International Association for Accounting Education & Research (IAAER) - also wonderfully described by Barbara E. Weissenberger.

The section "About Publishing" continues with a total of two essays. Editor of the Journal of Management and Governance, Roberto Di Pietra, analyses the role of a reviewer as an "anonymous co-author" and a developer of a research paper. In the previous issue, some concerns regarding a double-blind review process were discussed. In this issue, Professor David Alexander responds to call for further debate about anonymous reviewers. As David will explicitly point out, his piece is intended to pursue an argument, and does not claim to be even-handed. This issue is highly controversial, and so far the printed comments have mostly been unilateral. I therefore welcome responses with a different point of view.

In addition, Anna Szycha will introduce accounting traditions in Poland. Finally, the section "Have you read?" appears with two book reviews. Francesca Cuomo will analyze *The Small Worlds of Corporate Governance* and Phil Molyneux will review *The Malign Hand of the Markets*. I hope that this Newsletter will provide you with interesting writings to read!

Yours,

Hanna Silvola

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Letter from the president, Ann Jorissen

Dear Colleagues,

As this is my first letter to you in my capacity as President of the EAA, I would like to take the opportunity to thank the European Accounting Association and its members for their trust and confidence in me to lead this organization. I consider it a great honour and privilege to be able to lead this unique association. I hope to fulfill the expectations of EAA members and I look forward to cooperating with the different EAA committees, its Board and all the members over the next two years.

Many of us just returned from Paris, where we all enjoyed the 36th Annual Conference of the EAA. The conference hosted more than 1600 academics from all over the world. These 1600 participants enjoyed an inspiring scientific program, consisting of nine symposia and on average 30 concurrent sessions from Monday afternoon to Wednesday afternoon. The social events (early bird, welcome reception, gala event) provided the conference participants with ample opportunity to network and to enjoy delicious French champagne, wine and food in the splendid environment of the Pavillon Dauphine. We all owe the organizing committee many thanks. Nicolas Bertrand and his team succeeded in running this conference, one of the biggest in the EAA history, very smoothly as a result of the incredible amount of time spent over the past years to organize this conference. Nicolas, a job well done! We also thank Nicole Coopman and the EAA's Conference Committee chaired by Gunnar Rimmel for supporting the Local Organizing Committee. But also many thanks to all authors, discussants, chairs, symposia members and participants, without you there would not be any conference.

The Standing Scientific Committee (SSC), responsible for the scientific program of the conference, had to review 1236 full papers for this 36th Annual Conference of the EAA. This is the largest number of full papers ever submitted to an EAA Conference. After a double-blind review process, 471 papers ended up in parallel sessions and 461 papers in the research forum. The EAA community is grateful to the SSC and the Scientific Committee members for completing this review process in time in order to produce a scientific program of high quality. Special thanks go to Hervé Stolowy, who chaired the SSC over the past three conferences and who is now stepping down from this position. We congratulate Aljoša Valentinčič, who will chair the SSC for the next three EAA annual conferences.

Each year the EAA organizes a Doctoral Colloquium preceding the Annual Conference. This year 146 PhD students applied and 34 students were selected to participate. The EAA Doctoral Colloquium also welcomed one US student and one Australian student. Twelve faculty members dedicated their time to these students to provide them with constructive feedback on their PhD work and to inspire them. The EAA thanks the faculty of the Doctoral Colloquium and especially the two chairs, Bill Rees and Keith Robson for investing their time in the future of the EAA.

As a pilot project a first PhD forum was organized before the start of the Annual Congress. All PhD students attending the EAA conference, could register for free for this half-day event. On Monday 6 May more than 100 doctoral students gathered to listen to one plenary session before breaking up into five different subgroups each devoted to the discussion of a different research theme. This pilot project was highly appreciated by the participating students. We thank the organizer of this PhD forum (Thomas Jeanjean) and the presenters in this forum for their valuable contribution to PhD education in the EAA.

PhD education is currently one of the most important topics on the agenda of the Management Committee. Currently the initiatives aimed at PhD students include: the organization of a Doctoral Colloquium preceding the conference; providing a reduced conference fee to PhD students participating for the first time in the EAA congress; the organization of the PhD forum preceding the Annual Congress for all interested PhD students; and the funding of a number of short-term PhD courses or workshops. In order to become aware of the doctoral training needs and of the diversity in doctoral training over Europe, a 'Standing Task Force on Doctoral Education in Accounting in Europe' was established at the Management Committee meeting in February in Brussels. This Task Force is led by Joachim Gassen and Thomas Jeanjean. At the conference in Paris, Joachim and Thomas met on the Tuesday evening 7th of May after the conference with all academics that had responded to their call for participation in this Task Force, announced in the first EAA Newsletter of 2013. The ideas generated by this group will be discussed in future Management Committee meetings.

In the February 2013 Management Committee meeting it was decided that in order to increase transparency, all the minutes of the Management Committee and the EAA Board would be published after their approval in the members' section of the EAA website from the beginning of 2013 onwards. If through reading these minutes, ideas or suggestions for the EAA pop up, please do not hesitate to communicate those to us.

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Letter from the president (cont'd)

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The Board and the General Assembly also approved the policy of self-insurance of the EAA conference by the EAA, in line with other associations' practices, and the proposal to increase the membership fee by 10 EUR. A couple of years ago the EAA became VAT-liable and absorbed this VAT on its membership fee without passing this amount on to its members. This absorption by the EAA reduced the revenue from membership fees for the EAA by 10 EUR per member. Therefore the EAA membership fee will be increased by 10 EUR from 2014. For this membership fee of 60 EUR members receive the two journals of the Association, i.e. The European Accounting Review and Accounting in Europe, free submission of papers to the Annual Conference, the newsletter, access to the membership site of the EAA website and membership of a large community of academics that meet annually in lovely places in Europe, where members find a platform to present their research and receive feedback in earlier and later stages of their research process.

The time of the congress is also the time for changes in many committees and leadership roles. Particular thanks are due to those whose term of office came to an end in Paris, and I extend a warm welcome to new committee chairs, new committee members and new national representatives on the EAA Board. Last but not least, I want to thank Begona Giner, who served the EAA as President over the last two years and as President-Elect and as Chair of the Standing Scientific Committee over the preceding years. The EAA thanks her for her leadership and the time devoted to our organization over all those years. We sincerely hope we can still benefit from her rich experience, in her new capacity as Past President of the Association.

Next May 2014, the 37th Annual Conference of the EAA will be held in Tallinn. I hope that many of you will submit papers for this conference and that even more of you will join us in Tallinn. May the coming summer months provide you with plenty of inspiration and time to develop research ideas and papers to be submitted to the next EAA conference on the 1st of December 2013.

*Ann Jorissen
President of EAA*

Letter from the *European Accounting Review* Editor, Laurence van Lent

One sometimes hears the view espoused that journal editors and reviewers are “gatekeepers” that are in the business of preventing innovative work from being published in print. While I cannot attest to the practice at other journals in our field, the editorial team of *European Accounting Review* holds quite a different view. If possible, we want to help authors to get their work published. For this reason, *EAR* has implemented a number of groundbreaking initiatives over the past year. In earlier issues of this newsletter, I have highlighted the *Young Scholars Track*, which ensures a constructive review experience to emerging authors, and the *Preferred Editor/Non-preferred Reviewer Choice*. Authors can select their preferred editor (conditional on capacity constraints) and list reviewers who they feel might not give their work a fair chance. In 2012, about 25 percent of new submissions were under the *Young Scholars Track*. Many more authors used the option to list their preferred editor and non-preferred reviewers. Despite some authors listing as many as 10 non-preferred reviewers, the editorial team has so far always been able to accommodate these requests.

Authors should also feel free to use the cover letter to bring any pertinent matters with regard to their paper to the attention of the editorial team. I have read many of these letters in the past year and one thing that strikes me is that in most cases, the letters are completely boilerplate. Sometimes, authors do not bother to write a cover letter at all. I believe this might be something of a missed opportunity. A cover letter is a good place to communicate to the editor any concerns authors might have with respect to their submission.

For example, authors could highlight that their paper uses a mixed method approach, which might be difficult to evaluate by a reviewer with experience in only one of the applied methods. Or a paper could report findings that contradict results reported in earlier studies. In this case, authors may wish to highlight the paper with conflicting evidence in the cover letter and bring to the editor’s attention that a potential reviewer has a conflict of interest. In some fields, passions about the correct view of the world might be so high, that the use of a single reviewer (as is *EAR*’s default policy) runs the risk of drawing a hostile report unrelated to the paper’s content. In that case, the author could suggest to the editor to use more than one reviewer.

The bottom line is that the editorial team at *EAR* wants authors to have a fair review experience. Whatever we can do to reduce author anxiety about how their study is going to be evaluated, we will do. If authors have questions about the review process, they should feel free to contact me or any other member of the editorial team. Cover letters are a great way to highlight any potential issues or problems during the submission process. If authors are unhappy after the decision has been made on their paper, they can also write to me and tell me why. *EAR*’s formalized appeals procedure provides a way to address author grievances. However, I am eager to hear your feedback regardless of whether you want to avail yourself of a formal appeal.

On a different note, the *EAR* Special Issue on Regulation and Disclosure of Executive Compensation with guest-editors Fabrizio Ferri and Robert Goex is now open for submissions (deadline: August 31, 2013). Elsewhere in this newsletter a new call for papers can be found. Eddy Cardinaels (Tilburg University) and Naomi Soderstrom (University of Melbourne) are the guest-editors for a Special Issue on Accounting Insights from the Healthcare Sector. Manuscripts can be submitted to this special issue until July 31, 2014. I have invited the guest-editors to write a paper that outlines research opportunities in this field. This paper will be published ahead of the special issue in an effort to promote new work on accounting and healthcare.

Laurence van Lent
Editor
European Accounting Review



News on *European Accounting Review*

Forthcoming articles in the EAR:

External Auditor Reassessment of Client Business Risk Following the Issuance of a Comment Letter by the SEC, Miles Gietzmann & Angela Kate Pettinicchio

The Demand for Audit in Private Firms: Recent Large-Sample Evidence from the UK, Elisabeth Dedman, Asad Kausar & Clive Lennox

How Important are Earnings Announcements as an Information Source?, Stanimir Markov, Sudipta Basu, Truong Duong & Eng Joo Tan

Accounting as Technology of Government in Portuguese Empire: Development, Application and Enforcement of Accounting Rules During the Pombaline Era (1761-1777), Delfina Gomes, Garry Carnegie & Lúcia Rodrigues

Stale and Scale Effects in Markets-Based Accounting Research: Evidence from the Valuation of Dividends, David Veenman & Igor Goncharov

Accountability and Role Effects in Balanced Scorecard Performance Evaluation when Strategy Timeline is Specified, Geoffrey D. Bartlett, Eric Johnson & Philip M.J. Reckers

Audit Quality and Banks' Assessment of Disclosed Accounting Information, Ling Chu, Robert Mathieu & Chima Mbagwu



News on *Accounting in Europe*

Call for Papers

Special Issue: Towards a new conceptual framework

After how many years at convergence, convergence with our friends from across the pond, we come back to basics. In 2012 the IASB reactivated the Conceptual Framework project as an IASB-only comprehensive project. The IASB decided that the conceptual framework project should focus on elements of financial statements, measurement, reporting entity, presentation and disclosure and the aim is to work towards a single discussion paper covering all these areas, rather than separate discussion papers for each area. This discussion paper is expected in the Summer 2013. We believe this is a great opportunity to participate in the debate.

The EAA's Financial Reporting Standards Committee (FRSC) intends to be one of the respondents to the discussion paper. Its contribution will be published in *Accounting in Europe* in early 2014.

Suggested topics, but not limited to:

- Who uses financial reports today and for what purpose?
- What happens to convergence with US GAAP if the IASB goes it alone?
- What forces shape the conceptual framework over time?
- What role for the business model?
- What is the place of prudence in the conceptual framework?
- How do we achieve better comparability, how do we measure it?
- What matters: operating income, net income, comprehensive income?
- What balance between relevance and faithful representation?
- What is too much or too little disclosure?
- A conceptual framework for all: listed and unlisted firms, financial and non financial firms?

- The role of accounting research in shaping the conceptual framework?

Authors should submit their papers, including abstracts, by **1 December 2013** (same time you submit your papers for the EAA conference in Tallinn, easy to remember!) to the Editor-Designate, Paul André (andre@essec.edu). Earlier submission is encouraged. Authors should bear in mind the publication policy of *Accounting in Europe*, which focuses on papers that are relevant to practice and policy. Papers must be submitted in English, although editorial assistance with the English language will be available for the papers selected. Instructions for contributors can be found at

<http://www.tandf.co.uk/journals/journal.asp?issn=1744-9480&linktype=44>

Papers submitted will be subject to fast track double-blind peer review, aiming for publication in the second issue of 2014.

Here are some of the upcoming

Upcoming EIASM Events

EIASM events. For a full list, please visit www.eiasm.org.

7th Conference on Performance Measurement and Management Control, September 18-20, 2013, Barcelona, Spain

9th Interdisciplinary Workshop on Intangibles, Intellectual Capital and Extra-Financial Information, September 26-27, 2013, Copenhagen, Denmark

Call for papers for a special section on Accounting Insights from the Healthcare Sector European Accounting Review

Guest Editors:

Eddy Cardinaels – Tilburg University

Naomi Soderstrom – University of Melbourne

The healthcare sector comprises a large portion of economic activity in countries across the world. In 2010, across member states in the European Union, it represented an average of 9 per cent of Gross Domestic Product, in Canada, 11.3 percent and in the United States, 17.9 percent (World Bank: World Health Organization National Health Account database). In addition to being an economically important sector, it has experienced significant changes in market pressure, competition and regulation, which pressured hospitals and other health care providers to change their operations and decision making structures. The institutional environment for these organizations is also quite complex, with multiple organizational forms (e.g., government, nonprofit, for profit), multiple stakeholders (e.g., hospital management, physicians and professional staff, patients, communities, investor/owners, and governments) with substantial variation in industry organization and reimbursement policies across countries. The healthcare setting thus provides both opportunities and challenges for researchers.

This special issue of *European Accounting Review* is devoted to studies that explore various aspects of healthcare institutions. The richness of the health care context allows researchers to study a broad range accounting topics and economic theories on competition, compensation contracts, and cost and management behavior in complex and regulated markets. Research topics appropriate for this special issue would include, but are not be limited to, the following:

- Forces that stimulate or hinder the realization of cost containment in health care.
- Hospital-insurer negotiations, pricing agreements and the importance of accounting information.
- Earnings management through real activity manipulation, cost shifting, and reporting strategies.
- The role of CEOs, physicians and professional staff on innovations in management accounting practices.
- Non-financial performance measures, managerial discretion and performance evaluation in health care institutions.
- Composition and impact of different types of compensation and labor contracts in healthcare institutions.
- Effectiveness of government regulation in different healthcare contexts.
- The impact of various stakeholders and external pressures on strategic choices such as total quality management, outsourcing, or cooperation among service providers.
- Customer satisfaction and patient involvement and their impact on the accounting function in hospitals.
- Agency implications within a healthcare context.
- Health care governance models, supervisory boards and different ownership structures and their impact on financial and nonfinancial performance.
- Consequences on the quality of care and treatment costs of different payment schemes, market competition, and merger activities by health care providers.

EAR is committed to publishing innovative and original work that meets the highest standards of methodological rigor. Emerging scholars are especially encouraged to submit their work (to the Young Scholars Track). EAR welcomes papers regardless of research paradigm or disciplinary foundation. Papers using analytical approaches (both mathematical modeling and qualitative reasoning), experimentation, field study methods, surveys, and empirical-archival methods will be considered.

Papers submitted to this special session will be subject to a double blind review process. Authors are encouraged to contact the guest editors in advance should there be any matters on which they require clarification or guidance (e.cardinaels@uvt.nl or naomiss@unimelb.edu.au).

Authors should submit manuscripts via the ScholarOne manuscript submission site: <http://mc.manuscriptcentral.com/rear>

The deadline for submission is July 31, 2014.

There are plans to hold an EAR Symposium on the topic at the 2014 European Accounting Association Annual Meeting.

■ Call for papers

Management Accounting Research Group Conference

in association with the Management Control Association

Aston Business School, Birmingham, UK, 21-22 November 2013

This is the first call for the annual MARG / MCA conference, to be held on Thursday 21st and Friday 22nd November, 2013 at Aston Business School, Birmingham. Papers are invited that address any area of research and practice into management accounting or management control. Papers addressing the application, or refinement, of management accounting/control processes and techniques in practical settings are encouraged. Papers from practitioners in such settings are especially welcome.

The conference will commence at 10.30am on the first day and will consist of plenary presentations. Presenters will include a number of high profile contributors to the management accounting literature. Speakers at last year's conference included Professors Allan Hansen, Margaret Woods and Lisa Jack.

The first day ends with a conference dinner where delegates will have the opportunity to meet and discuss their research interests and practice developments in a relaxed setting. The second day will consist of parallel sessions and may be especially appealing to early career researchers, many of whom may still be completing their PhD.

Full papers (or extended abstracts) should be submitted to the organisers by 16th Sep 2013.

For the plenary presentations preference will be given to full papers.

For queries please contact Alan Lowe: a.d.lowe@aston.ac.uk or Melina Manochin: m.m.manochin@aston.ac.uk

✉ Aston Business School, Aston University, Aston Triangle, Birmingham, B4 7ET.

We gratefully acknowledge funding from the ICAEW's charitable trusts that enables us to offer a **limited number of free of charge places for doctoral students** who have papers accepted for presentation at the conference.

To other presenters who have papers accepted: free of charge places include conference attendance, refreshments, lunches and conference dinner. However, accommodation is **not included** and presenters will be required to pay for accommodation should they wish to use this facility. The support of the Management Control Association is also gratefully acknowledged.

Delegates who are not presenting will be required to pay a conference registration fee of £99. This will include lunch on both days, refreshments and conference dinner. This fee does not include accommodation.

Part of the costs of this conference are being paid by the ICAEW's charitable trusts. These trusts support educational projects relating to accountancy and economics.

■ Report on the

EAA Doctoral Colloquium and 36th Annual Congress

Saclay, France, 2 – 5 May, 2013 and Paris, 6 – 8 May 2013

J'aime Paris au mois de mai
 Quand les bourgeons renaissent
 Qu'une nouvelle jeunesse
 S'empare de la vieille cité
 Qui se met à rayonner
 J'aime Paris au mois de mai
 Quand l'hiver le délaïsse
 Que le soleil caresse
 Ses vieux toits à peine éveillés
 - Charles Aznavour (1956)

I agree whole- heartedly with Charles Aznavour's song 'I love Paris in the month of May' and find Paris a particularly special place in springtime when the *joie de vivre* is renewed through a combination of conversation, cuisine, and culture. What perfect timing and location for the 2013 version of the European Accounting Association Doctoral Colloquium and Annual Congress valuing these same characteristics and offering a sort of renewal of research spirit each year. What follows is a personal take on this year's events in France and a challenge to your French in celebration of the locale.

First, a few words about the congress venue and the *mise en scene* of the congress by Paris-Dauphine University in collaboration with the EAA. Dauphine University is conveniently located in the 16th *arrondissement* of Paris, not far from the Arc de Triomphe, the Champs- Elysée, and the Tour Eiffel for those who found time for sight-seeing. The conference organizers were hosts *par excellence* and took great care of more than 1500 attendees. *En suite*, I will take those of you who may have missed this year's events - or those of you who would like a brief recap - through some of the highlights. I believe many will agree to have come away with some *bons souvenirs*.

Things kicked off with the Doctoral Colloquium which was held approximately 20km southwest of Paris near the town of Saclay from May 2 to 5. The *nouvelle recolte* of 36 doctoral students and 12 faculty members proved their travel skills in reaching the site of the colloquium as it is not directly served by France's extensive public transport network. However, this was the least of the doctoral students' concerns as they prepared for the intense three days to follow. Over this time, the doctoral students would present their research projects in front of a distinguished faculty, attend plenary sessions on general topics of interest, and hone their social skills in a number of events.

The students, from a *mélange* of 17 countries and 33 institutions, presented their projects within four concurrent tracks: Financial Reporting, Financial Analysis, Management Accounting and Social & Organization Accounting. Ten world-renowned academics joined the co-chairs of the Doctoral Colloquium, Bill Rees and Keith Robson, in providing in-depth feedback on the nine projects within each track. Our *crème de la crème* of faculty members included: Joachim Gassen (Humboldt University), Wayne Landsman (Univ. of North Carolina), and Cathy Shakespeare (Univ. of Michigan) in the Financial Reporting track; Beatriz Garcia Osma (Univ. Autonoma de Madrid), Bill Rees (Univ. of Edinburgh) and Ane Tamayo (London School of Economics) in the Financial Analysis track; Eva Labro (Univ. of North Carolina), Michael Shields (Michigan State Univ.), and Wim van der Stede (London School of Economics) in the Management Accounting track; and Jan Mouritsen (Copenhagen Business School), Fabrizio Panozzo (Venice Univ.), and Keith Robson (Cardiff Univ.).

Doctoral students were allowed one hour and 15 minutes during which they presented their *raison d'être* to their colleagues. During this time, the eight other students in the track and the conveners provided constructive feedback and suggestions for improvement that really showed the time and care everyone put into this process. Doctoral students not only came away with insight as to the potential weaknesses of their research but also with different perspectives on the ways they might overcome them. I found the feedback received in this session to be highly personalized and relevant, gained just as much from listening to and commenting on other presentations, and I very much appreciated the openness of my track to varied settings, methods and theories.

The concurrent sessions were capped off with a plenary session on topics *du jour*. The first plenary was given by Prof. Wim van der Stede who shared his views on advancing research in (management) accounting. The second plenary session was lead by Prof. Wayne Landsman who discussed his thoughts on research in (financial) accounting. The third plenary, which also concluded the formal sessions of the Doctoral Colloquium, entailed a Faculty Panel discussion on moving from the PhD to a career, with a focus on publishing. One of the main takeaways from the Panel discussion had clear links to the EAA symposia on the responsibilities of authors, reviewers and editors in increasing the quality of published articles. The focus here was on what doctoral students, as future authors, can do to improve the quality of their submissions which may increase the potential for successful publication.

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 Report on the EAA Doctoral Colloquium and 36th Annual Congress (con't)


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Despite 2 ½ days packed with concurrent and plenary sessions, doctoral students also had time for discussing with faculty (while attempting to avoid any academic *faux pas*) and with fellow students during multiple social events. A positive by-product of the conference facility's remote location was that participants spent much of their free time together, hopefully establishing contacts with collaborators on future research or colleagues with whom they will continue to share academic experiences as we travel the same path. The highlight of our social events was a dinner in Versailles where we had the chance to view the impressive Château de Versailles by night. The time passed quickly and I personally can say that despite all this 'together time', I left with the impression that there were many more students/faculty to get to know than there was time to get to know them.

Lastly, the Faculty nominated two doctoral students as representatives of the European Accounting Association at upcoming Doctoral Colloquiums in Australia and the United States. I am more than grateful to the Faculty to have received the nomination to represent Europe at the Doctoral Colloquium of the Accounting & Finance Association of Australia and New Zealand and look forward to traveling to Perth, Australia to take part. I would like to say *merci encore* to the conveners of the Organizational and Social Accounting track specifically – Jan Mouritsen, Fabrizio Panozzo, and Keith Robson – for this nomination as well as for their thoughtful comments and critiques of my research. I am certain Jonas Heese (Maastricht University) is equally pleased to have received the nomination to represent Europe in the Doctoral Colloquium of the American Accounting Association and wish him an enjoyable and productive time in Lake Tahoe, California. *Felicitations* Jonas!

By Sunday afternoon, while the doctoral students and colloquium faculty were *en route* to Paris, registration opened at Dauphine University and "Early Birds" were greeted with an evening reception. The Congress kicked-off Monday, May 6 with the first-ever "PhD Forum", an initiative of the EAA designed to promote PhD students in accounting and facilitate information-sharing on topics of relevance to students. *Par exemple*, this year's PhD Forum included a very popular plenary session given by Chris Chapman (Imperial College Business School) and Hervé Stolowy (HEC Paris) on "How to Evaluate Research".

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Report on the EAA Doctoral Colloquium and 36th Annual Congress (con't)

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Following the plenary, students had the choice of five breakout sessions on: Job Market in Europe, Current Topics in Auditing, Using Matching Techniques, Research on Conservatism, and Empirical and Theoretical Contributions. The forum was open to all PhD students, not only those attending the Doctoral Colloquium, and provided a great segue into the main congress *programme*.

As always, conference participants had *carte blanche* to select from among nine symposia, parallel sessions and research forums. The symposia offered perspectives on such *avant garde* topics as the usefulness of mixed method approaches to social and environmental research, the challenge that diverse approaches to regulation brings to executive compensation research, and the debate over the trend towards longer and more complex financial reporting disclosures. Most symposia were designed to open a dialogue between academics and practitioners by including a representative from practice. Other sessions focused on trajectories in accounting research towards open access and copyright issues influenced by the digital age as well as continued discussions over the impact of journal rankings and the effect of quality interaction between authors, reviewers and editors.

Well over 900 papers were presented in the EAA Annual Congress at Dauphine University over the course of 2 ½ days. Over half the papers presented were in three areas: Financial Reporting, Accounting & Governance and Management Accounting, although Auditing and Financial Analysis also made up a large portion of the papers. One interesting trend over the past years is an increase in papers in



the corporate governance category. Further, while banking-industry related topics together with fair value accounting and sustainability accounting received considerable attention at the 2012 conference, the top themes of the 2013 congress on the basis of the title of presented papers are reflected below.

Earnings management represents a *force majeure* across categories while research on concepts of control including management control systems and internal control and concepts of quality ranging from audit quality to earnings quality to reporting and disclosure quality remain *de rigueur*. At the same time, research on the banking/financial crisis, IFRS adoption, fair value accounting and corporate social responsibility continues to be *très à la mode*. It would be nice to have a crystal ball to see in which direction accounting research might be headed in the coming years.

Clearly, the Annual Congress is not only about sharing our research more formally but also about the discussions and debates which take place more informally. Here, the conference organizers should be commended for their *savoir-faire* in hosting multiple events from the Welcome Reception to several lunches to, ultimately, the Gala Dinner and Cabaret. The Pavillon Dauphine where the social events took place was not only conveniently located but also a gorgeous space in which to socialize (while sampling desserts from the *plateau de petits-fours*). The

Gala Dinner, in particular, proved to be a soiree to remember with a classic French cancan being one of the focal points of the evening.

Et voilà! I hope I have done justice to the 2013 EAA Doctoral Colloquium and Annual Congress (and to the French language) and in closing would like to encourage doctoral students to *rendez-vous* at future EAA Doctoral Colloquia. *A mon avis*, the colloquium provides an environment in which students can feel comfortable in discussing their research not to mention find their home within a sometimes overwhelming research community. *Ca vaut le coup* (It's worth it) to get involved early and earnestly.

A bientôt at the next annual congress organized in Tallinn, Estonia!

Lisa Baudot
PhD Candidate

ESSEC Business School Paris

Photos of EAA Annual Congress 2013 can be seen under

www.eaa2013.org/photos

Photos of EAA Doctoral Colloquium 2013 can be seen under

www.eaa-online.org/photosDC2013

■ Report on the

Joint conference of the Accounting Section of the German Academic Association for Business Research (VHB) and the International Association for Accounting Education & Research (IAAER)

Frankfurt, Germany, February, 14-16, 2013

Today, accounting researchers, regulatory (accounting) bodies, and accountancy organizations all over the world focus on the need to create an augmented awareness and a deepened understanding of how today's business challenges can be addressed. At the same time, accounting research is faced with a broad number of research strands, covering financial as well as managerial accounting and control issues not only with traditional analytical and empirical/archival research methods, but also increasingly with behavioral approaches.

To address these issues, the members of the accounting section of the German Academic Association for Business Research (VHB) organized their annual regional meeting as an international event in collaboration with the International Association for Accounting Education & Research (IAAER), bringing together accounting researchers from all over the world. The conference took place from 14 to 16 February 2013 at the Ernst & Young office building in Frankfurt/Main-Eschborn, Germany, with 192 participants from 28 different countries.

The objective of the conference was to cover the multitude of accounting research facets, as the questions accounting researchers address are oftentimes similar: What is 'good' accounting information? Under which conditions do people provide good accounting information and how do other people react to it? How can accounting help to make things happen in firms – within the board of directors as well as on the shop floor? Everyone within the accounting academia is adding pieces to these puzzles – and though each piece within these puzzles is unique, they all add up helping to better understand what might be solutions to the research questions at hand.

The Scientific Committee together with several external academic ad-hoc reviewers had the difficult task of selecting among 93 paper submissions. In the end, 63 papers were accepted for presentation in parallel sessions with discussion.

Additionally, four plenary sessions with distinguished keynote speakers covered a broad range of important topics in accounting, auditing and enforcement. The first symposium addressed future directions for financial accounting. The symposium chair, Alfred Wagenhofer (University of Graz) invited panelists Katherine Schipper (Duke University), Christian Leuz (University of Chicago) and Geoffrey Whittington (University of Cambridge) to broadly discuss both main issues and methodologies that may shape the future of financial accounting research. In fact, two major issues dominated the discussion: First, the panelists explicitly acknowledged the multitude of research methods within accounting and called for not crowding out other research methods by solely focusing on empirical archival research. In this context, the increasing need for discovering causal inferences instead of correlations was highlighted. Second, the panelists debated strongly on how careful or subtle academics should formulate policy recommendations.

The second symposium dealt with research issues and directions in management accounting and control. With Frank Hartmann (Erasmus University Rotterdam) and Teemu Malmi (Aalto University), panel chair Thomas Günther (University of Dresden) had brought together two of the leading researchers in the field of management control research. Teemu Malmi discussed the 'management control package concept' suggested in his seminal

paper from 2008. He criticized the existing body of theory for not being sufficient to capture the different facets of management control phenomena and called researchers to do more field / exploratory research to find out what is really happening in firms. Frank Hartmann also called for 'backward integration', i.e., extending the theory base underlying management control research.

The third symposium was chaired by Bernhard Hirsch (Bundeswehr University München), bringing together panelists Ralph Hertwig (Max Planck Institute for Human Development, Berlin), Joan Luft (Michigan State University) and Ulrike Stefani (University of Konstanz) discussing whether behavioral theory is (or is not) a silver bullet for accounting and auditing research. More specifically, the panel addressed the relevance of psychological theories and methods for accounting research and practice. Economics based accounting theories are criticized for not explaining well specific real-world phenomena, while psychological theories are seen as less generalizable and less normative. Still, all panelists agreed that the homo oeconomicus is on the one hand a sustainable model for economic research. But, on the other hand, it is indispensable to extend the simple model of rational choice to capture the much richer phenomena observed in practice.

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Report on the VHB and the IAAER (con't)

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The final symposium once again dealt with financial accounting. Symposium chair Martin Glaum (University of Gießen) discussed with panelists Joachim Gassen (Humboldt University Berlin), Peter Joos (Morgan Stanley Research), Liesel Knorr (President of the Accounting Standards Committee of Germany), and Peter Pope (City University London) issues in capital-market based accounting research. Their debate centered on the question what type of research capital-market participants really need. Indeed, in the introductions of their papers many academics point out that their work could be of interest to investors, financial analysts, standard setters or capital-market regulators and supervisory bodies. However, in order to get published, research submitted to high-ranking academic journals typically needs to be highly specialized and based on rigorous and very technical methods. Practitioners often complain that they do not find this type of research accessible or informative. And also the practitioners within this panel emphasized not losing sight of the 'real-world-problems'. But, interestingly, they encouraged the research community to continue to provide rigorous and technical papers on research results as this type of publication also helps to advance accounting practice.

In addition to these four symposia and the paper presentations, two other events were hosted during the conference. A pre-conference workshop on the "Framework-Based Approach for Teaching IFRSs" was hosted by Katherine Schipper (Duke University), Donna Street (University of Dayton), Ann Tarca (University of Western Australia) and Michael Wells (IASB Education Initiative). Within this workshop, experienced IFRS teachers demonstrated the benefits of the Framework-based approach for teaching International Financial Reporting Standards (IFRSs) and introduced the tools and techniques to carry out Framework-based teaching across a range of IFRSs classes. Participants thus explored teaching techniques designed to help students develop the ability to make the judgments and estimates that are necessary to apply IFRSs. Another special event was offered by Katherine Schipper (Duke University) especially for junior researchers. She held a talk on how to design and present an empirical accounting research project, using one of her papers as an example. Her presentation focused on specific design issues researchers are typically confronted with and how she responded to these issues as well as presented the resulting choices in her paper.

Besides gaining from the paper presentations and discussions, the symposia as well as the special events mentioned above, the delegates enjoyed not only the luxurious conference facilities of Ernst & Young, who together with the

inviting partner Edgar Löw hosted the conference, but also a splendid conference dinner in one of the best hotels in Frankfurt/Main. The highlights of the gala dinner were a speech given by Peter Praet, chief economist of the European Central Bank, and the presentation of the best paper awards. These were given to

- Maik Lachmann (TU Dortmund), Ulrike Stefani (University of Konstanz) and Arnt Wöhrmann (University of Münster) for their paper „Fair value accounting for liabilities: Presentation format of credit risk changes and individual information processing”,
- Markus Arnold (University of Bern) and Robert Gillenkirch (University of Osnabrück) for their paper “Uncertainty and information asymmetry in budget negotiations”,
- Stefan Dierkes and Ulrich Schäfer (both University of Göttingen) for their paper “Corporate taxes, capital structure, and valuation”, and
- Yan Sun, Weimin Wang, Xu (Frank) Wang (all Saint Louis University) and William Zhang (McGill University) for their paper „Shareholder activism and earnings management incentives”.

We thank all participants for making this conference such a great event. A photo gallery is available on the conference website www.rech2013.de.

Barbara E. Weissenberger



■ About Publishing

Reviewing and Being Reviewed: developing our paper with “anonymous co-authors”

Roberto Di Pietra, University of Siena

A paper is a vehicle used by scholars to “present” their research with the aim of participating in debate within the “community of competent” they belong to.

To achieve this goal and obtain this product of their research scholars frequent the numerous initiatives and events offering scientific debate, such as workshops, conferences, congresses, etc. (B. Schneider, 1995; G. V. Henderson Jr., W. Reichenstein, 1996; R. H. Ashton, 1998; Paul de Lange, 2005). Following participation in these initiatives each scholar takes the fundamental decision of which Journal to submit his/her paper to, as the starting point for a review process. Many Journals run a sort of pre-review round prior to the formal review process in order to ascertain: a) that the paper meets with the Aims & Scope of the Journal in question; b) that it satisfies minimum standards in terms of the quality of research; c) its coherence with a particular format, if applicable, or a certain methodological approach (S. Carmona, 2012; R. H. Ashton, 1998; and A. S. Huff, 1999).

Clearly, the first step in having a paper published is avoiding a Desk Rejection. Above all, this means focusing on selecting the most appropriate Journal for your paper (D. E. Stout, 2005: 181).

Once the review process has begun, all efforts need to be dedicated to developing the paper according to the Reviewers’ comments, both to remove any weaknesses and to reinforce the strong points that characterize the paper (F. A. Gul, 2005: 173-175). Interaction between Authors and Reviewers must be based on the free exchange of their respective ideas and scientific knowledge, without other factors coming into play. These reflections confirm that the process will be long and complex, require logical rigour and involve a high level of selectivity in the evaluation of papers for publica-

tion (P. de Lande (2005; G. Ellison, 2002; L. M. English, 2005: 169; S. Carmona, 2011; J. A. Ohlson, 2011; B. Czarniawska, 2011; W. F. Chua, 2011).

In these brief considerations we intend to illustrate the significance and characteristics we attribute to the review process, highlighting its most critical elements.

What role should the Reviewer have in the review process? Let’s start by specifying what a Reviewer should not be.

A Reviewer is certainly not called upon by the Editor to play the role of a judge passing sentence for or against a paper. If this role is to be played (given that a final decision does always need to be reached), it must be done by the Editor alone. Clearly each Editor will seek to make an informed decision based on the review process and, as far as possible, in agreement with the two or three Reviewers assigned to the paper.

With the same clarity we should point out that Reviewers are not asked to examine a paper to then say how they would have written it. No Reviewer can expect the Authors to adapt or distort their paper to suit his/her exact way of performing research, following his/her preferences for a theory, framework, research method, style of writing, etc.

The Reviewer cannot consider himself an expert on any paper he/she receives, even in his/her specific research area. This implies the adoption of a degree of caution that should, for example, lead a Reviewer to decline to review a paper if it does not fall within his fields of competence. It also implies taking sufficient time and care in conducting a review, respecting the competence acquired by the Authors in months of research.

Regarding what a Reviewer should (or should not) do, there are certain rules of etiquette (or manners) that a good Reviewer needs to follow, adopting some behaviours and avoiding others. In this sense, a Reviewer must: 1) provide an honest and critical evaluation of the research; 2) maintain absolute discretion regarding the existence and contents of a paper; 3) avoid any form of complicity (even indirect) in plagiarism; 4) avoid any form of conflict of interest and, if encountered, make it known; 5) accept to review a paper only if it falls within his/her field of competence; 6) accept to review a paper only if he/she can meet the deadline set for the review process; 7) accept responsibility for identifying and pointing out any suspicion of duplicate publication, fraud, plagiarism or other behaviour contrary to academic etiquette; 8) perform his/her task with a constructive (never destructive) attitude.

In numerous Editors’ Panels proposed at various conferences, the Directors of scientific journals have agreed on two roles that should be played simultaneously by a “good” Reviewer (D. C. Feldman, 2004a; 2004b). On the one hand, the Reviewer must be an inflexible “guardian” of the quality of the research proposed in a paper and published in a given scientific journal. On the other hand, he/she must act as a valuable and anonymous “developer” at the Authors’ service.

According to the first viewpoint, the Reviewer is a controller at the service of a given Journal with the purpose of preventing the publication of low quality papers (J. A. Colquitt and G. George, 2011; J. E. Bono and G. McNamara, 2011; R. T. Sparrowe and K. J. Mayer, 2011; Y. Zhang and J. D. Shaw, 2012).

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Reviewing and Being Reviewed (cont'd)

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To better define this role it is often said that the Reviewer is like a watchdog at a Journal's entrance gate. The Reviewer has the task of helping the Editor in his/her difficult duty to protect and enhance a Journal's reputation. In this role the Reviewer-watchdog will use all his/her competence on a subject (often based on his/her own experience) to appraise how effectively innovative a paper is. In the same way, he/she will appraise the Authors' sound knowledge of the existing literature on their particular subject, as well as their ability to cover the different theoretical aspects involved in its development. He/she will also assess the appropriate choice of methodology in relation to the research questions posed by the Authors and, consequently, their effective ability to conduct the research correctly and thoroughly. This translates into a careful assessment of the quality of the results emerging from the analysis conducted and the necessary controls. In short, the Reviewer is a scholar providing a service to ensure that the publication of new knowledge possesses certain essential qualities. He/she does this by checking the completeness and correctness of the sources used to produce it, by checking the soundness and rigorousness of the theories adopted and the analyses conducted, and by critically examining the coherence and pertinence/significance of the chosen research topic, the results obtained and the contribution those results can make to existing theories (conversely Authors have to be able to make sense to their papers in order to help reviewers; "reading is always an exercise in sensemaking", L. M. Johanson, 2007: 290).

All these tasks are accompanied by a series of activities conducted in close collaboration with the Editor, which serve to rule out behaviour contrary to the etiquette and honesty of scholars. These activities include anti-

plagiarism checks (regarding previous publications by the same Authors; the research of other scholars; incorrect ways of referring to other published works), cases of submission of the same paper to several scientific journals, submission with few changes of a paper already rejected by another journal ("paper maquillage"), resubmission of a previously published paper with a different orientation, context, database or variables analyzed (salami slicing). These tasks are extremely important in order to protect a Journal's reputation and avoid legal copyright problems. They are related to the ethics of scientific research and are usually dealt with by publishers through the preparation of special documents defining policies on these issues.

The quality of a good Reviewer can be seen in his/her detailed knowledge of a specific subject. Reviewers must, for example, be able to recognize a paper they have already reviewed for another journal, a paper very similar to another examined previously, an article with insufficient or incorrect citations, or one that re-proposes a previously published type or model, like a parent plant producing a bud.

Alongside his role as a watchdog, the Reviewer is required to act as a "developer" of a given paper. When faced with a promising paper or one with good potential, the Reviewer becomes a collaborator in the development of the paper's research idea. His role is exactly that of a developer, with whose help the Authors' will be able to highlight the most interesting aspects of their paper or eliminate, rethink, express or perform differently anything unnecessary, redundant or unclear.

The Reviewer-developer is like a cutter and polisher of precious stones. If the paper contains a good idea, he/she will help polish it to reveal and enhance its interesting and innovative contents.

Based on to his/her skills, the Reviewer also acts by subtraction, i.e. seeking to identify and point out to the Authors any errors, slips or weaknesses. In some cases weaknesses can be resolved during the review process, while in others they will be "fatal", i.e. regard such significant aspects and features that the paper cannot be salvaged in its current state.

The fatal flows can concern different aspects in the construction a paper: a) trivial research questions; b) absence (or almost) of a significant contribution by the research conducted; c) inadequacy of the data used and their incapacity to effectively answer the research question; d) inadequacy of the measurements and analyses performed; e) poor or incorrect use of the English language.

From the perspective of the Reviewer-developer, reading (and re-reading) the paper is accompanied by an intense series of suggestions aimed at making the best use of the Authors' ideas, proposing a better structure for the paper, asking for more detail about some passages and suggesting the reduction of others, remarking upon the rigour of the analyses conducted, the choice of conceptual framework, the comprehensiveness of the data collected, the quality of the model adopted, the evaluation of the results obtained, the mechanisms for controlling the results, the completeness and updating of bibliographic references, etc.

There is a fine line between comments proposed with the aim of developing a paper and the desire to change it to suit the Reviewer (as if he were one of the Authors): a line that must never be crossed. A Reviewer with a strong character may be tempted to cross this line, but this would betray his/her role and go against the Authors' legitimate wish to preserve their ideas. It is up to the Editor to ensure that this does not occur.

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Reviewing and Being Reviewed (cont'd)

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The review process must, in short, allow the Authors to obtain valuable help from the Reviewer, almost as if he/she were one of their co-Authors. This is what we consider to be the best aspect of the review process, i.e. the prospect of a high quality and virtuous process. The possibility of interacting with a Reviewer possessing these characteristics allows a journal to offer Authors a significant added value, which is indirectly reflected in the quality of the research published. In fact, Authors develop and rewrite a paper with the help of often authoritative scholars, who are fully recognized for their scientific competence in a certain field of research. This cooperation is characterized by frankness, freedom of opinion and independent evaluation, mirroring that between the authors of a paper. The only difference is that the relationship with a Reviewer must remain anonymous. The Reviewer therefore acts as an anonymous co-Author who, often thanks to his great experience, helps the anonymous Authors, writing pages and pages of comments in the various rounds a review process is composed of, and only discovers who he has been working with when the article is finally published.

This cooperation would probably not have taken place otherwise, as the Authors would not have known the Reviewer. The relationship established between Authors and Reviewer is an opportunity made possible only by the review process. In fact, Authors often express enormous gratitude for the help received from their Reviewers-cum-anonymous-co-Authors.

Reviewers are scholars (often highly reputed) providing a service to encourage the growth of a specific community of scholars that refers to a particular scientific journal. This service is offered to all users/readers of the journal. The first to benefit are clearly the Authors of the articles, but so do all the readers who, as scholars, will use the

knowledge published (through the mechanism of citation).

In certain disciplinary sectors the need to ensure the quality of the service provided by Reviewers is met by paying them, through the Authors, whatever the outcome of the review process. We believe it is more acceptable and agreeable for the role of the Reviewer to be considered as a service provided to his/her own scientific community, i.e. the community that recognizes itself in the editorial line of the Journal he/she conducts reviews for. Besides, all scholars belong to a certain community and contribute to the development of their subject area as an Author, a Reviewer or both, at one time or another. In the first case they propose new knowledge born of their research and in the second they encourage the selection and improvement of knowledge created by other scholars.

The characteristics of the review process need to be viewed alongside the elements that make it effectively happen. We have to be realistic here and admit that the process has its imperfections and risks. Reviewing seeks to favour the quality of research thanks to the free and independent expression of opinions on the part of the Reviewer, but this may not always be true. We need to ask whether and to what extent the review process is effectively blind.

If we assume the point of view of the Authors, the review process is certainly blind, thanks, above all, to the use of Editorial management software systems that make a significant contribution to ensuring the anonymity of the Reviewer, as well as standardizing the process in terms of stages and timing. This protection lessons in the case of research into subjects in which a limited number of scholars frequent the same workshops and the same parallel sessions during international conferences. In this situation the Authors may have various elements at their disposal with which to guess the identity of a certain Reviewer.

If, on the other hand, we put ourselves in the position of the Reviewer, the chances of his/her review being truly anonymous are significantly reduced. The use of very sophisticated search engines has recently made all research published or in press on a given subject available to everyone: it is only a question of finding files on the web. If a certain paper has been mentioned in a power point presentation, or in the program of a workshop or conference, the names of its Authors will be known. This phenomenon has become even more evident since the need to protect intellectual property in the form of research ideas has prompted scholars to make them visible through special systems for the publication of papers (e.g. SSRN). On the one hand this widespread availability of information helps the Reviewer and the Editor avoid problems of plagiarism or papers that are not dissimilar from others already published by the same Author. On the other hand, this availability allows a shrewd (or perhaps overcurious) Reviewer to find the names of the Authors of a given paper.

Therefore perfect neutrality of the evaluation expressed by a Reviewer depends more on his moral integrity than on the systems that seek to guarantee anonymity.

To this we can add other reflections regarding the vast subject of the principle of freedom of scientific research. The establishment of formats for papers (with particular reference to the research methods to be adopted), the particular preference of the Editor or his co-Editors for specific frameworks, the assumption that only certain databases are worthy of interest, are all factors that can distort the meaning we assign to freedom of research. This distortion increases when it is conditioned by the need to achieve a certain Impact Factor according to Journal ranking and Journal rating lists (almost always prepared by private - for profit - organizations).

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Reviewing and Being Reviewed (cont'd)

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From this perspective, which would merit further investigation, it appears highly demagogic to claim that only a rigorous review process makes it possible to select the best research and that this research alone can be defined successful. Other factors influence scholars in their choice of subjects to investigate, research methods, colleagues to work with, the journal to submit their paper to, etc.



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■ About Publishing

A critical review of the double-blind review— The second look

David Alexander, Birmingham Business School, University of Birmingham

I write to develop and support the criticisms of the double-blind review process made by Professor Juhani Vaivio in the February EAA Newsletter (1/2013). Note that I am not trying here to be even-handed. I am exposing arguments in what I hope and expect will be an open and on-going discussion.

Apart from the very real issues of time and workload, Juhani gives one substantive reason and one vague (but valid) reason why double-blind reviews are problematic. The substantive reason is that the reviewer can now usually find the paper, and its authorship, via the web, and so the 'double' element of blindness is spurious. This is an important factor, and powerful in itself. I was told a story last year, from another discipline, of a Professor who, on receiving a paper for journal review, checks whether he knows from his own research and conference activities, or can easily establish, who the author is. Since he is aware (he believes) of all worthwhile cutting edge ongoing work in his area, if he does NOT know the authorship, he always rejects the paper on principle!

The vague reason is, to quote, that the reviewer is operating 'under the cover of anonymity and under very little accountability'. Quite so, but this needs analysing and spelling out.

To be more formal, there are three strong reasons why double-blind reviews should be abolished.

1) For the reason already given: that they are not usually as 'blind' as claimed. Or, alternatively, both the reviewer and the reviewee guess the other party and act accordingly, even though they may be mistaken. This, though entirely valid, is the least important reason.

2) Because to be effective a reviewer must know where the reviewee is coming from. I mean 'coming from intellectually', but in my field of international financial reporting an essential part of where the reviewee is coming from intellectually is where the reviewee is coming from physically and genetically. Learning about and learning from international differences requires open, frank and informed exchange and discussion. A good review process should simulate the interchange of a conference presentation and this requires knowledge and understanding of each other as a necessary condition.

I could give many examples from personal experience. Last year I strongly criticised a conference paper proposal on the explicit grounds that it was narrow-minded French chauvanism. I also explicitly recommended acceptance for the conference, and, further, explicitly said (all this in the 'comments for the author' section) that I hoped to have dinner with the author to discuss the issues properly. The author withdrew the paper and refused to attend the conference at all! Author and I both lost a major opportunity to learn from each other.

As reviewee I have had papers rejected relating to German accounting, and American accounting, to give two examples both with 'local' co-authors, obviously by nationals in both cases, on the grounds that my arguments and attitudes were different from their own received wisdom. It is not sufficient to rely on the editor controlling the reviewers. In one of these cases the editor was part of the conspiracy and in the other the editor was ignorant of the context. To reject the paper is completely acceptable. To reject the paper without genuine, open and informed

debate and discussion is not acceptable, nor is it conducive to academic development and mutual 'contribution to knowledge'. I do not believe that I and my co-authors were treated fairly. This leads to the third point.

3) Because the double-blind process is unfair and immoral. The comment in Juhani's paper is in the right direction. There is 'very little accountability' and the 'cover of anonymity' is available. This is unacceptable. My reviews can be constructively direct: always couched to try to help, but not evading the issues and problems as I see them. And I am always, repeat always, prepared to defend my comments either privately or publically face to face. The double-blind system conspires to prevent me doing this. I am entitled to expect no less in return in my capacity as author/reviewee. I have recently written a short highly opinionated 'invited opinion', about to be published as I write as Alexander (2013). It will upset some people. But it appears in public under my name, and I will discuss/debate with anybody. Anybody who is unwilling to put their name publically to opinions about another academic's work, and to discuss the issues openly, lacks the necessary intellectual and moral qualities to be regarded as a proper academic. Such people render themselves invalid as pursuers of knowledge, and should not be invited to review in the first place. I am open and I am honest, but I am also often definitely ignorant and probably wrong. Transparency helps me to improve, and helps to reduce the dangerous effects of my weaknesses on the careers of my colleagues.

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The second look (cont'd)

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Banning the possibility of double-blind reviews, allowing and enforcing full two-way openness, total transparency and total and unavoidable accountability, is a necessary condition for developing the effectiveness and moral acceptability of the review process.

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European traditions in accounting

Cost and Management Accounting in Poland

Anna Szychta



Introduction

Poland is a medium-sized country (an area of 312 thousand sq. kilometres and a population of 38 million) lying in the centre of the European continent, an economically important member of the European Union since 1 May 2004. Owing to its location as well as economic and population potential, Poland has played an important role in East-Central Europe since the Middle Ages.

The evolution of accounting practice in Poland, which started in the 14th - 15th centuries, and the development of accounting regulation, education and theory since the 19th century are closely related to the political situation of the Polish nation over the centuries and the socio-economic transformations which took place in the country. With the exclusion of World War II, five development stages can be identified:

- 1) the period of Old Poland (until the third partition of Polish lands in 1795),
- 2) the period of territorial division and annexation of Poland by Russia, Prussia and Austria (1795-1918),
- 3) the interwar years – creating the foundations of a market economy after the regaining of independence (1918-1939),
- 4) the period of a centrally-planned economy (1945-1989),
- 5) the period of democracy and market economy developed since the early 1990s.

In each of these five periods there were events and processes important for the development of accounting in Poland, but due to the limited size of this paper only major issues relating to the evolution of management accounting for business entities will be addressed.

Simple forms of bookkeeping as a basis for managing landed estates and manufactories until the 19th century

The history of commercial, state and agricultural accounting in Poland dates back to the medieval times, which is evidenced by archival documents, such as single entry books of the city of Cracow from 1300-1400, registers from salt mines in Bochnia (1394-1421) and Wieliczka (1497-1594), a ledger of Gdańsk merchant Jan Pis (1421-1454), and written references to inventories as well as cash and farm produce registers used in large estates in central and southern parts of Poland already in the 15th and 16th century. Application of such practices was recommended by A. Gostomski in 1588 in the first Polish publication on agricultural economics, entitled *Gospodarstwo (Farm Management)*. Among other preserved materials are books on mercantile double entry bookkeeping, published in German in Gdańsk in the 16th-18th centuries¹.

Management accounting in the modern sense has been used in business entities in Poland since the 1990s, i.e. since the restoration of a market-based economic system after half-a-century break, although some accounting tools for management purposes were used on Polish lands in the period of Old Poland. Farm accounting (financial and production records in the form of registers, stock-books and summary statements) was employed in the 17th century and during the Partitions as an instrument of controlling and managing manors and latifundiums. Examples of publications include the first

manual of agricultural accounting (six editions) published in 1675 by J. K. Haur in the form of nine *Modelleusze arytmetyczne*, appended to his book *Oeconomica ziemiańska generalna (General agricultural economics)*, a book by J. Hermann (1662) entitled *Ziemiańin albo gospodarz inflandzki (Landed proprietor or the Livonian farmer)*, and instructions in the form of manuscripts (for the years 1666-1671) by a landowner, S. K. Bieniewski. These works, as well as many handbooks on economy (so called *Instruktarze ekonomiczne*) published during the Enlightenment period by representatives of the gentry and landed aristocracy, e.g. by Duchess Anna Jabłonowska (1786) – a handbook *Ustawy dla dóbr moich rządców (Instructions for my land-stewards)*, Duke A.I. Ogiński (1786), A. Tyzenhaus (1777) and T. Sapieha (1782), included descriptions of the duties of administrators responsible for keeping the records and managing the estates. According to M. Turzyński², the term „rząd” („administration”) in use at that time denoted measurement (of the quantity and value), oversight and management of the physical and financial resources to attain the objectives set by the landlord, and provision of information on the performance of the subordinates. It is interesting to note that A. Tyzenhaus, a landed proprietor actively engaged in farming management, introduced in the 1770s the obligation to prepare monthly and annual plans of activity for his estates and to verify them on the basis of book entries, to evaluate the results of farming and the condition of the manor farms.

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In industrial enterprises, mainly textile plants, which started to appear in the Kingdom of Poland in the 1820s, the range and quality of accounting methods and practices was diverse. Some textile manufacturing employed double entry bookkeeping systems (e.g. A. Harrer's company in Sieradz set up in 1823, Moes brothers' factory in Zgierz, K. Scheibler's weaving-mill in Żarki), while other enterprises used simpler bookkeeping systems based on single-entry principle. A fairly sophisticated, for those times, system of keeping score of inventories and costs was applied e.g. in the weaving-mill in Żarki and in I. Poznański's factory in Łódź, i.e. in enterprises where the organizational system and scope of activity (form of company, location of manufacturing plants) made it necessary to replace personal control and supervision by the owner by strict numerical control. This type of record-keeping was mainly used for establishing the state of a factory's assets and results of its operation³.

Cost accounting development before 1990

Cost accounting had been used in enterprises in Poland for several decades, though it was mainly oriented to financial accounting purposes. Already **in the interwar period** (1918-1939) the largest enterprises, e.g. in Warsaw, Łódź, and Starachowice, employed costing methods, which were based on standard costs, and financial reporting in those enterprises was timely and adequate to management needs at that time⁴. Some interwar publications addressed cost accounting issues. Cost categorization and principles of cost calculation were presented by A. Bieniek (1938), the idea of break-even point was explained in articles published in „Czasopismo Księgowych w Polsce” („Journal of Accountants in Poland”), issued in 1921-1939, and such issues as formats and rules for financial statements preparation “to present to the management a true state

of the company's affairs”⁵, analysis of solvency, profitability, sales, costs and expenditures, budgets and their execution were addressed, among others, by J. Aseńko (1934). W. Baliński (1937) wrote about types of operating budgets and rules for their preparation in a way similar to modern publications dealing with this subject.

In the period of a centrally planned economy in Poland (1945-1989), accounting, including cost accounting, followed uniform principles prescribed in legal regulations. The aim of accounting practice was to safeguard state-owned property and to provide information about the implementation by a given enterprise of the assigned portion of the national plan. The conditions determining cost accounting practice before the 1990s were: central planning of the economy, domination of fiscal requirements over accounting regulations and the centralized mode of managing enterprises. Cost accounting practice had to follow the rules contained in obligatory charts of accounts (uniform industry-specific, and from 1976 – also standard charts of accounts) which were subject to frequent revisions, as well as decrees and directives issued by central authorities and detailed instructions for particular industries (branch associations). Cost accounting, thus, was practiced, especially before 1983, according to prescribed procedures ensuring uniformity of the types of costs and their different classifications as well as standardization of production inventory valuation and calculation rules. Cost accounting systems used in enterprises, based on full costing principles, supplied data for national statistics, taxes and subsidies, and were – just as the accounting system as a whole – an instrument for exercising control over state-owned enterprises.

Uniform cost accounting principles and procedures were thus seen until the early 1990s as facilitating cost control and accomplishment by enterprises of targets set in national socio-economic plans. However, the lack of

conditions favourable to improving internal organization of enterprises and easiness of achieving high profitability were not conducive to taking active interest in costs and cost accounting by state enterprises. This does not mean that there was no cost reduction or progress. Nevertheless, formal cost planning (budgeting) did not provide a driving force in this respect, because it did not set objectives nor identify ways of their achievement. Budgeting, thus, did not entail taking appropriate actions. Moreover, accounting records and calculations of actual costs were often inaccurate due to defective methods used or their incorrect application, which reduced their usefulness⁶.

Along with changes taking place in Poland's economic policy in the 1980s (greater independence and self-financing of enterprises) there was a growing awareness that cost accounting should be suited to such characteristics of an enterprise as size and type of activity, nature of production, type of organization, and staffing and computational potential. This view was embodied in the Order of the Finance Minister of 1983⁷ on the rules of recording, calculation and analysis of the costs of industrial production. It increased flexibility in this area, introduced the principle of including overheads in the period of their incurrence in the cost of products sold, i.e. valuation of finished products at their production cost, and provided for the possibility of using for interim calculation of production costs the solutions typical of direct costing (possibility of valuing mass and big lot production in progress using direct costs or costs of materials). Cost accounting principles set out in the Order (1983) and Standard Charts of Accounts, issued on the basis of the Uniform Chart of Accounts of 1976, constituted the foundation for the development of cost accounting systems comprising two circles of costs.

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The outer circle (cost by nature) was mainly oriented to macroeconomic purposes, and the inner circle provided the framework for the sub-system of cost recording and calculation designed to supply detailed information for enterprise management purposes.

In the period of a centrally-planned economy in Poland vast literature was created in the field of cost accounting and management accounting, although before the 1990s the censorship did not accept the term "management accounting". This literature was the result of research conducted by Polish academic accountants from the 1950s in response to the growing demand for textbooks and manuals explaining the principles of cost accounting set out in changing legal regulations. It should be noted, however, that already in 1948 professor S. Skrzywan, whose academic work, textbooks and professional activity laid foundations for the development of accounting in the post-war period in Poland, argued, that "(...) the main goal of accounting is to provide solid numbers (financial information) relevant to management decision-making", with management being defined as "all factors that perform directing, supervising and controlling functions within the enterprise and beyond, in supervisory bodies". He also claimed that "If (...) accounting is to provide guidelines for the management, it should have the same orientation as this management; it should provide *ex ante* as well as *ex post* calculations"⁸.

From the early 1950s the issues in cost accounting and general theory of accounting were two major thematic groups of academic dissertations written by the faculty of Accounting Departments. Research projects carried out in that period resulted in a number of valuable works in the field of costing and management oriented accounting, published before 1990. The most

important publications include monographs and textbooks by S. Skrzywan, E. Wojciechowski, W. Malc, Z. Fedak, B. Siwoń, W. Nowaczek, P. Tendera, H. Sobis, T. Wierzbiński, B. Binkowski, A. Jaruga, J. Skowroński, K. Sawicki, J. Matuszewicz, E. Burzym, Z. Messner. Academic dissertations and textbooks discussed the rules and conditions for the application of standard costing, the tasks and structure of cost accounting for industrial production and its role in effective management of an enterprise, the principles of measurement, allocation and control of indirect costs, cost budgeting in responsibility centers, the nature and function of direct costing and break-even point, and the rules of cost analysis. In addition, various methods of cost calculation and the principles of selling price and transfer price determination were presented and evaluated. An original model of production factor costing, developed by J. Skowroński, deserves special attention. It combined the features of full costing and marginal costing and placed emphasis on the decision-usefulness of cost accounting⁹.

Cost accounting issues discussed by Polish authors after World War II until the late 1980s were roughly the same as those addressed in the literature of countries with market economies, except for the fact that the macroeconomic framework of the socialist state had to be taken into account (such as the absence of market conditions or expanded social sphere). Many academics were well familiar with cost accounting and management accounting solutions developed in Germany and English-speaking countries. The Accounting Department in Lodz University conducted experimental research, headed by A. Jaruga, into managers' behaviour in response to alternative accounting data, in particular the various indicators of enterprise performance, such as sales, profit, value added, or sales profitability. Also, experimental research investigating the impact of different cost accounting

models on results of decisions was carried out, using a computer-supported interactive management game¹⁰.

Cost accounting issues were in the period of a centrally-planned economy in Poland increasingly included in teaching programmes of economic studies at higher education schools. Management accounting has been a separate subject taught since the early 1990s (at some universities it has been taught even longer, e.g. at the University of Lodz since 1982). Academic accountants established cooperation with accounting practitioners in the area of designing and implementing standard costing. Numerous academic accountants were authors of a number of projects implementing costing in enterprises.

The evolution of cost accounting in Poland led to the establishment of management accounting as the subject of research and education in our country, which was mainly due to the contribution of Professor Alicja Jaruga (1928-2011), who presented and elaborated various management accounting models and methods and thus laid solid foundations for their application in business practice after 1990 in the new, market conditions.

Management accounting since the early 1990s

The reestablishment of a market economy in Poland after 1989 and subsequent implementation and improvement of its mechanisms have had a great impact on changes in accounting regulation, practice, research and education. Since the early 1990s, therefore, significant changes started to take place in accounting systems of enterprises in Poland, which were mainly due to:

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- revised financial accounting legislation in line with requirements of EU Directives on accounting and International Financial Reporting Standards (IFRS), or directly the rules set out in IFRS (obligatory since 2005 for consolidated statements of publicly traded companies),
- growing competition on the domestic market and the impact of globalisation processes on Poland's economy.

New accounting regulations introduced in 1991¹¹, revised in Accounting Act 1994 (amended many times, e.g. in 2000, 2004, 2008)¹², created – for the first time in the postwar period – the opportunity to develop cost accounting systems in a way appropriate to the particular line of business and conditions in which a given enterprise operates. Business entities are now allowed to use individually developed charts of accounts best suited to their particular information needs, providing that they ensure that financial statements are prepared in conformity with the principles and formats prescribed by legal regulations and make possible preparation of statistical statements. The factors listed above create a pressure not only towards modernization of financial accounting systems, but also for implementation and improvement of cost and management accounting systems in companies. Management accounting in Poland has been evolving since the early 1990s to meet two challenges: economic restructuring and dynamic development of management accounting in the world. Accounting practice of Polish enterprises is being shaped under the influence of two major models: management accounting in the Anglo-American manner, and Controlling according to the German approach.

Development of management accounting systems is a challenge for employees of accounting departments and managers, mainly of large and medium enterprises. Growing interest in man-

agement accounting among Polish accounting and management practitioners is visible, among other things, in:

- growing numbers of postgraduate students on management accounting and controlling courses (e.g. at the University of Lodz since 2002), and increased interest in training courses and conferences organized by various universities and other institutions;
- steadily growing numbers of employees performing management accounting tasks in business; their posts are given various titles such as management accountant, controller, financial controller, financial analyst, expert in analysis and planning;
- descriptions of the application of methods used in management accounting systems implementation in companies in Poland, presented in professional journals, e.g. the monthly journal "Controlling i Rachunkowość Zarządca" (Controlling and Management Accounting, issued since 1999), and on conferences attended by practising accountants;
- engagement of consulting firms and some academic accountants in modification, designing and implementation of management accounting systems for companies.

Over the past 20 years management accounting has become a subject taught on economic courses in higher education institutions all over the country. Many textbooks and articles addressing management accounting have been published and their number is growing steadily. Research in this field has been expanded and intensified. Its results are published e.g. in „Zeszyty Teoretyczne Rachunkowości” („Theoretical Journal of Accounting”), issued by Accountants Association in Poland (AAP)¹³ since 1977, a monthly journal “Rachunkowość” („Accounting”, issued by AAP since 1949), and increasingly, though with some difficulty, are presented in foreign publications and at international conferences.

Research findings suggest that management accounting practice in companies operating in Poland is undergoing evolution involving improvements to currently used methods and techniques and implementations of innovative solutions. Polish business entities mostly apply the methods and techniques of operational management accounting and attach greatest importance to two of management accountants' tasks: cost and expenditure control and performance measurement. Recently, however, enterprises are showing a growing interest in methods of strategic management accounting (ABC/M, BSC and Target Costing). Accounting practitioners, managers and academic accountants are undertaking cooperation to promote innovative solutions in the field of management and accounting, e.g. in 2012 and 2013, at the initiative of prof. I. Sobańska, the Accounting Department of the University of Łódź organized conferences on *Lean accounting as an integral component of lean management*, attended also by practitioners.

The development of the management accounting profession in Poland has been spontaneous, without institutional support, as is the case in Anglo-Saxon countries. So far there was no organization associating management accountants for shaping the development of the new profession. In 2003 the Committee on Management Accounting and Controlling (CMAC), within the Scientific Committee of the Accounting Association in Poland was set up in an attempt to spur progress in management accounting research and practice. In 2012, at the initiative of CMAC, AAP set up the Committee for Development of the Principles of Management Accountants Certification, which undertook work on preparation of the organizational and program framework for certification by AAP of the management accounting profession in Poland.

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The impact of intensifying globalization processes, including, among others, operation in Poland of branches of international corporations, and dissemination of management accounting knowledge in Polish enterprises by academics and new graduates of economic studies, including Finance and Accounting, result in gradual convergence of cost and management accounting methods and procedures with the solutions used in western countries, and in internationalization of management accounting systems used in companies in Poland.

Footnote

¹ See E. Wojciechowski (1964), *Zarys rozwoju rachunkowości w Dawnej Polsce*, Państwowe Wydawnictwo Naukowe, Warszawa.

² M. Turzyński (2011), *Rachunkowość w zarządzaniu majątkami ziemskimi w Polsce w epoce oświecenia*, „Zeszyty Teoretyczne Rachunkowości”, tom 63 (119), Warszawa, p. 217.

³ J. Gorgolewski (1965), *Księgowość w przedsiębiorstwach włókienniczych w Królestwie Polskim w latach 1820-1870*, „Zeszyty Naukowe Uniwersytetu Łódzkiego”, Seria III, Nauki Ekonomiczne, Zeszyt 11, Rachunkowość, Łódź, pp. 48-67.

⁴ A. Jarugowa, J. Skowroński (1994), *O wierny obraz rachunku kosztów*, „Rachunkowość”, No. 4, p.166.

⁵ S. Skrzywan (1964), *Wspomnienia*, „Rachunkowość”, No. 7, p. 206.

⁶ Z. Fedak (1982), *Rachunek kosztów w służbie programu oszczędnościowego*, „Rachunkowość”, No. 11-12, p. 308.

⁷ *Zarządzenie Nr 83 Ministra Finansów z 7.11.1983 r. w sprawie zasad ewidencji, kalkulacji i analizy kosztów przemysłowej*, [in:] *Zasady ewidencji, kalkulacji i analizy kosztów produkcji*

przemysłowej, Ministerstwo Finansów, Warszawa, 1983.

⁸ S. Skrzywan (1948), *Rachunkowość w przedsiębiorstwie przy gospodarce planowanej. Cele i funkcje*, Gospodarczy Instytut Wydawniczy Sp. z o.o., Warszawa, p. 33.

⁹ See A. Jarugowa, J. Skowroński, *Rachunek kosztów w systemie informacyjnym rachunkowości*, PWE, Warszawa, 1st ed. 1975, 3rd ed. 1986.

¹⁰ A. Jarugowa, (1989), *Niektóre kierunki badań naukowych z dziedziny rachunkowości*, „Acta Universitatis Lodzianensis. Folia Oeconomica” 88, Wydawnictwo Łódzkie, Łódź, pp. 8-9.

¹¹ *Rozporządzenie Ministra Finansów z dn. 15 stycznia 1991r. w sprawie zasad prowadzenia rachunkowości*, Dziennik Ustaw 1991, nr 10 i 1992, nr 96.

¹² *Ustawa z 29.09.1994 r. o rachunkowości*, Dz. U. 2009, No. 152, poz. 1223, with later amendments.

¹³ Accountants Association in Poland is the oldest and the largest Polish organisation of accounting and financial professionals, which continues the traditions of accountancy bodies operating on the Polish territory since 1907.

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Have you read?

Bruce Kogut (2012):

The Small Worlds of Corporate Governance

Reviewed by Francesca Cuomo, Norwich Business School, University of East Anglia, UK

Publisher: The MIT Press, Cambridge (Massachusetts), 2012, 392 pages.

The new edited book by Bruce Kogut - *The Small Worlds of Corporate Governance* - demonstrates with impressive scholarship and originality that social networks through ownership ties and interlocking directorates matter to economic behaviour and corporate governance, "while noting the importance of law and especially of politics as driving the new historical bargains by which the forces of globalization and the interests at stake negotiate "who gets to do what" (Chapter 1, p.50).

Using Mark Roe's political approach, Gourevitch and Shinn's (2005) book on politics and governance, Bruce Kogut's new book argues that social networks dynamically capture the proposal given in the article by Bebchuck and Roe (1999). In particular, Kogut (Chapter 1, p.31) argues that "the statement of the theory by Lucian Bebchuck and Mark Roe (1999)", who elucidate why convergence among national systems of governance is impeded by path dependence, "is very amendable to a theory that represents owner (and director) structures as a corporate network and then considers the rules and incentives (such as rent seeking) that drive its evolution" (Chapter 1, p.32). In other words, "social networks are useful description of how the past remains "present". They are "state descriptions" of the structure of power and influence in society. At the same time, the law of motion that guides the evolution of this structure is governed by the social and economic rules that maintain and promote entry (of new nodes) and the ownership and board ties (links)" (Chapter 1, p.31)

In addition, utilizing the most up-to-date innovations in the field of social network analysis - "the small-world statistics" - as powerful descriptions of the clubs and governance institutions within and across 22 countries, Kogut's book provides a unique longitudinal comparative analysis of the impact of main structural breaks (privatizations, for example, or governance reforms) on a core aspect of corporate governance regimes (i.e. corporate networks) in order to assess why powerful actors across countries behaved similarly or differently in term of network properties and corporate governance. So, the empirically rich studies in the book are largely concerned with mechanisms for the emergence of governance networks and their evolution over time rather than with what determines the best outcomes.

The book provides this comparative analysis progressively through the sequencing of the chapters that seek to group the countries by a "most similar" design (Chapter 1, p.46). Chapters examine, among other topics, the heterogeneous corporate network structures in Anglo-Saxon countries, suggesting the need for caution in using the widespread term *Anglo-Saxon Model* (Chapter 2); the heterogeneous effect of the structural break of internationalization on business groups (Chapter 3); the impact of structural breaks on the evolution of network structures in Western Europe, observing that European countries respond very differently to structural breaks (Chapter 5); the growing structural power of women due to gains in gender diversity on corporate governance in Scandinavia, showing that diversity leads to more connections among boards (Chapter 6); the "small worlds" of merger and acquisition activity in

Germany and the United States, suggesting that the "small-world signature" on acquisitions is more evident in the German than in the U.S. case (Chapter 7), and the properties of a global and transnational governance network, identifying directors as more consequential than owners for connectivity among countries and showing that financial institution and insurance companies are dominant forces in the global ownership network (Chapter 9). Finally, the appendices provide a very useful guide to the network tools used in the analysis, as well as documentation of some of the principle algorithms and name-matching routines (see Appendix 1 and 2, pp.313-342).

Anyone with an interest in international corporate governance, the ownership and control of organizations, control enhancing mechanisms (business group and ownership ties), corporate networks (ownership ties and interlocking directorates), firm performance, network analysis, board diversity, merger and acquisition, the debate on the diffusion and the determinants of different ownership structure around the world and their evolution over time will have to read this innovative and interesting book.

Have you read?

John Staddon (2012):

The Malign Hand of the Markets

Reviewed by Phil Molyneux, Bangor Business School, Bangor University, UK

Publisher: McGraw Hill, 2012, pages 273.

As its title suggests this thoughtful book weaves its way through anomalies caused by externalities and other asymmetries that lead to market failure and the cause of the recent global financial crisis. Of course one can be trite and argue that if the invisible hand works perfectly then risks are always accurately priced so investors will always know what they are getting into. In practice, however, and so neatly explained in this text, a whole range of forces are at play to create disequilibrium and other market failings that result in problems – hence the malign hand of the markets. The author has a keen interest in behavioural economics, psychology and other sciences as explanations that drove individuals and markets to behave in a specific way culminating in mega bank failure and bailouts.

The text is split into two main sections with the first part covering nine chapters that takes us through the economics of markets covering, among various issues, the housing boom and bust, market dynamics, the role of money, credit and the central banks plus some good old Keynes. From the start of the first section a strong and illustrative argument is made highlighting that markets, despite their apparent advantages, do not always end-up promoting the common good (something noted by the founder of modern economics – Adam Smith). Part two of the text looks at the role of financial markets highlighting problems of their

structure, operational efficiency and regulation. Insights from behavioural finance and elsewhere are used to identify market irrationalities and anomalies.

So what were the causes of the crisis? Well government was a major culprit – promoting wider and cheaper home-ownership that was funded via securitisation and not traditional deposit-taking. This created the property boom. At the same time, mainly ‘independent’ central bankers encouraged lax monetary policy with historically low interest rates further fuelling credit growth frenzy. The book refers in places to the misplaced policy views of Alan Greenspan in terms of his promotion of lax policy and the belief that markets always worked. Bankers and financial markets became incentivised to take on more risk with bigger upside rewards and limited downside due to ‘Too-Big-to-Fail’ government safety net subsidies (and deposit insurance). When the music stopped in September 2008 and the banks and markets ‘stopped dancing,’ we all know what happened, Collapse and (apart from the unfortunate Lehman) state guarantees and bailouts. We are still paying for this in terms of higher national indebtedness, taxes and recessionary economies. In Europe the Euro still may collapse!

So what does John Staddon propose? Well one neat idea is a financial risk tax – the more risk financial market participants take the more tax they should pay. In principle this is not so novel a solution. Banks, regulated

under Basel 2 and (by 2019 Basel 3) regulations have to hold more capital the more risk they take. Although this is not a tax paid to the government – it is (supposed to at least) constrain their risk-taking capacity. Maybe Basel 3 should be linked more strongly to tax payments? In general, what global and national regulators have chosen to do is to force the banks and financial firms to hold more capital and liquidity and also to ask those that are deemed systemically important financial institutions – sifi’s to hold even more. In addition, regulations like Dodd-Frank 2010, the UK Vickers Report (2011) and the EU’s Liikanen Report (2012) all recommend restricting deposit-banks securities (and other high risk business) by legally ring-fencing the risky activity. This seems a sensible idea although it’s not convincing that it will have a big impact on diminishing ‘Too-Big-To-Fail’ subsidies.

Sitting back after reading Staddon’s book I just wonder if any of his solutions really will get rid of the ‘Too-Big-To-Fail’ subsidies. We know markets don’t work perfectly – that’s why such things as market externalities and ‘Too-Big-To-Fail’ subsidies exist. Maybe only when we can dramatically reduce the size of banks and other financial institutions can we avert the sort of crisis which we have just experienced. Only time will tell?

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