eaa newsletter

The official newsletter of the European Accounting Association — # 45, Issue 1/2014

Editorial

As usual, this EAA Newsletter begins with a letter written by the President of the EAA, Ann Jorissen. She will tell us about the recent news regarding the EAA. In addition, Begoña Giner, a past EAA President, will tell about her experience as a member of the IFRS Advisory Council. These letters are absolutely worth reading.

This issue of the EAA Newsletter contains a book review of two books - *Behavioral Corporate Finance: Decisions that Create Value* and *Ending the Management Illusion: How to Drive Business Results Using the Principles of Behavioral Finance* - both analysed by Dimitrios Gounopoulos.

'European traditions in accounting' introduces accounting traditions in one of the smallest countries of the EAA; Einar Guðbjartsson will tell us about accounting in Iceland. In addition, several calls for papers remind us that our research community offers several networking channels and events for getting feedback on our research projects.

Last but not least, I would like to remind you about the next EAA congress that will take place in Tallinn in May. The registration for the annual congress and the new Ph.D. Forum is now open. I hope to see you all there in Tallinn!

Yours,

Hanna Silvola

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Highlights

Letter from the president, Ann Jorissen

Dear Colleagues,

In the short period since my last letter (December 2013), many activities have taken place within the different EAA committees and within the EAA. On the first of January 2014 Paul André began his formal term as editor of Accounting in Europe. On behalf of all EAA members I would like to thank Lisa Evans, past-editor of Accounting in Europe for her dedication and valuable contribution to the journal over the past years. I wish Paul André a successful four-year term as editor of Accounting in Europe. In other publications news, Peter Christensen will join the EAA's Publications Committee.

In December 2013 the EAA's Financial Reporting Standards Committee (FRSC) submitted to the IASB their comment letter in response to the discussion paper issued by the IASB on the conceptual framework. The comment letter caught the attention of IASB members, and the Chairman of the IASB Hans Hoogervorst, cited arguments and proposals from the EAA's comment letter in a public speech made on February the 5th 2014 in Tokyo. We sincerely congratulate Peter Walton, the chair of the FRSC and the FRSC members for the development of their inspiring comment letter on the conceptual framework. In the fall of 2013, the IASB asked the EAA whether it could provide an overview of academic research on leasing. We are very grateful to Elisabetta Barone, Soledad Moya and Jacqueline Birt, who volunteered, in response to a call made by the FRSC to all EAA members to produce – within a very short timeframe – an overview of academic research on leasing to inform the IASB's discussion on this subject.

Not only does the EAA's FRSC have contacts with international organizations such as IASB and EFRAG on behalf of the EAA. The two Past-Presidents are also representing the EAA in the international accounting regulatory infrastructure. On the 1st of January 2012 Aileen Pierce assumed the Chair of the Consultative Advisory Group of the IAESB (International Accounting Education Standards Board), one of the four standard setting boards under the auspices of IFAC (International Federation of Accountants). Since the 1st of January 2012 Begona Giner has been a member of the IFRS Advisory Council. In this issue of the newsletter Begona talks about her role within the IFRS Advisory Council and the activities of the IFRS Advisory Council.

In December 2013 many EAA members participated in the election process of their Board representatives. Seven new board members were elected. There have been no changes in the representatives from the Czech Republic, Germany, Slovenia and the United Kingdom, but the representatives from Finland, France and Spain will all provide new faces to the Board. The election process of Board representatives for a number of countries was followed by an invitation to all EAA members to take part in the nomination process for the President-Elect and for the two new members of the Management Committee. Following the Corporate Governance Guidelines, the long lists of nominees must be reduced to one name for the President-Elect, and a shortlist for the Management Committee. Both proposals will be submitted shortly to the Board for approval and later on to the General Assembly of the EAA to be held in Tallinn. I would like to express my gratitude to all the anonymous EAA members who have participated in the election and nomination processes over the past few months.

Since December the Co-chairs of the EAA Doctoral Colloquium have reviewed 106 submissions for the Doctoral Colloquium. The Standing Scientific Committee (SCC), chaired by Aljoša Valentinčič with the help of all scientific committee (SC) members have reviewed the 958 submissions to the EAA's Congress. For the 37th Annual Congress 414 papers have been selected for parallel presentation and 436 papers have been selected for the research forum. Both parallel and research forum presentations offer authors excellent opportunities to discuss their work and receive useful comments and suggestions to improve their papers. Papers scheduled for the research forum are in an earlier stage of development than papers scheduled for parallel presentation. I would like to thank all SC and SSC members who have given their time to analyze the quality of the papers in order to help the SSC make the best decisions and at the same time provide authors with valuable comments. Special thanks go to Aljoša Valentinčič for his excellent leadership in finishing this process in good time as well as to Nicole Coopman for her administrative support of this major logistic exercise around submissions, reviews and communicating responses.

The EAA's Doctoral Colloquium will take place in Tartu before the Annual Congress (17 – 20 May 2014). 36 young researchers can look forward to receiving feedback on their projects from the following distinguished international faculty members: Bill Rees (Co-chair), Keith Robson (Co-chair), Peter Pope, Joachim Gassen, Ann Tamayo, Beatriz Garcia Osma, Catherine Shakespere, Chris Chapman, Sally Widener, Frank Moers, Andrea Mennicken and Martin Messner. We thank the faculty of the Doctoral Colloquium for sharing their time, ideas and research expertise with young researchers.

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Letter from the president (cont'd)

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In addition to the Doctoral Colloquium, a PhD forum is being organized related to the Annual Congress. All PhD students attending the EAA congress in Tallinn can register to attend the PhD forum, which is a half-day event that will take place on the Wednesday morning before the start of the conference in Tallinn. I urge all PhD students to look at the program of the PhD forum on the conference website (www.eaa2014.org/r/PhD_forum) and register to attend the PhD forum.

Toomas Haldma (37th EAA Annual Congress Chair) and his team continue to work very hard on the organization of the upcoming 37th EAA Annual Congress. The SSC with the help of the Local Congress Organizer makes every effort to schedule presentations in a coherent and logical way.

Therefore the 2014 EAA Annual Congress promises interesting papers and symposia, many network opportunities, pleasant social events and the cultural beauty of the historic city of Tallinn. I look forward to meeting as many of you as possible in Tallinn. The website is open for you all to register for our annual conference and the early registration deadline is rapidly approaching. Please take this opportunity to register.

See you in Tallinn,

Ann Jorissen
EAA President

Role of the EAA on the IFRS Council: An Insider´s View

By Begoña Giner, University of Valencia, IFRS Advisory Council Member

Just as I am about to embark on my third year as member of the IFRS Advisory Council representing the EAA, I think is an opportune time to reflect on my own experience serving on the Council. From a personal point of view, it has been nothing short of a remarkable experience. During this time I have had the chance to listen to and discuss the many relevant topics that are on the IASB agenda, as well as suggest a number of other suitable items to include. It has also given me the opportunity to broaden my mind through the views of so many influential individuals that have helped enrich my perspective on accounting itself and in particular on accounting regulation. From the point of view of the Association, this has been a wonderful opportunity to further develop links with the IASB. Although for this purpose the obvious channel remains the EAA FRSC, it is also true that having a representative on the Council undoubtedly facilitates and strengthens the relationship.

At the outset, perhaps it would be helpful to clarify two key questions: What does the IFRS Advisory Council actually do? What is the role of an EAA academic on the Council? The main purpose of this brief note is to provide some insight into these pertinent questions.

The IFRS Advisory Council is the formal advisory body to the IASB and the Trustees of the IFRS Foundation. It provides a forum for participation by organizations and individuals, with an interest in international financial reporting. Members of the Advisory Council are appointed by the Trustees. As stated in the Constitution, the Council's objectives are:

- To give advice to the IASB on agenda decisions and priorities in the IASB's work
- To inform the IASB of the views of the organisations and individuals on the Council on major standard-setting projects and
- To give other advice to the IASB or the Trustees.

Furthermore, the Advisory Council has to be consulted by the IASB in advance of IASB decisions on major projects, and by the Trustees in advance of any proposed changes to the Constitution. All of these objectives appear to be quite relevant, especially given the current role of the IASB as worldwide standard setter.

Although in the past Council members were appointed as individuals, nowadays most Council members are appointed as representatives of organisations with an interest in the work of the IASB. Consequently, the Council is formed by a wide network of stakeholders. As of December 2013, it included 11 preparers, 10 users, 10 auditors, 7 regulators, 7 standard setters and 3 academics; two of the latter represent international associations, the European Accounting Association (EAA) and the International Association for Accounting Education and Research (IAAER), while the third comes from a Chinese institution, the Xiamen National Accounting Institute. Thus, the current number (48) is considerably above the minimum requirement of thirty members as established in the Constitution. Although some argue that Council size should be reduced to make it more efficient, the Trustees have preferred to rebalance it in terms of stakeholder groups and geographical regions to reflect the adoption of IFRS around the world. On the other hand, the turnover of Council members gives constant freshness and new perspectives to discussions. Indeed in my experience, I would not say the size of the Council is in any way a problem. During my time here , discussions have been extremely well-organized, and I have found break-out groups to be an extremely useful way to encourage all of us to participate in a highly reasonable and most efficient manner. Indeed, the role of the Chairman is key in making the whole group work most effectively.

Regarding the Council´s activity, as Paul Cherry, Chairman until 31st December 2013 explains in a recent article[1], there has been a change in the orientation of the Council´s focus from more technical matters to more strategic and cross-cutting ones. The strategic focus includes dealing with a wider view of the financial reporting environment, as well as the broader context of corporate reporting and of developments related to corporate reporting; such as integrated reporting, technological/digital developments and other areas that are likely to affect financial reporting in the future. I concur with Paul, that a proactive Council is essential to the goal of a single set of high quality global financial reporting standards.

The second question relates to the role of the EAA academics on the Council. In response it is useful to refer to the EAA mission statement. Among its other objectives, it sustains: "To aim at the development of relations with all other professional and research-oriented Associations which are active in the field of accounting, as well as with European or international committees and authorities concerned with political decision-making in this field". It is clearly beyond doubt that nowadays the IASB fulfils a major role in the European accounting regulatory world, and following its commitment the EAA is most interested in fostering strong links between both groups.. Although as mentioned above, the EAA FRSC is the normal channel to maintain such a link, this does not preclude pursuing other means.

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Role of the EAA on the IFRS Council (cont'd)

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From a more individual perspective, I would perhaps add several complementary answers. On one hand we, as academics, are key stakeholders with a keen interest and high knowledge in the accounting field. So, perhaps instead we might just as well ask: Why shouldn't we be there? But to be more specific, we might consider the a priori independence of academics. Indeed different stakeholders will have different incentives that are affected by the way transactions are recorded, so in some way their views could be biased towards their own preferences. However, academics do not have such incentives, so in principle we should remain more objective and neutral when analysing the pros and cons of different accounting procedures. Having said that, researchers "may be also biased by their own doctrines, ideas and research findings and that introduces bias in their thought" (Fulbier et al., 2009).

On the other hand, in its Strategic Review the Trustees of the IFRS Foundation have recommended setting up or facilitating the establishment of a research capacity that could be based on a combination of internal and external intellectual resources, including a more active engagement of the academic community. This will allow the IASB to rely on evidence to support its decisions and to persuade those who use IFRS that the IASB has made the right choices between competing solutions when developing standards. Indeed given that academics are the main experts in research activity, it would only seem natural to rely on us to perform this task (Giner, 2014). Bilateral contacts in conferences, workshops and similar events are mechanisms to make the IASB aware of academic research results, but participating in a forum like the Council also makes other Council members aware of such research, which in turn may contribute to reducing the communication gap between us and other stakeholders[2].

In my view there are two areas where our input is particularly valuable for Council discussions, namely accounting fundamentals and effect analysis. Principle-based standards should be strongly based on Conceptual Framework, and no doubt academics have devoted many hours to understanding the core of the current accounting model, as well as other alternatives. So, in this regard I would say we have a competitive advantage over other stakeholders[3]. As for effect analysis, Trombetta et al. (2012) provide an excellent discussion about why and how academic research can be used by standard setters and regulators. Among several characteristics they mention, I would highlight academics' thoroughly rigorous approach. While they argue that this might lead to potential difficulties in getting read and in comprehending academic texts, I can only agree that what is really needed is technical expertise to interpret results carefully; otherwise our results do not achieve the necessary visibility. In my opinion through participation in a forum like the Council academics can only foster and facilitate this task further.

Footnotes:

[1] Available at: http://www.ifrs.org/The-organisation/IFRS-Advisory-Council/Pages/Paul-Cherry-reflects-on-how-the-Advisory-Council-has-evolved-January-2014.aspx

[2] See Abela and Mora (2012) for other proposals to reduce the gap.

[3] The recent response of the EAA FRSC to the IASB Discussion Paper A Review of the Conceptual Framework for Financial Reporting, is an excellent example of this.

References

Abela, M. and Mora, A. (2012) Understanding the consequences of accounting standards in Europe: the role of the EFRAG, Accounting in Europe, 9 (2), 147-170.

Fülbier, R.U., Hitz, J.M. and Shellhorn, T. (2009) Relevance of Academic Research and Researchers´ Role in the IASB´s Financial Reporting Standard Setting, Abacus, 45 (4), 455-492.

Giner, B. (2014) Current state and future challenges of the IFRS: some thoughts, in Accounting and Regulation. New Insights on Governance, Markets and Institutions (di Pietra, McLeay and Ronen eds.), Springer, New York, 399 – 404.

Trombetta, M., Wagenhofer, A. and Wysocki, P. (2012) The Usefulness of Academic Research in Understanding the Effects of Accounting Standards, Accounting in Europe, 9 (2), 127-146.

News on *European Accounting Review*

Forthcoming papers:

Accounting Research in Family Firms: Theoretical and Empirical Challenges, Annalisa Prencipe, Sasson Bar-Yosef, and Henri C. Dekker

Audit Fees in a Joint Audit Setting, Sophie Audousset-Coulier

The role of institutional and economic factors in the strategic use of non-GAAP disclosures to beat earnings benchmarks, Ana Marques and Helena Isidro

Loss Aversion, Audit Risk Judgments and Auditor Liability, Jochen Bigus

Political Connections and Accounting Quality under High Expropriation Risk, George Batta, Heredia Sucre, and Marc Weidenmier

CEO Pay Contracts and IFRS Reconciliations, Georgios Voulgaris, Konstantinos Stathopoulos, and Martin Walker

Upcoming EIASM Events

Here are some of the upcoming EIASM events. For a full list, please visit www.eiasm.org.

MAR 2014 - Manufacturing Accounting Research Conference, June 11-13, 2014, Copenhagen, Denmark

11th Workshop on Accounting and Economics, June 26-27, 2014, Odense, Denmark

4th Workshop on Current Research in Taxation, June 30 - July 1, 2014, Münster, Germany

3rd Eden Doctoral & Young Scholars Seminar on Intangibles, Intellectual Capital & Value Creation, September 15-20, 2014, Ferrara, Italy

10th Interdisciplinary Workshop on Intangibles, Intellectual Capital and Extra-Financial Information, September 18-19, 2014, Ferrara, Italy

5th Workshop on Audit Quality, September 26-27, 2014, Venice, Italy

Eden Doctoral Seminar on Producing and Evaluating Knowledge in Management Accounting, December 13-17, 2014, Brussels, Belgium

9th Conference on New Directions in Management Accounting, December 15-17, 2014, Brussels, Belgium

Upcoming EAA Events:

EAA 30th Doctoral Colloquium in Accounting, May 17-20, 2014, Tartu, Estonia

37th Annual Congress of the European Accounting Association, May 21-23, 2014, Tallinn, Estonia

Call for papers

The 10th Workshop on European Financial Reporting (EUFIN)in collaboration with *Accounting in Europe*

University of Regensburg, Germany, 25-26 September, 2014

BACKGROUND:

We are pleased to announce the 10th workshop on European Financial Reporting, which will take place at the University of Regensburg on 25-26 September 2014. In continuation of the workshop´s tradition the 2014 version will offer parallel sessions that give sufficient room to present and discuss academic research papers. In addition there will be plenary sessions in which keynote speakers from practice and regulatory or standard setting bodies inform on practical implications of current developments in accounting and financial reporting within Europe.

TARGET AUDIENCE:

The workshop offers an opportunity and venue for the meeting of academics and practitioners that are interested in recent developments and research projects regarding financial reporting in Europe, its regulation and harmonization, and its process of change due to international developments. Young academics are especially invited to participate and profit from the fruitful atmosphere of the EUFIN workshops. Topics of the papers may include, but are not restricted to, current accounting, governance and accountability issues with regard of the EU or particular Member States, economic and regulatory issues of international financial reporting and standard setting, auditing and enforcement.

At this ten years jubilee workshop a special focus will be on the future development of business reporting, covering topics like the future conceptual framework of financial reporting and the integration of financial and sustainability reporting (“integrated reporting”).

CALL FOR PAPERS:

Papers are invited on any aspect of financial accounting and corporate reporting in Europe. Practice- and policy-oriented research papers are particularly welcome.

Submission and Review of Papers:

Papers written in English should be submitted electronically no later than 06 June 2014 to Axel Haller, Chair of Financial Accounting and Auditing, University of Regensburg: eufin.bwl@ur.de

Papers will be subject to a blind review process. Authors will be notified of acceptance by **07 July 2014**.

Papers accepted for the workshop may be submitted to *EAA´s journal* **Accounting in Europe** for a fast track review.

INFORMATION

Information about the workshop:

http://www-wiwi.uni-regensburg.de/EUFIN_2014/Home/index.html.en

Information about EUFIN:

http://www.essec-kpmg.net/us/eufin/index.html

Information about Accounting in Europe:

http://www.eaa-online.org/r/default.asp?iId=FGEKJL

Information about the chair of Financial Accounting and Auditing:

http://www-wiwi.uni-regensburg.de/Institute/BWL/Haller/Home/index.html.en

Information about Regensburg:

http://www.regensburg.de/tourismus/Home/3854

Call for papers

6th European Risk Conference

Multiple perspectives on risk management

University of Naples, Naples, Italy, 4-5 September, 2014

We are pleased to announce the 6th European Risk Conference organised by the European Risk Research Network (ERRN) will be held **September 4th - 5th 2014** at the University of Naples "Federico II". The conference theme is "**Multiple perspectives on risk management**".

The conference is targeted at academics and practitioners working in risk and risk management. Conference presenters may choose to have their paper considered for a *British Accounting Review* special issue on "accounting and risk" due for publication in late 2015.

An emerging scholars' colloquium will take place on the afternoon of 5th September. This is open to both doctoral students and early career researchers who are attending the conference and wish to take advantage of the opportunity to discuss their work on a one to one basis with experienced academic researchers. Places are strictly limited so pre-booking is essential.

Submissions, which will be subject to double blind review, may adopt a variety of theoretical approaches and either qualitative or quantitative methodologies. We also welcome empirical studies. Topics for parallel sessions may include, but are not limited to:

- Enterprise Risk Management
- Risk reporting (external and internal)
- The interaction between performance management & risk management
- Risk appetite and risk tolerance
- Organisational risk culture
- Regulation of risk
- Tools (quantitative and qualitative) for risk analysis, assessment and control.

The conference format combines presentations and discussions led by both practitioners and academics. Half a day will be devoted to a Business Forum with leading speakers from the risk management profession, regulation, consultancy, and financial services. There will also be a panel discussion provisionally addressing the issue of whistleblowing and risk: Should companies have a formal policy on whistleblowing? How can companies encourage a culture of speaking out? Are maverick whistle-blowers a risk?

Conference submissions in the form of either an extended abstract (1.000 words) or a full paper should be submitted to s.f.awan@aston.ac.uk with a copy sent to errn2014@unina.it by **April 20th 2014**. Authors will be notified of acceptance by **May 20th, 2014**.

A prize, sponsored by the Institute for Risk Management, will be awarded for the best conference paper.

Further details on conference registration, programme outline, venue, social events, accommodation, will available shortly on:

http://www1.aston.ac.uk/aston-business-school/research/centres/european-risk-research-network/

Call for applications

Doctoral Program in Accounting, Reporting and Taxation

University of Graz, University of Vienna, Vienna University of Economics and Business

Dear Colleagues,

we invite excellent students to apply for our accounting doctoral program DART, starting its next round on October 1, 2014. DART specializes in the area of accounting, reporting, and taxation with a focus on economics-based research, applying quantitative research methods and modeling. It is a cooperation between three major Austrian Universities, located in Graz and in Vienna. The program is fully taught in English and covers all major fields of accounting: **financial accounting, management accounting, auditing, taxation,** and **corporate governance.** DART offers a stimulating learning and research environment and provides financial support to outstanding students from around the world who seek a career in leading academic institutions.

Students admitted to DART enroll with the appropriate formal doctoral program at one of the three participating universities. At the beginning of each program, students attend an intensive set of core courses, such as analytical and empirical methods, applied to accounting, finance, and economics. The required courses also include mathematics and statistics, and economic modeling. Advanced courses are electives that students select depending on their specialization. Research seminars are held by local faculty, comprising leading accounting researchers in Austria, and by international visiting faculty such as Tim Baldenius, Wayne Landsman, Volker Laux, Christian Leuz, Catherine Schrand, Stefan Reichelstein, and Robert Verrecchia. The courses provide students with the necessary knowledge and capabilities to engage in their own research. After the course phase, students enter their thesis-writing phase. They benefit from a strong interaction with the faculty and their thesis advisors. By attending research workshops, they meet internationally renowned scholars presenting their concurrent research projects.

Admitted students receive **funding by scholarships** unless financed by other sources. During their studies, students have the opportunity to visit another university for a research visit, and there are many opportunities for visiting conferences and seminars due to cooperation with other universities and the faculty's network around the world.

Please help us circulate the news at your university among promising students. Applications will be accepted until **March 31, 2014** for the academic year 2014/15.

For details on the doctoral program and scholarships, the application process, the program requirements and pre-requisites, please visit the DART homepage:

http://www.dart.ac.at

If you have questions, please contact us:

Prof. Ralf Ewert (ralf.ewert@uni-graz.at): Auditing, financial accounting, management accounting

Prof. Michael Kopel (michael.kopel@uni-graz.at): Management accounting, corporate governance, organizational economics

Prof. Rainer Niemann (rainer.niemann@uni-graz.at): Tax accounting, international taxation, taxation and incentives

Prof. Thomas Pfeiffer (thomas.pfeiffer@univie.ac.at): Managerial accounting and control

Prof. Alfred Wagenhofer (alfred.wagenhofer@uni-graz.at): Financial accounting, management accounting, international accounting

Administrative issues: dart@uni-graz.at

Many thanks,

Ralf Ewert/Michael Kopel/Rainer Niemann/Thomas Pfeiffer/Alfred Wagenhofer

Call for papers

Special Issue: Simulation in Management Accounting and Management Control

Journal of Management Control

Editors:

Prof. Dr. Friederike Wall, Alpen-Adria-Universität Klagenfurt, Austria

Prof. Dr. Paolo Pellizzari, Università Ca' Foscari Venezia, Italy

This special issue of the Journal for Management Control (JoMaC) focuses on simulation-based research in managerial accounting and management strategic planning and control. In recent years, simulation as a research method has gained attraction, allowing for the analysis of complex and emergent phenomena that incorporate a multitude of interrelated issues which may lead to intractable analytical models and are particularly difficult to control in empirical research. We encourage submission of contributions from the broad fields of managerial accounting and management strategic planning and control, with special emphasis on models demonstrating the potential of simulation-based research and its application to corporate practice.

JoMaC was founded in 1990 and relaunched as an English only journal in 2011. **JoMaC** has a strong reputation as a dedicated academic journal open to high-quality research on all aspects of management control. **JoMaC** is available via Springer Press at more than 7,000 institutions worldwide. The journal has a high download usage and short review and production cycles. Accepted papers are published online first 20 to 25 days after acceptance.

We kindly invite authors to submit their papers for a double blind review process using our electronic review system Editorial Manager. Please feel free to contact us if you have any further questions.

Language: English

Review: Double blind review process

Length: Maximum of 8000 words (without references, tables and figures)

Deadline: October 31, 2014

Application: via Editorial Manager JoMaC web site: https://www.editorialmanager.com/jomac/

Editors for the special issue:

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Call for papers

Special Issue: Risk Management and Business Valuation in M&A Transactions

Journal of Management Control

Editors:

Prof. Dr. Thorsten Knauer, University of Bayreuth, Germany

Prof. Frank Li, Richard Ivey School of Business, London, Canada

Dr. Friedrich Sommer, University of Münster, Germany

Dr. Arnt Wöhrmann, University of Münster, Germany

In recent years, new approaches that are intended to improve the success rates of mergers and acquisitions (M&A) have gained in importance. Many of these approaches are related to risk management and business valuation. Though researchers have discussed a variety of M&A-related aspects, current developments in M&A transactions have been researched insufficiently.

The Journal of Management Control (JoMaC) intends to dedicate a special issue to "Risk Management and Business Valuation in M&A Transactions" and welcomes papers with a wide range of methodological approaches including theoretical, analytical, and/or empirical works. We encourage the submission of contributions from the fields of risk management and business valuation in M&A transactions reflecting the variety of different approaches. We are interested in original papers that could address, but are not limited to, the following:

1. Risk management tools in M&A transactions: How relevant is risk management in M&A transactions? Which risk management tools are common practice (e.g., due diligence review, earn out agreements etc.)? How do these practices substitute or complement each other?

2. Impact of buyer characteristics on risk management practice: How do risk management practices differ between strategic and financial buyers? How do buyer characteristics affect the different risk management tools?

3. Impact of country characteristics on risk management practice: How do risk management practices differ between nations? How do country characteristics affect risk management tools?

4. Impact of risk management on the success of M&A transactions: How does risk management impact the success of M&A transactions? How do specific risk management tools impact the success of M&A transactions?

5. Interdependencies between risk management and business valuation: How do the results of the risk management process impact the business valuation? Which results are particularly important? How does the business valuation affect risk management in M&A transactions?

6. Business valuation in M&A transaction: What is the state of the art of business valuation in M&A transactions? Which methods provide benchmark results?

7. Procedural issues of risk management and business valuation: How are risk management and business valuation elements integrated in M&A processes? To what extent are M&A processes shaped according to the needs of these instruments?

JoMaC was founded in 1990 and relaunched in English language only in 2011. **JoMaC** has a strong reputation as a dedicated academic journal open to high-quality research on all aspects of management control. **JoMaC** is available via its publisher Springer at more than 7,000 institutions worldwide. The journal has a high download usage and short review and production cycles. Accepted papers are published "online first" within about 20 to 25 days after acceptance.

We kindly invite authors to submit their papers for a double-blind review process using our electronic submission system Editorial Manager. Please feel free to contact us if you have any further questions.

Language: English

Review: Double-blind review process

Length: Maximum of 8000 words (without references, tables and figures)

Deadline: January 31, 2015

Application: via Editorial Manager: https://www.editorialmanager.com/jmac/

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Call for research proposals and papers

1st Journal of Information Systems Research Conference *A New World of Information Technology Auditing*

New York City, NY, USA, 26-27 March, 2015

The **Journal of Information Systems (JIS)** will hold the 1st JIS Research Conference (JISC2015) at the offices of the AICPA in New York City, NY on March 26 & 27, 2015. *JIS* is the research journal of the **Accounting Information Systems (AIS) section of the American Accounting Association.**

Sponsors of JISC2015 are the AICPA and CaseWare-IDEA Inc.

Conference Design and Theme

The design of JISC2015 is to provide an opportunity for intense discussion between academics and professionals on research in a targeted area of concern to the broad AIS community. The conference will involve research presentations, round-table discussions, and a keynote presentation; attendance at the conference will be limited to those on the program. Each research paper presentation will have an academic and a professional commentator. Papers presented at JISC2015 will appear in a theme issue of *JIS*, edited by Dr. Diane Janvrin of Iowa State University and Dr. David Wood of Brigham Young University.

The focus of JISC2015 is on Information Technology auditing. Given the increasing importance of technology in all aspects of business and government, IT auditing has become a vital part of internal and external audit. Papers on all aspects of Information Technology auditing are welcome. All research methodologies are welcome, including experimental, qualitative, field study, analytical, behavioral, archival, design science, and empirical.

Paper submission

Final papers should follow the *JIS* editorial policy and be submitted to *JIS* using the AAA's manuscript management system. Full details are available at www.jisonline.com. Papers accepted to JISC2015 also receive a conditional acceptance to *JIS*. Research teams are expected to improve their papers following the guidance from the academic and professional reviewers and from interaction at the conference. Papers not accepted for the conference may continue to receive editorial review by *JIS*.

Financial Support

One author from each accepted paper will receive funding to help defray travel costs to attend the conference (e.g., plane tickets, hotel, etc.). Authors from the USA, Mexico, and Canada will receive $1,000. Authors from other countries will receive $1,500.

The deadlines for JISC15 are:

- December 15, 2014: Research papers due.
- March 26 & 27, 2015: JISC2015

Additional information

The full call for papers is at aaahq.org/calls/JISC2015_call.cfm. Queries can be addressed to jis-editors@aaahq.org.

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Call for papers

Information Security: Implications for Accounting Information Producers, Assurers and Users

Theme Issue of the Journal of Information Systems

In Fall 2015, the *Journal of Information Systems* (JIS), the journal of the Accounting Information Systems Section of the American Accounting Association, will publish a theme issue entitled: "Information Security: Implications for Accounting Information Producers, Assurers and Users." This theme issue of *JIS* seeks high quality, theory based original research to examine security issues as they relate to accounting and AIS. Submissions are encouraged from a broad range of topics, including, but not limited to:

- Access Control, Authentication and Authorization
- Audit and IS Security
- Best Practice, Models and Frameworks
- Data and System Integrity
- Disclosure of Information Security Exposures
- Financial Consequences of Information Security
- IT/IS Governance
- Information Privacy
- Internal Control Design, Assurance and Monitoring
- Metrics for Assessing Information Security
- Risk Evaluation and Security Certification
- Security for Mobile and Cloud Computing
- Strategy and Information Security

All research methods are welcome, including behavioral, case study, design science, experimental, empirical and archival. Submissions should conform to the guidelines for regular submissions at www.jisonline.com. Submissions are due by **October 15, 2014**. Earlier submission is encouraged, and we will require that you conform to a fairly tight time frame in resubmissions. Please clearly state that your submission is for consideration for publication in the theme issue to be published in Fall 2015.

If you have any questions, please contact the co-editors of the theme issue: Akhilesh Chandra, Professor of Accounting and Director of the Institute for Global Business, The University of Akron (email: ac10@uakron.edu) and Carlin Dowling, Associate Professor, The University of Melbourne (email: carlin@unimelb.edu.au) or to the JIS editorial office at jis-editors@aaahq.org.

Follow JIS @jiseditors on Twitter & www.facebook.com/jiseditors on Facebook

Call for papers

12th World Congress of Accounting Educators and Researchers

IAAER and the University of Florence, Florence, Italy, 13-15 November, 2014

IAAER Mission

The mission of the IAAER is to promote excellence in accounting education and research on a worldwide basis and to maximize the contribution of accounting academics to the development and maintenance of high quality, globally recognized standards of accounting practice. IAAER's membership includes individuals and universities representing more than 50 countries as well as approximately 50 of the world's leading accounting academic and professional bodies.

The Conference

The conference is a three day event comprising plenary sessions and concurrent paper sessions which include refereed paper presentations, panel sessions, and a paper forum.

We welcome papers and panels in the following topic areas:

- Financial Accounting Information Systems and Computer
- Auditing
- Auditing and Internal Auditing Ethics in Accounting Education
- Financial Management Corporate Governance
- Taxation Accounting History
- Performance Measurement Public Sector and Nonprofit Accounting
- Management Accounting Sustainability Accounting
- International Accounting Accounting Education and Training
- Integrated Reporting Intangibles and Intellectual Capital
- Reporting Other

Submission of Papers

Manuscripts should be of a sufficient academic standard and should be of interest to accounting educators, researchers, and practitioners. Only completed manuscripts, not abstracts, should be submitted (If a manuscript is accepted, there will be an opportunity to submit a revised abstract which must be received by 15th September 2014.)

1. Manuscripts must be written in English and must not have been published or accepted for publication elsewhere at the time of submission. Manuscripts must be typed double-spaced and use a 12 point easily legible font (e.g., Times New Roman), and all margins should be at least 2.5 cm. or 1". Manuscripts must include an abstract of no more than 400 words and up to five keywords. Manuscripts should be of journal-article length.

2. All manuscripts should be submitted through the congress Web site (www.oic.it/iaaer2014) by **1st March 2014**. You should follow carefully the instructions on the Web site. All manuscripts will be reviewed anonymously by the Scientific Committee.

3. When you submit your manuscript, please indicate your research subject from the list on the Web site.

4. If you would like to have your submitted manuscript considered for "Fast Track" publication in one of the IAAER's official journals, "Journal of International Financial Management & Accounting" (JIFMA) or "Accounting Education: An International Journal" (AE), or in "Financial Reporting" (FR), an academic journal affiliated with the host University, in addition to submitting it to the Congress via the Web site, you should also e-mail the paper to the appropriate editor as follows:

- To have your submitted manuscript considered for publication in JIFMA, you should e-mail your submission to Elizabeth Gordon (egordon@temple.edu);

- To have your submitted manuscript considered for publication in a special issue of AE, you should e-mail your submission to the guest editors of the special issue: Greg Stoner (greg.stoner@glasgow.ac.uk) and Themin Suwardy (tsuwardy@smu.edu.sg). Your manuscript should follow the journal's Notes for Contributors (see http://www.tandfonline.com/action/authorSubmission?journalCode=raed);

- To have your submitted manuscript considered for publication in FR, you should e-mail your submission to the Editor, Prof. Alberto Quagli (quaglia@economia.unige.it). Your manuscript should follow the journal's instructions for the authors (see http://www.francoangeli.it/riviste/NR/Frnorme_EN.pdf).

5. You will receive a confirmation on the website at the end of the submission procedure; a help desk will be available for the whole length of the submission period.

6. Notice of acceptance for presentation will be sent out by **25th April 2014** for all papers submitted by the **1st March 2014** deadline. All accepted manuscripts are assigned either an oral or paper forum presentation at the discretion of the Scientific Committee. Do not submit a paper if you do not intend to present it at the Congress yourself. Once programmed, paper presentation times and locations cannot be changed.

Submission of Panel Proposals

Panel suggestions should be sent by e-mail directly to both co-chairs of the Scientific Committee listed below. They should include a panel title, brief description of the academic or professional content of the panel, and a listing of panel members.

Co-Chairs – Scientific Committee:

Gary Sundem glsundem@uw.edu

Stefano Zambon stefano.zambon@unife.it

European traditions in accounting

Accounting in Iceland

Einar Guðbjartsson

Iceland in the North Atlantic Ocean

Iceland is one of the Nordic countries, and it is the smallest. The size of the country is around 103.000 km2 and the population is about 320.000. That makes Iceland the most rural location in the world, about three inhabits pr. m2. Iceland was a part of Denmark until June 1944. Danish influence in administration and law making have always been great. As the time passed, the independence began to manifest in Icelandic regulation and law making environment, but the recent years EU have impact the law making, specially in accounting via IFRS.

The Accounting Act Development 1938-2013

The early years

In 1938 was for the first law passed by Parliament which specifically dealt with accounting, Act No. 62/1938 on bookkeeping. The Act focused mostly on two things, firstly, classifying firms regarding mandatory to keep accounting records, secondly, how to do the bookkeeping. In articles 10 to 12 it is mentioned who to prepare the balance sheet and all assets which have been pledged or any warranties to third person shall be disclosed. This law was enacted by The King Christian X of Denmark.

In the next thirty years there were no major changes in the accounting legislation. It was not until 1968 that a new accounting law was adopted by the Parliament (Alþingi), Act No. 51/1968. In the Act, it was stated for the first time, in details, how accounts should be prepared and the structure of the annual accounts and which issues should be accounted for in the balance sheet and the profit and loss account. The Cash flow statement was not mentioned in the Act.

Many new issues were observed but the eight main issues in the Act were as following: 1. Requirement to keep accounts. 2. Exemptions from the use of double-entry accounting listed. 3. The term generally accepted accounting principles applied. 4. Process for doing accounting defined. 5. Documentation in bookkeeping applied. 6. Valuation of inventories. 7. New provisions for the preparation of annual accounts (financial statements) and valuation. 8. The Minister may, by a government regulation, establish further provisions regarding the enforcement of this Act, and decide that industries should have a standardized accounting system.

The concept "generally accepted accounting principle" was introduced in the law for the first time in the Accounting Act No. 51/1968. In comments under Article 4., in the law bill, it is stated that the concept implies in particular that "... accounts are kept and annual accounts are prepared in accordance with the views, that are at any given time generally dominated by skilled and conscientious people, working with bookkeeping and accounting." The term "conscientious people" is noteworthy as it refers to the people that shape the generally accepted accounting principles.

During the high inflation period of the 1970s and 1980s, the using of the cost method of accounting, to value properties in the annual accounts, became subject to criticism. Unlike the assets, the debt became more inflation-indexed and therefore revalued at every balance sheet date. As a result of that, shareholders equity dropped. Therefore, it was considered necessary to revaluate assets for inflation. This was the first step toward inflation-adjusted accounting.

New Annual Accounts Act, No. 144/1994

In 1994 a new law on Annual Accounts was passed, Act. No. 144/1994. This new Act had a huge impact on the accounting environment. This was the first time that provisions on preparation and presentation of annual accounts was placed in one single act. Before it was to be found in several different laws. The provisions of the Act No. 144/1994 were largely based on the “Nordic model”. The agreement with the European Union regarding European Economic Area (EEA) was signed by Iceland in 1994. Many new provisions were introduced in this Act which had a huge impact on the accounting environment in Iceland:

1. In chapter IX the Accounting Standards Board is mentioned for the first time. The main task of the Accounting Standards Board is to promote and develop the generally accepted accounting principles. This is a change from the provisions in Act No. 51/1968, when individual professionals did develop the generally accepted accounting principle.

2. In chapter VI the concept "consolidated accounts" is mentioned for the first time. It mainly deals with internal transactions and how shares in associated companies should be accounted for.

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Accounting tradition in Iceland (cont'd)

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3. Chapter VIII deals with the obligation of companies to elect an external auditor at the annual general meeting. The chapter also contains general requirements concerning size limits, sales, assets and equity, which have impact on the duty to elect an auditor.

4. In Chapter V, the content of the director´s report is discussed. The Act specifies what information should be included in the director´s report, e.g. it must be disclosed who owns more than 10% share in the company.

5. Emphasis was placed on the high relevance of the disclosures of the annual accounts.

6. The valuation rules were detailed and many accounting terms were adjusted to international standards, i.e. revenue recognition, the matching principle and inventories valuation methods.

7. The impact of inflation is taken into account as "inflation-adjusted accounts", i.e. the assets, liabilities and operations were adjusted to inflation. Under Article 25, it was permitted to adjust the annual accounts by taking into account the impact of general price level changes on operations and financial position of the companies. By using the permission, the company was required to establish a revaluation reserve within the equity accounts, that were used to offset the inflation adjustments. Almost all loans were inflation-indexed which had a negative impact on the principal balance of the loans. These circumstances led to discrepancies between non-indexed assets and indexed liabilities. The Inflation rate was calculated on a monthly basis. Inflation-adjusted accounting was intended to correct the difference in valuation of assets and liabilities arising from the inflation.

Effects on the profit and loss

In manufacturing companies where the debts/loans were inflation-indexed, a gain was generated in order to reduce the financial expenses impact of indexation due to inflation. In financial institutions where the loans/advances were mostly inflation-indexed, expenses were generated to offset the (inflation) gain. The price adjustments transaction is recognized as financial income or expenses. The accounts were adjusted to the price level. Profit or loss was shown at real value, i.e. after inflation had been taken into account.

From 1995 and on

An amendment was made to the Annual Accounts Act, no. 144/1994, in 1995, which imposed new sanctions and procedures for reporting of financial fraud and for those parties who neglect to take measures to prevent that wrong information, financial or non-financial, enter the market.

In context with the EEA Agreement, new amendments to the annual accounts were adopted in 2001 and a new surveillance authority was established, The Register of Annual Accounts, to keep a register of all companies that have to prepare annual accounts according to law. The new amendments make it mandatory for all companies to submit their annual accounts (financial statements) to the Register of Annual Accounts.

In Iceland, the Icelandic krona is used as the functional currency, but with changes to the law on the annual accounts, the accounting law and the law on income tax it was permitted to present annual accounts in other currency than the Icelandic krona, i.e. the real functional currency. The presentation currency can be other than the Icelandic krona. This required a special authorization from the Register of Annual Accounts. It is a possible to choose between three languages, regardless of currency, i.e. Icelandic, Danish or English. Nonetheless, companies that wish to register their accounts in foreign currency are required to register their accounts in Icelandic currency for tax purposes. Assessment of public expenditure shall be in Icelandic currency as well as the payment of fees and taxes.

Inflation–adjusted accounting was abolished by an amendment to the Annual Accounts Act in 2001. Companies were given a two-year transition period from beginning of 2002 to the end of 2003 to amend their accounts in accordance with the new rules. They were also allowed to take into account price changes in preparation of the accounts, without justifying the continued use of the method. During the transition period "three sets of" annual accounts were prepared, first, with price adjustments and second, without price adjustments and thirdly, big international companies used IASB/IAS standards.

Many major accounting topics were added to the Act, in 2003, such as, a true and fair view, consolidated accounting, explanations on impairment test. Companies were now required to prepare consolidated financial statements. Two methods were allowed for the preparation of consolidated accounts; the purchase method of accounting or the pooling-of-interests method of accounting. It may be noted that FASB agreed two years earlier, in July 2001, to prohibit the use of the pooling-of-interests method of accounting for preparation of consolidated accounts.

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Accounting tradition in Iceland (cont'd)

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On 1st of January 2005 a law was passed by the EU that all companies with listed securities, shares or bonds on the open market should use the IASB/IFRS accounting standards in the preparation and presentation of their annual accounts. In 2004, all international accounting standards were translated into Icelandic. This had a huge impact on the accounting environment, as many Icelandic companies changed their accounting policies with the adoption and implementation of IAS/IFRS.

At the beginning of 2006, a new comprehensive law on Annual Accounts was introduced in Iceland, Act No. 3/2006. The new law contain the additions to the former Act that occurred between 1994 - 2005. Various changes have taken place since then, as described before.

In 2008, special provisions on audit committees were adopted in Icelandic law. Companies, defined as a public interest entities shall (are obligated to) have an audit committee. The Audit Committee's role is discussed in this new law. Among other things, the audit committee shall assess the independence of the auditor or auditing firm and recommend to the board of directors on the choice of auditor or auditing firm.

Accounting and education

The International Financial Reporting Standards (IFRS) was adopted in Iceland on 1 January 2005 and the largest companies in the country and international companies have prepared there annual accounts according to IFRS. The Register of Annual Accounts grants permission and keep record of companies that prepare their accounts under IFRS. It also monitors the preparation and presentation of the annual accounts and compliance with IFRS. Some industries do not use IFRS, among them are municipalities and pension funds.

The Accounting Standards Board was established in 1992. Until then, a special committee on accounting procedure operated within the national Association of Certified Accountants. The role of the Accounting Standards Board includes promoting the formulation of accounting principles, cf. the Annual Accounts Act.

The Public Auditors Oversight Board was established in 2008. It's role is to monitor compliance in the work by auditors and audit firms with the provisions of Act No. 79/2008 on Auditors, the Code of Ethics of the Institute of State Authorised Public Accountants and other rules that apply to the work of auditors. In Article 15, of the Act, a special emphasis is put on the following five issues:

1. Auditors meet the conditions for certification.
2. Auditors meet the requirements relating to continuous education.
3. The professional activities of auditors and audit firms are subjected to regular quality control.
4. A Code of Ethics and auditing standards are in place.
5. Auditors take in account provisions of law on money laundering and financing of terrorists.

Until 2006 it was not required for an individual to hold a master's degree in order to become state authorized public accountant in Iceland. It was sufficient to hold a bachelor's degree, with specialising in accounting, or equivalent undergraduate degree. In 2006 a change occurred, in order to become a student and an employee of an audit firm, a master degree in accounting and auditing from a university is required. According to the law, the Audit Oversight Board has to approve the content of the master's program.

To be licensed as a State Authorized Public Accountant an individual must have three years relevant work experience and have passed a comprehensive examination conducted by the Audit Oversight Board. The examinations are held once every year. So far only 25% of the participants have passed the exam (met the minimum requirements).

Einar Guðbjartsson is an Associate Professor of Accounting and Audit, at The School of Business at the University of Iceland.

Have you read?

Hersh Shefin: *Behavioral Corporate Finance: Decisions that Create Value (2007) & Ending the Management Illusion: How to Drive Business Results Using the Principles of Behavioral Finance (2008)*

Reviewed by Dimitrios Gounopoulos, School of Business, University of Sussex

Publisher: *Behavioral Corporate Finance: Decisions that Create Value,* New York, NY: McGraw Hill, 2007, 201 pages. ISBN 13: 978-0-07-284865-6.

Ending the Management Illusion: How to Drive Business Results Using the Principles of Behavioral Finance, New York, NY: McGraw Hill, 2008, 327 pages. ISBN 13: 978-0-07-149473-1.

BIO Hersh Shefrin

Hersh Shefrin (PhD LSE), the single author of the books, is a pioneer of Behavioral Finance who holds the Mario L. Belotti Chair in the Department of Finance at the Leavey School of Business at Santa Clara University, being a Professor of Finance since 1979. Shefrin's scholarly articles have been published in all top finance journals, including: the Journal of Finance the Journal of Financial Economics, the Review of Financial Studies etc. In the 1970s and 1980s Professor Shefrin with Richard Thaler were the first to propose a psychological and neurological based theory of self-control. In 1985, they introduced the concept of "the disposition effect" into the behavioral finance literature, and coined the term. Apart from being a world class researcher, Shefrin has written a number of influential books on behavioral finance and its applications to corporate finance and corporate culture. He is one of the first economists to incorporated ideas from psychologists like Amos Tvetsky and Daniel Kahneman into working theories.

Review

Studies in behavioral corporate finance replace the traditional rationality assumptions with behavioral foundations that are more evidence-driven. The field is no longer a purely academic pursuit, as behavioral corporate finance is increasingly the basis of discussions in mainstream textbooks. There is no doubt that study on the influence of psychology on the behaviour of financial practitioners and the subsequent effect on markets have become increasingly important part of doing business and making investing and lending decisions, not only in the U.S., but also throughout the world. The 2013 Nobel Prize Laureate, Robert Shiller notes that, behavioral principles as, prospect theory, cognitive dissonance, mental compartments, overconfidence, over- and under-reaction, culture, social contagion and global culture, have attracted the attention of academics and practitioners at international level.

'*Behavioral Corporate Finance: Decision to Create Value*' and '*Ending the Management Illusion: How to Drive Business Results Using the Principles of Behavioral Finance*' both by Hersh Shefrin, provides an exceptionally well-written overview on psychological factors that affect business decisions and illustrates how these factors can adversely impact the financial health of businesses. Although the books are written so that practitioners, students, instructors, and researchers will find it very useful, the books use numerous examples derived from the experience of well known companies. I believe that some of the ideas in the books can be extended providing advice on how to avoid the problems these factors may cause.

Shefrin's books are very informative and easy to read. They are written in a way that won't bore you at all. I have read several books about behavioral finance in the past but I found out they're either too long or boring which made me lose interest in the first chapter. Though, with Shefrin's books, it didn't happen as they are well-written and very interesting. The examples, given to illustrate the points were quite interesting and simple to understand. I very much enjoyed reading about behavioral finance and the biases that managers, investors and financial analysts have when making their decisions. I highly recommend both books for people who want to know more about behavioral finance.

Behavioral Corporate Finance (henceforth BCF) is the first book to analyze the impact of behavioral phenomena on corporate finance. The book identifies the key behavioral concepts associated with every major topic in corporate finance: capital budgeting, capital structure, valuation, dividend policy, corporate governance, and mergers and acquisitions. It identifies the key psychological obstacles to value maximizing behavior along with steps that managers can take to mitigate the effects of these obstacles. It begins by defining major biases such as overconfidence and excessive optimism. Successful companies are especially prone to these biases since past accomplishments can give a manager the illusion of having great control over a situation as well as unrealistically high expectations for favourable outcomes.

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Have you read? Behavioral Corporate Finance(cont'd)

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Managers who experience past success believe their abilities to be greater than they really are susceptible to hubris (Roll, 1986) i.e. arrogance and pride. These attributes also lead to a higher likelihood of overestimating rates of return, leading to overstate sales forecasts and understate budgeted costs.

Chapters in BCF follow a set format and each is devoted to a traditional topic. Chapter 1 introduces the concept of excessive optimism. Chapter 2 describes how excessive optimism affects valuation. Chapter 3 describes how excessive optimism affects capital budgeting. Chapter 4 discusses the correlation of risk and return. Traditional finance theory holds that a risky stock generates a higher return because an investor requires higher compensation for accepting risk. Representativeness affects an investors perception of the correlation of risk and return because the average investor sees a less risky stock a 'better' stock'. Shefrin defines 'better' as a stock with a higher return. He illustrates his point with a comparison of Intel and Unisys in a very interesting survey's that can be read in the book.

Individuals tend to think of the business world as an objective, educated monument to common sense, rational decision making process, control and logic. There is a common belief that the knowledge we acquire in institutions of higher learning can help us navigate our companies to even higher levels of achievement. On this Shefrin eloquently teaches us, this is not always the case, and ironically it seems much worse in firms that have attained greatness in the past. The book is highly recommended to help us recognise the behavioral pitfalls to which we are all vulnerable and to take the appropriate measures, which Shefrin provides in each chapter to mitigate the effects of these pitfalls and this minimises the damaging results of poor decision making and creates value and profit for the firm.

Professor Shefrin published in 2008 his book '*Ending the Management Illusion: How to Drive Business Results Using the Principles of Behavioral Finance'*. On this he explains the behavioral traps and biases which typically ensnare managers, and describes how companies can develop a culture of debiasing. Readers will find that the companies identified in the book having strong cultures have generally performed well, while companies identified having weak cultures have generally not. I encourage colleagues and practitioners to read how the book described the cultures of Citigroup, Ford, BP, and Southwest Airlines.

The book is written on such a way so anyone interested in the topic can read it, especially in times such as these of economic uncertainty. Through real world examples, the book enlightens the reader into the mindset of the psychologically smart enterprise. The author discusses four dimensions which businesses should look at when evaluating decisions, including communication (areas which other finance books will be lacking) and compensation. The discussions expose the reader to the types of decision traps one might fall into if going with gut instinct instead of managing by numbers.

'*Ending the Management Illusion'* proposes a series of practical steps that organization can take to address psychological excess. These steps involve the use of behavioral finance and the application of psychology to financial decisions. Shefrin suggests that organizations can use behavioral finance to make themselves psychologically smart. The starting point for this process is to face up to a major management illusion. That illusion is the belief that organizations can ignore psychological obstacles to effective decision making, and yet succeed in the long-run without being lucky.

Reading the chapters carefully we learn that psychologically smart companies have the advantage to manage both the plus and minus of human psychology through well-structured systems and processes. It is interesting to know that people who work in psychologically smart companies are financial literally, engage in planning, are motivated to create as much value as possible, share important information with each other, understand unrealistic optimism and overconfidence. The leaders of those firms understand the effort that comes when rewards are based on company performance relative to plans. Shefrin extensively explores the biases that can take an organization off course and shows how to run those kinds of smart businesses.

Among the messages that Shefrin wants to convey to readers is that '*Mistakes can be very expensive*' in the behavioral context. The dot com boom and bust of the 1990s and early 2000s were largely due to unrealistic optimism and overconfidence. The acquisition by AOL of Time-Warner has come to be regarded as one of the worst in history, and it destroyed about $200 billion in shareholder value. in July 2006 on the television program Charlie Rose, AOLs and co-founder Steve Case apologised for having made the acquisition, saying *'I am sorry I did it'*.

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Have you read? Behavioral Corporate Finance(cont'd)

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A more prominent behaviour mistake has taken place as an *'aversion to sure loss'* by US President Lindon Johnson in connection with his handling of the Vietnam War during the 1960s. Even the American Military had advised President Johnson that the Vietnam War was not winnable and that the US should reduce its commitments to that war, the President could not accept the associated sure loss and instead escalated US commitment by increasing the size of the US force.

A notable *self-serving behavior* took place in the United Kingdom by a Turkish Cypriot businessman, Asil Nadir, in the eminent Polly Peck Scandal. Everything started in 1980s when Restro Investments, a company controlled by Mr Nadir, bought 58% of the company for £270,000. Nadir took over as Chief Executive on 7 July 1980. On 8 July 1980 Polly Peck launched a Rights Issue to raise £1.5m of NEW capital for investments abroad. In 1982 Nadir began the early ventures. In less than ten years, under this growth-by-acquisition strategy, Polly Peck's market capitalization went from only £300,000 to £1.7 billion at its peak. With pre-tax profits of £161.4 million, net assets of £845 million and 17,227 employees, the Polly Peck group was one of Britain's top one hundred quoted companies. During 1988 Polly Peck made 24 separate payments to its subsidiaries in Turkey and northern Cyprus, totaling some £58m. The following year Polly Peck paid out £141m in 64 different deals. In 1990, Polly Peck's board became so worried about the money transferred into Northern Cyprus that it confronted Mr Nadir and asked him to return it. He refused. The Regulators found that some of Polly Peck's assets had been secretly registered in Mr Nadir's name. On 20 September 1990, the Serious Fraud Office (SFO) raided South Audley Management, the company that controlled the Nadir family interests. The raid triggered a run on Polly Peck shares with the price practically in free fall.

Behind exploring two very interesting books, an experienced and deep thinking reader can identify on Shefrin's excellent work research opportunities. We are well aware that behind all the accounting scandals and frauds we meet arrogance, excessive optimism, overconfidence, biases etc. Those issues have been under explored by accounting researchers and an effort should be made in the future to address those behaviours in terms of auditors, analysts and management actions. Topics that can be researched include earnings quality and auditors' behavior, effects of regulations on institutional investors trading behavior, accounting rules and risk management behavior, changes in disclosure behaviour and shareholders litigation, managers reporting behavior and financial analysts, etc.

Notwithstanding the shortcomings noted at the outset of this review, those two books makes important contribution to the international behavioural finance literature by teaching us how to build organizations that are psychologically smart and how to structure organizational cultures that foster sensible approaches to risk-taking.

References

Roll, R. (1986). The hubris hypothesis of corporate takeovers. *Journal of Business*, Vol. 59, pp. 97-216.

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Pictures in this issue: Hanna Silvola (p. 1), Ann Jorissen (p. 2), European Accounting Association (p. 6), Einar Guðbjartsson (p. 15).