IN THE PUBLIC INTEREST….

A Newsletter of the Public Interest Section of the American Accounting Association
Spring 2012
Edited by Jim Staihar and Sarah Stanwick

A Message from the Chair….

Sue Ravenscroft, Iowa State University

To the Members of the Public Interest Section,

Welcome to the revived newsletter and welcome to one which is not cobbled together by me, but rather by the talented Sarah Stanwick, who did the newsletter for several years in the past, and Jim Staihar, a relatively new member of the Public Interest Section, who has enthusiastically joined in volunteering in several roles. Thank you both for taking over this important responsibility. I hope the newsletter will serve as a forum for the exchange of ideas as well information such as upcoming meetings and deadlines.

(I wrote this originally in December, 2011, at the height of pre-Iowa caucus publicity)…Living in Iowa I cannot avoid the topic of politics. Living in the state with the first caucus means that I am over-exposed to all the would-be presidents, thei"debates", and their television ads. Because there is one incumbent, we are getting only half the usual dose of candidates. Nonetheless, I can see the effect of the 2010 Supreme Court ruling in Citizens United, i.e. the ruling that allows corporations and super-PACS (independent expenditure committees) to pay for advertisements without restriction. All I can say to those of you who live in the US – watch out! The misinformation is flowing fast and heavy. And that is where we – as accountants who care about and serve the public interest – come in. We must continue in our efforts to work for effective communication from corporations to the public. As corporations wield more influence in politics, the need for honest disclosure increases. We serve the public interest and need to work hard to promote full and fair disclosure.

I think that perhaps we need to go even further than that and work to ask what the firms are doing to promote fair, socially productive practices. For instance, the number of tax shelters created and promoted by the Big Four accounting firms that have been found to be illegal is not something we can be proud of. Has the accounting profession encouraged and enabled corporate practices that have negative consequences over all? In his latest monograph, *Pin Stripe Mafia*, Prem Sikka answers with a resounding yes. Our section can play an important role in exposing this issue and working to improve the accounting profession.

Stepping into my more traditional role, I would like to thank all of you who volunteered for the mid-year meeting, the Professionalism and Ethics seminar we co-sponsor, the AAA annual meeting, and our section journal – *Accounting and the Public Interest*. I fear if I begin to list names, I would miss someone, so please allow me to give a blanket thank you to all of you. I also want to thank those of you who have so quickly volunteered to help Pamela Roush and Charlie Cullinan with our upcoming mid-year meeting, scheduled for the weekend of March 30th in downtown Orlando. Yes, we will actually be able to walk outside of the hotel (which is a hotel in the grand old tradition) and go to other places. This is definitely NOT one of those isolated total institution type convention hotels. Please join us.

On a lighter note, I hope that you all have a good end-of-semester….somehow academic years have such a dramatic trajectory to them. Once summer break arrives, please remember that getting away from your regular schedule can be so refreshing and nourishing. I hope you all give yourselves some time to relax, read a good book, laugh with friends and family, make some music, be outside, or do whatever feeds your spirit and renews you.

Best regards,

Sue Ravenscroft

Please send all newsletter submissions to
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We welcome submissions of all kinds!!!

Shareholder Capitalism is Dead - It's Time to Democratize Corporations

Prem Sikka, Professor of Accounting, University of Essex, UK

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The banking crash has exposed the myth that shareholders are the main risk-bearers in corporations. Bear Stearns and Lehman Brothers had leverage ratios of 33:1 and 30:1, respectively, and most of the risks were borne by other stakeholders. In 2007, just before the banking crash Barclays' capital base was leveraged around 39 times, Royal Bank of Scotland 31 times and HSBC had a ratio on 21.3. Taxpayers have bailed out banks with loans, guarantees and cash injections, but the myth of shareholders as owners and main risk-bearers persists and legitimizes the claim that the objective of the firm is to maximize shareholder wealth. Politicians routinely talk about empowering shareholders to control executives and their remuneration. They rarely ask why shareholders have failed to invigilate companies and whether they are even capable of overriding their short-term interests to do something for the community as a whole. Audit reports continue to be addressed to shareholders even when they are neither the owners of the listed companies nor the main risk-bearers.

In common with many other countries, the structure of share ownership in the companies listed on the UK stock market has undergone major changes in the last forty years. The statistics show that shareholders are primarily traders rather than owners. They pursue short-term returns and have little interest in invigilating companies.

The table below shows the changes in the pattern of share ownership in UK listed companies

% Ownership of Shares	1969	1997	2008
Individuals	47.4	16.5	10.2
Insurance Companies	12.2	23.5	13.4
Pension Funds	22.1	12.8	9.0
Unit and Investment Trusts	2.9	8.6	3.7
Banks	1.7	0.1	3.5
Other Financial Institutions	10.1	2.0	10.0
Charities	2.1	1.9	0.8
Foreign Investors	6.6	24.0	41.5
Others	8.0	1.3	4.1
Total %	100.0	100.0	100.0

The UK government gave away shares in state-owned enterprises at knock-down prices to individuals. It also offers tax incentives to individuals to hold shares. But despite the bribes, the shareholding by individuals has declined from 47.4% to 10.2%.

The 41.5% foreign ownership of UK-listed companies is muddied by the fact that many foreign companies are listed on the LSE, a practice that can be traced to the beginning of the twentieth century. These include Mexican silver miner Fresnillo and other foreign mining companies, such as Kazakhmys, Eurasian Natural Resources and Vedanta. These companies hardly have any UK operations and employees, but are listed on the London Stock Exchange. These developments may have increased the foreign ownership of UK listed companies, but the high profitability of the UK-based companies remains attractive for sovereign funds, hedge funds, private equity and others.

Shareholders, whether domestic or foreign, do not appear to hold their investments for long. In September 2010, Andrew Haldane, a member of the Bank of England Financial Policy Committee noted that for the UK:

"The average duration of equity holdings has fallen from around 5 years in the mid-1960s to around 2 years in the 1980s. At the turn of the century, it had reached just over a year. By 2007, it had fallen to around 7 ½ months" (Haldane, 2010, p. 16).

The UK short-termism is also repeated in other countries. Haldane (2010) noted that:

"In 1940, the mean duration of US equity holdings by investors was around 7 years. For the next 35 years up until the mid-1970s, this average holding period was little changed. But in the subsequent 35 years average holding periods have fallen secularly. By the time of the stock market crash in 1987, the average duration of US equity holdings had fallen to under 2 years. By the turn of the century, it had fallen below one year. By 2007, it was around 7 months" (p. 16).

For the banking sector, Haldane (2011) noted that the "average shareholding periods for US and UK banks fell from around 3 years in 1998 to around 3 months by 2008. Banking became, quite literally, quarterly capitalism."

The trends are clear. Shareholders are focusing more on short-term interests and functioning as traders and speculators rather than owners. Even if governments could cajole domestic shareholders to be more active, it is difficult to see how they are going to impose their will on foreign shareholders. In any case, institutional investors are primarily judged by the financial returns they secure rather than their involvement in corporate governance matters. They have no interest in curbing executive remuneration because the rocketing amounts provide a benchmark for their own compensation. They have done nothing to protect the interests of savers and employees. Individuals may have indirect share ownership through insurance companies and pension funds, but they do not elect directors and cannot mandate these entities to vote in any particular way.

Even if some shareholders could muster a resolution at the annual general meeting (AGM) to change anything, their chances of success are slim. This is because directors are permitted to cast thousands of delegated-proxy votes to defeat any unwelcome resolution. Even if a resolution is passed, it is only advisory rather than binding on directors.

The banking crash has vividly demonstrated that risks are borne by savers and taxpayers. Shareholders have the benefit of limited liability, but taxpayers have virtually written a blank check. At many other entities, shareholders only provide a minority of the finance capital and thus do not bear all the risks. Employees and local communities bear a heavy cost of corporate failures because their jobs and pensions depend on corporate well-being. However, their interests are not recognized in financial reporting, auditing, or corporate governance codes. They are not permitted to appoint directors or have access to key documents.

The challenge for the twenty-first century is to democratize corporations. The critical accounting community can help by problematizing the current modes of corporate governance and by constructing alternative accounts of corporate practices.

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Emerging Scholars Colloquium

The Emerging Scholars Colloquium is a one-day event (April 26, 2012) which precedes the main conference. In particular, the Colloquium aims to provide doctoral students and emerging researchers with the opportunity to discuss their work with established scholars in the field.

The Colloquium will consist of two parts. The first part involves a panel of established scholars providing their thoughts on themes such as:

- What is alternative and critical research? How do we do it? How do we publish it? Where should we publish it? How to deal with journals and editors? How to address reviewer comments?

Participants will be invited to ask questions or comment on the matters being discussed. The second part involves participants discussing their research with peers and established scholars, in a small-group format.

The Colloquium is organized by Yves Gendron (Université Laval).

Doctoral students and emerging researchers should send a CV and a 3-page document in which they outline their doctoral research project. Documents should be sent to Yves Gendron (yves.gendron@fsa.ulaval.ca) before February 1, 2012. Notification of acceptance will be given by February 15, 2012. It should be noted that preference will be given to doctoral students who are beyond the first year of their PhD studies. The number of participants will be limited to 15. Accepted participants must send by April 1, 2012 a research paper for which they would like to get input from one of the established scholars. Papers should normally not exceed 40 pages of text (double space), excluding tables and references. Papers should be sent to Yves Gendron (yves.gendron@fsa.ulaval.ca). Doctoral students and emerging researchers are allowed to submit papers to the main conference. However, papers submitted to the main conference need to be different from papers submitted to the Colloquium.

The École de comptabilité of the Faculté des sciences de l'administration of Université Laval has agreed to waive all fees (Colloquium and main conference) for doctoral students who are selected as participants to the Emerging Scholars Colloquium. Once budget details are finalized, some partial funding might also be offered to doctoral students in order to cover partially their travel costs.

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Commentary: Research on Accounting Should Learn From the Past

http://chronicle.com/weekly/v54/i28/28a03401.htm

By MICHAEL H. GRANOF and STEPHEN A. ZEFF

Starting in the 1960s, academic research on accounting became methodologically supercharged — far more quantitative and analytical than in previous decades. The results, however, have been paradoxical. The new paradigms have greatly increased our understanding of how financial information affects the decisions of investors as well as managers. At the same time, those models have crowded out other forms of investigation. The result is that professors of accounting have contributed little to the establishment of new practices and standards, have failed to perform a needed role as a watchdog of the profession, and have created a disconnect between their teaching and their research.

Before the 1960s, accounting research was primarily descriptive. Researchers described existing standards and practices and suggested ways in which they could be improved. Their findings were taken seriously by standard-setting boards, CPA's, and corporate officers.

A confluence of developments in the 1960s markedly changed the nature of research — and, as a consequence, its impact on practice. First, computers emerged as a means of collecting and analyzing vast amounts of information, especially stock prices and data drawn from corporate financial statements. Second, academic accountants themselves recognized the limitations of their methodologies. Argument, they realized, was no substitute for empirical evidence. Third, owing to criticism that their research was decidedly second rate because it was insufficiently analytical, business faculties sought academic respectability by employing the methods of disciplines like econometrics, psychology, statistics, and mathematics.

In response to those developments, professors of accounting not only established new journals that were restricted to metric-based research, but they limited existing academic publications to that type of inquiry. The most influential of the new journals was the *Journal of Accounting Research,* first published in 1963 and sponsored by the University of Chicago Graduate School of Business.

Acknowledging the primacy of the journals, business-school chairmen and deans increasingly confined the rewards of publication exclusively to those publications' contributors. That policy was applied initially at the business schools at private colleges that had the strongest M.B.A. programs. Then ambitious business schools at public institutions followed the lead of the private schools, even when the public schools had strong undergraduate and master's programs in accounting with successful traditions of practice-oriented research.

The unintended consequence has been that interesting and researchable questions in accounting are essentially being ignored. By confining the major thrust in research to phenomena that can be mathematically modeled or derived from electronic databases, academic accountants have failed to advance the profession in ways that are expected of them and of which they are capable.

Academic research has unquestionably broadened the views of standards setters as to the role of accounting information and how it affects the decisions of individual investors as well as the capital markets. Nevertheless, it has had scant influence on the standards themselves.

The research is hamstrung by restrictive and sometimes artificial assumptions. For example, researchers may construct mathematical models of optimum compensation contracts between an owner and a manager. But contrary to all that we know about human behavior, the models typically posit each of the parties to the arrangement as a "rational" economic being — one devoid of motivations other than to maximize pecuniary returns.

Moreover, research is limited to the homogenized content of electronic databases, which tell us, for example, the prices at which shares were traded but give no insight into the decision processes of either the buyers or the sellers. The research is thus unable to capture the essence of the human behavior that is of interest to accountants and standard setters.

Further, accounting researchers usually look backward rather than forward. They examine the impact of a standard only after it has been issued. And once a rule-making authority issues a standard, that authority seldom modifies it. Accounting is probably the only profession in which academic journals will publish empirical studies only if they have statistical validity. Medical journals, for example, routinely report on promising new procedures that have not yet withstood rigorous statistical scrutiny.

Floyd Norris, the chief financial correspondent of *The New York Times*, titled a 2006 speech to the American Accounting Association "Where Is the Next Abe Briloff?" Abe Briloff is a rare academic accountant. He has devoted his career to examining the financial statements of publicly traded companies and censuring firms that he believes have engaged in abusive accounting practices. Most of his work has been published in *Barron's* and in several books — almost none in academic journals. An accounting gadfly in the mold of Ralph Nader, he has criticized existing accounting practices in a way that has not only embarrassed the miscreants but has caused the rule-making authorities to issue new and more-rigorous standards. As Norris correctly suggested in his talk, if the academic community had produced more Abe Briloffs, there would have been fewer corporate accounting meltdowns.

The narrow focus of today's research has also resulted in a disconnect between research and teaching. Because of the difficulty of conducting publishable research in certain areas — such as taxation, managerial accounting, government accounting, and auditing — Ph.D. candidates avoid choosing them as specialties. Thus, even though those areas are central to any degree program in accounting, there is a shortage of faculty members sufficiently knowledgeable to teach them.

To be sure, some accounting research, particularly that pertaining to the efficiency of capital markets, has found its way into both the classroom and textbooks — but mainly in select M.B.A. programs and the textbooks used in those courses. There is little evidence that the research has had more than a marginal influence on what is taught in mainstream accounting courses.

What needs to be done? First, and most significantly, journal editors, department chairs, business-school deans, and promotion-and-tenure committees need to rethink the criteria for what constitutes appropriate accounting research. That is not to suggest that they should diminish the importance of the currently accepted modes or that they should lower their standards. But they need to expand the set of research methods to encompass those that, in other disciplines, are respected for their scientific standing. The methods include historical and field studies, policy analysis, surveys, and international comparisons when, as with empirical and analytical research, they otherwise meet the tests of sound scholarship.

Second, chairmen, deans, and promotion and merit-review committees must expand the criteria they use in assessing the research component of faculty performance. They must have the courage to establish criteria for what constitutes meritorious research that are consistent with their own institutions' unique characters and comparative advantages, rather than imitating the norms believed to be used in schools ranked higher in magazine and newspaper polls. In this regard, they must acknowledge that accounting departments, unlike other business disciplines such as finance and marketing, are associated with a well-defined and recognized profession. Accounting faculties, therefore, have a special obligation to conduct research that is of interest and relevance to the profession. The current accounting model was designed mainly for the industrial era, when property, plant, and equipment were companies' major assets. Today, intangibles such as brand values and intellectual capital are of overwhelming importance as assets, yet they are largely absent from company balance sheets. Academics must play a role in reforming the accounting model to fit the new postindustrial environment.

Third, Ph.D. programs must ensure that young accounting researchers are conversant with the fundamental issues that have arisen in the accounting discipline and with a broad range of research methodologies. The accounting literature did not begin in the second half of the 1960s. The books and articles written by accounting scholars from the 1920s through the 1960s can help to frame and put into perspective the questions that researchers are now studying.

For example, W.A. Paton and A.C. Littleton's 1940 monograph, *An Introduction to Corporate Accounting Standards,* profoundly shaped the debates of the day and greatly influenced how accounting was taught at universities. Today, however, many, if not most, accounting academics are ignorant of that literature. What they know of it is mainly from textbooks, which themselves evince little knowledge of the path-breaking work of earlier years. All of that leads to superficiality in teaching and to research without a connection to the past.

We fervently hope that the research pendulum will soon swing back from the narrow lines of inquiry that dominate today's leading journals to a rediscovery of the richness of what accounting research can be. For that to occur, deans and the current generation of academic accountants must give it a push.

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Charles Cho is pleased to announce that *Accounting and the Public Interest* has been ranked in Group 2 of the ESSEC Journal Ranking in Management (rankings can be downloaded at http://www.essec.edu/faculty-and-research/research/approach.html or at http://www.essec.edu/fileadmin/user_upload/Rubrique_Professeurs_et_recherche/Recherche/revues-management-classification-2011.pdf). Similarly, two other public interest research journals (but more specialized in sustainability accounting) have been ranked in Group 3 of these rankings—these are *Social and Environmental Accountability Journal*; and *Sustainability Accounting, Management and Policy Journal*.

École de comptabilité, Université Laval, Québec City

Friday April 27th and Saturday April 28th 2012

Since the beginning of the 1980s, the field of accounting research has become increasingly diverse. A range of research epistemologies and methodologies have developed to provide new insights into accounting, auditing, governance, and risk management. Sometimes designated as "alternative" or "interdisciplinary," this eclectic and diverse body of research is characterized by the overarching objectives of developing better understandings of accounting (from behavioural, organizational, and sociological angles), and of encouraging better accounting and accountability practices.

The Alternative Accounts Conference brings together accounting faculty and doctoral students who are interested in alternative accounting research. The Conference especially aims to increase accounting researchers' awareness of the diverse areas of research belonging to the "alternative" paradigm of accounting research, and to provide a forum to discuss these studies from a variety of viewpoints – in a constructive environment. It rotates between Alberta, Ontario and Québec.

Academic papers are sought for the 2012 Alternative Accounts Conference to be held on April 27-28, 2012 at Université Laval in Québec City. All research methodologies (qualitative or quantitative) are welcome within the alternative paradigm of accounting research; papers will be selected on the basis of their substance and quality. Papers in progress (at a relatively advanced stage of completion), or already submitted to journals – but not yet accepted for publication – are welcome.

The deadline for submission of papers is February 1, 2012. Papers should be submitted as an e-mail attachment to Ms. Christianne Patoine, at christianne.patoine@fsa.ulaval.ca. All papers will be assessed via a double-blind review process by members of an evaluation committee made up of the following members of the École de comptabilité:
Marion Brivot
Tiphaine Compernolle
Yves Gendron
Maurice Gosselin
Henri Guénin-Paracini
Michelle Rodrigue
Mélanie Roussy
Selected authors will be notified by February 15, 2012. Selected authors will need to provide the complete version of their paper by March 25, 2012. The conference program, as well as full-paper submissions, will be e-mailed to all participants by March 31, 2012.

The Conference fee is $150. For questions on the Conference, please contact Yves Gendron, at yves.gendron@fsa.ulaval.ca.

Sedona - the Accounting System: a Personal Exploration of Baking in the Data Entry Desert

Dan N. Stone, University of Kentucky

The opinions in this essay are those of the author; they do not reflect the position of any institution or organization with which the author is currently affiliated, including those mentioned in the next sentence. The author thanks the *University of Kentucky,* the *Gatton College of Business and Economics,* and the *Von Allmen School of Accountancy* for grants supporting this research.

Although the consequences are infrequently explored in accounting research, accounting systems have real consequences for real people, including accounting systems professors. Occasionally, work-life provides one with an uncomfortable learning moment in which the teacher becomes the "teachee." This case exploration – written as a personal essay – recounts my experience with the Sedona accounting system, and metaphorically links Sedona – the accounting system – with its namesake, Sedona, the town in Arizona. Sedona, AZ is a magical place of red rock and pine forest. But getting to Sedona from Phoenix, the most common route, requires a trip through the harsh, unforgiving Arizona desert. The landscape of northern Arizona and Sedona is a useful metaphor for considering Sedona, the software system. Sedona's purpose, as described at its website:

"is a self-service web database program that allows faculty (or staff) to use the Internet to maintain their teaching, research, and service records. Once the database is fully populated with faculty records, administrators may use it to document accreditation information, facilitate pay-for-performance programs, and manage post-tenure reviews. As faculty and administrators update the database from anywhere there is Internet access, reports are dynamically generated, instantly and automatically reflecting these additions and modifications" (Sedona Systems 2011a).

The beauty of Sedona (the accounting system), reaped by academic administrators, is, like Sedona, AZ, lovely. Accreditation reports that once required hours can be quickly and easily created with a few mouse clicks and spins of a hard drive. Slicing and dicing data on faculty productivity, drilling down into the heart of faculty activity become, like the magical red rock of Sedona, AZ, realized dreams. One testimonial from the Sedona website states:

"I extract a lot of faculty data in order to comply with ongoing maintenance reports needs, university- level reporting, and our upcoming AACSB self study. After spending hundreds of hours developing and maintaining a number of EXCEL-based spreadsheets to tabulate research, workloads, and teaching, I discovered Sedona. Now I have all the data at my fingertips in a single database and can formulate specialized reports that were not before possible. In the first two months of use, its purchase price has been recovered many times over. I heartily recommend this product" (Read 2011).

But getting to the magical red rock of reporting ease requires descending from the lovely pine forests into the desert of data entry. Consider an admittedly extreme example of the data entry burden of Sedona. I recently nominated a friend – and remarkable scholar -- for a journal editorship. His vita is 63 pages in length. Assuming an average of 20 activities per page, if asked to enter his vita into Sedona, he would be required to enter, code and classify about 1,260 activities. Assuming 2 minutes of data entry coding and classification per activity yields an estimate of 42 hours of data entry time. Adding, say, 5 hours to learn the system and negotiate system errors, and 10 hours per week available to devote to this activity, my friend could expect to have his data entered into Sedona (the accounting system) in 5 weeks.

But one doesn't create a 63 page vita by wasting more than a month on data entry. And unsurprisingly, my friend's institution does not use Sedona. Nor do some of my (obviously tenured) colleagues at universities where Sedona is officially "required" by the administration. Why would an academic do, as is suggested by the Sedona website, this data entry? Isn't this a job for an assistant? Perhaps, but the complexity of the task is daunting. In the version of Sedona that I can access, Sedona lists 42 categories of faculty activities. Excluding information about the author and co-authors, entering the data for a single journal article requires data entry, coding, and classification of 17 data fields.

The medical profession has addressed this issue with a relatively new occupational category. Medical coders (O*NET 2010) are professionals trained in completing, reviewing and processing the medical claims that enable doctors to be paid by insurance companies. They match events, for example, doctor / patient appointments, with diagnoses, using the categories and classifications of the insurance company or medical plan. The American Association of Professional Coders (AAPC) offers CPC (Certified Professional Coder) certification which requires passing an examination covering 24 topics related to diagnosis and medical reimbursement (AAPC 2011). Hence, correct coding of complex categories, including medical coding, requires considerable training and expertise.

While Sedona offers a demo, training videos, and a one-day training seminar to its member institutions (Sedona 2011b), I'm unaware of any university that has positions devoted to the coding of academic resumes into the Sedona database. Chatting with friends suggests that, at many universities, faculty, who are neither trained nor experienced with Sedona and data entry coding, categorize these data. At other universities, staff, who may lack an understanding of most of what appears on a faculty member's vita, code these data. In the view of Sedona that I receive, there is no help function or screen. In addition, while working with an assistant to enter my data, we encountered repeated system errors, e.g., Sedona exiting when we tried to move between sections of the system. I'm confident that I could, with time and considerable effort, learn to be a competent academic data entry coder. But is this the best use of faculty time?

I contacted one of Sedona's developers about this issue. His suggestion was to enter one's data directly into Sedona (Woodroof 2010), i.e., not into an MSWord file first, which, of course, does not address the above issues of complexity, system errors, coding and data entry. Technological solutions to these issues are presently unavailable. Tagging languages, such as XML (xml.com 2011), offer the possibility of automated coding processes. Such an approach is integral to the ease-of-use of bibliographic software (e.g., Endnote) that has largely automated the process of entering data into bibliographies. When combined with increasingly ubiquitous scanning systems, it is conceivable that a faculty members' vita could be scanned and tagged using human labor only to fix errors in the automated, natural language processing system. But no such systems presently exist. And, of course, someone – with considerable technology expertise and time -

would need to develop the (presently nonexistent) system that would link Sedona to scanning and tagging technologies.

In my experience, the learning and data entry burden of Sedona is substantial, with a need for an academic assistant who is knowledgeable in both faculty activities and the complexities of the Sedona system, coding and categories. Unfortunately, staff – any staff -- is increasingly scarce in the wake of budget shortfalls. Further, the turnover in academic support jobs – often staffed by graduate students or workers earning their degrees to advance to better jobs - makes it unlikely that qualified support can be found and retained. Hence, at present, getting to the magic of Sedona's reports and output -- for administrators -- can be threatening to faculty and staff productivity since it requires a considerable period of time spent baking in the stifling heat of the desert of data entry.

But, of course, one solution is to publish less, give fewer talks, attend fewer conferences, and serve on fewer committees. Doing less would substantially reduce my data entry burden. Upon reflection, a relaxing family vacation in Sedona, AZ rather than giving another talk at an academic conference sounds ideal. Such are the consequences of an uncomfortable season spent in the dry, data entry heat of Sedona – the accounting system.

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A Report and Personal Note about the *2011 North American Congress on Social and Environmental Accounting Research* (3rd CSEAR Summer School in North America)

Charles H. Cho, ESSEC Business School, France*

* I was on the faculty at Concordia University's John Molson School of Business at the time of the *2011 North American Congress on Social and Environmental Accounting Research*.

After its inauguration at Concordia University's John Molson School of Business in July 2008 and stopover at the University of Central Florida (2nd edition but 1st in the USA) in January 2010, the *North American Congress on Social and Environmental Accounting Research* (aka the CSEAR Summer School in North America) came back to Montreal in May 2011.

The primary objective of this conference is to foster social and environmental accounting (SEA) research, particularly in North America where, like most if not all of public interest related research, the topic remains at best marginal. With the spread of SEA research conferences, workshops and symposia, new people are more likely to become attracted to the area, hence expanding the boundaries of SEA research.

As per its tradition, the conference took place in a very supportive, nurturing, encouraging and friendly environment. The program included 20 parallel session paper presentations, 2 plenary presentations (Nola Buhr and Robin Roberts, Editor *of Accounting and the Public Interest*) and one interdisciplinary discussion panel on sustainability research. There were 35 delegates from affiliations located in Canada, France, Tunisia, the UK and the USA. Among them, 8 PhD students, 7 of them being from North America—a very encouraging figure.

I would like to thank all conference stakeholders and financial sponsors (*Concordia University's Bell Research Centre for Business Process Innovations, David O'Brien Centre for Sustainable Enterprise, Lawrence Bloomberg Chair in Accountancy, RBC Professorship in Responsible Organizations, the Association of Chartered Certified Accountants and the Social Sciences and Humanities Research Council of Canada*) for helping put together a successful third North American CSEAR Summer School!

This conference also had a personal and special meaning to me as it symbolically represented one of my last endeavors in North America before my departure from the continent after spending 16 wonderful years there. My one-way ticket back to my hometown of Paris, France was booked for literally 2 days after the end of the conference, and it certainly did not leave me indifferent in terms of emotions. I could not help thinking about all the wonderful friends, colleagues and students who helped me so much in all the projects I had been undertaking. Thank you for your support and friendship. I am now geographically farther away, but this does not mean much—there will always be a piece of North America in my heart (and one never knows what the future holds anyways)! And while I realize that there is still much work to be done to promote public interest research in the North American continent, I believe there is hope. This may sound optimistic to some but our passion and strong desire to make a difference will (or at least should) prevail.

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Short Announcements: Charles Cho currently serves on the Board of the "Association Francophone de Comptabilité" (French Accounting Association), and one of his goals during his term is to promote the Public Interest Section to the French academic community not only to increase membership, but also to foster public interest research in France and in Europe. Any suggestions or ideas to make this promotion more effective are welcome!

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Ernst & Young and Providence College: A Collaborative CSR Project

Ernst & Young (E&Y) is a global leader in corporate social responsibility (CSR) reporting practices. And E&Y didn't achieve its current leadership position by accident; it consistently calls upon the expertise of specialists, both inside and outside of the firm, to help it maintain the advantage that it needs to remain at the cutting edge of sector developments.

Mr. Issam Chleuh of E&Y, for instance, reached out to Providence College Professor Michael Kraten to answer questions related to the development of an outcomes reporting system for the Big Four firm's global pro bono Fellowship Services program. Mr. Chleuh, a Financial Services industry specialist in E&Y's Boston office, was a student in Dr. Kraten's capstone accounting course in Enterprise Risk Management (ERM) several years ago; he is now leading the Social Impact Investing initiative for the New England region.

Dr. Kraten, of course, is a member of the American Accounting Association's Public Interest Section and maintains research interests in the discipline. The two colleagues are now developing a triple bottom line model that defines outcomes in the following manner for the Fellowship Services program:

> Economic (or Profit) returns are defined by the extent to which the cost of E&Y's pro bono contributions reduce the need of its beneficiary organizations to expend resources for equivalent expertise, as well as the extent to which they help enhance the knowledge base of the human resources of all the organizations;

> Social and ecological (or People and Planet) returns are defined by the extent to which the beneficiary organizations contribute to the health of their communities.

The model is unique in that it utilizes a direct measurement approach to assess economic returns, but an indirect measurement approach to assess social and ecological returns. Thus, E&Y is defining itself as serving in a supporting role for purposes of measuring social and ecological returns, but it is directly assuming the burdens of deploying the requisite economic resources.

Public Interest Section members with interests in the field are welcome to contact Mr. Chleuh at issam.chleuh@ey.com or Dr. Kraten at mkraten@providence.edu. Dr. Kraten also plans to submit a proposal to present their work at the Public Interest Section's annual conference in April 2012.

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Research Summary: The Genesis of C.H. Cho, R.W. Roberts, and D.M. Patten, "The Language of U.S. Corporate Environmental Disclosure," *Accounting, Organizations and Society* 35(4) (2010): 431-443.

Charles H. Cho, ESSEC Business School, France

This article is directly derived from one of the three essays composing my dissertation submitted and completed "in partial fulfillment of the requirements for the degree of Doctor of Philosophy" in the Kenneth G. Dixon School of Accounting at the University of Central Florida. It was really interesting to explore a methodology based on a specific software program called "DICTION." Although this program is used in accounting research, it was actually created by a political science professor. The idea of somehow measuring the tone and language of corporate environmental discourse was appealing, and I remember how fun it was to play around with the software in developing a viable research idea for the project. I especially thank my wife Jane Cho, who served as my unpaid research assistant at the time. She tediously and painfully helped me collect all the disclosure data by downloading many many 10-K reports. Somebody once said that earning a PhD is a family project, and it certainly was for us! Below I include the abstract of the paper as it concisely summarizes the paper's main theses:

We rely on prior work in environmental disclosure and corporate impression management to investigate whether there are self-serving biases present in the language and verbal tone used in corporations' environmental disclosures. Specifically, we argue that the degree of bias in these narratives varies systematically based on firm environmental performance, hypothesizing that disclosure of worse environmental performers exhibit significantly more "optimism" and less "certainty" than their better performing counterparts. We test our two hypotheses using a cross-sectional sample of corporate environmental disclosures contained in U.S. 10-K annual reports. Utilizing the content analysis software DICTION to determine "optimism" and "certainty" scores for the disclosures, we find empirical support for both hypotheses. Our study contributes significantly to research in environmental disclosure by investigating bias in the use of language and verbal tone as a tool for managing stakeholder impressions and by finding empirical support for this role. Thus, the language and verbal tone used in corporate environmental disclosures, in addition to their amount and thematic content, should be considered when investigating the relation between corporate disclosure and performance.

In the end, it turned out to be a nice paper that I was very happy and grateful to co-author with my former dissertation chair Robin Roberts and later with my committee member Den Patten. Den and I had already been working together on various other projects, and to this one he brought his usual magic touch! The paper received great feedback from presentations in numerous workshops and conferences, including our own annual Mid-Year Meeting of the Public Interest Section where Vaughan Radcliffe served as the discussant. For other acknowledgments, see the published paper.

There is a little anecdote worth sharing that occurred toward the end of the paper's editorial process ☺. After going through tough, long and demanding (but fair) rounds of revision at *Accounting, Organizations and Society*, we got a relieving acceptance letter, and it was time to celebrate! However, there was a conditional acceptance letter before this, which only Den and I received. I had actually planned to surprise Robin with this news for his birthday. At the time, I was on the faculty at Concordia University's John Molson School of Business in Canada, and it so happened I had a trip to Florida scheduled a few weeks after receiving the conditional acceptance. The surprise worked perfectly. I showed up on Robin's doorstep, and he had absolutely no idea. His lovely wife Sherron had of course helped put together this "coup," but the best surprise was his birthday present - in my birthday card to him was the printed acceptance letter. I am still not sure what made him more ecstatic that evening - my showing up as a surprise for his birthday *or* the acceptance letter. Either way it surely made me happy to see him as such. (OK, I think he was happy for both!)

Charles Cho, ESSEC Business School, is pleased to announce that *Accounting and the Public Interest* has been ranked in Group 2 of the ESSEC's Journal Ranking in Management. The rankings can be downloaded at: http://www.essec.edu/faculty-and-research/research/approach.html. Similarly, two other public interest research journals that specialize more in sustainability accounting have been ranked in Group 3 of the ESSEC's rankings. These are *Social and Environmental Accountability Journal* and *Sustainability Accounting, Management and Policy Journal*.

An Overview of the 16th Annual Symposium on Ethics Research in Accounting

Andrew Felo, Pennsylvania State University, and Marty Stuebs, Baylor University, Co-Chairs of the Symposium

The 16th Annual Symposium on Ethics Research in Accounting was a huge success. It was held this summer as a continuing professional education (CPE) session immediately prior to the Annual Meeting of the American Accounting Association (AAA) in Denver. Seventy-four people attended the symposium. In total, thirty-four papers were presented: five in a research forum and twenty-nine in concurrent sessions.

Awards were given during the Accounting Exemplar Luncheon, which was jointly sponsored by the Ethics Symposium and the AAA's Public Interest Section. The winners of the best research paper award were Jim Lampe and Andy Garcia for their paper "The Meaning and a Measure of Accountancy Professionalism." Ronald Strauss won the award for best research paper by a PhD student. His article was entitled "The Ethical Content of Accounting Information."

The Institute of Chartered Accountants in England and Wales (ICAEW) also organized a panel session called "Integrity in the Workplace: Who is Responsible?" The panel members were drawn from academia, industry, and regulators to ensure a diversity of perspectives. We believe everyone greatly appreciated the many insights of the panelists.

A special thanks is owed to all the authors, reviewers, discussants, and moderators who helped make the Ethics Symposium such a success. We would also like to extend our appreciation to the AAA staff, especially Arlene Oliver, for all their generous help. Finally, we greatly thank both John Thornton of the AAA

Professionalism and Ethics Committee and Diane Roberts, last year's symposium co-chair, for their assistance and encouragement.

Please plan to attend the 17th Annual Symposium on Ethics Research in Accounting next year in Washington, DC. We are sure John Sennetti and Mike Kraten will have a great symposium planned for us!

Will the Ten-Unit Ethics Education Requirement in California's 150-Hour Law Protect the Public Interest?

Steven Mintz, California Polytechnic State University, San Luis Obispo

The legislation in California and Texas creating an ethics education requirement as part of their 150-hour laws implies that the public interest will be protected if the required education includes exposure to an ethics foundation: a framework of ethical reasoning, professional values and attitudes for exercising professional skepticism and acting consistently with the core values of integrity, objectivity and independence. My question is how will we know whether the public interest is being protected by the mandated ethics education. We can do studies to determine if disciplinary actions against CPAs decline. However, that would take time, and there is no guarantee of finding a causal relationship.

I believe the public interest will be protected if each state establishes a mechanism to control for course content and delivery of the ethics material. In that regard, Texas is a model for how to do it right, whereas California is a model for how to do it wrong. Let me explain.

Texas does not specify that its three unit ethics education requirement must be met by taking a separate accounting ethics course. So students can satisfy the requirement by taking, for example, an approved business ethics course. However, Texas established a qualifications committee to review course outlines submitted by colleges and universities. The committee approves or disapproves specific courses depending on whether it judges that they would adequately expose students to the ethics foundation. By establishing this review committee, Texas put in place internal controls which help ensure that qualifying ethics courses adequately cover the ethics foundation. Under its law, the Texas State Board must be notified of any changes to an approved ethics course pertaining to its instructors, method of delivery, syllabus, content, course number, or course title.

California's new law is quite ambitious and goes beyond the three unit ethics education requirement in states such as Maryland, New York and Texas. In California, ten units of ethics will be required out of the additional thirty units needed to satisfy the 150-hour requirement. Basically, this includes a three unit course specifically on accounting ethics or accountants' professional responsibilities. Of the remaining seven units, three units should be taken in a business ethics course or courses with specific names in their titles as specified in the law. An additional three units come from ethics courses offered in disciplines such as philosophy or theology.

And one unit is given for the completion of a course devoted solely to financial statement auditing.

California's ten-unit ethics requirement will take effect on January 1, 2014 when students will also be required to satisfy the state's new 150-hour law. However, students will not be required to take a specific accounting ethics course until 2017 in order to give colleges and universities time to develop such a course. During the transition period between 2014-17, students can satisfy the ten-unit ethics requirement by taking an additional business ethics course or one with certain names in its title. Those interested in learning more of the specifics about the California law can contact me at smintz@calpoly.edu.

The problem with the California law is that it is short on quality and long on quantity. There are no required internal controls to monitor course content. The state board merely reviews transcripts to make sure the courses designated as meeting the ten-unit requirement have certain "magic words" in their titles. For example, a course called "Business, Government & Society" would count for the three units of business ethics type education. We all know the content of such a course might have little if anything to do with the ethics foundation relevant to professional accounting values. Absent internal controls to monitor course content, I can imagine such a course not even addressing business ethics. How does this protect the public interest?

I was a member of the California State Board committee that defined what should be included in the ten units. The committee's recommendation was to require that the three unit accounting ethics course be taught at the upper division level. This was to ensure that students have an adequate background in accounting before before tackling the ethics course, which could serve as a capstone in their accounting program. We believed the course should be offered only at four year colleges and universities. However, as a result of pressure from community colleges, the final law reads: "The course must be completed at an upper division level or higher, *unless it was completed at a community college*." One problem with California's 150-hour law is that it calls for a bachelor's degree and thirty extra units but does not require those additional units to be taken beyond the bachelor degree-level. All thirty units, including the required ethics courses, can be taken at a community college.

In California, political forces and concerns about rising tuition at four year colleges outweighed consideration of the kind of ethics education that would best prepare students for the ethically challenging world of business and accounting. This shortcoming could have been avoided by establishing internal controls, such as a qualifications committee similar to the one in Texas that would monitor course content. Unfortunately, that did not happen. As a consequence, the California law adds units without establishing the internal controls needed to ensure that qualifying courses adequately cover the ethics foundation of the accounting profession.

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An Overview of the 2011 AAA Annual Meeting in Denver

Lois S. Mahoney, Eastern Michigan University, Public Interest Section Liaison

The 2011 American Accounting Association (AAA) Annual Conference was a great success in hot sunny Denver. The Public Interest Section had 62 papers submitted for possible presentation. Although these papers covered many topics of interest, there was an emphasis on corporate social responsibility along with an international flair as papers were submitted that dealt with accounting issues facing Egypt, China, Canada, Puerto Rico, and Taiwan as well as eastern and western cultures more generally. Many thanks to the more than 120 AAA members who volunteered to review these papers. This is the most reviewer volunteers we have had in recent history, if not the most ever. Additional thanks are owed to the 47 members who volunteered to serve as discussants and moderators for all our public interest related paper sessions.

The Public Interest Section also sponsored three different panel sessions. Two centered on the current topic of corporate social responsibility in accounting, and the third had an international focus. Stephen E. Loeb, University of Maryland, organized the first ever session on "The Place of Social Responsibility in the Accounting Curriculum." Richard Spencer, ICAEW, coordinated a panel on "Integrated and Connected Reporting and the Accounting Profession." Our third session was organized by Aida Sy, Marist College, on "Current Issues in African Accounting." All these individuals put in a great deal of time and effort coordinating among panel members and running these insightful sessions.

In addition to the many paper and panel sessions, the annual meeting had two continuing professional education (CPE) sessions on issues of teaching accounting ethics. Andy Garcia, Bowling Green State University, and Wallace R. Wood, University of Cincinnati, conducted a workshop called "Be prepared ... to Develop Ethical Accountants." Ali Abdolmohammadi, Bentley University, and Stephen E. Loeb, University of Maryland, organized an "Ethics Education Boot Camp." Planning is currently underway for both a basic and a more advanced ethics boot camp to be held at the 2012 AAA Annual Meeting in Washington, DC. Further details should be forthcoming in the next newsletter of the Public Interest Section.

Finally, an extra big thanks goes to Sue Ravenscroft and last year's Public Interest Section Liaisons, Dawn Massey and Joan Van Hise, who never failed to offer help and guidance.

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Call for Papers

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Have You Seen? *Seven Myths of Corporate Governance*

Part of the Closer Look Series: Topics, Issues and Controversies in Corporate Governance, CGRP-16, Dated 6/01/11. Stanford University, Graduate School of Business. Available at http://ssrn.com/abstract=1856869.

Submitted by Sue Ravenscroft

In this brief white paper issued by the Rock Center of Stanford University, authors David F. Larcker and Brian Tayan, both faculty at Stanford University, list, discuss and dismiss what they label as popular myths about corporate governance.
The myths are in order:
1) Structure of a board = the quality of a board;
2) CEOs are systematically overpaid;
3) There is no "pay for performance" in CEO compensation;
4) Companies are prepared for a CEO succession;
5) Regulation improves corporate governance;
6) Voting recommendations are based on rigorous research; and
7) Best practices are the solution.

What evidence do Larcker and Tayan provide to justify calling these propositions myths?

1) Academic researchers have not found consistent evidence that the most likely factors defining good board quality relate to governance quality, which is measured at least in part by stock price, operating performance and CEO pay that is not above average.

2) Despite including above average CEO compensation as a sign of bad governance, Larcker and Tayan argue that CEOs are not in general overpaid. For fiscal year 2009, the CEOs of the largest 100 US corporations received $11.4 million on average, but much of that compensation was at risk and "this does not seem like an unconscionable level of compensation for an around-the-clock job with

tremendous responsibility." Apparently Larcker and Tayan doubt the evidence of backdating options and other approaches to guaranteeing CEO compensation. They also ignore history. In his 2011 book *23 Things They Don't Tell You about Capitalism*, Ha-Joon Chang looks at the very same "myth" and finds well-supported truths. He compares the pay of US CEOs to that of CEOs in other countries and finds that US CEOs are paid a far greater multiple of US workers than CEOs in other countries receive. He also finds that the CEO compensation relative to that of workers has risen significantly since the 1970s. A multiple of 30 to 40 during the 70s rose rapidly to a multiple of 300 to 400 currently. No explanation for that increase is offered by Larcker and Tayan, other than the stress of being a CEO. I wonder what they would say about the $143,000,000 compensation received by the head of McKesson last year? Running a medical supply and services company must be harrowing indeed, but perhaps he gets a discount on his aspirin?

3) Because CEOs own stock in the companies at which they work Larcker and Tayan argue they have an interest in promoting the long-term well-being of the companies. The oft-noted problem of short planning horizons and relatively brief tenures at CEO posts and agency assumptions of self-interest are of concern to Larcker and Tayan. And what does pay for performance mean? Chang gives the example of Jill Barad who, when fired in 2000 from Mattel, received $4.2 million in loan forgiveness, $3.3 million to help cover the taxes that would be due, vesting of previously unvested options, a termination payment of $26.4 million, and a retirement plan of at least $700,000 per year. In the looking-glass world of neoliberal economics that beneficence after being fired is what "pay for performance" looks like.

4) This is probably the only myth for which Larcker and Tayan's response can be accepted.

5) According to Larcker and Tayan regulation is ineffective because Sarbanes-Oxley and Dodd-Frank have not resulted in better corporate governance. Looking at the "say on pay" feature of Dodd-Frank, Larcker and Tayan say there is no evidence of improved governance. Given that say on pay is non-binding, that isn't surprising. Both Sarbanes- Oxley and Dodd-Frank are relatively new. Let's look at history. During the period in which Glass-Steagall, a regulation that separated retail from investment banking, was enforced the US did not have a major banking-related crisis. Once that regulation was repealed, a new world of unregulated complex derivatives, CDOs, and CDSs emerged and the US faced its worst financial upheaval since the Great Depression. We could look too at the effect of de-regulation of the Savings and Loan industry which gave rise to a very widespread failure during the 1980s of savings and loan associations and enormous costs borne by the taxpayer. But because shareholders of companies affected by Dodd-Frank may react negatively to the idea of regulation and the stock price might drop, Larcker and Tayan argue that regulation is ineffective.

6) Some firms provide advisory services and make recommendations to shareholders. However, those recommendations "have not been shown to increase shareholder value, correlate with improved operating performance, or predict negative events such as financial restatements, bankruptcies, or class-action lawsuits." Isn't the idea of a free and efficient market based in part on the notion that no one has consistent information to that effect?

7) Sure, let's opt for worst practices and see how they work. Giving Larcker and Tayan some credit, they are arguing against "uniform" best practices or comparative ratings of corporate governance by outside agencies. But despite their criticisms of efforts to rate governance,

they conclude that “a comprehensive and rigorous body of research” on corporate governance exists and should be carefully consulted when governance decisions are being made.

Despite the presence of many long footnotes citing academic journals, this article appears to be written for a professional audience rather than an academic one. These two authors have high stature in the accounting field and even when writing for a non-academic audience, should be expected to show evidence of careful reasoning. If this white paper presents an accurate summary of their work, it also reveals the poverty of the neo-liberal economic model. No historical evidence is provided. Investors are the benchmark for success of social policies; the self-interest of a narrow group overrides the interests of society. No mention is made of the enormous costs of the excessive risk-taking that gave rise to the 2008 financial crisis. Reading this, one would conclude that the “welfare of shareholders and stakeholders” alike would be improved if there were less government regulation, more sympathy for CEOs, and fewer third-party firms giving shareholders advice on how to vote on their proxies. Public Accounting Section members, we have a lot to do!

Public Interest Section Member selected as Distinguished Professor at Murray State

Public Interest Section Member, Dr. L. Murphy Smith, was selected to be the David and Ashley Dill Distinguished Professor of Accounting at Murray State University. He previously served on the faculty at Texas A&M University, the University of Mississippi and Louisiana Tech University. His academic record includes numerous research articles, books and monographs, academic conference presentations and research grants. Smith is in the top one percent of authors by downloaded articles on the Social Sciences Research Network. In addition to being widely published in professional journals, Smith’s work has been cited in various news media, including *Fortune*, *USA Today* and *The Wall Street Journal*. Smith has received numerous recognitions for teaching and research, such as the American Accounting Association Strategic and Emerging Technology Section’s Outstanding Researcher and Outstanding Accounting Educator awards, the Association of Government Accountants Authors Award, and the Outstanding Educator Award from the Texas Society of CPAs. Smith’s extensive research on ethics led to his being asked to provide testimony at a U.S. Congressional Hearing regarding accounting and business ethics.