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MUNICH SCHOOL OF MANAGEMENT
INSTITUTE FOR ACCOUNTING AND CONTROL
PROF. DR. CHRISTIAN HOFMANN



Accounting Research Workshop (ARW) – winter term 2019

Speaker: [Professor Barbara Schöndube-Pirchegger](#)

University: Professor and Chairholder,
Otto-von-Guericke-University Magdeburg

Date / time: November 26, 2019 / 5.00-6.30 pm

Subject: "Hiring insiders or outsiders to the firm and its effect on
accounting system choice"

Abstract:

In this paper we investigate whether it is more favorable for a firm to offer an open management position to an insider or to hire someone from outside the firm. The insider is assumed to hold private information about the working environment, such as specific characteristics and challenges of the job. An applicant from the outside the firm, in contrast, does not hold any superior knowledge. Rather, he possesses the same information and holds the same expectations as the principal in charge of hiring.

On top of the hiring choice, the firm has some discretion with regard to the accounting system to be implemented. The more rigid the system the more expensive earnings management/window dressing activities become for the manager. We analyze both choice problems individually as well as possible interrelations.

We find that it is optimal for the principal to hire a manager from outside the firm when alternative working environments are not too distinct. Otherwise, he would prefer an insider. With regard to the accounting system effect, our analysis shows that a more rigid system is always preferred to a less rigid one if an outsider is hired. If the firm hires an insider, however, this is no longer the case. Our results show that opting for a more rigid accounting system can be both, favorable or detrimental, depending on the specifics of the agency problems in place.



We were pleased, that we could welcome Professor Barbara Schöndube-Pirchegger at the Accounting Research Workshop at the faculty of Business Administration and wish her all the best for her future work and research projects.