Department of
Accounting

LSE ACCOUNTING 10

MAGAZINE OF THE DEPARTMENT OF ACCOUNTING AT LSE 2018/19

LSE ACCOUNTING 10

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LSE Department of Accounting

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WIM A VAN DER STEDE

ACCOUNTING MATTERS

In the past year, accounting kept mattering in the usual substantive way we care for it in the Department of Accounting. It is well known that our approach to research, education, and public engagement builds on the faculty's expertise across multiple areas and disciplines, where everything we do in accounting at LSE is research-led and social science-based with an intended impact on regulation, practice, or the profession.

The contents of this magazine offer a selection of the cutting-edge research on pertinent issues that colleagues in the department conduct, including on the real effects of accounting policy on firm's R&D investments (p.10); the nature and effects of disclosure in crowdfunding (p.14); and "integrated" risk management practices (p.16), just to offer a glimpse. The Academic Highlights (p.26) list a larger number of some of the recent research publications in the department along with several other activities the faculty partake in, including a wide variety of presentations and other ways of knowledge exchange with academic and professional audiences. And, our extensive departmental seminar series (p.20) reveal a wealth of inbound engagement from visitors sharing their latest research with us. Faculty from across the department are also involved in the activities of **carr**–our research centre (p.18)–to sustain and develop the accounting content that critically underpins carr's unique focus on regulation from an interdisciplinary outlook (a taste of which is illustrated in the "vulnerability" article on p.12).

But, this year, I wanted to especially single out the other pillar beyond, but equally fundamental to, the research and knowledge exchange mentioned above: students. As you will see from these pages, our students at all levels–BSc (p.8, p.22), MSc (p.23-25), and PhD (p.4-5)–have done us proud by so selflessly taking ownership of their student societies and by supporting one another, and the department, with creatively and professionally taking on a wide variety of initiatives. Just to mention one of these, please check out the entirely student-led **Act.Count.Think** podcasts on some of the most pressing matters in accounting, finance, and business (p.2).

Of course, our two (relatively) newly-appointed programme directors also have made an enormous difference to the student experience which encompasses not only the excellence of the classroom teaching but, importantly, also the community–the glue–that makes the department the professional home for our students, faculty, and wonderful professional services staff (p.29). The programme directors play a pivotal role in this. One of our programme directors gives his perspective (p.6) on what this role entails, the various initiatives tried (and some tested)–e.g., the Insights speaker series and various extra-curricular activities, as well as some reflections going forward.

Also on the student front, for our BSc students, the department introduced so-called Leadership Lunches, where third-year BSc students have a small-group lunch with a senior member of the faculty (p.3). Students really appreciate this, but what they don't always realise is that the faculty immensely enjoy these informal get-togethers with our students over a lunch, too! Maybe there is such a thing as a "free lunch" after all?

I hope you will enjoy reading this latest edition of the Accounting magazine. We will keep you posted. Reciprocally, never hesitate to reach out to us in the meantime.

Wim A Van der Stede
Head of Department of Accounting

ACT. COUNT. THINK STUDENT PODCAST

FOR THE STUDENTS, BY THE STUDENTS. ACT.COUNT.THINK SERVES AS A PLATFORM FOR PROFESSIONALS AND SCHOLARS TO SHARE THEIR INSIGHTS WITH THE MOST PRESSING MATTERS IN BUSINESS AND FINANCE.

SPEAKING TO FOUNDER AND PODCAST INTERVIEWER, MSc ACCOUNTING AND FINANCE STUDENT DANYAL ADNAN, HEAR HOW HE STARTED THE PODCAST AND WHAT THE FUTURE HOLDS OF THE SERIES.

How did you come about the Act.Count. Think podcast?

While trying to find podcasts run by LSE, I noticed that there is no podcast themed around business and finance. Furthermore, there was no student-led podcast at LSE as all of the podcasts are run by the communications division. I felt that a student-led podcast themed around business and finance would be able to capture the interest of students of these subjects while also enhancing their learning experience at LSE. I approached the Department of Accounting with this idea and it was received very well. Turning **Act.Count.Think** from an idea to an LSE podcast which anyone can subscribe to on iTunes took a lot of time and hard work, and I was lucky to have the support of the Department of Accounting as well as my team of marketing and research associates, all of whom played an important role to get us established.

Who is part of the team?

Out team started off with me and Anooshka Chaudhary, our Marketing person. Anooshka has been instrumental in us reaching a wide audience on social media and among the LSE student body. As the podcast started to grow, we worked hard to expand the types of content we were offering to our audiences, in order to transform LSE **Act.Count.Think** from a podcast into a platform for supplementary learning for LSE students. With this vision, we started an eponymous blog series in which LSE students are invited to share their views on everything from bankruptcy laws to blockchain technology, and this effort was driven by our Research Director Nooran Khan. The blog attracted students from across the university to participate, and this has led to a very diverse range of topics and views being expressed through our platform, which was our goal from the start.

It's great to hear you have such a diverse group from various School departments in the team, was this deliberate?

Indeed. Topics in business and finance consist of concepts that span numerous departments at LSE. Businesses are affected by many internal and external factors, including economic policy, accounting standards, management practices, etc. This already spans across three departments at LSE. It is impossible to have a discussion on business and finance without appreciating the diverse nature of factors that effect businesses and the financial markets, and this is why it was necessary to have a diverse set of team members, so that we could ensure that we invite the right people to interview and ask them the right questions.

How do you determine who to approach to be interviewed?

We have two main criteria for approaching someone to interview. First, they should have ample expertise and insight into the topic of discussion, and second (and more importantly), they should be able to generate interest from the LSE student body. We also rely on suggestions from fellow LSE students as well as our professors about the topics we should discuss and the people we should seek out to interview.

So far you have produced six episodes? Which interviewee or subject matter has intrigued you the most?

That's a hard one to answer! We had participants from a range of professional backgrounds on our podcasts this year, and each conversation was equally intriguing simply because each participant had their unique experiences to share on an interesting topic. As someone from a developing country, I was particularly fascinated to sit with Dr. Ishrat Hussain, former World Bank Chief Economist and current Advisor to the PM of Pakistan. He explained the need for institutional reforms in developing countries for sustained economic growth, and why politicians find this easier said than done due to the repercussions they can face for introducing reforms in the first place.

Some of your interviewees focus on careers, what has been the best interview advice given from the podcast?

The message most of them tried to get across was to stay open minded. If you listen to the participants describe their backgrounds, you may notice that the share of participants who stayed in the industry they started in after university was pretty small.

What does the future hold for Act.Count.Think?

The platform will continue to host insightful discussions that can serve as additional learning resources for LSE students. Furthermore, we are planning to have a larger number of students sharing their pieces on the blog next year.

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ACCOUNTING LEADERSHIP LUNCHES

The 2018/19 academic year saw the department launch a number of Leadership Lunches between students and professors. The lunches enable students to get to know one of the professors in the department in a more social setting outside the classroom.

The student-professor lunch series was attended by 10-15 students allowing the opportunity to build a learning community. It was a great way for the students to explore educational and research opportunities and to discuss future career directions with a professor. For final year students, it further provided a platform to voice and discuss their views and concerns on various aspects of their education and experience as a student with a professor on the BSc programme.

All students who attended the lunch have provided positive feedback to the department. Colleagues who hosted the lunches found it very useful to engage with students in more informal discussions.

> "I just wanted to send a quick email to thank the department for the Leadership lunch with Professor Van der Stede. I found this a great opportunity and really benefitted me to hear his views on leadership. This was also a great way to engage with the Accounting department. I hope this continues for future students."

ALUMNUS SUPPORTS NEW HOME FOR DEPARTMENT OF ACCOUNTING

Jacky Wong (MSc Accounting and Finance 1992) has made one of the first philanthropic investments in the Marshall Building, which will host his former department. In doing so, Jacky has expressed delight that his generous unrestricted commitment to the School will help to enhance LSE's physical space for the learning experience of its students and the entire School community.

"My time at LSE was defined by priceless academic and intellectual development, and I remain proud of my association with the School today," Jacky said. "If my gift can go some way towards ensuring students of the future are similarly inspired by their time at LSE, then it seems an obvious investment to make."

Situated at 44 Lincoln's Inn Fields, the Marshall Building – due to open in 2021 – will house the Department of Accounting, the Department of Finance and the Department of Management. In addition, it will become home to the Marshall Institute for Philanthropy and Social Entrepreneurship, and provide high-spec sports and arts rehearsal facilities.

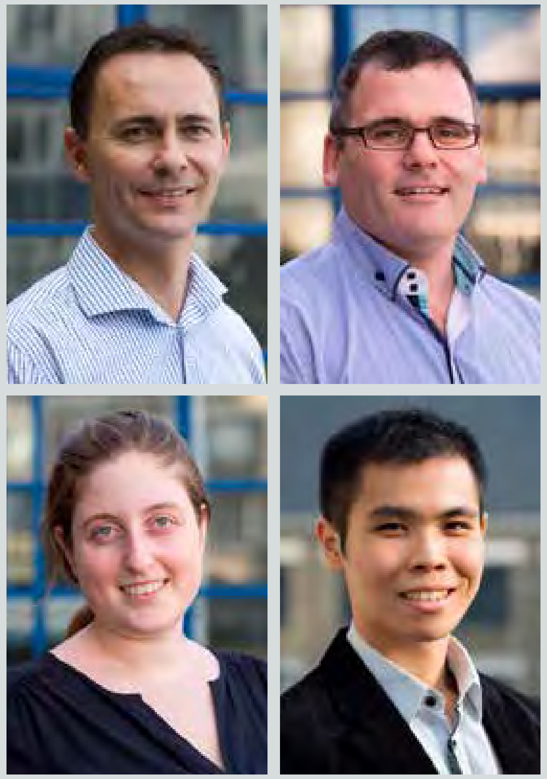
The building is named in recognition of the £30 million gift by philanthropist and financier Paul Marshall, which supported both the development of the building and the establishment of the Marshall Institute.

Artist's impression of the Marshall Building

PhD THESES

In the past year, four research students successfully completed their PhD. Congratulations to Rodney Brown for his thesis "Essays at the Intersection of Taxation and Financial Accounting"; Brett Considine for his thesis "Auditor of Professional Scepticism: a qualitative exploration of its development and operation in the United Kingdom"; Daphne Hart for her thesis "Essays on the Relation Between Accounting and Employment, Risk and Valuation"; and Yang Wang for his thesis "Essays on Financial Analysts and Broker-Hosted Conferences".

They now all have started their academic careers as faculty at the University of New South Wales (Rodney), Monash University (Brett), University of Illinois at Chicago (Daphne), and Lancaster University (Yang). The Department wishes them all the best with their future endeavours.



From clockwise, top left: Rodney Brown, Brett Considine, Yang Wang, Daphne Hart

60 SECONDS

WITH WITH RANI SULEMAN, PhD STUDENT

Rani Suleman was awarded the LSE Class Teacher Award 2019, given to class teachers and graduate teaching assistants in recognition of their outstanding contribution to teaching at LSE in the field of Accounting. Rani came to LSE in 2015, completing her MSc in Accounting, Organisation and Institutions and then going on to do a PhD in Accounting. Her current research examines the role accounting plays in how we understand the governance of charities in the non-profit sector.

How did you end up pursuing a PhD at LSE's Department of Accounting?

I came to LSE with the intention of only pursuing a master's and realised I was finishing my year with more interesting questions than what I had begun with!

How was the transition from being an MSc student at LSE to teaching?

Teaching is a passion of mine; however, it was an interesting experience to go from being a student to now being a teacher. The energy my students brought to the classroom is what helped make that transition smoother as they came ready to learn and ask questions.

What do you enjoy most about working with students?

I continue to be amazed at the diversity reflected in my classroom in terms of my students' aspirations, interests and experiences which makes teaching an enjoyable experience

What would you say is the hardest part of being a teacher?

Finding the right balance between when students need guidance vs. when the intellectual process must be allowed to unfurl organically.

> "I continue to be amazed at the diversity reflected in my classroom in terms of my students' aspirations, interests and experiences."

What is an average day working on your PhD and teaching like for you?

There is no average working day which is what makes my days interesting. Doing a PhD and teaching is akin to managing a long project made up of small milestones which really dictate the nature of your day.

Next year you will be approaching your final year of the PhD. What are you going to miss about your time at LSE?

The Shaw Library and Terrace in the Old Building. Many glorious sunny days were spent on the terrace, and many raining days were spent curled up in an armchair with a book or an article.

What is the one piece of advice you would offer to students considering a PhD in Accounting?

Speak to as many people as you can about your research interests and proposals.

INTERVIEW WITH KENNETH LEE

DR KENNETH LEE REFLECTS ON HIS FIRST YEAR AS THE NEW MSc PROGRAMME DIRECTOR FOR THE DEPARTMENT AND WHAT STUDENTS CAN EXPECT FROM THE PROGRAMME THIS COMING YEAR

Can you start by telling us about your background before coming here?

I have always had a passion for learning, teaching and research and in many ways this explains the career choices I made. Prior to my arrival at the London School of Economics I had a 15 year career in the research departments of two large investment banks. My last role was head of European Equity Research for Barclays in London, managing a department of around 150 people, mainly sell-side analysts. We built the business up from scratch over the decade following the 2009 financial crisis. This was an amazing and unique experience. Before that I was closer to education, as a professional trainer in finance and accounting, having qualified as a chartered accountant in professional practice after university.

When the possibility of a position in the Department of Accounting at LSE came up, I could not resist the draw of both the institution and the exciting challenge of being the director of the MSc Accounting and Finance and MSc Accounting, Organisations and Institutions degrees. This role also allows me to teach on the master's programme where I have thoroughly enjoyed delivering equity valuation and financial analysis content. In addition, I can sustain my research interests in sell-side analyst decision making and communication and reflect this in our Investor Relations course. Bringing the two together further enhances the student experience in class.

What has been your aim for the programme this year?

Simply to maintain and enhance our position as one of the best post-graduate accounting programmes in the world, in terms of content, delivery from world-class faculty and the quality of opportunity it provides to our graduates.

How does the institutional setting at the LSE impact the programme?

We are a specialist social science university, rather than a more typical business school. This gives the university a different personality and permeates everything we do. It opens unique learning opportunities for students to study from a vast range of course options. It also affords students the opportunity to attend our public lecture series, which is second to none in terms of exposure to world leaders on diverse fields from politics to economics to health. We also have our own INSIGHTS series of lectures which give students exposure to senior professionals in the accounting and finance world. Some of the themes we have examined in our INSIGHTS series over the last academic year include whether financial markets have learned the right lessons from the financial crisis, the integration of environmental reporting into investment processes by asset managers, and the future of the audit given recent corporate failures.

It is clear that the uniqueness of what we do has impact on our global recognition. For example, in the recent QS university ranking, the LSE was 8th in the world for its esteem amongst employers with a score of 99.9 out of 100. We are very proud of that!

What has been some of the highlights this academic year?

There have been so many! Let me highlight three. The INSIGHTS series mentioned above was a great experience. In addition to students enjoying the content, the speakers all commented on the large audiences and engagement of the students and so left with a very positive view of the LSE masters community. The Graduate Weekend in Cambridge was amazing – it is a wonderful opportunity for students and faculty to communicate and converse in informal surroundings.

> “The language of accounting permeates almost every aspect of business. I know this personally from my years in banking.”

This year we had the added bonus of wonderful weather which unfortunately we cannot always guarantee! Lastly, meeting the alumni was memorable. On one particular occasion we had a dinner in the senior common room which included former accounting students from the 1950s and 1960s. It is a great reminder of how long established the study of accounting has been at LSE.

What can students expect from the course for the year ahead?

At the heart of the course are three critical elements.

First, there is the core content. This is a mix of accounting, finance and, especially on the MSc AOI, the role of accounting in society. The content is designed to be challenging, current and relevant with an appropriate balance between theory and practical application. The difficulty for a university is to ensure that what is taught and examined keeps pace with the constant change in the working world. Therefore, in addition to developing our core content, we supplement it with skills programmes which allow us to quickly respond to needs in areas such as financial modelling and data analytics.

Second, there is the bridge the course provides to the world of industry, banking, the professions and other forms of organisation. This is in the form of careers support, recruitment fairs and advice as well as the case studies and examples that drive the debates and discussions in class. Lastly, there is the wide range of options students can choose to make their master's degree unique. Most students choose options close to accounting or finance but there are options to be much more creative across the broader university.

Why do you feel the study of accounting continues to be important?

It is almost a cliché to say that the language of accounting permeates almost every aspect of business, but it is true! I know this personally from my years in banking. Although many perceive accounting as a technical discipline, its importance extends far beyond this. Society portrays the performance of companies predominantly through the lens of accounting, emphasising for example, earnings per share, revenue growth, cost control and returns. The desire of senior management in corporations to perform well on these accounting metrics in turn influences their behaviour. So in many ways accounting has the potential to influence corporate decision making and behaviour. Therefore, understanding accounting, both its technicalities and its impact, is a hugely important skill to develop. Our aim is to develop those skills in our students during their time with us.

Any tips passed onto you about making the most of your time at LSE?

To enjoy your time at LSE you need balance, so joining university societies, exploring London and creating friendships with fellow students is almost as crucial as your studies (note I said almost!). The course content itself is demanding and often requires independent study and readings from academic journals. It is key that students do not leave this to a final study cram at the end of term – it will not work. Lastly, there is a huge amount of support at the university from your academic mentors, LSE Life, a variety of student services to course managers and directors. If ever you feel in need of support of whatever form, reach out.

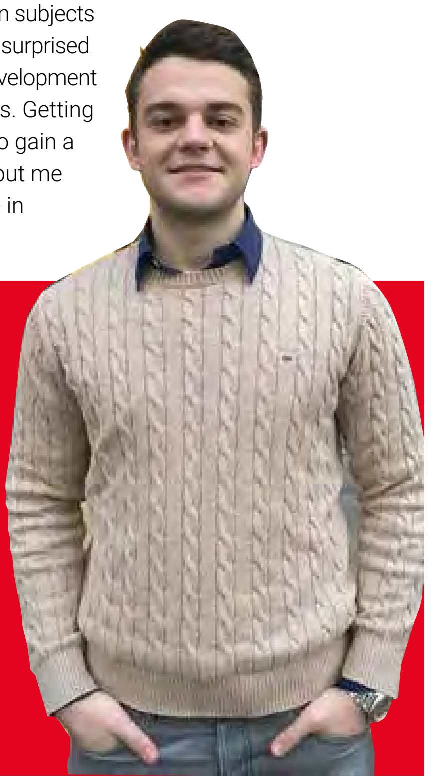
CAMPUS LIFE

INTERVIEW WITH OMIROS OMIROU
BSc ACCOUNTING AND FINANCE, CLASS OF 2019

Born and raised in Nicosia, Cyprus, this was my first time to study abroad. I have just completed my final year pursuing the BSc in Accounting and Finance. Joining LSE was my first choice as it is an institution of unrivalled academic excellence. Its reputation ranks it among the top universities in the world, especially for courses like Accounting and Finance, which made me confident that I would receive the highest quality education and exposure, and experience what it feels like to be studying with some of the brightest individuals of my generation. Attaining a degree from such a prestigious institution would open doors for me to pursue my future aspirations. As for my degree selection, the decision was based on my desire to broaden my knowledge in two fields that I didn't get the chance to explore prior to attending LSE and which I have always wanted to pursue. The thing that I love most about this degree is that it provides you with the necessary skills and knowledge to be able to understand concepts that you come across in everyday life and puts you in a position to form an opinion and engage in constructive and important economic and social discussions. Alongside my university studies, I have mentored young minds at a professional, academic and personal level as a Career Mentor for the LSESU Investment Society, a Student Academic Mentor for the Department of Accounting, and the Vice President of the LSESU Cypriot Society.

What did you most enjoy about the BSc course?

I mostly enjoyed the chance to work with a diverse group of like-minded, talented and extremely motivated individuals, while broadening my knowledge on subjects that interest me. Looking back, I am positively surprised by the immense personal and professional development I have been through over the past three years. Getting hands-on real-life applications enabled me to gain a deeper understanding of key concepts and put me in a position to form an opinion and engage in constructive discussions.



COUNTRY OF ORIGIN
CYPRUS
WHAT DID YOU STUDY AT SCHOOL/COLLEGE
ECONOMICS, FURTHER MATHS, PHYSICS, GREEK
IS THIS YOUR FIRST TIME STUDYING IN THE UK/LONDON?
YES

What has been your favourite Accounting Module?

My favourite Accounting course would be Financial Accounting, Analysis and Valuation, taught in the third year, as it is quite challenging but interesting and relevant at the same time. It has been really motivating to see the lecturers teaching the course putting in their best efforts to deliver the material effectively, while making the lectures stimulating and interactive. The two summative group projects that we had to deliver were a great opportunity to work together with fellow classmates and strengthen the relationships between us as well as our social and presentation skills.

What has been your biggest challenge whilst studying?

Studying at LSE requires great time management. Coming to LSE straight after completing a two-year military service for my country with the rank of Second Lieutenant, I found the transition to the demanding university environment combined with the fast-paced life of London a bit of a challenge. However, I managed to quickly adapt to the changes within my first weeks here by being organised, thinking ahead, and prioritising the many demands.

Have you done any work experience during your time at LSE?

During my time at LSE I was fortunate to secure two summer internships. The first one was with PwC in Cyprus, during the summer of my first year, where I worked as an Audit intern in Assurance and Advisory. The second one was with Goldman Sachs at their offices in London, during the summer of my second year, where I worked as a Summer Analyst in the Finance Division. These internships were a great opportunity for me to apply the knowledge I gained from my studies to the workplace and experience the culture and work environment of an Accounting firm and an Investment bank, which was extremely useful when making up my mind about which career path I would be most interested to pursue.

Favourite place on campus?

As cliché as it sounds, I would have to say the LSE Library. I spent countless hours in there either studying, working on group projects, or revising for exams. It is also a good place to socialise and meet people as it is the 'go to' place for most LSE students when they are on campus.

> “The degree will challenge you to reach new levels of knowledge and skills.”

Any tips for students thinking about doing the BSc Accounting and Finance at LSE?

Just go for it! My journey over the past three years while completing my BSc in Accounting and Finance has been the most productive and rewarding journey of my life so far. The journey has been amazing from start to finish and the degree will challenge you to reach new levels of knowledge and skills that you will find useful going forward. Also, the fact that you have the opportunity to choose outside options will allow you to get a taste of disciplines other than Accounting and Finance.

Top society to join?

Definitely an Athletics Union (AU) society. Joining the Futsal society was one of the best decisions I've made during my time at LSE. I got to meet a lot of people outside of my course and built genuine relationships with my teammates both on and off the pitch. The best part so far has been our trip to Prague to participate as a mixed team representing LSE at a tournament there. It was a great chance to bond with each other and create memories that will last a lifetime.

What have you enjoyed about living in London?

I found the fast paced lifestyle very enjoyable as it gives you an extra push to be efficient and productive. Also, the fact that the list of museums, galleries, concerts, musicals, restaurants, and bars that you can visit is literally endless ensures that you never get bored as you can always experience something new!

Top study tip to you fellow students?

Be open to new experiences! University is not just about studying and getting good grades. It is also about grasping opportunities to explore something new and develop and grow personally more generally. Joining societies, organising events, and attending talks given by reputable guest speakers are some of the many ways to meet people, broaden your network, and discover new interests. Don't be afraid to take chances as you never know where they may lead you.

Image: © iStock

CAPITALISING OR EXPENSING: R&D ACCOUNTING AFFECTS THE AMOUNT THAT FIRMS INVEST

THE DELETERIOUS EFFECT OF EXPENSING ON INCOME CAUSES FIRMS TO REDUCE THEIR RESEARCH AND DEVELOPMENT OUTLAYS, WRITE DENNIS OSWALD, ANA SIMPSON AND PAUL ZAROWIN

We examine the effect of capitalisation versus expensing on the amount of UK firms' research and development (R&D expenditures). We focus on the years immediately before and after the UK switched from the UK Generally Accepted Accounting Practice (UK GAAP) to International Financial Reporting Standards (IFRS) in 2005. Under UK GAAP, firms had the option to capitalise or expense development expenditures; under IFRS, development expenditures must be capitalised. Thus, firms that had capitalised development expenditures under UK GAAP continued to do so, while firms that had expensed them were required to switch to capitalisation. We refer to these two groups as "capitalisers" and "switchers", respectively. The accounting change, therefore, was a "quasi-experiment", an exogenous event that affected some firms but not others. Based on this event, we conduct a difference-in-difference (diff-in-diff) analysis comparing the amount of capitalisers' vs switchers' R&D expenditures in the years immediately before vs after the UK switched to IFRS in 2005.

Understanding the real effects of accounting policies is a fundamental issue for both academics and policymakers. While researchers have examined the economic consequences of various accounting policies, there is no reliable evidence for research and development (R&D). The accounting policy issue is especially important for R&D, because of concerns that the accounting method may affect the amount of firms' R&D investments, and thereby affect innovation and economic growth. Because of its importance, there has been a large debate about accounting for R&D in the U.S. Moreover, R&D accounting is one of the main differences between US GAAP and IFRS, and it is important for U.S. regulators to see the effects of R&D capitalisation in a major capital market. Thus, we provide empirical evidence on this important issue.

Why might capitalisation vs expensing affect firms' R&D expenditures?

As long as a firm's R&D expenditures are growing, expensing results in greater R&D expense than capitalisation. So growing firms that expense their R&D might reduce their R&D expenditures to raise their net income, which may adversely affect innovation in the economy. Contrary to this point of view, Zimmerman (2013) argues that accounting policies have negligible real effects. Thus, whether capitalisation or expensing affects the amount of firms' R&D expenditures is an important, unanswered question that we address.

> "Our results attest to the real effects of accounting policy on firms' R&D investments, and thus to the importance of accounting methods."

The underlying assumption of our research is that the effect of the accounting method on expenditures works through income. For example, since compensation contracts and covenants are based on reported income, firms would spend less under expensing, since it negatively impacts the "bottom line". To provide evidence on this channel, we examined firms' remuneration reports, which are contained in the annual report and provide information on firms' executive compensation plans, usually including a discussion of the specific performance metric(s) used in the annual bonus and long-term incentive plans. We did not find evidence on firms' adjusting the performance metric used in compensation contracts for the impact of accounting for R&D.

To understand firms' decision to expense or capitalise R&D before mandatory capitalisation, we took four approaches. First, we interviewed a former senior technical partner from PwC. Second, we analysed 71 firms' comment letters sent to both the Accounting Standards Committee (ASC) in the UK and to the International Accounting Standards Committee (IASC). As a third approach, we estimated a Logit model over the 1991-2004 period to understand firms' capitalise-vs-expense decisions. Finally, for our fourth approach, we examined all UK firms with R&D data from 1990-2004 to establish whether they switched either from capitalising to expensing, or from expensing to capitalising and to determine the link between the switch and profitability.

The central messages of these analyses are twofold. First, we find evidence consistent with increased income being the mechanism through which the accounting method affects expenditures, by showing that switchers' compensation contracts do not undo the effects of capitalisation. Second, firms prefer expensing for many reasons: the (non) disclosing of proprietary information (percentage of costs capitalised vs expensed) and avoiding write-offs (admissions of failed projects). So, expensing was the "default" choice, and only firms that needed the expense deferral to boost earnings would capitalise.

Thus, under UK GAAP the firms that benefit the most from capitalisation chose to capitalise. For other firms, the negative aspects of capitalisation, clearly outweighed the benefits. That is, for many firms the benefits of being an expenser (e.g., not revealing proprietary information and avoiding write-offs) clearly outweighed its costs (e.g., the reduction in net income). As firms are required to capitalise under IFRS, there are no negative perception costs. We conjecture that as firms switched to capitalisation under IFRS they increased their R&D expenditures which were previously reduced to mitigate any negative impact on profitability.

Consistent with arguments that expensing's deleterious effect on income causes firms to reduce their R&D outlays, we find that switching firms increased their R&D expenditures more than firms that continued to capitalise. We subject our results to numerous robustness tests: including firms that continue to expense their R&D under IFRS, comparing early vs late switchers, switchers with high vs low R&D expenditure growth, examining R&D behaviour in the last year before IFRS adoption, examining the behaviour of SG&A expenditures, a placebo test in which we alter the switch date, tests which exclude the financial crisis period, including a control for other IFRS changes, quantile regressions, examining firms with high vs low R&D intensity, and entropy balancing to guarantee similar groups. Across all of these tests, our results support the conclusion that the accounting method affects the amount that firms invest in R&D.

Our results attest to the real effects of accounting policy on firms' R&D investments, and thus to the importance of accounting methods. An important issue for future research to examine is whether the increased R&D expenditures result in increased innovation, such as more patents. We take the necessary first step by showing that R&D accounting affects the amount that firms invest. Our research fits Kinney's (1986, pg. 339) definition of having practical relevance: "Does how we as a firm or as a society account for things make a difference?" Our answer for R&D accounting is "yes, it does".

* This is a slightly modified version of a definition found on the Business Literacy Institute site.

This article is based on the authors' paper titled **Capitalization vs Expensing and the Behavior of R&D Expenditures** (2019) by Ana Simpson, Assistant Professor of Accounting at LSE, Dennis Oswald, Visiting Assistant Professor of Accounting at the University of Michigan and Paul Zarowin, Professor of Accounting at New York University's Stern School of Business, which also appeared in the blog post on *LSE Business Review*.

The post gives the views of its authors, not the position of *LSE Business Review* or the London School of Economics.

VULNERABILITY AS THE NEW FRONTIER IN REGULATORY DEBATE

MARTIN LODGE AND ANDREA MENNICKEN DISCUSS THE IMPLICATIONS OF THE RISE IN INTEREST IN VULNERABILITY

ANDREA MENNICKEN
CARR DEPUTY DIRECTOR

MARTIN LODGE
CARR DIRECTOR

The theme of "vulnerability" is enjoying considerable currency in contemporary debates of regulation. The current focus is less on concerns regarding the Achilles' heel and blind spots of particular regulatory arrangements and instruments. Rather, contemporary questions focus on who is being defined as being "vulnerable". Based on answers to those questions, what are the implications for regulation aimed at protecting and empowering citizens, public service users and consumers in vulnerable situations? [1]

Vulnerability relates to those without voice and choice in contemporary regulated arrangements. Such a shift in attention towards "vulnerability" of the voice- and choice-less points to a potentially significant shift in contemporary debates regarding regulation in general, and the regulation of markets in particular. Whereas regulatory debates around vulnerability tended to concentrate on questions of resilience and the building of resilience at organisational and/or systemic level, the discussion centres now more on questions concerning the capacity of public service users, and consumers (e.g. students or electricity consumers) to exercise voice and choice.

Of course, sceptics would suggest that a focus on "vulnerable customers" has always been at the heart of regulatory activities. The elderly, children and the interests of future generations have always featured in regulatory contexts. In the area of utility regulation, for example, vulnerable customers have been supported by ensuring that minimum access conditions are met (such as specifying maximum distances to postal and telephone boxes), ensuring continuity of supply, or by creating special watchdogs for consumer support and advocacy. Yet, in the last few years we have seen a remarkable increase in activity focusing on regulatory design for and around the vulnerable.

In economic regulation, "vulnerable consumers" are usually classified as those who seem to lack the resources to undertake informed choices. Here, the focus is largely on creating conditions for informed choice. These include offering easy-to-understand information, creating tariff structures that reduce regressive effects (as resource-rich individuals are said to be benefit from hunting around for the latest offers), prohibiting certain products to be sold to particular sets of individuals, or researching why individuals may not be undertaking choices that would be economically beneficial to them.

Such a focus of regulatory attention largely assumes that regulated markets 'work' and that regulation and regulators are largely about ensuring that individuals are in a position to exercise meaningful choice. Acknowledging that individual choice on the market place needs support via regulatory interventions is already a major departure from those days where market liberalisation in and of itself was praised as facilitating customer choice and market efficiency. Debating how much support individuals need for the exercise of meaningful choice is therefore fundamentally also about what one assumes individuals are capable of, and how "paternalistic" regulation should be.

Definitions of who is regarded as "vulnerable" and in need of support shift with regulatory paradigms. Regulation needs to consider the changing boundaries of who is regarded as vulnerable. This concerns also questions of how far vulnerability should be taken and where the boundaries of regulatory concern should lie; if it is largely about enabling individuals to partake in markets, then the agenda regarding vulnerable customers is mostly about adding so-called behavioural insights to the tool box of regulators. However, a regulatory agenda could also be much more far-reaching, namely by focusing on different conditions that create vulnerability, whether it is a lack of language competencies, trust in market providers, reluctance to engage with public authorities that might offer redress, or genuine incapacity. How regulators should involve the "voiceless" (which might include the unborn when it comes to decisions about long-term investments in infrastructures) goes a long way beyond the traditional regulatory interest in correcting market outcomes in view of some ill-defined fairness objectives.

In particular non-economic regulation has a far more extensive agenda when it comes to vulnerability. In healthcare, for example, patients, especially elderly patients, are usually not well-positioned to exercise much choice; dementia patients in care homes are not able to inform, or take comfort from, benchmarking exercises. Furthermore, concerns about vulnerability – defined as the inability to exercise voice and/or choice – might not only be related to humans but also to animals (e.g. regulation aimed at ensuring the humane treatment of animals) or our planet (e.g. climate change debates).

The challenge for regulators in dealing with vulnerability lies, firstly, in the identification of different types of vulnerability. One key issue in this context concerns the question whether vulnerable individuals are easy to detect or not. For example, it might be easy to spot those individuals who are at risk of financial over-extension when seeking loans if records exist about income and expenditure patterns. Equally, socio-economic and other background data might offer indications about which individuals should deserve special support in higher education. However, in other cases, such detection is far more problematic, especially when it comes, for example, to migrants or low-pay areas of the economy.

A second key challenge relates to distinguishing between those that identify themselves as vulnerable and those who do not. Sources of non-identification may be due to issues of optimism bias, but might also point to genuine ignorance about being vulnerable. For example, most of the victims in Grenfell Tower were arguably unaware of being vulnerable due to lacking fire safety installations. Similarly, customers of online banking may not regard themselves as vulnerable as they rely on their institutions to ensure cyber security. Likewise, laboratory animals are not in a position to identify themselves as vulnerable regardless of how inhumane their treatment might be.

Looking across these two sets of issues offers insight into the multi-dimensional nature of the regulatory challenges that are involved in dealing with vulnerability. Without wishing to suggest that one form of vulnerability is more important than others, a key regulatory challenge lies arguably in attending to the "undetected and non-self-identifying". At minimum, it suggests that regulatory concern should not merely be limited to those who are (already) identified as vulnerable. Regulatory attention has to move beyond existing knowledge and deal also with individuals who might be reluctant to cooperate with regulatory authorities (as they may be unwilling to deal with state authorities due to previous experiences in, for example, authoritarian contexts).

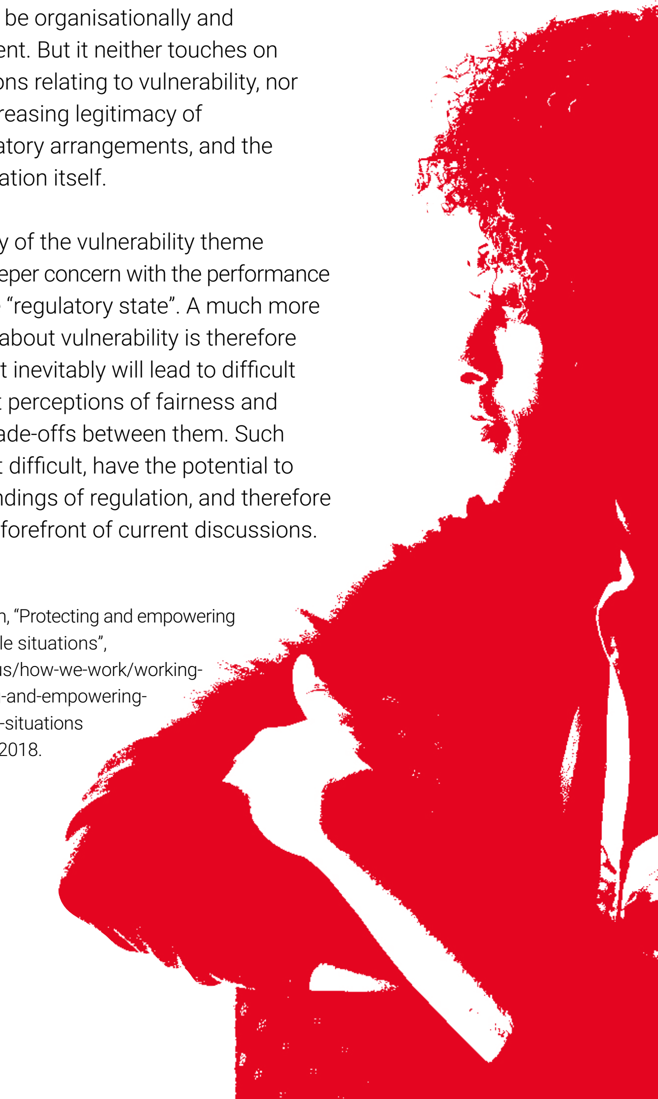
There are, of course, further complications. One relates to the question whether the "harm occurred" (i.e. the actualisation of the vulnerability) is "reversible" or not. Similarly, there is also a question about relying on "gatekeepers" and "bottlenecks". It might, for example, be argued that regulated organisations should be required to identify individuals as vulnerable (e.g. in banking) even if those individuals may not regard them - selves as vulnerable. However, such a reliance on third parties' ability and willingness to identify vulnerability, is inherently problematic, as it depends on incentives; a "trustee" role will not succeed in contexts where business models rely on the exploitation of vulnerable individuals (human and non-human). In these cases, the regulated sector may present a distinct form of vulnerability in itself.

To sum up, the boundaries of who and what is being defined as vulnerable are extremely fuzzy. For regulators to merely respond to vulnerability by looking at individual decision-making biases (and possibilities for "nudging") suggests an ultimate faith in the potency of information and regulation to enable voice and choice among individuals. Such a response, in other words, is about enhancing a regulator's mandate to enhance (market) efficiency. It is a response that might be organisationally and ideationally convenient. But it neither touches on fundamental questions relating to vulnerability, nor deals it with the decreasing legitimacy of contemporary regulatory arrangements, and the vulnerability of regulation itself.

The current topicality of the vulnerability theme highlights a much deeper concern with the performance (and purpose) of the "regulatory state". A much more far-reaching debate about vulnerability is therefore warranted – one that inevitably will lead to difficult conversations about perceptions of fairness and efficiency and the trade-offs between them. Such conversations, albeit difficult, have the potential to transform understandings of regulation, and therefore deserve to be at the forefront of current discussions.

References

1 See for example Ofgem, "Protecting and empowering customers in vulnerable situations", ofgem.gov.uk/about-us/how-we-work/working-consumers/protecting-and-empowering-consumers-vulnerable-situations Accessed 25 October 2018.



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DISCLOSURE HELPS PROJECT CREATORS GET CROWDFUNDING ON KICKSTARTER

CHANGES IN CONSUMER PROTECTION REGULATION STRENGTHEN THE IMPORTANCE OF DISCLOSURE FOR THE SUCCESS OF REWARD CROWDFUNDING CAMPAIGNS, WRITE STEFANO CASCINO, MARIA CORREIA AND ANE TAMAYO

Image: © iStock

Crowdfunding, essentially a type of microfinance, has experienced an unprecedented growth over the last few years, becoming an important driver of economic and financial development. Recently, the World Bank has estimated that crowdfunding could reach U.S. $90 billion by 2020, surpassing venture capital and angel capital as a means of financing. While much of this growth has been spurred by lending-based crowdfunding, an interesting phenomenon has been the strong emergence of reward crowdfunding, in which project creators (i.e., entrepreneurs) promise future in-kind rewards in exchange for backer contributions. In reward crowdfunding platforms, project backers represent "hybrid" stakeholders, in between investors and consumers.

The hybrid nature of project backers renders their contractual claims difficult to regulate and enforce in case of contract breach by creators. Reward crowdfunding does not involve the offering of securities and therefore does not fall under the U.S. securities laws or the jurisdiction of the Securities and Exchange Commission (SEC). As such, SEC rules specifically designed for equity crowdfunding do not apply. Reward crowdfunding platforms also disclaim any liability, stating that they act as mere intermediaries. As it is often the case for evolving technologies, the emergence of reward crowdfunding led to a regulatory limbo, in which backers were initially left without much recourse.

A regulatory void is particularly troublesome given the adverse selection and moral hazard problems that characterise these markets. Information asymmetries between creators and backers regarding creator ability and project quality (adverse selection), coupled with backers' inability to induce creator effort and ensure that pledged funds are not diverted for personal consumption (moral hazard), are in fact inherent to crowdfunding. Project creators may rely on disclosure to signal their ability and project quality. However, the lack of clear regulation and oversight in the early years of reward crowdfunding, the absence of a trustworthy and independent third-party (e.g., an auditor) that certifies the information disclosed by the creator, and the one-time nature of most of these transactions (many creators access these markets only once) may render disclosure not credible. In these markets, in fact, creators can easily engage in "cheap talk." For example, when they provide voluntary disclosures about the project and themselves with the aim of enticing backers into pledging funds, they can "oversell" the project or, in extreme circumstances, communicate false information in bad faith.

In our recent paper, we examine two main questions. First, does (voluntary) disclosure facilitate contracting in reward crowdfunding, or is it mainly perceived as cheap talk? Second, to what extent does an increase in regulatory oversight enhance the perceived credibility of disclosure?

We shed light on these questions by exploiting a quasi-experiment provided by a notorious rule change in Kickstarter, the world leading reward crowdfunding platform. On September 19, 2014, it was announced that Kickstarter would change its terms of use to clarify the nature of the contract between backers and creators. This change, which was aimed at alleviating moral hazard, essentially strengthened the contractual position of backers by explicitly requiring creators to fulfil their obligation to deliver the promised rewards (or refund pledged amounts) and by clearly spelling out the possibility of legal action against creators. The main mechanism through which such legal action may take place is consumer protection regulation, which is aimed at protecting consumers from "unfair and deceptive trade practices" and significantly varies in stringency across U.S. states. While consumer protection regulation was already in place to protect "traditional" consumers, the September 2014 rule change brought the possibility of legal action to the attention of creators and backers, thereby shifting substantial contractual risk from backers to creators. This effectively altered the perception of consumer protection law applicability in the context of Kickstarter given that in 2012, i.e., prior to the rule change, Kickstarter had emphasised that "they are not a store" precisely to limit their own legal exposure.

In our empirical analyses, we first examine the association between disclosure and project funding to gauge the extent of disclosure credibility on the platform. We find that disclosure (measured as either the length of the project's campaign pitch or the length of the project's risks and challenges section) exhibits a positive and robust association with pledged amounts and the probability of a project being funded, which suggests that backers take disclosures by creators into account when deciding to make a pledge.

Next, we turn to the change in Kickstarter's terms of use announced on September 19, 2014. The cross-sectional variation in consumer protection stringency across states allows us to use a generalised difference-in-differences (DiD) research design to gauge the differential effect of this change on perceived disclosure credibility. We find that, following the rule change, the association between disclosure and both the likelihood that a project is funded and the amount of funds pledged to the project becomes stronger, which we interpret as an increase in the perceived credibility of disclosure. This increase is more pronounced in states with stricter consumer protection regulation.

We also examine alternative measures of project success, such as the number of (new and returning) backers and the level of backer engagement measured as the number of comments on a project's website. The evidence from these tests is also consistent with disclosure playing a stronger role in facilitating contracting between backers and creators in states with stricter consumer protection regulation following the rule change.

Further, we conduct cross-sectional analyses to explore heterogeneity in treatment effects and find that the increase in the perceived credibility of disclosure varies with the magnitude of rewards, as well as across states with court busyness and with degree of confidence in courts. Specifically, the effect of the rule change on the project success-disclosure relation is stronger when litigation risk is likely to be higher, such as when project rewards are larger, when courts have a lower caseload and when confidence in courts is higher.

This article is based on the author's paper **Does Consumer Protection Enhance Disclosure Credibility in Reward Crowdfunding?** (2018) by Stefano Cascino, Associate Professor, Maria Correia, Associate Professor and Ane Tamayo, Professor of Accounting at LSE, which also appeared in the blog post on *LSE Business Review*. The post gives the views of its authors, not the position of *LSE Business Review* or the London School of Economics.

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THE DYNAMICS OF (DIS)INTEGRATION IN ENTERPRISE RISK MANAGEMENT

NO MATTER HOW YOU APPROACH INTEGRATION, SOMETHING WILL BE LEFT OUT AND WILL EVENTUALLY BECOME A KEY CHALLENGE FOR "INTEGRATED" DESIGNS, WRITES TOMMASO PALERMO

When the word "integrated" is associated to a business practice, an organisational environment, or a workplace, it is often good news. The term has a positive connotation in common language, expressing something that is "systematic", "comprehensive", "coherent", "cohesive" etc. Indeed, dictionary definitions leave no doubt. Something is integrated if "two or more things [are] combined in order to become more effective".

Organisational risk management processes are no exception. In the last two decades, a burgeoning number of consulting papers and professional guidance documents suggest that "integrated" risk management, providing a holistic view of enterprise-wide risks, is key to success. In short, the terms "integration" and "integrated" seem to possess a sacred quality that makes it difficult for a "rational" person to be against them, just like other words such as "efficient" and "transparent".

But ask yourself if your workplace is "integrated". Many things spring to mind: shared procedures and reporting lines; coordinating roles across different functions; frequency of meetings; task and goal affinity among organisational members; physical proximity of offices; and even friendship and mutual respect. This thought experiment reinforces the idea that studying "integration" is not easy, given the ambiguity of what "integrated" means in concrete organisational settings (e.g. your workplace). From this thought experiment and dictionary definitions, we also note an apparent paradox. To make two or more things integrated, these things have to be distinct in the first place, so that they can be subsequently linked up. So, does integration require disintegration?

A field study of "integrated" risk management practices sheds light on such dynamics of (dis)integration, empirically focusing on two manifestations of enterprise risk management in two large organisations operating in Italy, and their evolution over time.

Just looking at the templates used to identify and assess enterprise-wide risks, it is possible to get an idea of two approaches to "integration". In one case (CASE 1), we have a long list of abstract risk categories defined by the risk function that should cover all possible risks arising in the course of the company's operations, ranging from a plant's explosion to compliance mistakes. By using this template, risk assessors in different parts of the organisation should be able to follow a common and standardised template and therefore come up with similar views about risks that can be aggregated. Here the focus in risk identification and assessment is narrow (e.g. people need to use a standardised procedure), but also broad (e.g. comprehensive list of risk categories).

In the second case (CASE 2), we have a short list of items, from industry context changes to internal rewards systems, which can be used to inspire "risk talk" that aim to quantify potential financial variances compared to expected performance targets. Here the focus of discussion is narrow (e.g. limited to quantifiable financial performance variations) but at the same time comprehensive (e.g. discussion via interactive workshops can flow in many different directions and is open to the use of different risk assessment tools).

The longitudinal analysis shows how such abstract designs are put to work and are adjusted over time. In CASE 1, despite efforts to provide a comprehensive list of risk categories, a number of residual categories, which do not fit the context envisaged by "integrated" risk management designers, become visible. For example, commodity risks need to be taken care through separate processes that have more traction within line managers. In CASE 2, things are added to make "integrated" risk management work, via workshops' discussion. There are efforts to add context to risk information so that it acquires a shared meaning in relation to specific problem areas (e.g. human resources, industry changes, logistic) and help explain financial variances.

These two dynamics of enterprise risk management produce counterintuitive outcomes. The narrowing down of "integrated" risk management in CASE 1 can be related to greater visibility in various parts of the organisation of what is seen (with scepticism by some) as a "standardised process" that has limited managerial relevance. The expansion of issues covered through "integrated" risk management in CASE 2 can be related to less visibility of the risk identification and assessment process specifically and the blurring of the boundaries between risk management and other management control processes such as budgeting. In short, the more relevant "integrated" risk management is, the less visible risk identification and assessment becomes. But this feature becomes a problem following a corporate crisis, during which internal and external stakeholders alike start questioning about the role of risk management and demand the adoption of a more proceduralised process, very similar to the one adopted in CASE 1. And, just like in CASE 1, this new process quickly loses managerial relevance.

The contrast between these two cases provides additional insights about the manifold manifestations of "integrated" risk management, extending a growing body of research. But, more uniquely, it uses the empirical phenomenon of "integrated" risk management to theorise an important feature of what are labelled as the "dynamics of (dis)integration". The basic idea is that no matter how you approach the design and use of "integrated" work processes and practices, there will be something that is left out. And what is excluded eventually becomes a key challenge for "integrated" designs. The ideals of "integrated" risk management, whatever they end up being in their empirical manifestations, are subject to a self-undermining pressure towards (dis)integration.

To conclude, managers need to be wary of the tensions involved in the construction of "integration". What is left out rather than what is included, is likely to trigger relevant organisational changes, resulting in modifications to existing configurations and power spheres. The study of (dis)integrated risk management has also implications for practitioners and regulators interested in, or working with, multiple and emerging manifestations of risk management. Lengthy risk identification and aggregation processes, which make "key" risks visible on a periodic basis, providing a "canopy-like" view of an organisation, tend to have little relevance for line managers. In contrast, the forms of risk management that take place through inconspicuous "risk talk" may be highly relevant for addressing key managerial concerns. And yet, by their very nature, they may go unnoticed, as the boundaries between risk management and other control and managerial processes blur.

This article is based on the author's paper **The Dynamics of (Dis) Integrated Risk Management: A Comparative Field Study**, in *Accounting, Organizations and Society* (2017), co-authored by Marika Arena and Michela Arnaboldi. This article also appeared in the blog post on *LSE Business Review*.

The post gives the views of its authors, not the position of *LSE Business Review* or the London School of Economics.

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carr NEWS

THE CENTRE FOR ANALYSIS OF RISK AND REGULATION (carr) CONTINUES TO MAINTAIN ITS HIGH PROFILE OF ACTIVITIES THROUGHOUT THE PAST ACADEMIC YEAR.

> "Emergencies – or states of exception– represent an important, but under-explored aspect in the study of risk and regulation. For one, it raises questions as to who declares a state of emergency and what kind of exceptional powers are associated with an emergency."

carr (Centre for Analysis of Risk and Regulation) had a busy academic year, continuing to provide a leading international venue for debate regarding the study and practice of risk and regulation. The regulation of and by emergencies was one of the themes that played a central part in the life of the **carr** over the past academic year. Emergencies – or states of exception – represent an important, but under-explored aspect in the study of risk and regulation. For one, it raises questions as to who declares a state of emergency and what kind of exceptional powers are associated with an emergency. It also relates to questions as to how to hold accountable those in possession of emergency powers and what procedures ought to be put in place to ensure that exceptional times do not become the norm (e.g., procedures to formally declare the end of an emergency).

These questions have traditionally featured in discussions about constitutional democracy, especially in the post-1945 world. However, since the financial crisis, the awareness that emergencies stretch political systems has extended to the world of risk and regulation. The widely cited "whatever it takes" by Mario Draghi has been widely credited in offering respite to the Eurozone. In the context of risk and regulation, the question of how institutions in charge of handling emergencies should be set up and through what means has become particularly important. After all, regulatory agencies (including central banks) are not directly accountable for their actions. During times of exception – regardless of whether they have been formally declared or not – these agencies potentially wield considerable authority way beyond what was foreseen in legislative frameworks. For those concerned with the (ab)use of discretionary power, the extensive use of non-formalised powers during emergencies by regulatory agencies is troubling.

A number of **carr** events focused on 'emergencies' over the past year. One featured a half-day discussion, organised jointly with LSE Professor Tim Besley and the Spinoza Foundation's seminar series, to discuss with Paul Tucker (former Bank of England deputy governor) his recent volume on Unelected Power. A separate event enabled US and European-based officials and academics to explore emergencies and their implications for executive power across different policy sectors. The "emergency" theme also featured in one of our roundtables of the Regulators' Forum which brings together a range of regulators to discuss commonalities and differences across sectors.

A separate prominent theme over the past year has been "vulnerability". After all, economic (and other) regulators are increasingly concerned about vulnerable customers. This interest has gone hand in hand with a far more differentiated understanding as to what might constitute "vulnerability", in part supported by growing interest by regulators in behavioural economics-inspired interventions. An interest in vulnerability also highlights the growing dissatisfaction with the outcomes of regulated sectors which, in part, has been growing over the past decade or so, given price increases. The theme of vulnerability offers a distinct perspective on wider questions concerning the capacity of the regulatory institutions to adapt to contemporary political, economic and financial conditions.

As these themes illustrate, **carr** is interested in cross-cutting interdisciplinary research and discussions. It is only at the overlapping boundaries of different disciplines where innovative responses to emerging societal challenges can be found. Themes such as emergencies and vulnerability call for discussions that bring together different disciplinary perspectives, and **carr**'s mission is to provide an international leading venue for exactly such cross-disciplinary discussions to take place. This autumn, Oxford University Press, will publish an edited volume on "Algorithmic Regulation", edited by Karen Yeung (Birmingham) and Martin Lodge. This volume is one outcome of our seminar series on "Regulation in Crisis?", in particular a joint seminar held together with King's College London on "Algorithmic Regulation".

Over the coming year, we will continue to explore this interdisciplinary space. Watch out, for example, for the conclusion of our major international collaborative research effort on "quantification, administrative capacity and democracy" (QUAD) in December. This project has been funded under the "open research area" programme of the ESRC with other European funding bodies. QUAD's work focuses on the use of performance metrics and other indicators in three domains (prisons, higher education and hospitals) across four countries (regions) (England, France, Germany and the Netherlands). Amongst other things, this work gives important insights into the growing use of 'big data' and algorithms, including the utilisation of 'social media' for assessing the performance of public service providers. It is through the collaboration with other international leading researchers that **carr** can extend its international footprint, and we hope to continue on this path in our future research projects.

Martin Lodge and Andrea Mennicken, Director and Deputy Director of **carr**
lse.ac.uk/accounting/carr

DEPARTMENT SEMINARS 2018/19

ACCOUNTING, ORGANISATIONS AND INSTITUTIONS SEMINAR

28 NOVEMBER 2018
Emily Nacol
University of Toronto
Vile Ways of Traffic: Finance, Impropriety, and Risk in Eighteenth-Century Political Economy

27 FEBRUARY 2019
Rita Samiolo
King's College London
Enticing the "Will to Perform": Ranking and Competitions in the Market for Virtue

28 MARCH 2019
Malte Ziewitz
Cornell University
Rethinking Gaming: The Ethical Work of Optimization in Web Search Engines

ACCOUNTING RESEARCH FORUM

8 NOVEMBER 2018
Christopher Ittner
Wharton University of Pennsylvania
Issues in Cost Accounting: Recent Evidence

FINANCIAL ACCOUNTING SEMINAR

27 SEPTEMBER 2018
Florin Vasvari
London Business School
Debt Financing and Collateral: The Role of Fair-Value Adjustments

4 OCTOBER 2018
Zahn Bozanic
Ohio State University
The Regulatory Observer Effect: Evidence from SEC Investigations

18 OCTOBER 2018
Lakshmanan Shivakumar
London Business School
Analysts' Estimates of Cost of Equity Capital

29 NOVEMBER 2018
Mark Soliman
USC Marshall School of Business
The Impact of the CEO's Personal Narcissism on Non-GAAP Earnings

17 JANUARY 2019
Jeremy Michels
Wharton University of Pennsylvania
Discretionary Disclosure and Manager Horizon: Evidence from Patenting

14 FEBRUARY 2019
Adnan Isin
University of Exeter
Examining Syndicated Loans for Publicly Traded U.S. Firms

7 MARCH 2019
Miguel Duro
IESE Business School
Disclosure Regulation and Corporate Acquisitions

14 MARCH 2019
Thomas Rauter
Chicago Booth School of Business
The Effect of Foreign Corruption Regulation on Corrupt Countries

21 MARCH 2019
Franco Wong
Rotman School of Management
Initial Coin Offerings, Blockchain Technology, and White Paper Disclosures

9 MAY 2019
Weili Ge
University of Washington
When Does Internal Control over Financial Reporting Curb Resource Extraction? Evidence from China

MANAGEMENT ACCOUNTING RESEARCH GROUP CONFERENCE

MARG
MANAGEMENT ACCOUNTING RESEARCH GROUP

A 40 YEAR JOURNEY

On 4 April 2019, the Management Accounting Research Group (MARG) held its final annual LSE-based conference. The conference theme was aptly titled "Management Accounting: 40 Years on and the Future". The conference saw presentations by Professors David Otley (Lancaster University), Roland Speklé (Nyenrode Business Universiteit), Robert Luther (Bristol Business School) and Andrew Ring, Director of Group Finance at Hitachi Capital UK as well as Hilary Lindsay who was ICAEW's President (2016-17).

The conference discussions covered a variety of issues retrospectively relating to management accounting's past and identified emerging concerns and approaches which are likely to shape the field in the years to come. This and prior MARG conferences have benefitted generously from financial support from the Chartered Institute of Management Accountants and the Institute of Chartered Accountants of England and Wales.

Past MARG conferences held at LSE have discussed practitioner and scholarly management accounting concerns including digital technologies, sustainability, strategy, governance, risk, cost management and performance evaluation among many others. Leading academics in the field who have presented at MARG over its history include Anthony Hopwood, John Shank, Chuck Horngren, Bob Scapens, Mike Shields, Alfred Wagenhofer, Tony Davila and David Larcker among others. Speakers from industry have included Finance Directors from numerous companies and partners from KPMG, PwC, EY, and Grant Thornton to name a few.

Professors Michael Bromwich and Alnoor Bhimani thanked the many who attended MARG over the years as speakers and participants. They represent the field of management accounting as one which has witnessed many changes over the last four decades – some reflective of, and others triggered by, ideas discussed at the MARG conference.

Little doubt exists that the field will see further changes and innovations with LSE's Department of Accounting remaining central in these debates. We are looking forward to a different format and renewed formula to convene and encourage these debates in the future. Stay tuned!


Roland Speklé


Alnoor Bhimani


Hilary Lindsay


Michael Bromwich

STUDENT SPOTLIGHT

Vinci Cheng, BSc Accounting and Finance (2018-21) and incoming president of the LSESU Accounting Society for 2019/20

The LSESU Accounting Society has a specialist and unique focus on Accounting. Getting involved in the Society bridged the gap between the knowledge I acquired on the degree and the application of it in a real work environment.

Being a member of the Accounting Society in my first year provided a valuable opportunity to work with second-year and final-year accounting peers, master students, LSE alumni, and practitioners. I was also able to hone the soft skills employers are looking for, such as communication skills, presentation skills, as well as time-management, and information analytical skills.

One reason why I ran for President of the Society is because I enjoyed my experience as a sub-committee member for the Events Division of the Accounting Society. Not only did this allow me to help organise various successful events, I appreciated the extensive communication and networking opportunities that it involved. This led to another important reason to run: to contribute to continuously enhancing the services we provide to the students in a cooperative, consultative way.

My vision was to create an inclusive environment, where passionate students who specialise in Accounting gather to learn and are inspired intellectually by events organised by the Accounting Society.

We continue to run our AC100 Peer Tutor sessions – the weekly academic support sessions conducted by their seniors who have done well in their AC100 module. Members will also benefit from the Internship Sharing Session getting advice from seniors who previously did spring week and summer internships. Another benefit the Accounting Society brings is the opportunity to network with professionals from the Big-4 and representatives from the professional accounting bodies. The Society also has a strong focus on student well-being. For example, we often organise socials like theatre trips and buffet parties to provide students with a break from their studies.

We look forward to welcoming new members at the start of the 2019-20 academic year. Sub-committee positions are open to all students who have an interest in events, academic development, sponsorship and marketing. Not only will they contribute to the organisation of the Accounting Society, they will also develop transferable skills that are applicable in their future jobs.

Joining societies is also a way to broaden friendships in the beginning of the year. University is a great start for students to step out of their comfort zone and challenge themselves, especially by taking up different roles and responsibilities in various societies. However, it can be challenging in the beginning to find a good balance depending on your ability to cope with a heavy workload. Good time-management skills, the ability to prioritise, and multi-tasking will be skills you develop throughout the year. And you should of course not fall behind in your studies, as your exams do count for a huge proportion of your university life after all. It is crucial to have a work-life balance and to be attentive to your own well-being. Your experience as LSE students will no doubt be academically challenging, but you also may want to contribute, and learn more broadly as well. You are always welcome to speak to anyone of us in the committee if you have any questions as a new student joining LSE!

LSESU ACCOUNTING SOCIETY

LSESU AOI SOCIETY:

A SPACE FOR CRITICAL DISCUSSION AND ADVICE

Another academic year went by really quickly, and the students' connection with the LSESU Accounting, Organisations and Institutions (AOI) Society continued to develop. Outstanding alumni and experienced professionals came to LSE and showed the diverse job roles that AOI alumni can perform thanks to the critical knowledge spectrum provided by the program.

The organisations which this years' notable speakers represented were wide-ranging: from the International Accounting Standards Board (IASB), banks such as Citi or Sumitomo Mitsui Banking Corporation (SMBC), to accounting and investment firms like Deloitte and Law Debenture Corporation. The lectures and informal conversations with the speakers offered important professional insights to the students as well as strengthening the AOI community.

The first event organised by the society was the Alumni Networking Event in November 2018, where past students Anuj Deuba (Technical Associate at IASB), Jamal Khan (Deloitte, Audit International), and Marc Brodmann (Analyst, Corporate Banking, Citi) shared their experiences and provided advice to current students about the different fields in which the AOI studies could be applied. In addition to the academic events, the Society organised social ones. The most successful of these was the end-of-January exams celebration for students in China Town.

Risk Management in Banking was the topic of the second event in February 2019. The central speaker was Sam Lee, head of operational risk at SMBC. Lee suggested students to think about banking with a 'wider lens' to avoid a 'clipboard' approach in risk mitigation. "Operational risk is a broad discipline that is everywhere, start understanding it as soon as possible," he underlined.

The protagonist of our last professional event was Kathie Thorpe, Chief Financial Officer at Law Debenture Corporation. In early March 2019, the former executive of Rothschild Capital Management Ltd shared her main experiences on how to access crucial job positions in a variety of high-ranked companies like investment trusts or one of the Big 4 accounting firms, as well as the implications of being a woman in the corporate world.

It is important to express our gratitude to the previous AOI cohorts, for having started this valuable organisation, and to our 2018-2019 AOI fellows. Thanks to their constant participation, the Society's status was maintained and the AOI community was strengthened by generating a network among former and current students.

Last but not least, many thanks to the Accounting Department for their ongoing support in the organisation and advertisement of our events.

The best of luck for the next AOI students and Society members.

Orson Rout (President); Mohammed Siddiqi (Vice President); Natasha Shrier (Secretary); Daniel Walter (Treasurer); Annick Swinka, Luisa Garcia and Victoria Nguyen (Public Relationship Managers); Rebekka Korkka, Philipp Roth (Sponsorship and Social Events Managers)

CAMPUS LIFE

INTERVIEW WITH RECENT GRADUATE GIUSEPPE TRECARICHI, MSc ACCOUNTING AND FINANCE CLASS OF 2019

COUNTRY OF ORIGIN
ITALY
UNDERGRADUATE DEGREE
ECONOMICS AND MANAGEMENT
UNIVERSITY OF TRENTO, ITALY

Doing my Masters at LSE allowed me to continue to pursue my passion for accounting and finance. Accounting skills are paramount for the financial sector and this course was quite flexible with its compulsory modules in accounting and finance and the choice of outside courses to tailor your own path.

I have thoroughly enjoyed the lectures, seminars, readings and assignments, as well as the public lectures with special guests. I was really impressed by Simon Samuels' talk regarding the aftermath of the last decade's financial crisis. He was the first speaker of the Department of Accounting's Insights Speaker Series. The whole year has given me so much opportunity to learn, to experience, and to improve. You literally never stop acquiring knowledge and skills on this degree. My favourite course was valuation and security analysis as it covered the most interesting topics from the process that goes from gathering the relevant financial information of a firm's statements, to forecasting, to valuing the firm's stock. The course teachers had a natural ability to deliver and convey their knowledge to the students and keeping us engaged throughout. You get a real sense of satisfaction when the mental map of the knowledge you have acquired starts to overlap; when you have that feeling that everything is starting to connect and make sense.

Without doubt there were some big challenges whilst studying on this nine-month programme. Having to maintain an efficient pace, the deadlines, the readings, and also the job and internship applications, which for a Master's student can be quite overwhelming. Luckily, the way the course was conceived helped me navigate the academic year. Additionally, the career service support has been very useful throughout the year, and an area I did not have an idea about when I started the course.

Whether you are looking for a CV check or a mock interview, there are plenty of opportunities on offer.

If you are able to cope with the frenetic rhythm of this city, then living and studying in the centre of London is like hitting the jackpot. Samuel Johnson once said, "for there is in London all that life can afford." Every time someone comes to visit me, the new and the old "must-see" spots that we visit never cease to amaze me. And that's only from a touristic point of view. The sports and music scenes, the parks, the variety of cultures and people that I have met are just some of the reasons I have enjoyed living here.

One of my favourite places on campus is the eight-floor terrace of the New Academic Building. On warm, sunny days it's really enjoyable. Not far behind is the sixth-floor terrace of the Saw Swee Hock: not as picturesque, yet a really nice place where you can take a break. The Shaw Library in the Old Building is something special too. I suggest going there if you want to read some classics. It feels a bit like being in a time machine!

I would strongly advise any new accounting student to prepare for classes beforehand, hand in every assignment (also the formative ones), and do every piece of homework as best as you can and try to keep up with the readings. The year just flies by. In terms of careers, there's no magic formula for obtaining the job of your dreams. You will need to strive and work hard to get where you want to go, no matter whether you are an LSE graduate or not. Having said that, I'm really grateful to have been given the opportunity to study here. My studies have given me a much greater comprehension of the "real world", which is helpful for understanding your options and developing your skills and career path according to your goals. Being an LSE alumnus also opens up unparalleled networking opportunities. Embrace them.

I am planning to stay in London, which is where I see myself in the foreseeable future. I still have a lot to learn, and London never lacks opportunities, and I am not only talking about careers. I am still uncertain whether I'd like to pursue a PhD in a couple of years, but in the short-term I want to work so that I can start putting into practice what I have learned so far.

> “My studies have given me a much greater comprehension of the “real world”, which is helpful for understanding your options and developing your skills and career path according to your goals.”

SELECTED ACADEMIC HIGHLIGHTS 2018/19

DR PER AHBLOM

Presentations
Norwegian University of Science and Technology Business School Conference

PROFESSOR ALNOOR BHIMANI

Appointments
Honorary Dean, Suleman Dawood School of Business, Lahore

Presentations
Coimbra Business School; Westminster Business School; Lahore University of Management Sciences

Publications
Management and Cost Accounting (with Datar, Horngren and Rajan), 7th Edition, Pearson (2019)

Does Greater User Representation Lead to More User Focused Standards? An Empirical Investigation of IASB's Approach to Standard Setting (with Sivabalan and Bond), *Journal of Accounting and Public Policy* (2019)

How Do Enterprises Respond to a Managerial Accounting Performance Measure Mandated by the State? (with Dai, Sivabalan and Tang), *Journal of Management Accounting Research* (2018)

A Study of the Linkages Between Rolling Budget Forms, Uncertainty and Strategy (with Sivabalan and Soonawalla), *British Accounting Review* (2018)

DR STEFANO CASCINO

Appointments
Centre for Analysis of Risk and Regulation, Research Associate; Labor and Accounting Group, Chicago Booth School of Business, Member

Awards
LSE Excellence in Education Award (2018)

Publications
Bridging Financial Reporting Research and Policy: A Discussion of 'The Impact of Accounting Standards on Pension Investment Decisions, *European Accounting Review* (2019)

Group Affiliation and Default Prediction (with Beaver, Correia and McNichols), *Management Science* (2019)

Earnings Management within Multinational Corporations (with Beuselinck, Deloof and Vanstraelen), *The Accounting Review* (2019)

Presentations
University of Bologna Business School; Humboldt University of Berlin; University of Mannheim; University of Bolzano

DR MARIA CORREIA

Appointments
Centre for Analysis of Risk and Regulation, Research Associate

Awards
LSE Excellence in Education Award (2018)

Presentations
University of Bologna; Kings College London; ESSEC Business School; Moody's Analytics; Nova-Catholic University Lisbon Accounting Conference; AAA 2019 Annual Meeting

Publications
Group Affiliation and Default Prediction (with Beaver, Cascino and McNichols), *Management Science* (2019)

Asset Volatility (Kang and Richardson), *Review of Accounting Studies* (2018)

DR HENRY EYRING

Awards
LSE Excellence in Education Award (2018)

Publications
Performance Effects of Setting a High Reference Point for Peer-Performance Comparison (with Narayanan), *Journal of Accounting Research* (2018)

DR PASCAL FRANTZ

Publications
Debt Overhang and Non-Distressed Debt Restructuring (with Instefjord), *Journal of Financial Intermediation* (2019)

Hidden Effects of Bank Recapitalizations (with Beccalli and Lenoci), *Journal of Banking and Finance* (2018)

PROFESSOR BJORN JORGENSEN

Presentations
Scandinavian Accounting Research Conference, BI Norwegian Business School (keynote); Cambridge Judge Business School

DR SAIPRIYA KAMATH

Awards
LSE Excellence in Education Award (2018)

DR LIISA KURUNMÄKI

Publications
Assembling Calculative Infrastructures (with Mennicken and Miller), *Research in the Sociology of Organizations* (2019)

DR KEN LEE

Presentations
Institute of Chartered Accountants in Scotland; Aston University; Cambridge University Judge Institute; Nantes University

Publications
Company Valuation under IFRS (with Antill and Taylor), 3rd Edition (2019)

Financial Statement Analysis under IFRS (with Taylor), 6th Edition (2018)

DR XI LI

Appointments
The Accounting Review, Editorial Board; *Review of Accounting Studies*, Editorial Board

Awards
LSE Excellence in Education Award (2018)

Presentations
RBC Global Asset Management, London Stock Exchange; Asian Bureau of Finance and Economic Research Annual Conference; Cambridge Accounting Research Camp; Frankfurt School of Finance and Management

Publications
The Effects of a Mixed Approach toward Management Earnings Forecasts: Evidence from China (with Huang, Tse and Wu Tucker), *Journal of Business Finance & Accounting* (2018)

PROFESSOR RICHARD MACVE, EMERITUS

Presentations
University of International Business and Economics, Beijing; Xi'an Jiaotong-Liverpool University, Suzhou; ABR-PKU Conference, Beijing; China Accounting Museum; ICAEW, Shanghai; Renmin University; Yonsei University, Seoul; University of Wales; AAA 2019 Annual Meeting

DR NADIA MATRINGE

Presentation
Renaissance Society of America; Academy of Accounting Historians; AAA 2019 Annual Meeting; University of Exeter

Publications
Review of Alexander Hamilton on Finance, Credit, and Debt (Sylla and Cowen), *Economic History Review* (2018)

DR ANDREA MENNICKEN

Appointments

EIASM EDEN Doctoral Seminar on Qualitative Research in Accounting, Brussels (Faculty); Scientific Committee EAA 2019 Congress (Member)

Presentations

European Group for Organizational Studies, Edinburgh; Regulatory Scrutiny Board of the European Commission; University of Oxford; King's College London

Publications

What's New with Numbers? Sociological Approaches to the Study of *Quantification* (with Espeland), *Annual Review of Sociology* (2019)

Dynamics and Limits of Regulatory Privatization: Re-organizing Audit Oversight in Russia (with Samsonova-Taddei and Alon), *Organization Studies* (2019)

Assembling Calculative Infrastructures (with Kurunmäki and Miller), *Research in the Sociology of Organizations* (2019)

The Foucault Effect in Organization Studies (with Raffnsøe and Miller), *Organization Studies* (2019)

PROFESSOR PETER MILLER

Publications

Assembling Calculative Infrastructures (with Kurunmäki and Mennicken), *Research in the Sociology of Organizations* (2019)

DR JULIA MORLEY

Awards

LSE Excellence in Education Award (2018)

Presentations

Open University; Warwick Business School; LSE Marshall Institute; Stanford PACS Workshop; Society for the Advancement of Socio-Economics; Aberdeen University

Publications

The Ethical Status of Social Impact Bonds, *Journal of Economic Policy Reform* (2019)

PROFESSOR MICHAEL POWER

Presentations

New Institutionalism in Organisation Theory Workshop, Uppsala University (Keynote)

Publications

Infrastructures of Traceability, in *Thinking Infrastructures* (2019)

Modelling the Micro-Foundations of the Audit Society: Organizations and the Logic of the Audit Trail, *Academy of Management Review* (2019)

Accounting, Boundary-Making, and Organizational Permeability, in *Towards Permeable Boundaries of Organizations?* (2018)

DR ANEESH RAGHUNANDAN

Presentations

UTS Business School Sydney; UBC Saunder School of Business

DR ANA SIMPSON

Publications

Review of *The Routledge Companion to Behavioural Accounting* (Libby and Thorne, 2018), *International Journal of Accounting* (2019)

PROFESSOR ANE TAMAYO

Presentations

National Bank of Greece; Stockholm School of Economics

Publications

Social Capital, Trust and Firm Performance: The Value of Corporate Social Responsibility during the Financial Crisis (with Lins and Servaes), *Journal of Finance* (2017)

PROFESSOR WIM A VAN DER STEDE

Appointments

EAA Doctoral Colloquium (Co-Chair); AICPA-CIMA Thought Leadership Committee (Member)

Presentations

Keynotes – Annual Conference of the Brazilian Accounting Association (ANPCONT), Sao Paulo; Annual Conference of Management Accounting Research (ACMAR) at WHU, Vallendar; CIMA Management Accounting Lecture Series, UTS Business School, Sydney

Plenaries – Contemporary Accounting Research (CAR) Doctoral Consortium (speaker); University of International Business and Economics, Beijing (lecture); Shanghai University of International Business and Economics (lecture); Shanghai National Accounting Institute (SNAI) Annual Conference (speaker); SNAI Leading Accounting Talent Series, Shanghai (lecture)

Research – ACMAR Doctoral Colloquium (faculty); CIMA Centre of Excellence Australia Doctoral Training at UTS, Sydney (faculty); Guanghua School of Management, Peking University (seminar); Universidad Autonoma de Madrid (seminar); Warwick Business School (seminar); AAA Management Accounting Midyear Meeting (discussant); Contemporary Accounting Research (CAR) Conference (discussant)

Publications

Multitasking Academics, *Issues in Accounting Education* (2018)

CFO Role and CFO Compensation: An Empirical Analysis of their Implications (with Caglio and Dossi), *Journal of Accounting and Public Policy* (2018)

WHO'S WHO

FACULTY

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Professor of Management Accounting

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Assistant Professor of Accounting

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Associate Professor of Accounting

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HENRY EYRING
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EMERITI

MICHAEL BROMWICH
CIMA Professor of Accounting and Financial Management, Emeritus

RICHARD MACVE
Professor of Accounting, Emeritus

PETER POPE
Professor of Accounting, Emeritus

VISITING FELLOWS AND PROFESSORS

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Visiting Professor in Accounting

PETER HOLGATE
Visiting Professor in Practice

WAYNE LANDSMAN
Visiting Professor in Accounting

BRIAN SINGLETON-GREEN
Visiting Professor in Practice

MARTIN WALKER
Visiting Professor in Accounting

JONI YOUNG
Visiting Professor in Accounting

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Student Community and Operations Manager

DOROTHY RICHARDS
Diploma and MSc Accounting and Finance Programme Manager

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SALAH UDDIN

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