



### "Effects of Increasing Enforcement on Financial Reporting Quality and Audit Quality" (JAR)



In this paper, published in the latest issue of the *Journal of Accounting Research* (JAR), CAR's Ralf Ewert and Alfred Wagenhofer provide a more nuanced view of the widely held assumption in policy making and empirical research that increasing the strength of public enforcement improves financial reporting quality and audit quality. In a model with a manager who can manage earnings, a strategic auditor, and an enforcement institution, they show that enforcement and auditing are complements in a weak enforcement regime but can be substitutes in a strong regime. Although stronger enforcement always mitigates earnings management, the effects of different instruments of strengthening enforcement are ambiguous. Specifically, these instruments can improve or impair financial reporting quality and audit quality, depending on production risk, accounting system characteristics, and the scope of auditing relative to enforcement.

### "The Effect of Cross-Border Group Taxation on Ownership Chains" (EAR)

In a paper recently accepted for publication in the *European Accounting Review* (EAR), Silke Runger (Institute of Accounting and Taxation) investigates the influence of taxation on ownership chains and specifically on the location decision for intermediate holding companies. By examining the effect of the introduction of a cross-border group taxation regime in Austria in 2005 on ownership chains of European multinational firms, she finds evidence that foreign parent companies already invested in Austria restructured their ownership chains in order to meet the requirements of the group taxation regime. This effect is larger for foreign parent companies with loss-generating subsidiaries. Collectively, her empirical findings suggest that, when evaluating the effect of cross-border group taxation regimes, companies follow a detailed tax planning strategy that takes tax-base effects into account.



### A Backstage View into the Role of the EAA's Standing Scientific Committee Chair

As CAR faculty members, we are not only dedicated to high-quality research and teaching but we also feel obliged to participate in academic leadership, such as by taking on key positions in national and international accounting organizations and associations. In this regard, it has been my pleasure to serve on the European Accounting Association's Standing Scientific Committee (SSC) for the last six years and to act as its chair since May 2016. While many in the accounting community are affected by our decisions (e.g., the selection of papers for the EAA's annual congresses), the specific details of such positions can often appear as a "black box." Thus, we thought it might be interesting to offer a (small) glimpse behind the curtain.



Professor Ralf Ewert

The SSC is one of several committees that the EAA has set up to fulfill its mission. The SSC's focus is on the EAA's annual congress, the association's main scientific event. With regard to the scientific program, the committee has an advisory role that encompasses the design and supervision of the entire screening process of submitted papers and the set-up of so-called "parallel sessions" ("research fora" are arranged by the respective local organizers) and the congress' symposia.

That may sound impressive, but what does this imply for an SSC chair? You quickly get an idea of the required work by looking at the last EAA congress 2018 in Milan, where we received 1,381(!) submissions. Of course, the chair is the person ultimately responsible for the outcome, but there is some good news: he/she is not alone. Besides the chair, the SSC currently comprises eight members, each representing one or several methodological and/or subject areas (e.g., analytical modeling, auditing, financial reporting, social and environmental accounting, ethical issues in accounting, etc.). Furthermore, there is an EAA secretary for handling all procedural issues. To prepare a congress, we first evaluate and adapt (if necessary) the submission categories with respect to subject areas and methodologies; we also define the scoring system for assessing the quality of papers and the threshold they have to meet to get accepted. All these specifications are released on the congress' website. Each submitted paper must be assessed by two reviewers; therefore, for the Milan congress, we had to organize and supervise a review process with 2,762 reviews. To arrange

this, we invite colleagues from all over the world to serve as reviewers for a certain category. To be eligible to be a reviewer, a researcher should have a certain publication record to demonstrate his/her proficiency. The resulting group of reviewers for a congress is called the (broader) Scientific Committee. The full list of reviewers is published on the congress' website, and for Milan, we eventually had 255 reviewers (including the SSC), resulting in an average workload of 10.8 papers per reviewer. Of course, the review process is anonymous and double blind – while the names of reviewers are publicly available (to properly acknowledge their work), no reviewer knows a paper's author(s) during the reviewing stage (this holds even for me as SSC chair; only the EAA secretary has this information), and no author ever receives information about the identity of his/her paper's reviewers.

After all the reviews are completed, we decide whether to accept or reject the papers. Each SSC member is responsible for the decisions for his/her category, and the decisions are based on the reviews, our prespecified scoring system, and possibly a personal assessment of a paper's quality. Papers have to satisfy a minimum score to get accepted. After this, less developed papers are accepted for research fora, while more developed papers are assigned to parallel sessions, where some of these papers are given discussants. Here, our task is to compose all the parallel sessions and to choose qualified discussants for the papers to be discussed. To accomplish this, we call upon a special list of colleagues who volunteered to serve as a discussant when registering for the congress.

You can certainly imagine that after we have sent out the decision letters to the authors, not all of them are happy with our choices. As SSC chair, I am the official sender of potentially bad news and the natural recipient of all responses from disgruntled authors. For this, I have to keep myself cool and factually justify and defend the decisions.

Overall, being chair of the SSC is very exciting, albeit time-consuming. You not only get insights into how the community "ticks" behind the surface but you are also in a position to actively determine certain standards. The position is of a serving nature regarding the community and is completely honorary. Thus, you need a good deal of motivation, but I can assure you that the appreciation you receive from the community makes it well worth the effort. My term as SSC chair expires after the upcoming congress in Paphos in May 2019. All in all, I have enjoyed it very much.

## Annual DART Workshop 2019 in Graz

This year's DART accounting workshop took place at the University of Graz in January. CAR's Rainer Niemann organized the workshop, during which the DART students Robert Eder, Sandra Hinteregger, Elisabeth Plietzsch, Kristoffer Uhlenkamp, and Anisa Vrenozi had the opportunity to present their latest working papers and progress reports. The presentations covered topics such as corporate governance, auditing, performance measurement, dividend policies, and blockchains and gamification in accounting. The DART students Claire Estebanez, Peter Krenn, Claudia Langbauer, Clemens Lankisch, Sandra Mauser, and Reinhard Schrank discussed research papers by fellow PhDs and post docs from the University of Mannheim, Goethe University Frankfurt, and the University of Würzburg. The discussants and the many participants at the workshop provided lots of valuable suggestions and comments for improving the working papers by highlighting the paper's strengths as well as identifying critical points and offering solutions within the workshop sessions and subsequent discussions.

## "Capacity Planning Under Uncertainty and the Cost of Capital" (JMAR)



In the paper, recently published in the *Journal of Management Accounting Research* (JMAR), CAR's Alfred Wagenhofer and David Johnstone (University of Sydney) explore how risk aversion affects optimal capacity and pricing decisions within the economic setting of Banker and Hughes (1994). In this setting, a risk-averse firm invests in fixed capacity and sets a product price, but can also purchase spot capacity at higher unit cost. Initial capacity and price are set by maximizing the firm's mean-variance certainty equivalent. They find that, contrary to common intuition, optimal capacity or list prices can increase under greater risk aversion depending on exogenous fundamentals. They show how the firm's capacity and price choices affect the economic trade-off between the mean and the risk of the firm's uncertain payoffs. They also show that the cost of capital is affected not only by the firm's covariance with other assets, but also by its payoff mean. The objective of minimizing the cost of capital is, therefore, fundamentally inconsistent with maximizing project value.

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