PACE UNIVERSITY | Lubin School of Business

SPRING 2019 ISSUE NO. 2

LUBIN BUSINESS REVIEW

Cutting-Edge Research For Today's Business Professionals

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EDITORS' INTRODUCTION

Ethics and Social Responsibility

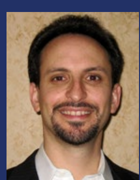
By Drs. Eric Kessler and Ping Wang***

The modern workplace forces business professionals to confront many different types of questions. One of the most frequent is: *Can we do it?* This is essentially a technical issue, and amidst rapidly advancing technologies the answers are constantly changing. A second is: *Will it make money?* This is essentially an economic issue, and the repeatedly shifting global dynamics add considerable complexity here as well. However, in the current issue of *Lubin Business Review* (LBR) we focus on a third type of question that is just as important, but too often does not receive the same type of attention as the above: *Should we do it?* This is essentially a moral issue. Of course it is intertwined with the first two questions, because it is affected by technology and competition. More than this though, asking it adds another dimension to the conversation by helping managers from all areas of the corporation to both do well *and* do good. These are not separate either-or choices. They occur simultaneously and can be addressed symbiotically. To this end we have assembled a rich collection of research by Lubin faculty that considers ethics and social responsibility from various disciplinary perspectives.

Our first section, *In The Journals*, highlights recent high-impact articles that bridge the gap between theory and practice. From a **Marketing** perspective, Canan Corus writes about *Exploring Spatial Vulnerability: Inequality and Agency Formulations in Social Space* and Pradeep Gopalakrishna examines *Walmart in India*. From a **Management** perspective, Casey Frid explores the *Effects of Wealth Inequality on Entrepreneurship* and Christian Madu, Chu-hua Kuei, and Picheng Lee discuss *Urban Sustainability Management: A Deep Learning Perspective*. From a **Legal Studies** perspective, Jessica Magaldi writes *Trolling Twitter: Defamation in an Online World*. From a **Finance** perspective, P. V. Viswanath digs into *Word Power: The Impact of Negative Media Coverage on Disciplining Corporate Pollution* and Matt Morey examines *How We Contradict Ourselves: The Case of John Cochrane—Gliding and Behavioral Economics*. From an **Accounting** perspective, Kam Chan, Barbara Farrell, and Patricia Healy explore *Law and Reporting Compliance Confidence*, Kaustav Sen writes *Do financially distressed firms misclassify core expenses?*, and Myojung Cho and Kwang-Hyun Chung talk about *The Effect of Commercial Banks' Internal Control Weaknesses on Loan Loss Reserves and Provisions*.

Our second section, *On The Bookshelf*, highlights work distributed by high-profile publishers that also address issues related to our theme. It includes discussions from Randi Priluck on *Social Media and Mobile Marketing Strategy* (Oxford University Press), Alan Eisner on *Strategic Management: Text and Cases, 8th Edition* (McGraw Hill), Rosario Girasa on *Regulation of Cryptocurrencies and Blockchain Technology: National and International Perspectives* (Palgrave Macmillan), and Thomas Webster on *Analyzing Strategic Behavior in Business and Economics: A Game Theory Primer* (Lexington Books).

Perhaps you will see something in these executive-level encapsulations that relates to your work. You might even pick up a few useful tips and suggestions on how to better handle similar types of issues. In the end, we hope that by considering their insights, you will be able to contribute to technical advancement and economic growth in a more responsible and sustainable way.



* **DR. ERIC KESSLER** is the Henry George Professor of Management and founding Honors Director at the Lubin School of Business. A recognized authority on organization management and global leadership, he has published five critically acclaimed books, authored over 100 scholarly papers, and worked with numerous government and private organizations. He is also the worldwide general editor of the *Encyclopedia of Management Theory*, serves on several professional boards, and is a past president/Fellow of the Eastern Academy of Management. His distinctions include a Jefferson Foundation medal, Fulbright grant, Choice book award, Kenan teaching award, and honors from societies of business, forensics, economics, and psychology.

** **DR. PING WANG** is an Associate Professor of Accounting at the Lubin School of Business. Her research focuses on executive compensation, voluntary disclosure, and financial regulation. Her dissertation, entitled "Consequences of Voluntary Disclosure for CEOs: Evidence from Issuing Earnings Guidance in the Face of an Earnings Surprise," received a best doctoral student award at the American Accounting Association Mid-Atlantic Meeting in 2011. Since then, Dr. Wang has published in *Journal of Accounting, Auditing and Finance*, *Journal of Business Finance & Accounting*, and *Accounting Horizons*. Her research was featured in the Harvard Law School Corporate Governance forum and the *Dow Jones Institutional News*.

IN THE JOURNALS

JOURNAL ABSTRACT 1

EXPLORING SPATIAL VULNERABILITY: INEQUALITY AND AGENCY FORMULATIONS IN SOCIAL SPACE

Written by Dr. Canan Corus* (with Bige Saatcioglu) and published in 2016 by the *Journal of Marketing Management*, 32 (3-4): 230-51.

ISSUE AND IMPORTANCE

This article provides a conceptual framework for analyzing power and control in physical and social space. Space is a medium that shapes stakeholder-company and relations in ways that can liberate or constrain. Marketplace exclusion occurs in spaces as small as the seat on a bus and a place at a lunch counter, or over access to healthcare and workplaces. Retail settings, service contexts, and themed environments (e.g., entertainment parks, brand flagship stores) are at the core of consumer research on space. This article includes in its conceptualization other forms of spaces (e.g., public space, neighborhood, community) in which social struggles take place. Social actors (i.e., consumers, marketers, businesses, and policy makers) exert various forms of agency to achieve power and control in the physical and social space.

MAIN FINDINGS

The article builds on the notion of spatial vulnerability to explicate how diverse power interests shape everyday life within various contexts such as traditional spaces of consumption, public space, and digital space. It provides a conceptual framework to focus on consumer vulnerability (i.e., susceptibility to detriment due to personal circumstances) and the production and consumption of social space. Drawing from research on critical urban geography, marketplace exclusion, and consumer vulnerability, the article explores different ways in which social space is currently being used and can be used for realizing conflicting interests.

PRACTICAL IMPLICATIONS

- Managers should be aware of the different ways in which the use of social space can inspire human agency and creativity in managing vulnerability. For example, a critical view of space has public policy implications for marketplace inclusion, including housing, spatial segregation, as well as distributional disadvantages in access to certain market offerings such as affordable housing and how social space is regulated.
- Similarly, it is important for management to recognize that racial segregation still exists in metropolitan areas. Low-income housing projects are often segregated to undesirable and marginal areas with limited access to clean water, medical facilities, safe public spaces, or healthy foods.
- Given such lasting socio-spatial conflicts, the need for more equitable public policies and business practices to better manage social space remains paramount.

* **DR. CANAN CORUS** is an Associate Professor of Marketing. She joined the Lubin School of Business in 2012. Her research focuses on consumer health, consumer welfare, and vulnerable populations. She studies health literacy and customizing health-related messages based on cognitive and emotional factors. Her other research projects entail corporate social responsibility and stakeholder engagement, focusing on democratization of stakeholder-corporation relationships. She also publishes in the area of individual differences in sequential self-regulatory behaviors. Her research has appeared in *Journal of Marketing Research, Journal of Business Research, Journal of Public Policy and Marketing, Journal of Macromarketing, and Journal of Marketing Management*.

JOURNAL ABSTRACT 2

WALMART IN INDIA

Written by Dr. Pradeep Gopalakrishna* (with David Fleischmann) and published in 2016 by *Journal of International Academy for Case Studies*, 22 (3): 99-109.

ISSUE AND IMPORTANCE

Walmart, the world's largest private retailer, has had its mix of successes and failures with its overseas ventures. This case study examines Walmart's foray into India, exploring its retail landscape, business climate and political landscape with legal/regulatory ramifications. Further, this study considers rules and regulations with regard to joint venture agreements, corruption laws, and related ethical issues of doing business in India.

PRACTICAL IMPLICATIONS

- Unlike other sectors, retail does not lend itself to easily transferring marketing strategies across borders. A flexible approach, which is a hybrid between standardization and localization, is preferred.
- It is imperative to study the Indian business environment and the way corruption surrounds nearly every type of transaction.
- To overcome the accusations of bribery, companies could use alternate measures such as keeping employee compensation levels in line with the market; clear job descriptions with higher salaries for certain employees and bonuses to license procurement vendors.

MAIN FINDINGS

Walmart, known worldwide for running successful retail stores with local partners, failed miserably in India due to unexpected country-specific challenges. For example, Indian government rules on foreign investment are excessively restrictive and complicated. The retail landscape in India is also made up of unorganized retail (over 90 percent of total) consisting of small, family-run mom and pop stores called *Kiranas*. Walmart's joint venture with Bharti Airtel failed due to a lack of understanding of corporate anticorruption measures. Walmart offered Bharti Airtel a $100 million interest free loan. The legality of this loan came into question by the Indian government. During the investigations, it was revealed that Walmart had spent $25 million in lobbying the government for market access. While it is legal in the U.S., lobbying is illegal in India. Finally, after spending over $200 million in India, Walmart broke up its joint venture agreement with Bharti Airtel, and overhauled its operations. Today, Walmart India owns and operates 23 B2B cash and carry wholesale stores. The Walmart Foundation has spent over $2 million to empower and support farmers by way of improved access to finance, infrastructure projects and technology knowhow.

* **DR. PRADEEP GOPALAKRISHNA** is Department Chair and Professor of Marketing at the Lubin School of Business. He teaches various classes at the undergraduate, graduate, and doctoral levels. He won the Lubin Teaching award in 2013. His primary research interests are in cross-cultural marketing, marketing strategy, and consumer behavior. Dr. Gopalakrishna has published over 25 refereed journal articles and case studies. Some of his research has been published in leading academic journals such as *Journal of Business Research, International Journal of Advertising, Journal of Retailing and Consumer Services, Management International Review, Journal of Marketing Analytics, Journal of International Consumer Marketing*, and *Business Case Journal*, among others.

JOURNAL ABSTRACT 3

EFFECTS OF WEALTH INEQUALITY ON ENTREPRENEURSHIP

Written by Dr. Casey Frid* (with David Wyman and Bentley Coffey) and published in 2016 by *Small Business Economics*, 47 (4): 895-920.

ISSUE AND IMPORTANCE

A hot button issue currently discussed among management scholars is how, and to what extent, should schools encourage scholarship that bridges theory and practice. At the Academy of Management conference held in Chicago last year (2018), I facilitated a professional development workshop that addressed this issue. The most important point at the workshop—in my opinion, at least—was raised by Per Davidsson, Professor and Chair of the Management Department at Queensland University of Technology. Per said that it was his hope that we do not take this theory-to-practice effort so far as to focus our scholarship only on helping businesses increase their bottom line. Rather, our job as scholars is also to help to foster a socioeconomic environment that improves lives and is accessible by all. The present study attempts to do just that by examining the role of personal wealth (or the lack thereof) in an individual's ability to jump on the ladder of entrepreneurial opportunity.

MAIN FINDINGS

We examine a representative sample of nascent entrepreneurs in the United States to ascertain the extent to which household net worth acts as a constraint on the ability to create new ventures. It is often assumed that in the U.S. market, money will find its way into the hands of skilled entrepreneurs who have good ideas. However, prior research on this topic shows that entrepreneurs with low net worth face significant challenges when trying to secure external financing. We find that people with a low net worth at the start of their entrepreneurial journey are less likely to succeed at transforming their ideas into a viable business. This is true even as we control for factors such as the quality of the opportunity, and the skill and experience of the entrepreneurs.

PRACTICAL IMPLICATIONS

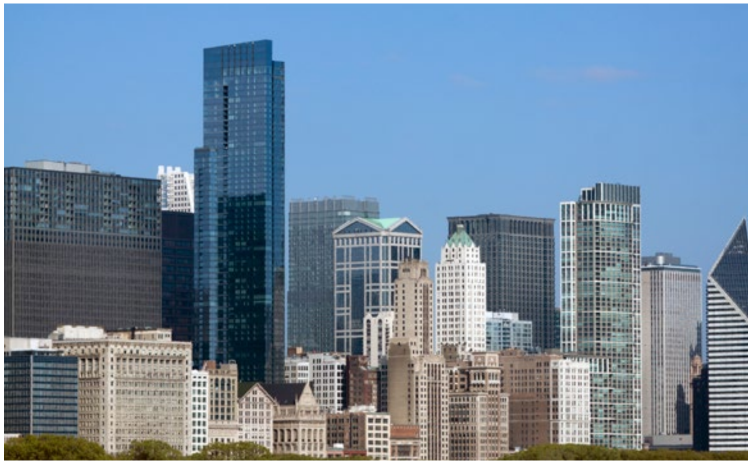
- Unless they are wealthy, skilled entrepreneurs are less likely to start new ventures.
- If having a low net worth constrains startup success, then a quality business idea and individual skill may be less of a determinant of entrepreneurial success than what many assume.
- Entrepreneurial talent is widespread, but opportunity is not. This means that entrepreneurship as a path toward upward, socioeconomic mobility is predominantly afforded only to those with sufficient financial endowments at the outset. Programs such as "WE Fund: Crowd" in New York City can help ensure all have the opportunity to start a business.

* **DR. CASEY FRID** studies strategy and entrepreneurship, and has published papers in top academic journals on topics ranging from collaborative strategies among firms to early stage venture creation. His work focuses on the intersection of competition strategy, founder identity, and community. He has examined how a shared, collective identity among craft brewers shapes both collaborative and competitive actions, as well as how their individual role identities evolve over time. Dr. Frid received his PhD (2011) and MBA (2006) from Clemson University and his bachelor's degree (1999) from Winona State University.

JOURNAL ABSTRACT 4

URBAN SUSTAINABILITY MANAGEMENT: A DEEP LEARNING PERSPECTIVE

Written by Drs. Christian N. Madu*, Chu-hua Kuei**, and Picheng Lee*** and published in 2017 by *Sustainable Cities and Society*, 30: 1-17.



ISSUE AND IMPORTANCE

One of the challenges in working with big text data is the ability to extract relevant information to make effective decisions. This paper explores the use of text data analytics to examine the types of urban sustainability development incentives in Europe, Asia, and North America. It is important to assure clean air and a healthy environment in urban cities. Corporate governance is needed to drive sustainability and ethical standards that will make our urban areas sustainable. Emphasis is placed on expected economic opportunities, emissions reduction, and methodologies/guidelines for implementing urban sustainability development initiatives.

MAIN FINDINGS

Empirical models are developed based on formal concept analyses (FCA) and text entries obtained from the City Carbon Disclosure Project (CDP). The models show that the two major incentives for achieving sustainability are "Recognition" and "Monetary" and the two major economic opportunities are "Development of New Business" and "Operational Efficiency." The transportation sector (e.g., metro, commuter train, and train within the community boundary) is the focal point to reduce emissions in Europe, Asia, and North America. There are no trends in terms of the methodologies/guidelines adopted for achieving sustainability. The *2006 Intergovernmental Panel on Climate Change (IPCC) Guideline for National Greenhouse Gas Inventories* is the main guideline adopted by six cities in the three continents. However, "National Standards" are considered relevant in Tokyo and Copenhagen.

PRACTICAL IMPLICATIONS

- The process of creative text mining, multi-layer data exploration, and knowledge articulation is one of the ways to achieve urban sustainability.
- Applying the principles discussed in this work and realigning collective efforts with care further makes it possible for a direct connection between tacit knowledge and explicit knowledge.
- As shown in the research that the transportation sector is the primary source of carbon emissions, there is a need for an effective mass transit system to reduce the emission of greenhouse (GHG) gases.

* **DR. CHRISTIAN N. MADU** is a Professor of Management Science at the Lubin School of Business. He is a leading scholar in the areas of sustainability management, disaster risk reduction, process change and quality management. He has published extensively in these areas and his works have been widely cited. He is currently a recognized expert in chemical safety and security, and has conducted several international workshops in this area. Dr. Madu has consulted widely for many leading organizations. He has served as the editor-in-chief of a major journal and currently sits on the editorial board of more than thirty academic journals.

** **DR. CHU-HUA KUEI** is a Professor of Management and Management Science at Pace University's Lubin School of Business. He is the co-editor of *Handbook of Sustainability Management* (2012) and *Handbook of Disaster Risk Reduction and Management* (2018). His current research interests include urban sustainability, wolf conservation, text mining, sustainable water management, data envelopment analysis, green supply networks, system dynamics, game theory, project management, particle swarm optimization, disaster relief supply chain quality management, circular economy, ecosystem services, land use policy, and global cleaner production and sustainable consumption.

*** **DR. PICHENG LEE** is a Professor of Accounting at the Lubin School of Business. His publication covers corporate social responsibility, corporate governance, earnings management, earnings forecasts, financial distress, intangible assets, and environmental sustainability. He regularly teaches accounting information systems, cost/managerial accounting, and financial accounting. Dr. Lee is also an editorial board member of the *International Journal of Accounting and Information Management*. The topics of his recent empirical research projects include auditor ratification, executive compensation, text mining, urban sustainability, and water management.

JOURNAL ABSTRACT 5

TROLLING TWITTER: DEFAMATION IN AN ONLINE WORLD

Written by Dr. Jessica A. Magaldi* (with Wade Davis) and published in 2017 by the *Journal of Critical Incidents*, 10: 32, 106-108.

ISSUE AND IMPORTANCE

Social media and Twitter, in particular, have the potential to ruin a reputation in an instant. In the new, evolving, and often rough-and-tumble speech community on Twitter, the law of defamation is not always simple and straightforward. Whether a statement is defamatory depends on the language, context, audience, and knowledge and understanding of the speaker. Understanding the boundaries of defamation, therefore, is vital in this context.

MAIN FINDINGS

Through the prism of a lawsuit between actor James Woods and an anonymous internet troll, the quirks of applying defamation law to the medium of Twitter are revealed. Though a tweet may seem temporary and fleeting, it can be retweeted and spread quickly, and can be easily saved, copied, and discovered through a simple search. In determining defamation, the more factually-based an online post is, the more likely it will be deemed to fall within the legal framework of defamation; the more opinion-based, absurd, and farcical it is, the more likely it will have First Amendment protection. Anonymity does not protect against a claim of defamation, although it may give the illusion that a poster is free to troll with little consequence.

PRACTICAL IMPLICATIONS

- On Twitter, it may be difficult to distinguish between injury arising from troll-like statements couched as opinion and statements that are factually false. One tweet amongst a barrage of trolling tweets might rise to the level of defamation, but the volume of tweets may cause more significant injury.

- The ability to identify statements that rise to the level of defamation in this context is especially important given the costs of prosecuting and defending defamation lawsuits.

- Active members of online communities play a role in shaping the tone and nature of those communities. While members need to understand the legal limitations of their online speech, they also need to use good judgment and be guided by principles of fairness, justice, and ethics.

* **DR. JESSICA A. MAGALDI** is an Assistant Professor in the Lubin School of Business. Dr. Magaldi's research reflects her interest in understanding how business and societal goals are advanced through law and policy. Her current research focuses on the intersection of law and social media, with a particular emphasis on civic discourse. Dr. Magaldi is a frequent presenter at national and international conferences, where her work has been recognized with numerous Best Paper awards. In 2017, Dr. Magaldi was awarded a national *Periclean Faculty Leadership* grant for championing civil dialogue, civic engagement, and social responsibility in her work.

JOURNAL ABSTRACT 6

WORD POWER: THE IMPACT OF NEGATIVE MEDIA COVERAGE ON DISCIPLINING CORPORATE POLLUTION

Written by Dr. P. V. Viswanath* (with Ming Jia, Li Tong, and Zhe Zhang) and published in 2017 by the *Journal of Business Ethics*, 138 (3): 437-458.

ISSUE AND IMPORTANCE

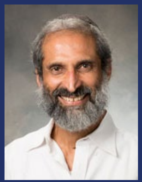
The optimal functioning of a society requires its several components to work in cooperation. In a capitalist economy, the power of the market can ensure that businesses act in the social interest—if a product or service does not serve customers, they will refuse to buy it and opt for competitors' products. However, where public goods are concerned, the simple working of the marketplace is often insufficient; legislative, civic, and news organizations need to step in to fill the breach. Our paper looks at the ability of the news media to impact environmental pollution by corporate actors. We focus on how an atmosphere of negative news reports following an initial exposure of corporate pollution activity helps stop such activity through their impact on corporate managers.

MAIN FINDINGS

Our sample consists of news media reports from more than 600 newspaper sources on pollution activities of listed Chinese firms from 2004 to 2012. We look at how media coverage changes, following initial reports of corporate pollution. We find that the more the negative media coverage is, at this stage, the greater the likelihood that the firm in question will stop its polluting activities, as measured by continued media reports of such pollution. Furthermore, the greater the participation of local media in such negative coverage, the greater the impact on stopping corporate pollution.

PRACTICAL IMPLICATIONS

- Media organizations can help compensate for shortcomings in capitalist economies in ensuring desirable social outcomes.
- Firms should be careful not to engage in antisocial behavior. This is not just a moral imperative: Based on firm reactions, it would seem that negative media coverage, particularly from local media interested in the immediate impact of corporate activity, affects the bottom-line.
- Government should support media reporting, particularly at the local level.



* **DR. PV VISWANATH** is the Graduate Program Chair in the Department of Finance and Economics at the Lubin School of Business. His research spans not only the more traditional areas of law and economics, corporate finance, investments and insurance, but also the treatment of economic issues in world religions, primarily Judaism and Buddhism. A special interest of his is the role of microfinance and financial markets development in emerging economies, such as India, Kenya, and Cuba. He teaches courses in a variety of areas including corporate finance, microfinance, film finance, and the Chinese financial system.

JOURNAL ABSTRACT 7

HOW WE CONTRADICT OURSELVES: THE CASE OF JOHN COCHRANE – GLIDING AND BEHAVIORAL ECONOMICS

Written by Dr. Matthew R. Morey* (with Daniel Sazhin) and published in 2018 by *The American Economist*, 63 (1): 31-40.

ISSUE AND IMPORTANCE

John Cochrane, a leading economist, has consistently expressed a skeptical view toward behavioral economics and libertarian-paternalism. Specifically, he has consistently voiced his disagreement with the premise of "protecting" people from their own choices. He believes that most people are rational in their behavior and hence do not need "protection" from the government. In his hobby of flying glider planes, however, Cochrane has strongly argued that pilots will make behavioral errors. Indeed, he notes that pilots can be tempted to make unsafe decisions and has argued for specific rules to help prevent pilot error. In this article, we examine this contradiction. In doing so, it provides an interesting case study of how our beliefs in one system can be quite different in another.

MAIN FINDINGS

People who have more extreme perspectives are more likely to be contradictory in what they say and do. This in turn has something to say about how we should interpret these perspectives, both as academics and policymakers. *Homo economicus* does not live in reality. The sport of flying glider planes provides a naturalistic environment where John Cochrane climbs down from the ivory tower and experiences the real world and limits of rationality. He sees that in real life people sometimes exercise poor judgement and that safeguards can be necessary to protect them from the temptation to make bad decisions. In the sport of flying glider planes, competitive temptations can encourage pilots to take unnecessary risks. Cochrane has suggested several regulatory changes that discourage pilots from these behaviors. His juxtaposition shows how encouraging and useful a libertarian-paternalistic framework can be in broader policy to structure better and more ethical choices.

PRACTICAL IMPLICATIONS

- It is both possible and legitimate for private and public institutions to affect behaviors while also respecting freedom of choice.
- Nudge techniques that develop a choice architecture with effective defaults and feedback can meaningfully safeguard people from suboptimal choices.
- Theory and practice can diverge quite substantially when it comes to the philosophy of maximizing personal freedom. While it can be philosophically tempting to give people as much freedom of choice as possible, this can come at an excessive cost.

* **DR. MATTHEW R. MOREY** is a Professor of Finance and the New York Stock Exchange Research Scholar at the Lubin School of Business at Pace University in New York City. His work has been published in many finance and economics journals including the *Journal of Financial and Quantitative Analysis, the Financial Analysts Journal, Journal of Empirical Finance* and the *Journal of Banking and Finance*. Further, his research has been cited in the *Wall Street Journal, New York Times*, and the *Washington Post*.

JOURNAL ABSTRACT 8

LAW AND REPORTING COMPLIANCE CONFIDENCE

Written by Kam C. Chan*, Barbara R. Farrell**, and Patricia Healy*** (with Annie Wong) and published in 2016 by the *Journal of Accounting, Ethics and Public Policy*, 17 (3): 1003-1018.

ISSUE AND IMPORTANCE

Even with the rapid globalization of financial markets and the widespread uses of International Financial Reporting Standards, significant differences still exist in the quality of financial reporting among countries. These differences are mainly caused by different levels of investor protection among countries. Firms from countries with stronger investor protection have better social responsibilities and ethical practices leading to higher quality of financial reporting. Ernst & Young (EY) published a report in 2016, which shows that there was a wide range of confidence among chief financial officers and heads of reporting units in large organizations in 25 countries/regions relating to their confidence in compliance with their accounting, finance, controlling, and sustainability reporting needs. The objective of this study is to examine the relationship between investor protection and CFO confidence in different countries, as reported in EY's survey.

PRACTICAL IMPLICATIONS

- Investors should be aware that significant international differences in financial reporting quality and investor protection still exist, even with recent integration of financial markets in the past two decades.
- CFOs are under a lot of pressure in meeting reporting requirements, especially those in countries with strong investor rights.
- The findings also show the positive effects of high quality legal rules and corporate governance reforms on the quality of financial reporting.

MAIN FINDINGS

Prior literature finds that investor protection is affected by the amount of investor rights and the extent of legal enforcement. We find that in countries with stronger investor rights there is stronger reporting compliance. The results also suggest that firms in countries with stronger investor rights have more reporting standards to comply with, and also experience an increase in reporting demand from stakeholders, as compared to firms in countries with weaker investor rights. However, the results show no significant differences in reporting compliance confidence, number of reporting standards, and increased demand for reporting needs among firms in countries with stronger or weaker legal enforcement.

* **DR. KAM CHAN** is a Distinguished Professor of Accounting at Pace University's Lubin School of Business and a recipient of Pace's Kenan Award for Teaching Excellence in 2014. Dr. Chan's work has been published in premier research journals such as *Accounting, Organizations, and Society*, *Auditing: A Journal of Practice and Theory*, and *Journal of Accounting and Economics*. He was the Ernst and Young Scholar at Pace from 2000-2003 and 2009-2015. His research has been abstracted, reprinted, and highly cited by others, including the Securities and Exchange Commission. Dr. Chan was ranked as one of the top accounting researchers in reports published by the American Accounting Association.

** **DR. BARBARA R. FARRELL** is a Professor of Accounting at Pace University. Dr. Farrell has published papers in the areas of online learning, financial statement fraud, auditor responsibilities, and the Sarbanes Oxley Act. She has been a faculty member at Pace since 1980 and teaches courses in the areas of AIS, Internal Audit, and Forensic Accounting.

*** **PATRICIA HEALEY** is an Associate Professor of Accounting and the Undergraduate Program Chair for the Accounting Department. She has published papers on international auditing standards, managing quality control costs, diversity issues in business, implementing the Balanced Scorecard, and governmental accounting issues. She teaches courses in the areas of management accounting, cost accounting, and advanced accounting.

JOURNAL ABSTRACT 9

DO FINANCIALLY DISTRESSED FIRMS MISCLASSIFY CORE EXPENSES?

Written by Dr. Kaustav Sen* (with Neerav Nagar) and published in 2017 by the *Accounting Research Journal*, 30 (2): 205-223.

ISSUE AND IMPORTANCE

When evaluating a firm's performance, analysts and investors focus on a firm's core earnings by excluding nonrecurring special items. Managers can inflate core earnings by shifting operating expenses to income-decreasing special items. This is called classification shifting, and it creates the impression that a firm's operations are better than they are in reality. Financially distressed firms cause large losses to investors and creditors. It is important to understand whether distressed firms, which unlike healthy firms often have negative special items to report, use classification shifting as an easy way to avoid reporting negative or declining core earnings.

MAIN FINDINGS

Managers of financially distressed firms have more incentives and opportunities to misclassify core expenses. The complete sample consists of about 3,500 U.S.-listed firms during the period from 1989 to 2010. On average, distressed firms have $ 31.7 million of income decreasing special items and shift $ 4.1 million core expenses more than healthy firms. The choice of using special items sub-types by healthy and distressed firms to shift core expenses is different. While healthy firms are more likely to shift core expenses to "loss on sale of assets or investments" and "impairment of goodwill," distressed firms use "settlement costs" and "write downs" in addition to "goodwill impairment."

PRACTICAL IMPLICATIONS

- Investors should evaluate whether income decreasing special items reported by distressed firms are due to genuine reasons or are attempts to boost core profits.
- Analysts need to track a firm's history of reported non-core items more closely and adjust their forecasts accordingly.
- Lenders should be careful in evaluating clients' creditworthiness in subsequent monitoring, particularly in moratorium decisions with respect to the firms facing financial difficulties.
- The Financial Accounting Standards Board should ask for more disclosures on the breakdown of special items and their history.

* **DR. KAUSTAV SEN** is a Professor of Accounting at Pace University. His research on corporate governance and financial reporting has appeared in the *Journal of Accounting, Auditing and Finance*, *Journal of Contemporary Accounting and Economics*, *Journal of Corporate Finance*, and *Corporate Governance: An International Review*, and has been cited by the *Economist*. He has received research funding from the National Stock Exchange of India and has been honored with best paper awards at the American Accounting Association Ohio Meeting. He has been the Accounting Department's Ernst & Young scholar and has served on the board of a nonprofit healthcare organization in New York City.

JOURNAL ABSTRACT 10

THE EFFECT OF COMMERCIAL BANKS' INTERNAL CONTROL WEAKNESSES ON LOAN LOSS RESERVES AND PROVISIONS

Written by Drs. Myojung Cho* and Kwang-Hyun Chung** and published in 2016 by the *Journal of Contemporary Accounting and Economics*, 12 (1): 61-72.

ISSUE AND IMPORTANCE

This study examines whether commercial banks with material internal control weakness (ICW) tend to have more loan loss reserves and related losses than their counterparts. Loan loss reserves are estimates of loss exposure of banks due to impaired loans. They are the single largest component of credit risk estimates for commercial banks, which could be under the discretion of bank management. Furthermore, loan loss reserves are often estimated based on historical loss rates, not on individual assessments of specific loans. Banks could also include substantial amounts of supplemental reserves that are not necessarily linked to the credit risk exposure. Thus, regulators have been keen to improve internal control procedures of banks to ensure accurate credit risk assessment.

MAIN FINDINGS

We find that banks with material ICW have, on average, more loan loss reserves and related losses than those without material ICW. We also find that if a bank reports no material ICW in the year following reporting material ICW, it no longer has excessive loan loss reserves or losses.

PRACTICAL IMPLICATIONS

- Auditors and regulators may use material ICW to gauge the quality of credit risk assessment among banks and to adjust the intensity of their evaluation of loan loss reserves of the banks accordingly.
- The enhanced regulatory requirements for effective internal control since the Sarbanes-Oxley Act of 2002 seem to have helped banks to improve internal control procedures.
- It may also be helpful for bank regulators to closely monitor non-credit risk related excessive loan loss reserves, such as discretionary supplemental reserves.

* **DR. MYOJUNG CHO** is an Associate Professor of Accounting at the Lubin School of Business. She teaches financial accounting and managerial accounting. Her research focuses on theoretical and empirical analyses of corporate disclosure of financial information and its impact on the capital markets. Dr. Cho's work has been published in the *Journal of Accounting Auditing and Finance*, the *International Journal of Accounting*, and the *Journal of Accounting and Public Policy*, among others.

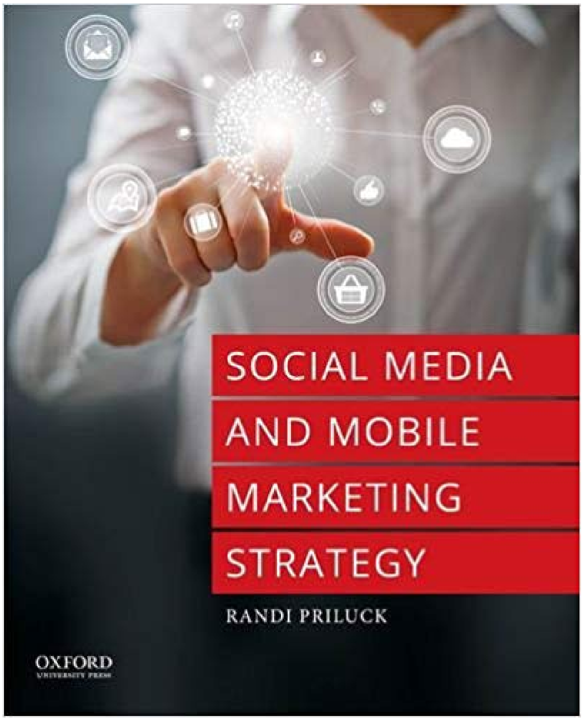
** **DR. KWANG-HYUN CHUNG** has been a Professor of Accounting at the Lubin School of Business since 2004. His research mainly covers capital market-based accounting including the topics of corporate governance, public policies, and financial disclosures. He has published numerous articles in scholarly journals such as the *Accounting Review*, *Asia-Pacific Journal of Accounting*, *Advances in Management Accounting*, and the *Journal of Contemporary Accounting and Economics*. His multiple years of directorship at a commercial bank have led him to develop further research interests and experience in areas such as internal control, banks' credit risk management, and bank compliance issues including corporate social responsibility.

ON THE BOOKSHELF

BOOK ABSTRACT 1

SOCIAL MEDIA AND MOBILE MARKETING STRATEGY

Written by Dr. Randi Priluck* and published in 2017 by Oxford University Press



ISSUE AND IMPORTANCE

Social Media and Mobile Marketing Strategy provides an in-depth look at digital marketing strategies that firms can use to effectively reach and engage with their target audiences. The book emphasizes the four P's of marketing, and describes how each element is affected by the changing digital arena. It also explains how businesses have responded by shifting marketing dollars to social media, mobile, and other digital technologies to reach consumers where they live, work and relax. One important concern is the issue of digital privacy and the extent to which users are protected by regulations or company policies. This book also highlights the key privacy issues facing consumers and firms, and discusses the regulations that are important for marketers to consider in executing strategies.

MAIN FINDINGS

Drawing on the available research on Internet marketing, word of mouth behavior, social media platforms, and other web-based data, the author synthesizes the findings and applies them to the current digital marketing issues facing firms. The research-based approach is evident in the specific recommendations for planning and executing strategies that are based on goal setting, identifying key performance indicators, and measuring the response to social media and mobile executions.

PRACTICAL IMPLICATIONS

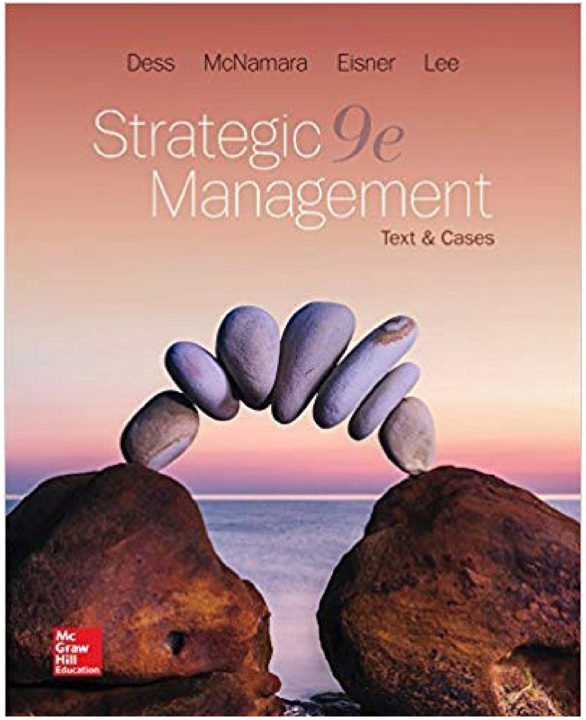
- The book offers practical advice for marketers seeking to enhance their digital presence to reach and engage both B2B and B2C customers. There is an emphasis on protecting personally identifiable information and location data.
- Marketers must have websites with clear calls to action, effective search engine optimization, consistent content marketing strategies, methods for amplifying messages across social and mobile platforms, and techniques for evaluating responses to improve performance over time.
- Companies should comply with the developing regulations in the area by adopting permission-based marketing, following their privacy policies, and protecting consumer data. Marketers are expected to protect consumer privacy, particularly in Europe where regulations are stronger than in the US. Consumers implicitly give permission to marketers by using the platforms without clearly reading the policies.

* **DR. RANDI PRILUCK** is a Professor of Marketing at Pace University's Lubin School of Business. She developed Lubin's Master of Science in Social Media and Mobile Marketing program, and teaches the graduate capstone course in the program. Her research has been published in various journals such as the *Journal of Advertising* and the *Journal of the Academy of Marketing Science*. Dr. Priluck has consulted for numerous Fortune 500 companies in New York City and began her career in the Cosmetics and Fragrance division of L'Oreal. She now serves as Associate Dean for Undergraduate Programs in the Lubin School of Business.

BOOK ABSTRACT 2

STRATEGIC MANAGEMENT: TEXT AND CASES, 9TH EDITION

Written by Dr. Alan B. Eisner* (with Gregory Dess, Gerry McNamara, and Seung-Hyun Lee) and published in 2018 by McGraw Hill.



ISSUE AND IMPORTANCE

Today's leaders face a large number of complex challenges in the global marketplace. Leaders can be lauded for corporate success or blamed for failures. We explore these perspectives while emphasizing the fundamentals of strategy with insights and examples from relevant companies and industries. This book highlights the major issues of strategy, corporate social responsibility, and ethics with over 30 well-developed company cases from Apple to Zynga and interesting points in between.

MAIN FINDINGS

The combination of short *Learning from Mistakes* case examples that begin each chapter are combined with longer and more comprehensive cases that explore the depths and details of a particular business situation. These case tools, along with clearly explained strategy concepts, enable readers to experience, at least vicariously, what it is like to make real decisions for modern companies around the world. From helping Tata Starbucks develop a strategy to fend off entrenched local competitor Café Coffee Day, to deciding whether or not Blackberry can recover any part of its business, to Kickstarter deciding on the ethics of certain campaigns, readers are put in the virtual driver's seat of real companies.

PRACTICAL IMPLICATIONS

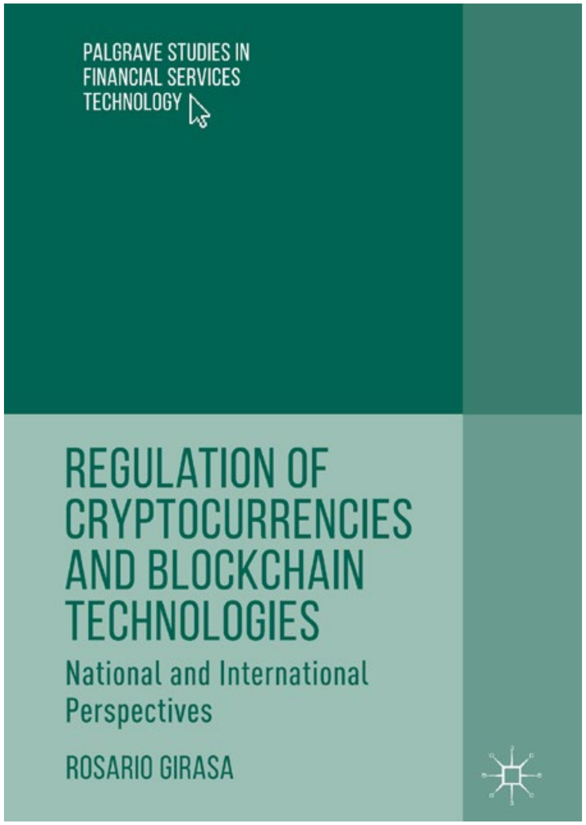
- Strategic analysis can assess the internal and external environments of a firm to uncover competitive advantages while strategic formulation across business, corporate, and international domains can enhance and leverage these competitive advantages.
- Strategic implementation of the above must simultaneously consider broader ethical and societal themes including environmental sustainability, privacy, globalization and diversity, corporate governance, competitive intelligence, and data analytics.
- Of particular relevance to ethics and social responsibility are role models, corporate credos and codes of conduct, policies and procedures, and reward and evaluation systems.

* **DR. ALAN EISNER** is the Interim Associate Dean for Graduate Programs and Professor of Management, Department of Management and Management Science, Pace University. He received his PhD from the Stern School of Business, New York University. Dr. Eisner has a BS in Operations Research and Industrial Engineering and an MEng. in Engineering Management, both from Cornell University. He has published more than 30 articles in journals such as the *International Journal of Electronic Commerce*, *Advances in Strategic Management*, and the *International Journal of Technology Management*. The 9th edition of Dess, McNamara, and Eisner's Strategic Management textbook was published by McGraw-Hill in January of 2018.

BOOK ABSTRACT 3

REGULATION OF CRYPTOCURRENCIES AND BLOCKCHAIN TECHNOLOGY: NATIONAL AND INTERNATIONAL PERSPECTIVES

Written by Dr. Rosario Girasa* and published in 2018 by Palgrave Macmillan.



ISSUE AND IMPORTANCE

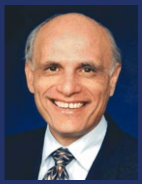
The Bitcoin frenzy has broad implications for a society whose mainly younger inhabitants have moved away from hard currency, printed checking accounts, print media, movie theatres, and the like, to a digital world in which smart cell phones have replaced now outdated methods of communication. The removal of banks, brokerage firms, and other third parties that have added many billions in costs for transactions, almost inevitably has led to a digital means of transmitting modes of payments. The solution is the advent of cryptocurrencies, based on blockchain technology, that seek to provide peer-to-peer transactions that are trustworthy without third-party intervention. Problems with such removal are the social costs due to uses by criminals, terrorists, and other unsavory elements. The text is devoted to a brief exploration of the applicable technologies and regulatory efforts to curb uses that are harmful to society.

MAIN FINDINGS

Bitcoin and other cryptocurrencies, when properly transacted by use of private and public keys, are newly innovative modes of financing transactions that are secure, inexpensive, and permanent in nature, once trust is established by such usage. The many inherent risks include creators of fraudulent cryptocurrencies, loss of private keys that may result in loss of the coins, unlawful use by persons seeking to avoid appropriate governmental sanctions, lack of regulatory coordination among countries, and other risks. Nevertheless, private parties, companies, and governments are adapting to the use of the underlying blockchain technology that prevents hacking and affords complete safety from wrongful intervention.

PRACTICAL IMPLICATIONS

- Blockchain technology is as revolutionary as the advent of the Internet.
- Bitcoin, Ethereum, and certain major cryptocurrencies are likely to remain very important additions for the present and near future.
- Governments are slowly adapting to the technologies and are instituting regulatory measures to combat unlawful uses thereof.

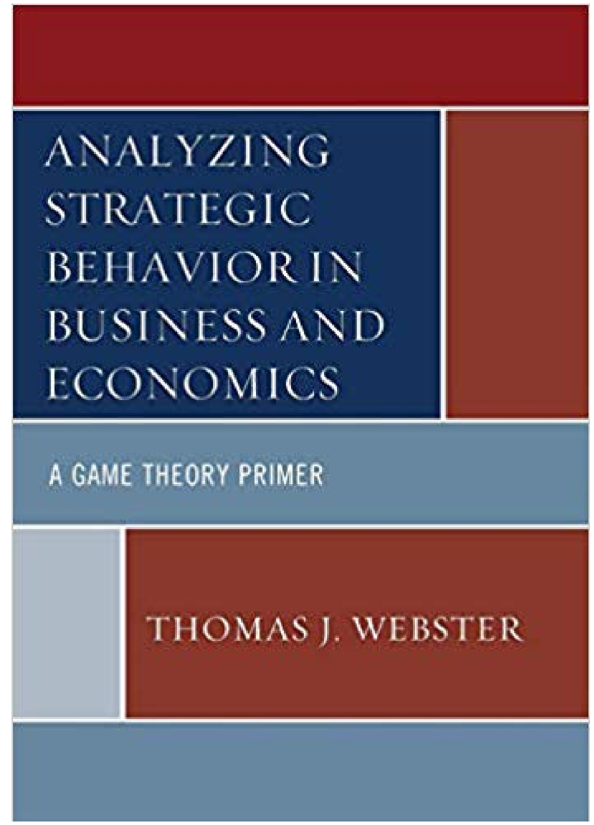


* **DR. ROSARIO (ROY) GIRASA, JD, PHD,** is a Distinguished Professor at the Lubin School of Business, Pace University, Pleasantville. He is the author of five published texts and 130 articles. His books include *Cyberlaw: National and International Perspectives, Corporate Governance and the Law of Finance, Laws and Regulations in Global Financial Markets, Shadow Banking: Rise, Risks, and Rewards of Non-Banking Financial Services, and Regulation of Cryptocurrencies and Blockchain Technologies*. He has delivered lectures globally, including four annual conferences in Tunisia, a number of colleges in India, and MBA seminars at the University of Shanghai and in Stralsund, Germany.

BOOK ABSTRACT 4

ANALYZING STRATEGIC BEHAVIOR IN BUSINESS AND ECONOMICS: A GAME THEORY PRIMER

Written by Dr. Thomas J. Webster* and published in 2014 by Lexington Books.



ISSUE AND IMPORTANCE

Business executives, managers, and regulators routinely play "games" that are not dissimilar from parlor games like bridge and chess. Managers make decisions on a daily basis that affect not only their own bottom line, but the bottom lines of their competitors such as when formulating pricing, marketing, product line, resource sourcing, and other strategies in order to maximize shareholder value. This interdependence will invariably prompt rival firms to retaliate to protect their position in the market, which necessitates a corresponding countermove, and so on. Savvy business managers understand that in highly competitive, interactive business settings, the ability to analyze strategic behavior is an essential element in achieving success. While this does not always result in a Pareto optimal outcome, the search for equilibrium in game theory should embody the moral values that define society and the business environment within which Competition Games are played. Decision makers should eschew actions that are socially irresponsible.

MAIN FINDINGS

Analyses of case studies involving imperfectly competitive market structures, strategic trade policy, product differentiation, and other settings demonstrate that an understanding of strategic behavior, especially pure and mixed-strategy static coalition, competition, and coordination games is invaluable. It is important for business professionals to know that their decisions are not made in a vacuum and have consequences that must be dealt with in a rational, systematic, and responsible manner especially in dynamic (sequential-move) interactive settings, such as bargaining, auctions, preparing incentive contracts, networks, signaling, and screening.

PRACTICAL IMPLICATIONS

- With a focus on the interdependence of managers of competing firms in a practical way, game theory makes it possible to more successfully tackle a wide range of business problems.
- Game theory helps business managers to gain greater insights about the "games" they are playing at both the strategic and tactical levels.
- Game theory makes it possible for negotiators and deal-makers to make sense of complex strategic interactions and the seemingly confusing behavior of rival managers, which can reveal previously hidden commercial risks and profit opportunities.

* **DR. THOMAS J. WEBSTER** is a Professor of Economics in Pace University's Lubin School of Business. Before joining the faculty, Dr. Webster held positions as an international economist with the Central Intelligence Agency, U.S. Department of Defense, Manufacturers Hanover Trust Company, Continental Illinois National Bank and Trust Company, and Continental Bank International. Webster is the author of over 50 refereed journal articles, and four textbooks in the fields of game theory and managerial economics. He is the recipient of Lubin's Scholarly Research and Outstanding Faculty Service Awards, Pace's Award for Distinguished Service, and the Beta Gamma Sigma Commitment to Excellence Award.