

Editorial

Interactions Between Academics and the Market

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Abstract

The editorial highlights the importance of collaboration between academia and the market. Despite institutional barriers, this interaction benefits both sides: faculty enrich their teaching with practical experiences, and students gain greater opportunities in the job market. Additionally, joint projects generate new research ideas. One alternative is external activities; however, cultural and bureaucratic factors in higher education institutions (HEIs) must be considered in these partnerships. The key takeaway is that a virtuous cycle begins with the first step from both sides toward solidifying this relationship.

Keywords: Academia; Market; Strategic partnerships.

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Recently, I was invited by the organizing committee of the XV AdCont Congress (2024) to give a lecture on a challenging topic: discussing interactions between academia (professors/researchers) and the market. In this editorial, the term ‘market’ is used broadly, referring to any entity outside higher education institutions (HEIs), whether it’s a small business, a corporation (publicly listed company), a multinational, a non-governmental organization (NGO), a state-owned enterprise, a government agency, or the government itself at the municipal, state, or federal level.

At first, building this bridge is complex, as there are theoretically several factors that distance academics from the ‘market’, especially those from public education institutions, but also with potential restrictions in private education institutions. In any case, I will refer to all these institutions as Higher Education Institutions (HEIs), and their legal or regulatory definitions will be treated generically to encompass the broadest range of contexts. However, I will provide specific examples when appropriate. Secondly, in some cases, for professors who are pursuing or have completed a Ph.D., the years dedicated to their studies may distance them from the market’s network, but they can also generate new opportunities (both national and international).

To begin with, it’s important to establish that it is not mandatory for a professor to engage in activities outside their HEI, but it’s also essential to recognize that it is not forbidden. In fact, some courses are evaluated based on criteria that measure the involvement of professors in projects where there are intersections between academia and the market (or even consulting/advisory work). There are pathways for this interaction to occur and be beneficial to both sides. Often, market experience, in a broad sense and even if only partially aligned with the expertise areas of professors, can benefit students. This allows them to anticipate how to handle unexpected situations when a professor shares their own market experiences.

Additionally, this contact with the market can facilitate students’ job searches, as employers often reach out to professors for student referrals or share job opportunities. Another benefit is the insights that emerge from these occasional activities (or occasional consulting/advisory services), from meetings with leaders of these entities, from the search for solutions to real problems. These activities can generate a series of research ideas (problems to be investigated) and enrich the classroom with real-life examples, such as the development of teaching cases. Finally, in our field of business related studies encompassing accounting, management, economics, and actuarial sciences an applied social science without this interaction misses out on market evolution and innovations that should be shared in the classroom.

In general, the structures of HEIs encompass Teaching, Research, and Extension. These three pillars should function without dysfunctions as a natural whole, without a heavier

or lighter weight assigned to any, but, in fact, teaching and research are usually prioritized to prepare professionals for the job market and future faculty and researchers. Moreover, the curriculum of a course can include extension hours to grant regular credits to students. The main issue I see (and I may be mistaken) is that most HEIs are not structured to handle market demands promptly. Generally, market entities have some urgency when seeking expertise from professors for a specific task. If this approval process does not flow smoothly, the market will look for someone within the market to solve their problem, and the HEI loses not only resources but also the opportunity for professors to engage with practice, as well as the possibility of involving undergraduate and graduate students in potential projects. Both sides lose. On the other hand, many situations are confidential, and the information cannot be disclosed, or the process flow is not timely within the HEI’s structure.

In this context, a feasible alternative is external activities (occasional or sporadic activity). At the federal level in Brazil, Law No. 12,772/2012 and its amendments regulate these activities in several dimensions, primarily establishing the number of hours allowed for a professor with a full-time regime to perform external activities. States and municipalities are expected to have similar legal frameworks to guide these activities, in all cases permitting professors to receive monetary compensation.

If the Law allows occasional activities and there is demand for a professor’s expertise, why then prohibit it in some cases? This is an issue that involves the status quo of the culture established in an HEI, the political views of members of higher councils, outdated internal regulations of HEIs, among other factors beyond the scope of this editorial, which is merely to shed some new light on the topic. HEIs generate a wealth of knowledge through classes, scientific research, and published books, extension activities, studies developing management models, cost model, etc., which would greatly aid the market in the broader sense by improving its efficiency when interacting with academics for their various needs.

For instance, it is impossible to exhaust the topics of intersection between academics and the market, but some of the most common in the field of accounting and business include:

- Assisting in the structuring, opening, and organization of a company/entity;
- Advising on the development of environmental/sustainability, social, diversity, and governance (ESG) policies, including implementation, report preparation, resource mapping, and evaluation of implemented initiatives;
- Advising on defining accounting policies and preparing financial statements;
- Preparing valuation reports for mergers and acquisitions;
- Appraising companies and assets;

- Advising on Costs (modeling, implementation, pricing, etc.);
- Developing strategic and budgetary planning;
- Advising on financial, cost, and budget management;
- Advising on process mapping, review, and improvement;
- Developing compensation plans;
- Conducting impairment tests as independent consultancy;
- Conducting market research;
- Serving on boards of directors, audit committees, sustainability committees, governance, risk committees, among others, in a strategic capacity with a defined mandate;
- Delivering voluntary or paid lectures (gaining visibility for the HEI and for master's and doctoral programs);
- Training for the market – a way to attract potential students to master's and doctoral programs; and
- Other areas of expertise of HEI professors.

In short, the topics are inexhaustible, and the market requires qualified professionals to act. In the classroom, for example, I always encourage my students from the first semester, after they master the basics of double-entry bookkeeping and the preparation of the balance sheet and income statement, to assist non-for-profit organizations (NGOs, generally neighborhood associations, churches, etc.), sharing what they know and attempting a first contact with the market in a collaborative way until they get their first internship or job. To some extent, the curriculum could compute extension activity hours to replace some elective courses or course completion work (research at undergraduate level), adapting the options to the students' profile.

To bring some practical examples, to give an idea of the impact a professor can have on a company, I will present some research findings that show positive and negative impacts (when the government intervenes incorrectly in the supply of academics to the market).

Francis et al. (2015) conduct a comprehensive analysis in the United States and find that professors serving as board members contribute to increasing the value and performance of publicly listed companies. This result is influenced mainly by professors who are not in administrative positions at their HEIs. Moreover, monitoring is improved due to the critical and independent perspective on activities, decisions made by management, etc. Imagine how much experience a professor would gain by seeing agency theory at work in the real world and how much richer the content taught in the classroom would be with these experiences?

Returning to the study, the authors also find that boards with academics are associated with compensation plans that align executives' interests with the long term and greater control over total executive compensation, lower CEO turnover, lower earnings management, and a lower probability of problems with fraud and/or re-

gulatory issues with the Securities Exchange Commission (SEC). Professors' areas of expertise (background) also affect value, with business, technology, and political science professors adding value to public companies.

Meanwhile, the study developed by White et al. (2014) analyzes a broad appointment of academics from public and private American universities to the boards of public companies. The authors consider that academics are appointed to boards of directors for several reasons, including monitoring, expertise, social connections, networks, and reputation. Moreover, it may be less costly to obtain information from academics for nomination/appointment or when there is a shortage of professionals in the labor market. The main findings suggest that the market value of publicly traded companies reacts positively to academics, especially when appointed to expand the board in small to medium-cap public companies. Academics from certain fields are appointed for their expertise (science, medicine, engineering, etc.). Academics in administrative positions within HEIs are valued, except when they are geographically distant from the companies' headquarters. The market also reacts positively to the appointment of business professors due to their expertise and reputation, strengthening the importance of board diversity for better functioning of monitoring and planning activities, especially long-term oriented.

These findings strengthen the positive impact of appointing external (or independent) board members from previous studies that provided evidence that external audit committee members help reduce earnings management via accruals (Xie et al., 2003) and on the attributes of board members' education, when they have an MBA, master's or doctorate or are from accounting, contributing to increasing the market value and performance of public companies (Almeida, 2011).

Finally, two studies present negative economic consequences for Chinese public companies when the country's government passed a law prohibiting academics from serving as independent directors of public companies. Chen et al. (2019) show that the impact of academics' resignation/dismissal from boards led to a significant drop in the market value of public companies. Additionally, in the year following the resignation (or dismissal), the public companies that had at least one academic on the board performed worse than those that did not before the new law.

In another study, also using the same Chinese context, Pang et al. (2020) find negative economic consequences for firms' capitalization, both at the initial stage of the introduction of the law — which was ambiguous, with unexpected exemptions and waivers — and, more significantly, after the new legal wording. Both studies used event studies and other identification strategies to demonstrate different types of effects, providing relevant findings for regulators, policymakers, authorities, and higher education institutions (HEIs) when considering laws, regula-

tions, and statutes that restrict academics from serving as independent members of boards and committees of companies, especially those listed on stock exchanges.

Moving towards the final remarks of this editorial, these findings in different countries also reinforce the importance of the critical and independent perspective that academics bring to corporate activities. HEIs can benefit and engage even more with their communities by providing services to society through consulting their own faculty. The market can also get closer to academia, for example, by inviting experts or panelists to events, updating itself on innovations generated by research that could be adapted to improve organizational performance. Market representative entities or associations can facilitate this connection by organizing events that promote this interaction or by bringing their members' demands to professors with the necessary expertise in the search for solutions, among various other possibilities for rapprochement. A virtuous cycle begins with the first step from both sides towards this relationship until its establishment.

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