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Journal of Contemporary Business Issues

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Editor’s Forward

I would like to thank Carol Jessup, editor of the inaugural issue of the Journal of Contemporary Business Issue—Special NAAS edition, and her co-auditors, Jack Elfrink and George Schmelzle, for their hard work to change the long-held dream of having a NAAS journal into reality. Their ground-breaking work made my job as an editor of the current issue so much easier. The only challenge I faced with respect to this issue at the beginning was getting volunteers to serve as reviewers. Eventually, I got enough reviewers for the papers submitted. I would like to take this opportunity to thank those who volunteered to serve as reviewers, particularly those who actually participated in reviewing the articles submitted for publication in the current issue. I would like to also thank Ron Bauerly and Jack Elfrink of Western Illinois University for all the help and assistance they provided me.

While there are only four articles in this issue they are of high quality and tackle important theoretical and practical accounting issues. In the first article, Tom Cooper, Pauline Downer, and Alex Faseruk conclude that indigenous peoples who live on a reserve in Canada are personally tax-exempt, while in the United States, there is a general confusion concerning the importance of residency in determining the taxable status of Native Americans as it is more tied into treaty rights. In the second article, Martín Leibowitz and Alan Reinstein explain and illustrate ethics threats and safeguards, trace the evolution from rules-based to principles-based ethics standards, and apply the framework requirements to two ethics cases. In the third article, Tim Fogarty shows that whereas critical accounting remains the handicraft of individuals, mainstream accounting has adopted more machine-like characteristics as is reflected in the size of author groups and how credit is distributed across groups. In the fourth paper, Tom Cooper, Pauline Downer, and Alex Faseruk report that teaching MBA students using an integrative course approach (that combines financial and managerial accounting, taxation, and auditing) has some challenges but the benefits far outweigh the challenges. They, thus, argue that universities should seriously consider adopting this integrative approach in their MBA programs.

Mostafa Maksy
Kutztown University of Pennsylvania
This paper compares the taxation issues facing Native Americans in the United States and Aboriginal peoples in Canada. Although taxation issues of Indigenous peoples have been separately studied in both a Canadian context and American context, no previous studies have undertaken direct comparisons or contrasts between the peoples in the two countries. The contribution of this study is to undertake a direct comparison and contrast of the tax issues emerging for the Indigenous peoples of North America by juxtaposing these issues and discussing them sequentially. In making these comparisons and contrasts, both the practical issues emerging for North American Indigenous peoples and secondly issues arising for practitioners in the field will have been better articulated.

Introduction

Aboriginal or First Nations peoples (as Native Americans are known in Canada) and Native Americans have historically faced significant barriers to economic and business development. For example, a study by the National Aboriginal Risk Capital Association (2004, p.4) indicated that First Nations in Canada “confront poverty, geographic and cultural isolation, infrastructure deficiencies, poor links to markets, low capacity for business development and growth and the flight of skilled human resources to urban centers.” Many Aboriginal leaders see the solution to these conditions through enhanced access to capital designed to stimulate economic growth. Important issues are how to address taxation issues while simultaneously accessing capital to stimulate and manage economic growth.

First Nations in Canada are not alone in dealing with economic and business issues. The United Nations Economic and Social Council (2010) contends that the dominant models of development have compromised Indigenous peoples in every aspect of their daily lives, including the imposition of large infrastructure projects on their lands without consent. These impositions have generated poverty and severe inequality, fostered massive environmental devastation, and entrenched human rights violations. Moreover, development has ignored
Indigenous peoples’ own governance, economic, social, education, cultural, spiritual and knowledge systems, and the natural resources that have sustained them through the generations. The same holds true for Native Americans (Verbos et al., 2011). The ability of Aboriginal and Native American communities to control and manage their approach to taxation is vital for long-term success and prosperity.

This study provides a comparison between the taxation issues facing Native Americans in the United States and Aboriginal peoples in Canada. In references, this study also uses the broader term, Indigenous peoples, to refer to both Native Americans in the United States and Aborignals in Canada. Although Indigenous taxation has been studied in both a Canadian context (Chiste, 1986) and American context (Wilkinson, 1977), there has been no direct comparison or contrast between these systems. Our contribution is to undertake a direct comparison and contrast of the tax issues emerging for the Indigenous peoples of North America. Through making this comparison and contrast, the practical issues for North American Aboriginal peoples and questions arising for practitioners in this field are better articulated.

**Background**

Indigenous peoples’ management research has expanded significantly in last decade. Accordingly, the wide variety of emerging issues is reflected in the extant literature. Environmental management issues (Gallhofer et al., 2000), economic development and regional development (Anderson et al., 2004; Hindle et al., 2005) have all been widely explored. Taxation, while tangentially examined as an issue, has not been fully explored.

Indigenous peoples, while providing interesting and very unique perspectives for academic research, are nonetheless somewhat difficult to study because they do not constitute a homogenous group. For example, the Canadian constitution recognizes three distinct groups of Aboriginal people: Indians (commonly referred to as First Nations), Métis and Inuit. These peoples all have unique histories, languages, cultural practices, and spiritual beliefs. More than one million people in Canada identify themselves as an Aboriginal person, according to the 2006 Census (Indian and Northern Affairs 2010). They also face unique management issues depending on the nature of their respective community’s development. For example, there may be different economic and development issues in more rural communities when compared with those located in urban areas.

While there are many sources of revenue for Indigenous communities, the recent focus has been on gaming and resource extraction. Issues with primary resource extraction and natural resources companies on Indigenous land have also been explored in the management literature (McPherson and Wolff 1997; Missens et al. 2007). O’Fairchellain and Ali (2008) focused on Indigenous peoples, extractive industries and corporate social responsibility. In addition to extractive industries, traditional sustainable industries, such as fishing and hunting management (Schreiber 2002) and tourism (Notzke 2004) have also been examined. Within an Indigenous management context, governance (Graham and Edwards 2004), careers (Dwyer 2003) and leadership (Grah et al. 2001) have also been studied. Gaming, in the form of casino and other forms of gambling, has been explored by Cornell et al. (1998). However,
while taxation issues are inherent in most of these studies there has been a paucity of analysis in addressing how the context differs across jurisdictions, specifically between Canada and the United States.

Entrepreneurship is, by far, the most widely researched field in Indigenous management with a significant amount of studies from several authors, such as Anderson (1995), Cornell and Kalt (2000), (2004), Anderson et al. (2006), Dana (2007), Hindle et al. (2005), Hindle and Lansdowne (2005), Peredo and Anderson (2006), Meis Mason et al. (2009), Clydesdale (2007), Cahn (2008), Tapsell and Woods (2010). The majority of the research relates to the Asia-Pacific region and is largely focused on case studies. There is a relative paucity in the management literature on North American Aboriginal peoples and no substantive contribution on taxation issues for entrepreneurs. North American taxation issues should be particularly important as the difference between jurisdictions may demonstrate entrepreneurial opportunities for Indigenous peoples who may have the right to work in both Canada and the United States under the Jay Treaty of 1794. Moreover, as Indigenous communities rely both on tax transfers from federal, state and (in Canada) provincial governments, the ability to control and implement an appropriate tax system at a local level is incredibly important for community and economic development.

United States Tax Taxation

In the United States, there is no constitutional or statutory provision that expressly exempts Indigenous tribes from federal income taxation. However, the general practice has been that the political uniqueness of an indigenous tribe that has been recognized as the defining principle. No federal tax liability has been assessed to a tribe with respect to tribal income from business activities conducted within the reservation1. In Canada, the assets of an Indian Tribe are owned by the tribe as a community and not by the members as individuals or tenants in common. The right to participate in this community depends on a continuing membership in the tribe. Taxation issues would emerge when a member decided to leave a tribe.

American employers, including Tribes, are obligated to withhold FICA and federal income taxes from employee wages. The wages paid to elected tribal government officers are not subject to FICA or federal income tax withholding. However, since the wages would be included in the gross income of the officer, voluntary withholding of federal income taxes may be requested.

The Indian Tribal Government Tax Status Act of 1983 assigned state status to Indian tribes for exemption from certain federal excise taxes. The exemption applies only to tribal activities conducted as an essential governmental function. For example, a federal wagering tax of one-quarter of one percent is also imposed on the amount of all wagers placed on betting pools or lotteries conducted under state law. The Internal Revenue Service has applied this tax to Indian tribes that sell pull-tabs or conduct lotteries as it is not considered an essential government function.

1. The Henry W. Bloch School of Business and Public Administration at the University of Missouri-Kansas City has a detailed online project on Native American tax policies. This description is based on publicly available information that is contained on their website http://bloch2.umkc.edu/natpp/
The Bureau of Indian Affairs publishes a list of federally recognized tribes periodically in the Federal Register. Income earned by the tribe is not subject to income tax, regardless of whether the business activity is inside or outside of Indian-owned lands. Income tax statutes then do not tax Indian tribes as the tribe is not a taxable entity. Tribal governments are also not subject to state taxation on business activities conducted inside Indian-owned lands. Courts have generally recognized that all land held in trust and located outside a reservation is exempt from state taxation.

Federally chartered tribal corporations are not subject to federal income taxation. Income earned by the tribe is not subject to income tax, regardless of whether the business activity is inside or outside Indian-owned lands. As well, federally chartered Indian tribal corporations have the same tax status as the tribe and are not taxable. State chartered tribal corporations are subject to federal income taxation. Income earned by the tribe is subject to income tax, regardless of whether the business activity is inside or outside Indian-owned lands.

### Individual Tribal Members

Exemption from federal income taxes on individual Indians must be based on a treaty or act of Congress as the Internal Revenue Code does not specifically exempt individual Indians from payment of federal income tax. Further, general welfare payments to the tribe may not be subject to federal income tax if based on need unless the payments are made pro rata to all tribal members. Payments to all tribal members may be evidence that such payments are not based on need. Individual tribal members are not subject to state taxation for activities conducted inside Indian-owned lands. For the exemption to apply to income taxes, the individual Indian member must both live and work on the reservation. Either a residence outside Indian-owned land or work outside Indian-owned land is sufficient cause to warrant the levy of state income taxation. For other taxes, such as sales, motor vehicle, and excise taxes the location of the sale or property is the overriding criterion in determining whether or not a tax liability has been incurred.

### Canadian Taxation

In Canada, Aboriginal peoples are subject to the same tax rules as other Canadian residents unless income is eligible for the tax exemption under section 87 of the *Indian Act*. This exemption applies to the income of an Indian that is earned on a reserve or that is considered to be earned on a reserve, as well as to goods bought on, or delivered to, a reserve.

### Tax Exemption

For Aboriginal peoples, personal property—including income-situated on a reserve is exempt from tax under section 87 of the *Indian Act*. A tax exemption for Indian property situated on reserves existed through treaty rights prior to the Canadian Confederation of 1867. The Supreme Court of Canada has ruled that this exemption is linked to the protection of reserve land and property. The Court has also concluded that the purpose of the exemption is to ensure

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2. The Canadian Revenue Agency refers to Aboriginal Peoples as Indians to be consistent with the *Indian Act*.

3. The Canadian Revenue Agency outlines many Aboriginal tax issues on their website - [http://www.cra-arc.gc.ca/brgnls/menu-eng.html](http://www.cra-arc.gc.ca/brgnls/menu-eng.html). This is the major source of the description here unless otherwise indicated.
that taxation does not erode the use of Indian property on reserves. The Court has indicated that this tax exemption is not intended to remedy the economically disadvantaged position of Aboriginal people in Canada or bring economic benefits to them. Also, based on Supreme Court decisions, Indian property not situated on a reserve will generally be subject to tax just like any property held by other Canadian residents.

Employment income is exempt from income tax under paragraph 81(1) (a) of the *Income Tax Act* and section 87 of the *Indian Act* only if the income is situated on a reserve. In 1992, the Supreme Court of Canada decided that all factors connecting income to a reserve must be examined in determining whether or not the income is situated on the reserve. In some situations, unusual factors result in employment income being treated differently. For example, in the commercial fisheries, value added activities such as processing, are treated differently than harvesting. In such cases, any factors connecting the income to a reserve must be analyzed in accordance with the various court decisions to determine if the tax-exemption applies. Any expenses relating to employment income that is tax-exempt cannot be claimed as deductions against other taxable sources of employment income.

In Canada, Employment Insurance benefits, Canada Pension Plan payments, Quebec Pension Plan payments, registered pension plan benefits, retiring allowances, and wage-loss replacement plan benefits received are treated in the same way as the employment income that gave rise to the particular income. In other words, if employment income is exempt from income tax under section 87 of the *Indian Act*, employment-related income will also be exempt. If part of the employment income is exempt, any employment-related income arising from that exempt income will also be exempt from income tax.

**Business Income**

Business income is generally exempt from tax if the actual income-earning activities of the business take place on a reserve. If the business is operated entirely on a reserve, the business income is connected to a reserve and is exempt under section 87 of the *Indian Act*. If the business activities are mostly carried on off a reserve, the business income is taxable because the exemption under section 87 does not apply.

Determining whether the business income is taxable is based on the factors that connect income to a reserve. The courts have indicated that the most significant connecting factor is the location where the business carries on its revenue-generating activities. If the actual income-earning activities take place on a reserve, the location of customers is also an important factor. Other connecting factors, which are less critical, include: whether or not the owner lives on a reserve, if the business maintains an office on a reserve or take business orders from a location on a reserve, if books and records are kept on a reserve and if administrative, clerical, or accounting activities take place on a reserve. Section 87 of the *Indian Act* does not apply to corporations or trusts, even if they are owned or controlled by an Indian. A corporation or trust is, therefore, treated as a separate taxpayer. As such, neither would be considered an Indian for purposes of the exemption.
Excise Duties and Taxes

Excise duties and taxes apply to certain products and are particularly important in Canada. The manufacturer or distributor, not the consumer, pays these taxes. The Canadian Revenue Agency (CRA) administers the legislation which regulates the products incurring these tax liabilities. The CRA also licenses the manufacturers of these products. Although an amount equal to the tax may be included in the price, the courts have confirmed that Indian individuals are not exempt from indirect taxation.

Federal excise duty applies to alcohol and tobacco products. The Excise Act, 2001 is the legislation that imposes excise duty on spirits, wine and tobacco products while the Excise Act governs beer. The Excise Tax Act imposes federal excise tax on motive fuel products, automotive air conditioners and certain fuel-inefficient vehicles and insurance premiums. If an Indian, an Indian band, or a band-empowered entity wants to manufacture or produce goods that are subject to excise duty or tax, he/she/it must first apply for the proper license or registration. Licensees or registrants must file monthly returns and pay the duty or tax that applies. The tax exemption set out in the Indian Act does not exempt an on-reserve manufacturer from paying excise duty or tax on tobacco, fuel and other products.

Goods and Services Tax/Harmonized Sales Tax (GST/HST)

Goods and services tax (GST)/Harmonized sales tax (HST) are also important in Canada. Generally, the same rules apply to the HST on goods and services sold in Nova Scotia, New Brunswick, Newfoundland and Labrador, British Columbia, and Ontario as apply to the 5% GST on goods and services in the rest of Canada.

In Canada, the GST/HST does not apply to goods bought on a reserve by Indians, Indian bands, and unincorporated band-empowered entities. Goods bought off a reserve by Indians, Indian bands, and unincorporated band-empowered entities are subject to GST/HST, unless the goods are delivered to a reserve by the vendor or the vendor's agent.

The GST/HST exemption under section 87 of the Indian Act does not apply when an Indian, an Indian band, or a band-empowered entity buyer takes possession of goods off a reserve and self-delivers the goods to the reserve. However, the CRA may waive the delivery requirement for qualifying that deal mainly with customers who are Indians, Indian bands, and band-empowered entities. As well, incorporated band-empowered entities are not entitled to tax relief on goods bought on a reserve or delivered to a reserve unless the goods are purchased for band management activities. At a provincial level, the Government of Ontario announced that, effective September 1, 2010, point-of-sale relief equal to the 8% provincial part of the HST will be provided on eligible purchases made by qualifying First Nation purchasers.

Generally, the GST/HST does not apply to services provided to Indians if the services are performed totally on a reserve (such as haircuts or small appliance repairs) or if the services are performed off reserve and relate to real property interests located on a reserve. Services acquired on or off a reserve by Indian bands or band-empowered entities for band management activities or for real property on a reserve are also not subject to GST/HST. The exception to this rule is that Indian bands or band-empowered
entities will pay the tax for off-reserve purchases of transportation, short-term accommodations, meals and entertainment. However, a general rebate application may be filed to recover the GST/HST paid on these purchases when acquired for band management activities or for real property located on reserve.

The exemption under section 87 of the Indian Act also does not apply to goods imported by Indians. The CRA collects GST/HST on goods when they are imported, and an Indigenous person would be required to pay GST/HST on the goods they import, unless some other provision exempts them from tax. Goods are subject to GST/HST even when they are delivered to a reserve by an agent or Canada Post.

To buy goods or services without paying GST/HST, Indigenous people are required to show the vendor proof that they are registered under the Indian Act (e.g., Certificate of Indian Status). A vendor to Indigenous peoples needs to keep adequate evidence that the sale was made to an Indigenous person and, if applicable, delivered to a reserve. For instance, on the sales invoice the registry number or band name and family number from the Certificate of Indian Status should be written. Proof of delivery to a reserve, such as a waybill, postal receipt, freight bill, dispatch record, or mileage log should also be kept.

**Discussion**

Not addressing taxation issues for Indigenous communities and businesses may make financial strategies restrictive, conditional and uncertain. Transfers in the form of funding (grants and subsidies) from the federal, state/provincial governments are the norm for Indigenous communities and businesses. In general, because transfers are insufficient from federal and lower entities, Indigenous communities cannot develop and enhance their economic base. Transfers are conditional and, as a result, there is little incentive to seek administrative efficiencies and service innovations. As well, transfers are too uncertain. Consequently, Indigenous governments are less able to conduct long-term planning. Therefore, the need to develop appropriate strategies and tactics toward taxation becomes essential for long-term prosperity in Indigenous communities and businesses.

In Canada, the development of First Nation tax authorities is limited because, at present, provincial governments occupy much of their potential tax base. Current fiscal relationships do not support a healthy business climate on First Nation lands. It creates regulatory conflict with surrounding jurisdictions. As well, it impedes the ability of Indigenous communities to respond to investors because so many actions require approval from provincial and federal authorities. Taxation policy and statutes have to be clear for community and economic development.

Understanding the difference between how Indigenous communities and people are subject to taxation in Canada and United States is important as increasing opportunities around resource extraction; gaming and cultural tourism may mean cross-border strategies are necessary. Indigenous communities and businesses may come together in Canada and the United States to take advantage of opportunities and ultimately they need to know the implications from a taxation perspective.
Conclusion

In comparing both the United States and Canada as to how Indigenous peoples are treated from a taxation standpoint, they would seem roughly similar. However, there is more clarity around the issue of ‘on’ versus ‘off’ reserve in Canada. Indigenous peoples who live on a reserve in Canada are personally tax-exempt, while in the United States, there is a general confusion concerning the importance of residency in determining taxable status as it is more tied into treaty rights. Issues emerge over an increasingly mobile workforce. If an Indigenous person decides to take a job off reserve, for example at a work camp in a remote area, then they are subject to tax. Even if they are employee of a tribal band, they may be subject to tax as this is considered off reserve. Further clarity is need as what is considered on and off reserve, as the distinction is based on a pre-technology driven economy. There is no longer just physical labour emerging from reserves. Knowledge and expertise are more likely to emanate from an Indigenous community as there will be workers. This knowledge and expertise knows no boundaries. Workers are increasingly mobile, and their ability to work in other locations should not impede their ability to live and contribute to their community because of taxation issues.

In Canada, taxation is generally more prescriptive around the applicability of value added taxes, such as the GST and HST. Although there is a fair amount of prescription available from the government, in practice; nonetheless confusion still exists. What is exempt and why it is are not always clear. Simplicity in applying and assessing taxation on goods and services would assist the development of Indigenous communities and business.

Given the practical importance of taxation to Aboriginal and Native American communities as well as businesses, this is an important time to study the issue. It would seem that the similarities between both jurisdictions are numerous. How to address the problems that emerge may need a coordinated effort from both the United States and Canada. Addressing both on and off reserve taxation issues would be an important government policy issue, impacting both business and ultimately the wider North American society.

References


ETHICS MINDSETS, NEW AND OLD

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Turn-of-the-century audit failures such as Enron exposed lapses in accountants’ professional conduct. The SEC and Sarbanes-Oxley Act responses changed little to the prevailing “rules-based” mindset wherein some CPAs sought loopholes, “bright-lines” and ways to bend rules. To foster a new mindset, the AICPA issued two “principles-based” conceptual frameworks that require members to identify, evaluate, and address ethics “threats” and apply “safeguards” to eliminate or mitigate those threats. This article (1) explains and illustrates ethics threats and safeguards, (2) traces the evolution from rules-based to principles-based ethics standards, and (3) applies the framework requirements to two ethics cases.

To navigate the new ethics landscape, CPAs should be versed in the objectives of the AICPA’s six fundamental ethics principles. We present a table that summarizes these objectives and comments on their implications.

Introduction

This article traces and analyzes a post-Enron shift from “rules-” to “principles-based” ethics mindsets and a concomitant shift from “rules-” to “principles based” ethics standards. After presenting an overview of the AICPA Code of Professional Conduct (“the Code”) and a summary of the Continental Vending Machine case, we explain the Code’s new principles-based “threats” and “safeguards” provisions, and then apply the new mindset to the Enron and Continental Vending Machine disciplinary actions.

Overview of the AICPA Code of Professional Conduct

The Code’s introduction states that it was adopted “to provide guidance and rules to all [AICPA] members—those in public practice, in industry, in government, and in education—in the performance of their professional responsibilities” (AICPA, 2006a). The Code’s first section contains six Fundamental Principles, as shown in Figure 1. For example, the third Fundamental Principle reads, “To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.” This statement contains an objective (“to maintain and broaden public confidence”) and a model behavior (“perform ... with the highest sense of integrity”). However, objectives and model behaviors are unenforceable because they do not prescribe or prohibit observable actions.
**Figure 1**

**Fundamental Principles of the Code of Professional Conduct**

1. **Responsibilities:** *In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities (ET 5).*

2. **The Public Interest:** *Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism (ET 53).*

3. **Integrity:** *To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity (ET 54).*

4. **Objectivity and Independence:** *A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services (ET 55).*

5. **Due Care:** *A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability (ET 56).*

6. **Scope and Nature of Services:** *A member in public practice should observe the Principles of the Code of Professional Conduct in determining the scope and nature of services to be provided (ET 57).*

The Code continues with two new Frameworks (explained in detail below), 11 Rules of Conduct, 62 Interpretations of the Rules of Conduct, and 83 Ethics Rulings. Rules, Interpretations, and Ethics Rulings list observable and thus enforceable “do’s” and “cannot do’s.” For example, Rule 102, regarding integrity and objectivity, states that a member “shall be free of conflicts of interests, and shall not knowingly misrepresent facts or subordinate his or her judgment to others.” Interpretation 301-3, regarding confidentiality of client information, states “Members reviewing a practice in connection with a prospective purchase or merger shall not use to their advantage nor disclose any member’s confidential client information that comes to their attention.”

**The Framework Approach: Principles Rather than Rules**

The AICPA’s Professional Ethics Executive Committee (PEEC) recognizes that Rules, Interpretations and Ethics Rulings cannot (1) consider all situations or fact patterns that might undermine the objectives of the Fundamental Principles (“threats”), and cannot (2) specify all behaviors to mitigate those threats (“safeguards”) (AICPA 2008a).
To remedy these shortcomings, the PEEC adopted two conceptual frameworks:

(1) The *Conceptual Framework for AICPA Independence Standards* (the Independence Framework), (AICPA 2006b) effective April 2007, affecting independence issues for members in public practice who provide attest services, and


The PEEC directs AICPA members to use these frameworks when no specific AICPA Code guidance exists on the particular ethical matter, and its “risk-based approach” involves . . . [identifying, evaluating and addressing] threats to meeting the objectives of the fundamental principles when making decisions on ethical matters that are not explicitly addressed by the Code… If an identified threat is … more than trivial and inconsequential, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level... If a threat cannot be sufficiently mitigated through the application of safeguards..., the member should decline or discontinue the specific professional service... The member also should consider whether it is appropriate to resign from the client or [, for members in industry, government, or education,] the employing organization (AICPA 2008a).

The frameworks thus promote a mindset to identify threats and implement safeguards rather than add further rules to the Code.

While both frameworks’ approaches, structures, and terminologies are parallel, some differences arise: (1) The Independence Framework applies to Rule 101 (independence) while the Guide applies to all other rules; (2) The Independence Framework is directly included in the Code (as ET section 100-1) while the Guide is an indirect (non-authoritative) supplement to the Code; (3) The Independence Framework requires members to use it when making “…decisions on independence matters that are not explicitly addressed by the Code… (AICPA 2006b)” while the Guide encourages (but does not require) members to use the Guide “to evaluate relationships or circumstances that are not explicitly addressed by the [rules] interpretations and rulings (AICPA 2008b);” and (4) The Independence Framework requires members to identify, document and evaluate threats that are not already at an acceptable level, while the Guide does not require such documentation although members may decide to provide such documentation.

The PEEC stresses that the frameworks do not replace other Code provisions. Thus “under no circumstances …may this framework be used to overcome prohibitions or requirements contained in independence interpretations and rulings (AICPA 2006a) and “under no circumstances… may this guide be used to justify noncompliance with the rules, interpretations, and rulings in the Code (AICPA 2008a).”
**Figure 2**
Objectives of the Fundamental Principles and Unobservable Model Behaviors

<table>
<thead>
<tr>
<th>Fundamental Principle</th>
<th>Objective</th>
<th>Unobservable Model Behavior</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Responsibilities</td>
<td>To carry out responsibilities as professionals.</td>
<td>Exercise sensitive professional and moral judgments in all activities.</td>
<td>Professional responsibilities include improving the art of accounting, maintaining public confidence, and performing self-governance (ET 52.01).</td>
</tr>
<tr>
<td>2: The Public Interest</td>
<td>To advance the collective well-being of the community of people and institutions the profession serves.</td>
<td>Serve the public interest, honor the public trust, and demonstrate commitment to professionalism.</td>
<td>Clients, business and financial communities, government, and others rely on CPAs to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on CPAs (ET 53.01).</td>
</tr>
<tr>
<td>3: Integrity</td>
<td>To maintain and broaden public confidence.</td>
<td>Perform all professional responsibilities with the highest sense of integrity.</td>
<td>Integrity is the element of character from which the public trust derives. It requires a CPA to observe both the form and spirit of technical and ethics standards and to be honest and candid within the constraints of client confidentiality (ET 54.01 to .03).</td>
</tr>
<tr>
<td>4: Objectivity and Independence</td>
<td>To impartially render judgments, opinions, and other professional services.</td>
<td>Be objective, free of conflicts of interest and, and (for members in public practice) independent in fact and appearance.</td>
<td>Objectivity is a state of mind, a quality that lends value to a member’s services. CPAs in private practice cannot maintain the appearance of independence, but nevertheless should maintain objectivity and avoid any subordination of their judgment. (ET 55.01, .02, and .04)</td>
</tr>
<tr>
<td>5: Due Care</td>
<td>To discharge professional responsibility to the best of the member’s ability.</td>
<td>Continually improve competence and quality of services; strive for excellence; observe the profession’s technical and ethics standards.</td>
<td>Due care requires competence and diligence, derived from a synthesis of education and experience. It necessitates adequate planning and supervision of services and dictates consultation or referral when an engagement exceeds a member’s personal competence. (ET 56.01 to .05).</td>
</tr>
<tr>
<td>6: Scope and Nature of Services</td>
<td>To determine, in the public interest, an appropriate scope and nature of services to be provided.</td>
<td>Observe the Principles of the Code of Professional Ethics</td>
<td>Determination of services to be provided requires freedom from conflicts of interest (Objectivity and Independence Principle), competence and diligence (Due Care Principle), and should not be subordinated to personal gain (Integrity Principle) (ET 57.01, .02)</td>
</tr>
</tbody>
</table>
Focus on Objectives

The PEEC’s mindset, revealed in the Guide’s Exposure Draft (AICPA 2008a), indicates that CPAs must identify threats to meeting the objectives of the Fundamental Principles that are not explicitly stated in the Code but can be inferred from the Fundamental Principles or elsewhere in Code Sections ET 51 to 57. Figure 2 presents the authors’ interpretation of each Fundamental Principle’s objective and unobservable model behavior.

Threats

The Guide classifies threats to meeting the objectives of Fundamental Principles into six situations, as described briefly below:

1) Self-review threat—The threat that a member (i.e., including a firm’s partners and staff and in some cases family members) will fail to appropriately evaluate or act on identified deficiencies in work because he/she originally performed that work.

2) Advocacy threat—The threat that a member will promote a client or employer’s position to the point that his/her objectivity is compromised.

3) Adverse interest threat—The threat that a member’s interests will oppose those of his/her client or employer.

4) Familiarity threat—The threat that a member will become too sympathetic to a client or employer’s interests because of a close or longstanding relationship; or the threat that a member will place undue reliance on work done by other individuals or entities because the other individual or entity is familiar to the member, including by reputation.

5) Undue influence threat—The threat created when a client or employer attempts to coerce or excessively influence the member.

6) Self-interest threat—The threat created by a member’s potential benefit from a financial interest in or with a client or employer. The Independence Framework identifies an additional threat that applies only to members in public practice.

7) Management participation threat—The threat created when a member acts in a management capacity on behalf of a client. Members should be alert to threats other than from these seven categories and should address them using the Guide.

Safeguards

Safeguards are control procedures or prohibitions that eliminate or reduce threats to acceptable levels. The profession, legislation, and regulations create safeguards for all CPAs, such as continuing education and professional licensure requirements, to increase the likelihood of identifying or deterring unethical behavior. CPA firms and their clients create and implement other safeguards in the work environment. The examples below explain how such safeguards mitigate threats:

- A report that formally monitors reliance on revenue from a single client increases the likelihood of identifying and managing undue influence and financial self-interest threats.
• A policy of periodically rotating senior members on an attest engagement reduces familiarity threats.

• A complaint system that encourages employees, clients and the public to report unethical behavior increases the likelihood of a member identifying and changing suspect behavior.

• A client’s corporate governance structure that provides appropriate oversight of the firm’s services decreases the likelihood of management participation threats.

Employers of non-practitioner CPAs may also create and implement other safeguards in the work environment that increase the likelihood of identifying and mitigating unprofessional or unethical behavior. Examples of these safeguards include:

• An explicitly stated duty to report breaches of ethics requirements.

• Procedures that empower and encourage employees to communicate to appropriate parties within the employer’s organization any ethics issues without fear of retribution.

• A policy of consulting with outside CPAs in applying new accounting standards.

A safeguard’s effectiveness depends on appropriate threat identification, design to meet its objective, application and consistency of use.

Conformity with International Ethics Standards

The International Ethics Standards Board for Accountants (IESBA), under the auspices of the International Federation of Accountants, promulgated a Code of Ethics for Professional Accountants, effective June 2005 (revised July 2006). The “principles-based” approach of the IESBA Code corresponds with that of the AICPA Code. Both begin with fundamental principles and proceed with a conceptual framework that requires all professional accountants to “identify threats to these fundamental principles and, if there are threats, apply safeguards to ensure that the principles are not compromised” (IFAC, 2007).

Allen (2010) calls the IESBA Code primarily principles-based, while many consider the AICPA Code as more rules based. Like the AICPA Code, the IESBA Code provides guidance for the more common—but certainly not all—practice situations, and requires professional accountants to evaluate the significance of identified threats and, for significant ones, to find safeguards to reduce such threats to acceptable levels. For example, paralleling the AICPA’s approach, the IESBA states that professional or regulatory monitoring and disciplinary procedures such as having legally empowered third parties review the accountants report or professional/regulatory monitoring and disciplinary procedures can provide safeguards to help control potential self-interest or familiarity threats.

Courts Enforce Principle-Based Ethics

The landmark Continental Vending Machine case [US v Simon, 425 F.2d 796 (2d Cir. 1969)] established the importance of principles-based standards. Continental’s auditors faced U.S. securities law charges
for certifying financial statements they knew to be misleading. Valley Commercial Corporation, a Continental affiliate, borrowed cash from Continental and then loaned the funds to a Continental officer. The auditors learned that the officer would be unable to repay Valley, and Valley would be unable to repay Continental. Yet, “Continental’s financial statements showed the receivable from Valley as an asset, with only an obscure footnote explaining the circumstances surrounding the receivable” (Isbell, 1970; Mano et al., 2006).

Soon after Continental issued the financial statements, Valley defaulted on the receivable, and Continental declared bankruptcy. In defending criminal charges, the auditors and expert witnesses maintained that Continental’s financial statements were “fairly presented in accordance with generally accepted accounting principles (GAAP),” and the audit conformed with generally accepted auditing standards. Competing CPA firms filed amicus curiae briefs with the Court stating that they would have acted as did the defendant CPA firm (Slavin, 1977).

The judge instructed the jury that the critical test was whether the financial statements fairly presented Continental's financial status. The jury found the auditors guilty. The appellate court upheld the verdict and essentially told the accounting profession that the phrase “fairly presented in accordance with GAAP” contains two statements: “fairly presented” is principles-based accounting, and ”in accordance with GAAP” is rules-based accounting (Mano, Mouritsen, and Pace, 2006). Fairly presented financial statements must adequately disclose known material facts and, when necessary, go beyond the “letter of the law” to avoid being misleading.

**Pre-Enron Mindset**

While the courts used a principles based mindset in 1969 to judge Continental Vending’s auditors’ behavior, the profession continued with rules-based accounting and ethics standards through the 1970s, 80s and 90s, with one notable exception. Code Rule 203, [Compliance with Accounting Principles], adopted in 1988, recognizes that the letter of GAAP rules can violate the spirit of those rules and allows non-GAAP accounting if the auditor can demonstrate that due to unusual circumstances the financial statements would be misleading by using GAAP.

During the 1990s, large CPA firms often convened training sessions to develop skill sets for their lucrative consulting services, but as a Big-Four audit partner admitted, his firm rarely held ethics training sessions (SEC Administrative Proceedings, 2004). Ethics policies in the 1990s often consisted of “do” and “cannot do” rules such as: The firm “cannot jointly host [with an attestation client] a seminar on a product/service topic” (SEC 2004). Some CPAs viewed relevant ethics issues as, “How can I bend the rules? What loopholes can I find?” For example Ponemon (1990; 1992) found that levels of moral development related inversely to increases in rank within accounting firms, and accountants’ levels of moral development increase until reaching the supervisory level, at which time they decrease through the partner level.

Some CPAs may have also been disinclined to document their ethics issues. A noted
CPA ethics consultant, speaking about his activities during the 1990’s, said he kept no written records, not even a log, of ethics advice he provided (SEC 2004).

**Enron Auditor Ethics**

A key contribution to the Enron debacle (Reinstein and Weirich, 2002) was the company’s belief that opaque footnote disclosures, particularly those dealing with Special Purpose Entities [SPEs], complied with GAAP. Enron’s auditors may well have known that such disclosures did not tell the entire story but they apparently chose to hide behind “bright-lines” (i.e., containing objective factors, leaving little or no room for varying interpretation) of the authoritative pronouncements. Bypassing the paramount principle that financial statements must be “fairly presented,” Enron’s auditors, at a conceptual level, seemed to repeat the errors of Continental Vending Machine’s auditors.

**Post-Enron Ethics Mindset**

Roots of a Post-Enron mindset began in the late 1990s when the Independence Standards Board (ISB) exposed a principles-based and controversial Conceptual Framework for Auditor Independence. The SEC vigorously objected to the untested “threats and safeguards” framework approach and, in November 2000, pre-emptively issued new independence rules before the ISB could complete its work (Glazer and Jaenicke, 2002). ISB project directors attributed the 2001 framework and ISB demises to the ensuing withdrawal of major accounting firms’ funding. The ISB staff later issued the essentially completed framework, which lay temporarily dormant.

Post-Enron, the Sarbanes-Oxley Act of 2002 introduced another list of ethics “do’s” and “cannot-do’s;” it prohibited nine specific categories of consulting activities, required rotation of engagement partners every 5 years, and prohibited employment with a former client within one-year of the preceding audit. For the profession’s leadership, Enron and other scandals highlighted CPA ethics problems, but the new SEC and Sarbanes-Oxley rules were insufficient solutions. A mindset change was needed to make CPAs more likely to identify and address unspecified ethics issues and less likely to hide behind rules.


The two frameworks foster an emerging post-Enron mindset. CPAs in public or private practice facing threats to meeting a fundamental-principle’s objective must:

- Identify threats;
- Evaluate the threat’s significance; and
- Apply safeguards to reduce the threat to acceptable levels (except for clearly insignificant threats).
Lacking effective safeguards, CPAs should decline or discontinue the service or resign from the client or employing organization. Again focusing on the new focus on changing the CPA’s mindset, failure to refer to the Guide’s approach when no specific rule, interpretation, or ruling on an ethical matter exists in the Code may result in a punishable violation of the Code.

Apply Threats and Safeguards Framework to the Continental Vending and Enron Matters

Both of these major cases involved the auditors inadequately considering potential threats and methods to minimize such threats. For example, in the Continental Vending matter, while the auditors demonstrated their compliance with current GAAP and many other Big Eight firms and the AICPA filed amicus curiae briefs or testified in supporting the auditors’ position, Judge Friendly instructed the jury that mere compliance with current professional accounting standards did not constitute a complete defense—leading to the payment of major financial damages and the criminal conviction of the three CPAs of conspiring to create misleading financial statements.

Lack of competence or due professional care in this matter most likely led to the auditors not knowing that most of the affiliates’ receivables were stock and debentures in the parent company—thereby relying on existing auditing standards rather than on whether the financial statements themselves “presented fairly” the clients’ financial position. Thus, while this matter does not seem to directly relate to one the seven specific threats, auditors must always maintain technical competence, independence and due professional care (i.e., the three General GAAS standards) in all of their engagements.

But the seven potential threats and related safeguards relate directly to the Enron matter, where huge consulting fees, not fully investigating SPEs and other related party plus unusual transactions, and ignoring the client management’s aggressive management policy (e.g., high levels of employee attrition) and booming stock prices created many “red flags” that Andersen often ignored. Moreover, when such matters came to Andersen’s home office’s attention, it failed to send “swat teams” to investigate, and on the contrary, Andersen destroyed many potentially incriminating documents. Thus, these matters constituted potential self-review, advocacy, familiarity, undue, and financial self-interest threats, which Andersen could have safeguarded, for example, recognizing that Enron’s consulting fees exceeded its audit fees [making the audit seem as a loss leader], reviewing Enron’s complaint systems where former employee Sherron Watkins indicated many of these problems, and grasp the undue influence that Ken Lay had over Enron’s management.

Conclusion

A new principles-based ethics mindset has emerged, suggesting that all CPAs grasp the objectives of the Code’s Fundamental Principles, be vigilant to threats to meet those objectives, and know appropriate Guide responses. Besides complying with the Code’s Rules, Interpretations and Ethics Rulings, CPAs now must identify threats, evaluate their significance, and, if for non-trivial threats, apply safeguards to reduce the
threats to acceptable levels. Lacking effective safeguards, CPAs should decline or discontinue their services or consider resigning from the client or employing organization. Guide requirements are observable and non-compliance may cause violations subject to enforcement proceedings. The threats and safeguards approach also forms a key part of the proposed AICPA (2013) Codification Project to help members and others apply the rules and reach correct conclusions more easily and intuitively.

The profession now has principles-based ethics to guide its conduct and principles-based accounting standards to guide its recording of events. Its new mindset should redound well for CPAs and enhance the public’s confidence in financial reporting.

References


THE VIRGIN AND THE DYNAMO: AN EMPIRICAL EVALUATION OF KNOWLEDGE PRODUCTION IN ACADEMIC ACCOUNTING

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How accounting knowledge is created is a question of endless fascination. The paper grapples with one primary issue. Is accounting research properly characterized as the scholarly work of a single academic? Or is it a team process such that the efforts of individuals are only an input to a larger dynamic? For these purposes, the mainstream accounting literature is contrasted with critical accounting. The results show that whereas critical accounting remains the handicraft of individuals, mainstream accounting has adopted more machine-like characteristics. This is reflected in the size of author groups and how credit is distributed across groups. Changes over a relatively short time are documented, and are consistent with this divergent development.

Introduction

Henry Adams (1918), in his masterful account of 19th century America, contrasted two opposite trajectories of development. On the one hand, the dedicated efforts of individual artisans continued to be as important as it had been since the beginning of recorded time. This archetype, dubbed the Virgin, celebrated individual geniuses as the wellspring of societal progress. However, a second force had recently been encountered that in many ways was the antithesis of the Virgin. Harnessing new technology, the Dynamo forged a machine that proved very capable of changing the face the world. Rather than depending upon the unique talents of specifically talented individuals, the Dynamo constituted systems and the collective thrust of many anonymous people.

In the century since Adams wrote, the tension between the Virgin and the Dynamo continues. The technology that constitutes the core of the Dynamo has certainly improved, and more domains have been captured by its force. Nonetheless, society remains considerably dependent upon the uniquely human inspiration of the Virgin. We continue to celebrate the human embodiments of creative prowess.

Whereas the struggle between the Virgin and the Dynamo is deeply embedded in an untold number of areas, the paper is concerned with only one. The emergence of academic accounting as an academic discipline over the last 50 years has been intertwined with the development of a body of knowledge. Perhaps reflective of its tender age and its modest size, this literature provides an excellent opportunity to observe the struggle between the two ideal types originally labeled by Henry Adams.
Although Adams contemplated the emergent physical world, our attention has become diverted to knowledge work in the 21st century. For these purposes, academics work in a rarified world of great mystery even to practitioners of the work that academics purport to describe. Drawing upon images of the Virgin, professors are trained in tradition-bound, highly customized ways and encouraged to be classic scholars. Such production methods are inconsistent with the rhythms of the modern world that demands that information be a raw material to heightened decision making abilities that can be put to rapid use. Professors and their employing organizations have been increasingly called to account for their contributions to the modern economy.

Accounting is in a curious spot, lacking a deep history as academic material. As an applied field it perhaps is less resistant to the Dynamo that threatens to render research into reasonably well paid white collar work.

This paper comprises four subsequent sections. The first reviews the relevant scholarship, small as it might be. That section also stipulates a set of testable hypotheses that would differentiate the relative success of the Virgin and the Dynamo. A second section describes the conduct of the study used to test the hypotheses. This includes the specification of measures and a time horizon. In the third and four sectors, results are offered and discussed, successively. The latter includes a consideration of broader implications for the academy and others interested in the accounting field.

**Literature Review and Hypotheses**

The dichotomy between the Virgin and the Dynamo posits the importance of understanding how an academic literature is created. Academics, as a virtual community, lack strong degrees of explicit organization. As a consequence of there being no plan *per se*, the literature just happens. Only in retrospect can we ascribe various descriptions to the literature which apparently was made by virtue of an “invisible hand.” As a human enterprise pertaining to a phenomenological field that lacks a conscious purpose, we have chosen to appreciate some dimensions of knowledgeable production at the expense of others.

We are not indifferent about the positioning of the authorial class in social hierarchies that describe academe. Apparently knowledge production is sufficiently important to justify the construction of gradients of social esteem to bestow more generously upon the fruitful. This esteem, albeit mostly a psychic or interpersonal reward, can also be converted into more tangible returns for individuals and their institutions (Trow, 1984). Although passively denied by those that would benefit from the unlimited belief in meritocracies and equality, the accumulated evidence that elites strongly manufacture disciplines like accounting is impressive (Lee, 1999; Lee and Williams, 1999; Fogarty and Jonas, 2010).

We are also aware of the geographic origins of contributions to the accounting literature. Notwithstanding temporally distant origins that now receive some acknowledgement;
the accounting literature has become a referendum on the appropriateness of U.S. hegemony. The sheer volume of work created in the USA, forces scholars in other parts of the world to choose between falling in line with it or constructing an alternative to it. Particularly in the financial accounting subfield, non-U.S. accounting academic emulate “the American way” perhaps in exchange for heightened status within the USA (see Qu et al. 2008). Other subfields, buttressed by the importance of intellectual traditions other than economics, remain officially and proudly different (Lukka and Kasanon, 1996; Panozzo, 1997). The geographic origins of knowledge production can best be seen in attempts to rank programs using strict geographic parameters drawn to exclude the USA (e.g., Baden-Fuller et al. 2000).

The very idea of disciplines requires some degree of confidence in lines of division. What separates disciplines may be more a product of historical accident and unessential tradition than we would like to believe. Only if we believe in these silos would we be concerned with the hierarchy of citation across them (e.g., Bricker et al. 2003). That higher education institutions give these distinctions a reified reality by recognizing them as management subunits, deepens our acceptance of them as natural and necessary. Perhaps more interesting is the reproduction of divisions within the discipline. Accounting knowledge increasingly does not progress on any terms but as an assemblage of its elements. Although some have bemoaned the fragmentation of “tribes” within accounting (Demski, 2004), others have set upon the task of studying internal structure, again by relying upon citation patterns (Bricker, 1989).

Nevertheless distributed, authors make contribution to the accounting literature as a result of the incentives there are in place for this to happen. The modern academic career has become considerably unmoored from its origins in teaching and service. Apparently the intrinsic rewards of the arena, notably the life of the mind and large degrees of autonomy, are too good so that they would be oversubscribed if allocated to those that could teach well and predictably attend meetings. The obligation to do research serves as a performitivity dimension that better equates supply and demand. In most sectors of the academy, research accomplishments so swamp other role requisites such that career advancement can be reduced to research qualifications (e.g., Glover et al. 2006). Perhaps more importantly, research success creates a reputation for the academic that is not limited to the employing institution. Favorable reputations shape decisions by external parties and usually command compensation premiums (Rincova et al. 2005). Only though publication can ideas obtain a pre-formed value that legitimates their diffusion, and connote the credit that should be given to their creators (see also Sorenson and Fleming, 2004).

Academics, in pursuit of self-interest, are engaged in an intellectual process that often cannot be reduced to a simple quantification. Although it is easy and tempting to count and weigh their successes, this gainsays the highly human process of rhetoric and persuasion that every academic piece entails. Previous recognitions of this include the purposeful means by which editors solicit the ideas that find worthy for their journals (Smith and Laband, 1995) and the need for authors to build support networks for their ideas prior to journal submission (Brown
2005). How authors form teams to realize their ideas’ potential may also be shaped by poorly understood circumstances and conditions. In that these collaborative dimensions precede idea shopping and the editorial interface, they may be more foundational to knowledge creation.

Although one could argue that every collaboration is *sui generis*, ideal types explain some portion of the variance. The intergenerational transmission of ideas constructs a certain timelessness in the academy that is perhaps best encapsulated in the tutorial features of doctoral education. This structure breaks the expectation that collaborations between mentor and protégé will persist, fusing the wisdom of the former with the energy and hunger of the latter (see Fowler, 1982; Williams and Blackburn, 1988). Co-authorship may be the reward that more research-active faculty obtain from their greater investments into the mentorship of students (Sands et al. 1991), and more compliant graduate students obtain with their patience (Perlmutter, 2008). More conventionally, ideas serve as magnets that attract similarly situated colleagues. Recognizing the possibilities of economies of scale, these individuals pitch in together rather than pursue the idea individually. This method promises synergies and arbitrages across perspectives that might not have been chanced upon as individuals working alone, pursued parallel paths. Wherein scholars that do not limit themselves to preset roles tend to be more fruitful (Van Dyne, 1995), those capable of particularly esoteric executions can thrive through continuous co-authorships. In either mode, co-authorship is a device that more effectively leverages the time and talent of academics. By subdividing the work into more manageable pieces (see Kramer and Martin, 1995), a class of highly productive contributors emerges capable of creating academic legacies (see Haskins and Williams, 1986).

Co-authorship, in addition to meeting the individualistic expression of ideas, imposes the problem of credit allocation. Generally speaking, individuals receive more authorial credit that would be dictated by a strict pro-rate logic. Thus, two authors doing two pieces are generally thought to be more productive that a solo author accomplishing a single work. Studies that count publications sometimes fully discount for co-authorship (e.g., Brown and Gardner, 1985) and sometimes do not, under the finding that the discounted value is highly correlated with the full nominal count (Hasselback et al. 2000) and therefore does not alter subsequent analysis.

The acceleration of co-authorship as the means for the production of academic work has been noted for the accounting literature (Hasselback et al. 2000; Fogarty and Jonas, 2013). Why this has occurred is unclear. Publishing “in the majors” is not easy, and may be more of an accomplishment than ever before (Swanson, 2004). Co-authorship provides at least a partial alleviation of the dilemma, allowing people to bypass through outsourcing the portions of journal article production that, if done poorly, might undermine their hopes. This added incentive, facilitated by global connectivity, may make a team approach very logical, if not necessary.

Recent studies of knowledge creation suggest the need to differentiate between the behavior of elite elements and the balance of the group (Whitley, 1982). Accounting is no exception to the usual expectation that
there will be considerable variation between the aspirations and abilities of recognizable segments of the population of scholars. Recent work by Swanson and his colleagues suggest that the rules governing “mainstream” journals may differ from that of other journals in the discipline (Swanson, 2004; Swanson et al. 2007). As stipulated by Hopwood (2007), disaffection with the contents of the primary journals in the accounting discipline has led to the creation of a critical literature that taps into alternative intellectual traditions and theories. It may also be that how knowledge is produced may vary across these communities (see Arrington and Schweiker, 1992).

Since the accounting literature appears to be not one homogenous body of knowledge, but at least two incompatible ones, the hypotheses anticipate antithetical zones of influence. Rather than anticipating a singular victory of the Virgin or the Dynamo, separate possibilities of dominance might exist.

Accounting, as an academic discipline, is marked by a division that strictly segregates the special properties of an economic based mainstream. Countless rankings studies have designated a small group of journals that most see as interchangeable, but also as particularly worthwhile, if not career-making (Fogarty and Jonas, 2013). An alternative tradition has emerged, mostly outside the USA, and to a large extent in response to the inadequacies of the mainstream journals. These publications tend to be other than economic in their intellectual traditions, critical of accounting practice and more methodologically diverse (see Fogarty and Al-Kazemi, 2008).

Accordingly, the bailiwick of the Dynamo should be the area of most machine-like production. In the academy, this should be within the domain of concern for most academic accountants. However, the critical literature might exist in counter-distinction.

**H1:** The production of academic articles in the top mainstream journals of the accounting literature involves a larger number of authors per article than does the production of academic articles in the top critical journals of the accounting literature.

The logic of systems is the necessity of each element. As embodied in the expression “for want of a nail, the kingdom was lost,” no contribution to an effort can be safely marginalized or even de-prioritized. The logic of the Dynamo is to praise the collectivity of the effort, and to ask each component to submerge, if not abandon, their individual identity. Accordingly, one would expect that the authorship of academic pieces in such a model would be less branded by the primacy of individual identities.

**H2:** The production of academic articles in the top mainstream journals of the accounting literature tends to bestow equal “credit” to its authors more than does the production of academic articles in the top critical journals of the accounting literature.

Although the identification of differences among subsets of a literature is inherently interesting, if not provocative, another issue is raised by their existence. How long have
these persisted and what is their future? Are the differences increasing or decreasing over time? We need to explicitly hypothesize a trajectory in order to ensure that the results are not dismissed as an artifact of the years that were chosen.

H₃: The difference between academic articles in the top mainstream journals of the accounting literature and academic articles in the top critical journals of the accounting literature specified in Hypothesis 1 and Hypothesis 2 have magnified over time.

The Study

Three journals were used to constitute the mainstream accounting literature for purposes of this study. Following the consensus of many journal ranking studies (e.g., Hull and Wright, 1990), The Accounting Review (TAR), the Journal of Accounting Research (JAR) and the Journal of Accounting and Economics (JAE) form the essence of high-level achievement for the accounting discipline. Collectively these journals tend to prioritize work in financial accounting that can be supported with archival empirical evidence. These journals are US-centric and have reasonably high interlocked editorial boards (Lee, 1997; Fogarty and Al-Kazami, 2008) although two are closely related to specific universities. Although other journals also typify the category, these journals are the exemplars that most faculty would expect to see as the representational publications of a successful accounting academic.

Another three journals were selected to represent a contra-mainstream. For these purposes, Accounting, Organizations and Society (AOS), Critical Perspectives on Accounting (CPA) and Accounting, Auditing and Accountability Journal (AAAJ) were selected. Together, these publications represent different traditions and origins within academic accounting. Most notably, they hail from outside the US¹ and therefore are much more global in their perspective. These journals’ tend to be more receptive to non-economic paradigms. They also tend to publish the occasional paper that is critical of that which is published in the mainstream journals (e.g., Reiter and Williams, 2002; Lee, 1997, 1999).

This study considers the contents of the six journals over a twenty-one year period (1989-2009). Whereas there is nothing special about such an interval, previous works on accounting faculty have deemed such an expanse of time sufficient for longitudinal inference (e.g., Fogarty and Liao, 2009). This interval constitutes the majority of the history of several of the journals² therefore making a much longer period impossible to consider.

Author credit, a concept needed for the second hypothesis, was measured according to the order in which the author’s names appear on the title of their article.

1. One of the primary and founding co-editors of Critical Perspectives on Accounting has a faculty position in the USA. Nonetheless, based on his doctoral training outside the USA and the international nature of the editorial board, this journal has been considered non-US in nature by most. In the past few years, this journal has been edited in Canada, making it truly a non-US journal.

2. Critical Perspectives of Accounting began publishing in 1989. Accounting, Auditing and Accountability began in 1987. For these journals, 100% of their record is considered. On the mainstream side, Journal of Accounting and Economics does not have a much longer history, starting in 1979. Only The Accounting Review has a long history (starting in 1926) that is uncaptured by this research.
Author order matters to academes since it has historically created many inferences about reputation and contribution (Davis, 1967). Here, alphabetic order is usually taken as the absence of any suggestion of inequality. Other orders are offered of suggestions of unequal degrees of priority among the authors.

Results

Table 1 arrays the author structure by journal for the two sets of publications. The mainstream journals are much less marked by solo-authorship (33.3%) than are the critical journals (50.1%). The two sets are just about the same with regards to the formation of two-person teams, with mainstream publications at 36.8% to critical ones at 32.6%. However, mainstream publications outstripped critical ones when it came to three-person teams: 26.1% to 14.8%. Using Chi-square, the differences between groups is significant at p<.01. Hypothesis 1 is supported.

<table>
<thead>
<tr>
<th>Mainstream Journals</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Journal</td>
<td>1</td>
</tr>
<tr>
<td>TAR</td>
<td>295 (33.4%)</td>
</tr>
<tr>
<td>JAR</td>
<td>246 (34.8%)</td>
</tr>
<tr>
<td>JAE</td>
<td>175 (31.0%)</td>
</tr>
<tr>
<td>Total</td>
<td>716 (33.3%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Critical Journals</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Journal</td>
<td>1</td>
</tr>
<tr>
<td>AOS</td>
<td>345 (44.7%)</td>
</tr>
<tr>
<td>CPA</td>
<td>478 (59.5%)</td>
</tr>
<tr>
<td>AAAJ</td>
<td>289 (44.5%)</td>
</tr>
<tr>
<td>Total</td>
<td>1092 (50.1%)</td>
</tr>
</tbody>
</table>

*Includes instances of more than 4 authors
Although not hypothesized, the individual journals are quite similar in size of authorship groups to the other journals in their set. The mainstream journal most likely to have solo-authored pieces (JAE) is not much larger than the lowest in that group. More variance exists in the other group, with CPA being considerably more prone to solo-authorship, and less likely to publish pieces written by more than two academics.

The second hypothesis pertains to author order. Table 2 summarizes the information on this point. Non-alphabetical order is the exception to the rule in both journal sets. However, non-alphabetical order of the authors is almost three times as prevalent in the critical grouping (18.5% to 6.9%). Once again, the Chi-square difference is significant at p < .01. Hypothesis 2 is supported.

Table 2
Ordering of Authors by Journal

Mainstream Journals

<table>
<thead>
<tr>
<th>Journal</th>
<th>Alphabetical</th>
<th>Non-Alphabetical</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAR</td>
<td>818 (92.7%)</td>
<td>64 (7.3%)</td>
<td>882</td>
</tr>
<tr>
<td>JAR</td>
<td>658 (93.1%)</td>
<td>49 (6.9%)</td>
<td>707</td>
</tr>
<tr>
<td>JAE</td>
<td>529 (93.8%)</td>
<td>35 (6.2%)</td>
<td>564</td>
</tr>
<tr>
<td>Total</td>
<td>2005 (93.1%)</td>
<td>148 (6.9%)</td>
<td>2153</td>
</tr>
</tbody>
</table>

Critical Journals

<table>
<thead>
<tr>
<th>Journal</th>
<th>Alphabetical</th>
<th>Non-Alphabetical</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>AOS</td>
<td>618 (80.2%)</td>
<td>153 (19.8%)</td>
<td>771</td>
</tr>
<tr>
<td>CPA</td>
<td>695 (86.4%)</td>
<td>109 (13.6%)</td>
<td>804</td>
</tr>
<tr>
<td>AAAJ</td>
<td>464 (76.7%)</td>
<td>141 (23.3%)</td>
<td>605</td>
</tr>
<tr>
<td>Total</td>
<td>1777 (81.5%)</td>
<td>403 (18.5%)</td>
<td>2180</td>
</tr>
</tbody>
</table>
Again, one is struck by the consensus that appears to exist within mainstream journal behavior. Only 1.1% difference separates the journal with the most non-alphabetical ordering (TAR) from that of the least (JAE). Critical journals show much less lockstep behavior with regards to this attribute. AAAJ is considerably more likely to depart from the alphabet (23.3%) than is CPA (13.6%). Even so, the critical journals are much more similar to each other than they are to the mainstream ones.

The final hypothesis stipulates the expectation that there will be a progressive divergence between the journals over time. For these purposes, Table 3 Panel A pertains to the size of the author team and Table 3 Panel B addresses alphabetical order. Both use comparisons between the first half and the second half of the time period under consideration.

### Table 3
Change Over Time in Author Patterns by Journal

#### Panel A

**Mainstream Journals**

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>TAR</td>
<td></td>
<td>145</td>
<td>150</td>
<td>-5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(37.2%)</td>
<td>(30.5%)</td>
<td>(-3.4%)</td>
</tr>
<tr>
<td>JAR</td>
<td></td>
<td>130</td>
<td>117</td>
<td>-13</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(42.1%)</td>
<td>(29.4%)</td>
<td>(-10.0%)</td>
</tr>
<tr>
<td>JAE</td>
<td></td>
<td>76</td>
<td>49</td>
<td>+23</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(33.2%)</td>
<td>(29.6%)</td>
<td>(30.3%)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>351</td>
<td>366</td>
<td>+15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(37.8%)</td>
<td>(29.9%)</td>
<td>(4.3%)</td>
</tr>
</tbody>
</table>

**Critical Journals**

<table>
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<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AOS</td>
<td></td>
<td>184</td>
<td>161</td>
<td>-23</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(49.2%)</td>
<td>(40.6%)</td>
<td>(-12.5%)</td>
</tr>
<tr>
<td>CPA</td>
<td></td>
<td>180</td>
<td>298</td>
<td>+118</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(63.8%)</td>
<td>(57.1%)</td>
<td>(65.6%)</td>
</tr>
<tr>
<td>AAAJ</td>
<td></td>
<td>93</td>
<td>176</td>
<td>+84</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(43.9%)</td>
<td>(44.8%)</td>
<td>(90.3%)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>457</td>
<td>635</td>
<td>179</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(52.6%)</td>
<td>(48.4%)</td>
<td>(39.2%)</td>
</tr>
</tbody>
</table>
Table 3
Change Over Time in Author Patterns by Journal

Panel B

### Mainstream Journals

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TAR</td>
<td>33 (8.5%)</td>
<td>31 (6.3%)</td>
<td>-2 (-6.1%)</td>
</tr>
<tr>
<td>JAR</td>
<td>21 (6.8%)</td>
<td>28 (7.0%)</td>
<td>+7 (33.0%)</td>
</tr>
<tr>
<td>JAE</td>
<td>14 (6.1%)</td>
<td>21 (6.3%)</td>
<td>+7 (50.0%)</td>
</tr>
<tr>
<td>Total</td>
<td>68 (7.3%)</td>
<td>80 (6.5%)</td>
<td>12 (17.6%)</td>
</tr>
</tbody>
</table>

### Critical Journals

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AOS</td>
<td>69 (18.4%)</td>
<td>84 (21.2%)</td>
<td>+15 (21.7%)</td>
</tr>
<tr>
<td>CPA</td>
<td>29 (13.6%)</td>
<td>80 (15.3%)</td>
<td>+51 (175.9%)</td>
</tr>
<tr>
<td>AAAJ</td>
<td>49 (23.1%)</td>
<td>92 (23.4%)</td>
<td>+43 (87.8%)</td>
</tr>
<tr>
<td>Total</td>
<td>147 (16.9%)</td>
<td>256 (19.5%)</td>
<td>+109 (74.1%)</td>
</tr>
</tbody>
</table>
Panel A documents the change in the extent of solo-authorship. In general, solo-authorship increased in both groups. However, the magnitude of the change is considerably variable. Solo-authorship, already much more likely at the critical journals, grew almost ten times faster there: 39.2% to 4.3%. This difference, significant at $p < .01$, supports the case for divergence as stated in the third hypothesis.

Notwithstanding the general group trend, there is exception at the individual journal level. The small growth in solo-authorship in mainstream journals actually represents the averaging of a decline in solo-authorship at JAR, a healthy increase in such at JAE, and essentially no change at TAR. Just for once, the mainstream journals are not moving as a unified front. A good deal of this divergence may be attributable to changes in the number of articles the individual journals publish. If one looks at the percentage of all articles published, one can still conclude that solo-authorship is becoming more rare at all mainstream journals.

Some divergence also exists in the critical journals. Solo-authorship increased strongly at CPA and AAAJ. As a percentage of all articles, the conclusion only holds at AAAJ. Solo-authorship experienced declines at AOS, but not enough to drop the group rate of solo-authorship.

Panel B of Table 3 summarizes internal trends in author credit. Over all six journals, non-alphabetic orderings have been more likely in recent times. Once again, the journal groups do not differ in terms of direction as much as they do in magnitude. Within the mainstream group, a few more non-alphabetic author orders have appeared in the last period. However, this has been so small such that it was unable to keep pace with the expansion of the number of articles publishes. As a result, non-alphabetic ordering is rarer in mainstream journals as a percentage of all articles – now down to about one in every 16.

Critical journals have moved together on the issue of author ordering. Non-alphabetic ordering is up, both in terms of raw numbers and percentages. This is true at all three journals. Large percentage movements here fuel the Chi-square difference significant at $p < .01$ for the formal test of this hypothesis.

In sum, all expected differences have been supported. Mainstream accounting journals exhibit more Dynamo tendencies to the extent that this is captured by large teams working as equals. Critical journals have heightened their “old school” craftsmanship tendencies. The Virgin thrives under conditions of relatively small groups (individualistic) taking unequal attributions for the creation of scholarship.

**Discussion**

One should also not forget that publishing in mainstream accounting journals has considerably more career value than publishing in the critical accounting journals for most academic accountants. At many schools, a single publication in JAR, TAR or JAE is sufficient to justify promotion and/or tenure. Hardly anyone would attribute similar consequence to a piece in the other group. Such disproportionate extrinsic value enables a certain noblesse oblige in the former community. When gold has been struck, would not it be petty to squabble over small issues like the order of the authors? On the critical accounting side, authors do not face an embarrassment of riches. The magnitude of the author order
dimension looms relatively larger when the article’s value is smaller. The critical accounting author order decision brings to mind the old adage about why academic politics are so fierce—because the stakes are so small.

The results indicate that both the Virgin and the Dynamo are thriving in academic accounting. One just has to be mindful of their natural habitats. Given that both workmanlike niche skills and solo scholarship have their place, the only trajectory is that both might not generate commensurate rewards when brought to the wrong realm. This bodes badly for those that believe that one can easily “integrate” the mainstream journals more or less by editorial fiat (e.g., Rayburn 2006).

The relative neglect of the Virgin by mainstream accounting is particularly troubling. *Ceteris paribus*, such a development threatens our ability to characterize the work of academics in this area as classic scholarship. Although the final work products of this sector might qualify as contributions to the literature, the process seems to have departed somewhat from the idea of individual scholars taking projects from inception to completion.

Alternative explanations might exist for the disproportionate degree of alphabetical ordering among the authors of the mainstream literature. These may, or may not, be grounded in the prevalence of USA editorial and authorial influence on the journals that constitute the mainstream. There may be norms (unknown to this author) that further the expectation of equality here. This would be consistent with the illusion of classlessness preferred by the USA populace (Giddens, 1980).

As ideal types, the Virgin and the Dynamo are not meant to convey strict empirical regularities. The “real world” is characterized by hybrids at various points between the two extremes. Thus, there is ample personal craftsmanship present in the work that appears in the mainstream journals. Likewise, some machine-like collaboration exists in the critical accounting literature. Nonetheless, the paper has documented affinities in opposing directions “Virgin-type” behavior is becoming increasingly rare in the mainstream community. Similarly “dynamo-type” is empirically out of place in the alternative community.

To the extent that it is true that modern man believes that technology is the *sine qua non* of progress, a more total vindication of the Dynamo should have been expected. The fact that this is not the case can be interpreted in different ways. Rather than simply accept the Zeitgeist, some will want to explore the specific factors that comprise its success in the US. Here we should not ignore that doing the research demanded by mainstream journals can be an expensive proposition. Authors may have been driven together by virtue of the costs of large databases and the selected access to appropriate human subjects. Posing questions whose answers serve advanced capitalism cannot be done on the cheap! More research is needed.

This paper’s use of Henry Adams’ ideas pitches the contribution toward the philosophic or the societal. However, this should not rule out very practical and very micro-level value. How much credit an author should get for being a member of a successful group is by no means axiomatic. What we should make of author ordering on
publications has also bedeviled review committees. Ceteris paribus, that which runs counter to what this piece has shown to be normal for the journal group merits special attention. Publishing sole-authorial works in the mainstream should be given higher levels of credit. Departure from alphabetic author order in that sector also demands explanation as a factor that might force more thinking that strict pro-rata division.

Limitations

An obvious shortcoming of this paper is its exclusive focus upon the accounting literature. Perhaps it is necessary to appreciate trends in this discipline before it is possible to do comparative work. Certainly, before we can conclude that the divergence of the Virgin and the Dynamo pertains to something specific about the accounting literature, one would need to develop data from other fields. Work similar to that done by Swanson et al. (2007) on elite concentrations can be particularly clarifying, and would be a valuable next step.

The comparison of journals could have been deeper. The study certainly could have selected more mainstream publications and still retained an ability to offer conclusions about this group’s contrast to the alternative perspective. Lower tier publications could follow either the logic of the Virgin or the Dynamo. If the former, we would have additional evidence that there is something very special about the pursuit of the highest level mainstream publications. If the latter, we would be more likely to attribute machine-like academic production to “the American way.” Such an expansion would be a worthwhile clarification.

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Williams, R. and Blackburn, R. 1988. “Mentoring and Junior Faculty Productivity.” Journal of Nursing Education. 27:204-209.
ACCOUNTING EDUCATION FOR MBA STUDENTS: 
BEYOND THE DEBITS AND CREDITS

Thomas Cooper 
Memorial University

Pauline Downer 
Memorial University

Alex Faseruk 
Memorial University

Previous research has consistently demonstrated that business education offered through traditional MBA programs is not necessarily providing the skill set that students require to become leaders in today’s business world. This paper reviews the research, identifies and analyzes the problems that have been cited and then explores how accounting is traditionally taught in MBA programs. An integrated non-traditional accounting course is explained as a heuristic model that addresses the issues that research has shown are the problem areas. The authors’ experiences with running this accounting course in both a traditional MBA Program and an Executive MBA programs are also reviewed. The paper concludes with some suggestions for the future to ensure MBA students receive relevant accounting education to allow them to become leaders in today’s business environment.

Introduction

MBA programs have experienced tremendous growth over the last fifty years, including traditional MBA programs, but also Executive and online MBA programs. Yet, most programs have maintained relatively the same pedagogical model that has been in existence for several decades. The same holds true especially in the way that accounting is taught to MBA students.

Business schools have traditionally developed managers/executives and as a result, businesses around the world continue to recruit graduates from MBA programs, especially in the professional accounting field. However, even as far back as the 1980s corporate executives and commentators expressed concern over the lack of relevance to the real world of both graduates and of the business schools themselves (Hall, 1986). Fortune, (1991) wrote that: “Business education has become largely irrelevant to business practice. Corporate recruiters complain that MBAs lack creativity, people skills, aptitude for teamwork, and the ability to speak and write with clarity and conciseness – all hallmarks of a good manager.” A decade later, Pfeffer & Fong (2002) asserted that most MBA programs provided their graduates with little of use in the real business world. In 2013, Khurana and Spender in The Financial Times (April 21) concluded that “Managers need training in judgment because the facts necessary for purely rigorous decision-making are seldom available. But
managerial judgment – resolving business uncertainties and embracing ethical and social responsibility for actions that affect others – plays almost no part in the narrative that underpins schools’ account of managing. Analysis has been prioritised at the expense of judgment.”

This paper explores the perceived disconnect between what business schools should be teaching and what they are actually teaching. In order to examine programs on a micro level, the subject of accounting is examined. Accounting has always been considered an important core course in both undergraduate and graduate programs, which is often taught very early in most business programs as it provides input into other courses and functions as a prerequisite to those courses. Moreover, most programs are expected to be integrative in capstone courses for which accounting is expected to be an integral component for that integration. Given the global environment today, the economic crises in powerful countries, such as the United States; the large accounting frauds over the past decade and the move globally to International Financial Reporting Standards (IFRS), accounting knowledge is a critical area of concern to both business schools and managers/executives in the business world. There are very few decisions made by managers that do not involve some use of financial information that is collected through accounting. We explore what we have been teaching in MBA accounting classes; and whether or not how we teach this course is limiting students when they progress in their career paths. Do students actually use what we teach? Are we teaching the right things?

Our contribution is to explore how accounting may be taught to MBA students, in both general and managerial/executive approaches, using an integrative approach. We explore the barriers to teaching MBA level accounting at a wider program and from a subject matter perspective. We then outline a novel approach to teaching MBA accounting at both a general and managerial/executive level. We conclude with a number of observations about teaching MBA accounting and how it may be better positioned to assist student learning.

Background

What is wrong with MBA programs?

Bennis and O’Toole (2005) have described how business schools have lost their way. It appears that when MBA graduates are promoted to coordinative and integrative managerial/executive positions, they lack knowledge, skills and expertise to be able to perform effectively. Blass and Weight (2005) also concluded that the fatal flaw of most MBA programs was the failure to address the gap between what is provided in an MBA program and what businesses consider necessary skills to be taught to managers. Jackson (2012) suggests that, while MBA programs teach students many “tools,” none are a “silver bullet,” and, in reality, sound business judgment is what makes MBAs successful in the real world. Jackson does not believe that MBAs are taught this skill. If we view accounting as both a profession and as a skill, the importance of considering how and why accounting is taught to MBA students are important questions. What accounting we teach MBA students and whether it is relevant are important pedagogical questions that need to be addressed. Relevance is about not only to the academic teaching of accounting in one or more courses, but also for the overall profession.
In response to general concerns about relevance, the Association to Advance Collegiate Schools of Business International (AACSBI) Task Force report, *Management Education at Risk* (2002, p. 27) said that commonalities should be defined regarding management skills, as both the greatest need and deficiency, of business curricula. Included among basic management skills are: communications, interpersonal skills, multicultural skills, negotiation, leadership development, and change management. Knowledge and skills for global business and for managing dispersed operations were also identified as needed which may well be in contradiction to a more traditional functional areas approach to education. The *AACSB International Eligibility Procedures and Standard for Business Accreditation*, (2003, p.64) also identified the need for programs to prepare business graduates for global scope, through the use of technology and information systems. Yet, core skills around accounting and finance seem to be missing in this search for relevance in management education.

Why these core skills around accounting may be missing would seem to occur for a number of reasons. Muff (2012) suggests that business schools fail due to inappropriate research and lack of professional experience of faculty. Further, it is also due to the distortions that arise due to a focus on rankings rather than what is actually being learned by students. Pfeffer and Fong (2002), Jenkins and Reizenstein (1984) all suggest that the necessary knowledge and qualities needed for success in the business world are not being taught in business schools. Jain and Stopford (2011) concluded that many MBA schools actually market their programs as if they were selling a guaranteed progression on the corporate ladder. However, an MBA is not required to become a manager, nor required to become a professional accountant.

Professionalism in the accounting profession, while sounding redundant, is nonetheless an important attribute when considering what MBAs should be taught about accounting. Barker (2010), in a provocative article, proposed that "Management is not a Profession." He postulated that if management were a profession, then business schools would be "professional schools," however, there is no universal code that defines what a profession is or should be. Rather, professional bodies such as Medical Boards, Accounting Institutes, and Law Societies all govern who is admitted to their particular profession. Barker’s argument contradicts a former Harvard president A. Lawrence Lowell who in 1923 stated that Harvard Business School actually evolved as a direct result of business management being recognized as a profession. Business managers are not licensed. Do we really teach students in an MBA program how to manage? Do we actually give them skills to be effective managers? Do we train professionals? Do we train accounting professionals?

Barker (2010) also refers to a study relating the experience of six hundred Cambridge University students who had graduated from the MBA program. They were asked to rank on a scale of 1 to 5 various components of their MBA program. What was intriguing was that the learning environment itself within the faculty and the learning outside of the classroom, including involvement in consulting projects, were ranked ahead of the actual functional area curriculum. The actual technical skills learned were ranked lower than the other more integrated parts of
the program. Functional and technical expertise is not what students or employers are looking for in MBA programs. In fact, as Barker suggests, integration is learned, not taught. If we examine this premise, it is perhaps not surprising that traditional MBA programs are seen as not providing the management education that is needed in today's business environment. Accounting and finance, as an integrating mechanism in most management decisions, may have a lower impact on MBA students if all that is taught are functional and technical skills.

**Accounting in MBA programs- what are the problems?**

Graduate programs in business generally require that students take at least one course in accounting. Most universities offer either one course, which covers both managerial and financial accounting, but some offer both one financial and one managerial. These courses have, by and large, been the same type of courses that are offered in undergraduate programs and focus on the actual technical knowledge of accounting. One limitation is that most accounting textbooks are designed for accounting majors. The texts are detailed and cover all the material necessary for prerequisite programs to professionally qualifying post graduate professional programs, such as the CPA program, the CMA program etc.

Mintzberg (1973) identified a number of skills that were necessary for managers and accountants to be successful including information-processing skills; problem solving skills, peer skills and skills of introspection. Jenkins and Reizenstein (1984), Porter and McKibbin (1988), Mintzberg (2004) and Muff (2012) all concluded that business schools were not doing what they should have been doing to make managers and accountants successful.

The problems identified over thirty years ago are still being cited as problems today.

In examining accounting, one must ask why business schools teach MBA students debits and credits. Why do business schools teach MBA students how to prepare an actual set of financial statements? Why do business schools teach MBA students how to do variance analysis? The reality is, that most of these skills we teach will be used when the student write their exams; they will very rarely ever be directly used in their careers. Most students who choose accounting as a career path pursue the profession after the completion of an undergraduate degree and then may enter an MBA program subsequent to obtaining their professional accounting designation. Most of the time, these students who now have a professional accounting designation, are given a waiver from having to do the basic MBA accounting. It follows, therefore, that the students who are taking the required MBA accounting courses are for the most part, not pursuing a degree in accounting except for specialized MBA programs. That is not to say, however, that some MBA students in general programs who do a basic accounting principles course are not "sparked" by the courses and decide to change career paths. They then do an accounting designation after the completion of the MBA degree. In our experience, there have been a few instances of an MBA course sparking this career change; however, this is certainly not the norm.

Muff (2012) surveyed and interviewed thirty-four CEOs and HR Directors across various industries including consumer goods, banking and insurance, engineering, consulting, IT and technology, food products and distribution and industrial. The survey findings point to the reality that nothing has changed in how business
schools educate. Across all industries, it was concluded that the technical skills were less important to succeed in today's environment than the "soft" skills such as teamwork, and practice, rather than theory. Yet, it would seem that we still teach technical skills to MBA students studying accounting. To succeed did not require that students have every bit of technical knowledge that could be presented in a semester course on a particular functional area such as accounting. Business and employers were looking for people who could think strategically and solve problems; they would train them to become accountants. Muff's interviews also resulted in the conclusion that leadership, honesty, creativity, flexibility and managerial skills were the required skills to be successful (Muff, 2012). This is the age old dilemma. So why then have business schools not changed?

Accounting is an extremely important subject. There are really few business decisions made without the use of some information prepared through an accounting system. At its core, accountants prepare that information. They are trained and qualified professionally to prepare the information. Managers and leaders need to understand, in general terms, how the information is put together or prepared, but they do not need the skills to actually do the accounting. Is it not better for students to have a high level understanding of accounting, rather than the actual technical knowledge of how something is actually entered into an accounting system? Why is it, that we teach the technicalities of preparing financial information rather than the theoretical/conceptual basis and what the information means? Why do we spend so much time on technicalities and so little time on understanding? Why are we not teaching MBA students how to use financial information in decision making? Is this not what is important?

Everyone has been exposed to the widely publicized accounting scandals, such as Enron and WorldCom. While auditing is a separate course in undergraduate programs, and the subject matter is not something an MBA student really needs to know in technical terms, there are some areas in auditing that can assist in building effective managers for the future. For example, business managers will need to know what a financial statement audit is. How many MBA students graduate with the misguided assumption that an audit is designed to and is expected to uncover fraud in an organization? How many MBA graduates know the type of assurance engagements? How do we teach MBA graduates about safeguarding the companies they work in through adequate internal control systems? We are, by no means, proposing that MBA programs delve into teaching internal control design to students, but we do, however, believe that it is an important aspect of business that students should be exposed to in an MBA program so that they have the ability to understand why controls are in place?

If it has been shown that MBA programs need to be more focused on proving skills to assist in informed decision making, how can this be done? An examination of a developed MBA accounting course identifies one such course that evolved over an effort to make the accounting module more relevant.
Developing Courses for MBA Students

As previously indicated, research has clearly shown that the MBA programs are not teaching what recruiters and company executives consider important to ensure that an effective manager evolves. In order to better explore how accounting may be taught to MBA students, we explore the experience of teaching traditional and executive MBA accounting courses using an integrative approach.

Teal and Krishnan (2011), introduced an integrative finance and accounting course at the University of Central Oklahoma. Their entire MBA program is developing an integrative approach with team teaching. Another interesting aspect of the program is that it is offers in a classroom/on-line format with 25% of the delivery done through an on-line format. The courses are team taught with each instructor lecturing on their own discipline in accordance with the course schedule, however, the other instructor is always present and is encouraged to offer comments or related to their own discipline.

Teal and Krishnan (2011) identified several challenges in the delivery of the integrated course including no appropriate textbook; different teaching styles and the importance of ensuring there is a united front exhibited by both instructors so that students did not feel they would benefit more from approaching one rather than the other. The benefits however outweighed any challenges. Students were also given an integrated project that involved using both finance and accounting concepts to actually evaluate various aspects of the company. The project is done throughout the term and the student chooses the company. It forces students to use their skills learned and to use it in a “real world” environment- something proponents of change to MBA curriculum have been calling for in the last three decades.

One of the authors teaches accounting at both the undergraduate and graduate levels and has taught both the traditional MBA course and the Executive MBA (EMBA) course at two different universities. In developing the EMBA course, a decision was made in the first year to develop an accounting module that was user-oriented. In order to do this, previous studies were examined and it was decided that this course would include the important managerial and financial accounting aspects but would also include relevant topics such as performance measurement, the use of taxation in decision-making and also the introduction of auditing and control at a level that would allow the students the ability to see view operations in their organizations. At first, it appeared that the concept of an integrated approach to accounting was quite easy and, therefore, the delivery would also not be problematic. However, development of the course took longer than anticipated and many barriers were experienced along the way.

Financial accounting module objectives

In order to develop the course, objectives for each module were first identified so that the actual material could be developed to ensure the objectives were met. The objective of the financial part of the course was designed to provide students with the skill set to be able to read and understand a set of financial statements. The learning objective was to develop students' understanding of the conceptual accounting framework, including the objectives of financial reporting, and to develop their abilities to be read and comment, and analyze annual reports. The “debits” and “credits” of accounting were not taught. Instead, students were presented
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with material to help them understand why financial accounting is important. The actual financial statements were introduced and the relationship between the statements was shown. The fundamental accounting equation was used in conjunction with the introduction of the definitions of assets, liabilities, revenue, expenses, equity etc. After these definitions were understood, the class focused on seeing how specific transactions would affect the accounting equation. We talked in “increases” and “decreases” and not debits and credits. We did not introduce journal entries.

Once students were comfortable with the introductory elements, generally accepted accounting principles (GAAP) were introduced paying particular attention to revenue recognition and matching. To ensure that students grasped the ideas, mini cases were used and students were asked to apply their knowledge and recommend how something should be recognized and why; with the importance of the “why” being stressed.

The role of taxation

The next part of the course is one of the areas that traditionally are not covered in MBA accounting. However, the importance of integration has been established, and while taxation is a difficult area, understanding how tax affects decision-making is key. What to teach and how to teach it was indeed problematic at first and there were very few if any textbooks that approached taxation from the point of view of making business decisions. This part of the course evolved over time to include basic concepts of taxation and how corporate tax differs from personal tax. Is incorporating the right decision all the time?

Integration, which is essential in any tax system, was discussed. Students surprised us in this area of the course. Their interest was extremely high and over time additional components were added including various tax efficient structures such as discretionary family trusts; the use of holding companies, creditor proofing etc. Time was also spent on identifying how corporations could enhance their remuneration package to employees through the use of tax-free or tax-reduced benefits. The basic understanding that students gained in this part of the course allows the student to at least identify tax as an issue in making decisions. Integrating this into the course was a success.

The concept of auditing

Auditing is important, yet, it is not an area traditionally discussed in an MBA accounting course. This component of the course, involved identifying first, how important this function is especially post-Enron. Students were introduced to audit concepts and more importantly to systems of internal control and how they are important. Again, students were provided with a case to examine in their groups and were asked to identify internal control weaknesses and what could happen as a result. The change in the auditing environment was examined including the Sarbanes Oxley Act (SOX) and the introduction of the Canadian Public Accountability Board (CPAB), as both courses were developed and taught in Canada. The final part of this section involved students preparing an analysis of the WorldCom Case, a Harvard Business School Case. This case was particularly interesting, the fraud that was perpetrated was easy to understand and it also allowed students the ability to understand how easy
it was for an employee to succumb to the internal pressures when they were facing their own personal pressures. There was lively debate on this. As a result of this section, some students indicated that they had gained an appreciation for their internal audit departments! It also was essential in introducing ethics to the course, which is of great importance and a requirement for AACSB accredited schools.

The role of managerial accounting

The final section of the course was the managerial accounting section. Managerial accounting is usually an area that most MBA students enjoy. The difficulty was again in deciding what to actually cover. Pricing, investment decisions, performance-measurement etc. are all important. This part of the course generally focused on useful tools for evaluative purposes, such as contribution margin, breakeven analysis, costing decisions, the behavior of costs particularly overhead costs and their allocation. The various types of centres that could be established were examined such as revenue centres, cost centers, investment centres etc. The limitations of each of these related to performance evaluation was discussed and students were encouraged to discuss in their groups and in class how their own organizations were structured. Transfer pricing and relevant cost decisions were also examined and cases were given that allowed the groups to apply the concepts learned. Also, budgeting was reviewed and the various ways in which their own organizations developed budgets was discussed in class.

The capstone

The final part of the course provided a capstone of the entire learning experience. Performance measurement techniques were examined and theoretical approaches, such as the Balanced Scorecard were examined. The final project involved each student designing a performance measurement system for their organization or if they worked in a large organization, then for a particular area. Students were then generally able to bring together all aspects of the course to design such systems. The important question of how to measure is fundamental to accounting. By having students design their own systems including how they would measure success, allowed them to experience first-hand “how do you measure success”?

The Results

Barriers to development

To say the course ran smoothly every time would certainly not be a correct statement, however, the knowledge that students learned throughout this course was integrative and met the objective of ensuring that students were taught how to use financial information rather than how to prepare it. Giving students the tools to be able to ask the right questions and understand how things interact was the goal. The most difficult area for students was always the understanding of the financial accounting theory in particular revenue recognition and matching. However, after applying these concepts many times in various cases, an understanding of how important professional judgment is in the field of accounting developed. The group work also allowed them to experience in a smaller way what happens in organizations when executives make decisions that impact on how something is to be accounted for. What surprised many students over the years has been the realization that accounting is not what they had envisioned. Most students generally had the erroneous
preconceived idea that bookkeeping was accounting, and vice versa. Most did not understand the role of professional judgment nor did they realize that there are sometimes alternatives among accounting choices that require the use of this judgment.

An additional challenge has always been the textbook. Students generally feel the need to have a text whether it be to confirm what they learn in the classroom or to assist outside of the classroom in helping them understand concepts that they may have struggled with in class. One textbook that was used at the beginning of this course was a text designed for MBAs and covered financial as well as managerial accounting. The difficulty with this text was that it was American and, therefore, did not cover Canadian accounting principles. This book was used four times in the thirteen years this course has been offered. After the course had outgrown some of the growing pains, a custom book was prepared by the instructor which resulted from various chapters being collated by a textbook publisher in one book. While this was perhaps better than the original text, the major difficulty again was that the material was too preparer-oriented and not user-oriented. As well, students found it frustrating when one chapter for example referred to something in another chapter, which was not included in the custom book. Over the thirteen years that this Executive MBA course had been offered, the instructor-collected material has become an integral part of the materials used.

While this user-oriented MBA accounting course was taught in an Executive MBA program, it has also been introduced on a regular MBA program. Although the course in the regular program has been designed with a user perspective, it has not been as successful as the course offered at the EMBA level. The major difference in the approach to the course related to the number of students in the regular MBA program who did not have significant work experience. Most offerings of the regular MBA accounting course were for students who had just completed their undergraduate degrees and, therefore, had very little, if any, work experience that could be drawn into the learning process. Also, many of the students were international students whose English skills hampered the ability to use complicated cases.

Observations emerging from teaching a MBA accounting course

Based on the development and delivery of these courses, an interesting observation emerged that students generally are very good at identifying how an issue should be recognized, but a great many struggled with explaining how they arrived at their conclusions using the principles, as well as the definitions of the financial statement elements. For example, students were not awarded full credit for identifying one side of a transaction. It was discovered that by asking students to identify both sides of a transaction and support their recommendation with principles etc, they very often were correct on one side, but recommended something that was completely incorrect and impossible on the other side. If a student correctly identified something as unearned revenue they had to explain why and also explain that it is a liability and how it meets the definition of a liability.

Another observation emerged that while some students did struggle with applying the
concepts, once a good understanding was fostered, it was possible to move into group work and students were given more complicated cases involving many accounting judgment decisions. Most of these cases were obtained from the Harvard Business School Case collection and all cases selected involved an accounting policy choice or dilemma. Groups first struggled mostly with group dynamics more than the actual material. Groups were told they had to come to a consensus in their recommendations. Some groups did not like this; however, most students later realized that this rule actually ensured that the process of exploring various ideas was actually executed. The purpose of this requirement was to emulate a real business decision where managers make decisions collectively. As all groups were diverse in the students skill set, the ability for students to see how others viewed the situation was the true learning experience. It also allowed students to work on their soft skills such as communication, analysis, team building etc.

A third observation was the importance of cash flows. Once students were comfortable with accounting principles and how the accounting equation worked, time was spent looking at the cash flow statement. While students were not taught how to prepare a statement, they were taught how to read it, and how to integrate the reading of the cash flow statement with the reading of the other financial statements. A great deal of time was spent on analyzing actual cash flow statements and learning how to identify questions that students would like to have answered. In this part of the course, some public company cash flow statements were used, with the company names hidden. Cash flow statements were examined that allowed students to identify: growth companies versus companies in financial difficulty, etc.

The final observation was the role of financial statement analysis. While ratio calculations were explained, the emphasis was on identifying the questions that should be asked based on certain ratios. Integration again was key. For example, if one ratio went up, how would one expect that to impact other ratios? Again different companies in different industries were examined and the students in their groups had to examine actual companies’ ratios and try to identify the industry.

When students were comfortable with financial statement analysis, the last part of the financial accounting section of the course was to review the Annual Report. Students were asked to bring to class their own corporations’ annual reports if available. The instructor also organized a collection of annual reports. Once this was completed, students were involved in a project that was organized to provide input into the annual report process. A public company agreed to provide students with their annual report and requested that the class provide feedback on the report itself. This again was done in groups and then as a class, the annual report review was completed and presented to the public company. Students learned a great deal from this process including the understanding why these reports are important.

**The Future**

The accounting module has itself evolved into an integrative model, but more can be done. While the user-perspective has been a definite success and appears to meet some of the criticisms of the MBA program courses in general, the true integration within the
MBA program itself is missing. As earlier discussed, most MBA students will become users of accounting reports whether they are involved in production or marketing, investment advising, general management consulting. They will be users of this information whether a small company or a large multi-national employs them; or whether they become an entrepreneur themselves. The integrative nature of the course is a step in the right direction.

In order to be able to move towards a truly integrative MBA model, business schools need to ensure that the entrance requirements into their programs require that students possess a minimum level of relevant work experience. It need not be business experience, but it should be relevant.

The development of a truly integrative MBA program is difficult. It will mean team teaching and it will involve moving away from traditional teaching by functional area. Accounting and finance would be an extremely valuable integrative course. Strategy and accounting is also a potentially great fit.

Perhaps one of the main reasons for teaching the fundamentals of accounting in a MBA program relates to the fact that there is very little in the textbook market that is geared towards using financial information rather than preparing it. MBA students do not need to know debits and credits; they do not need to know how to prepare a statement of financial position, income statement or cash flow statement. They need to be able to use them and analyze them in the context of making decisions. If a marketing executive is making a decision related to pricing, then accounting information is used to determine the costing of the product to ensure desired margins are maintained. If an engineer is making the decision on whether or not to add another product line or make the decision to add a shift in the plant, accounting information is required to assist in making that decision. How much will it cost? Do we have the adequate number of staff? If we have to add a new machine do we have the debt capacity to finance the acquisition? HR managers in negotiating contracts with the unions will use company financial information to assist in determining the benefits that the company can afford. Why then do we insist on teaching the technicalities of accounting rather than the use of the information in decision making?

If we look at the subject of accounting, it is clear that the two types of accounting (financial and managerial) are both important to decision making. To expect students to become proficient in a one term course involving both managerial and financial is quite ambitious. However, if we examine decision making and other aspects that affect or impact business decision making in the business world, there are also other things in the accounting functional area that have a significant impact on making actual decisions. Taxation affects everything. MBA programs that are struggling to attract new entrants into their programs, have sometimes reduced the work experience requirement so it is not unusual to have MBA students who come directly from their undergraduate program. So, how do these students develop an understanding of business in general? Do MBA programs teach the various types of business models that can be set up (Proprietorships, partnerships, corporations, various hybrids, etc.)? Are they taught even the basics of the
tax system so they know how it affects business decisions?

Mergers and acquisitions, reorganizations and other corporate planning always involve some element of taxation. One problem with traditional MBA accounting courses is that the element of taxation is often completely ignored. This may be a result of the fact that the individual teaching accounting may not feel comfortable with the subject of taxation and how it affects decision-making or it may simply be a case that there is no accounting text that includes taxation in a theoretical way.

The difficulty in making this type of change to an MBA program is appreciated, however, if business schools are to maintain their credibility then consideration has to be in moving towards a more integrative approach. The success of the integrative accounting model outlined above and the comments from students demonstrate that students learn more valuable skills that can be applied in their careers if there is a change in approach. Business schools have to be the agent of change to survive. The changes are difficult, but the rewards could be extraordinary.

References


*Business Week,* The best B schools, October 23, 2006, pp. 54-75.


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