

# “Never Waste a Crisis”

Salvador Carmona

IE Business School

Editor. *European Accounting Review*

# Previous Crisis

- The South Sea Bubble of 1720.
- The Panic of 1907.
- The Great Depression of 1929.
- The Latam financial crisis of the 1980s.
- The Japan's lost decade of the 1990s.
- The Swedish banking crash of the late 1990s.
- The Dot.com Bubble.

# The Great Depression: Lessons Learnt



- Emergence of the modern multidivisional firm amid widespread implementation of communication and transportation technologies.
- Management of economies of scale to cope with downward demand.
- “Managerial capitalism”: management balancing the interests of diverse groups of stakeholders (Chandler, 1977).
- Rising prominence of labour unions.

# G20 Summit Declaration



November 15, 2008

1. We, the Leaders of the Group of Twenty, ...
2. Over the past months our countries have taken urgent and exceptional measures to support the global economy and stabilize financial markets. These efforts must continue. At the same time, we must lay the foundation for reform to help to ensure that a global crisis, such as this one, does not happen again. **Our work will be guided by a shared belief that market principles, open trade and investment regimes, and effectively regulated financial markets foster the dynamism, innovation, and entrepreneurship that are essential for economic growth, employment, and poverty reduction.**

# Innovation and Entrepreneurship (1)

Special Section. *European Accounting Review*. Vol. 18. No. 2

- Davila, Foster & Oyon (2009): Innovation is associated with taking advantage of unexpected opportunities and uncertain outputs.
- What is the role of control systems in processes of innovation and entrepreneurship? The implicit assumption that control was unsuited for managing volatile environments steered research away from innovation and entrepreneurship.
- “Semi-confusing” information systems (Hedberg & Jönsson, 1978) and levers of control model (Simons, 1995)

# Innovation and Entrepreneurship (2)

- In addition to economics/functionalism , these investigations draw on the insights of psychology, sociology, strategy, and organizational theory.
- The underpinnings of the adoption of management practices and the adoption of external accounting resources (Cassar and Ittner, 2009).
- Firms' size and innovation processes: from clan control to the implementation of formal systems of control.

# Innovation and Entrepreneurship (3)



- Reaganomics: the government is not the solution but a problem.
- The government as partner: the interaction between external factors such as government policies directed to stimulate entrepreneurship and innovation and the control mechanisms used in these firms to adapt to external factors.
- Further research: how control affect company valuation, survivorship or future profits? And, how is performance measured when success can only be measured several years into the future?

# Crisis, Growth and Sustainability



- World Business Summit on Climate Change, [24-26 May 2009](#), Copenhagen. Issues on the agenda include:
  - Rapid deployment of clean technologies.
  - Leverage private capital in financing clean energy.
  - Promote investment in energy efficiency.
  - Protect the world's carbon sinks.
  - Make global carbon markets work.
  - Secure the ability to adapt to the effects of climate change in the most affected regions.
- Are firms' social and environmental concerns contingent on booming periods?



## Crisis, Growth and Sustainability (2)

- Special Section. *European Accounting Review*. Accounting for the Market of Emissions. Vol. 4, 2008.
- Bebbington & Larrinaga (2008: 698): Creating markets on which carbon may be traded is one manifestation of the policy response to Global Climate Change (GCC), but one that has a direct and immediate impact on corporations (if they are included as part of that market).
- In the EU companies receive free allowances annually to emit one tonne of carbon dioxide equivalents during a calendar year basis.

# Crisis, Growth and Sustainability (3,



- "Carbon markets create a muddle" and "... leave much room for unverifiable manipulation" (FT, 2007; Hopwood, 2009).
- Accounting and reporting should move beyond the conventional accounting toolbox to reflect risks associated with GCC to assist decision makers to understand the possible effects of GCC on corporate performance and prospects (e.g., mismatches).
- Further research should examine the interplay between how organisations tackle carbon emissions and how their carbon position and carbon management is disclosed.

# Business Opportunities under the Downturn: Riding the Bubble

- South Sea Bubble: Data on the daily trading behavior of a goldsmith bank –Hoare’s– reveals a profit of over £ 28,000 a great deal of money at the time (Temin & Voth, 2001).
- In a context where:
  - London ponders its future as financial powerhouse (NYT, April 29-2009).
  - Firms at Wall Street reported 20% layoffs in 2008.
  - Broadpoint, a Manhattan firm, hired +240 people since Autumn 2007.

# The Accounting Profession: Education and Human Capital



- Philippon and Reshef (2009): financial jobs were relatively skill intensive, complex and highly paid until the 1930s and after the 1980s.
- Investigation on the role of the profession in the outbreak of crisis. Human capital issues (Carrera et al, 2008).
- Research in accounting education: “second-tier” area in accounting research.
- Wasn't the economic downturn our fault, too?

# Concluding Remarks:



“Never waste ... ”

- *European Accounting Review* is a generalist journal in terms of research paradigms and methodologies.
- The economic downturn provides a wealth of research opportunities:
  - Fair value accounting (Ryan, 2008).
  - Innovation and entrepreneurship (EAR, 2009).
  - CSR and sustainability (EAR, 2008; AOS, 2009).
  - Historical approach.
  - Business opportunities under the crisis.
  - Accounting profession and education.