

Insights from Professor Michael Dambra: Accounting, Consulting, and the MBA Experience

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Patrick Lageraaen:

Welcome to another episode of the UB School of Management's Manage-A-Bull Podcast. My name is Patrick Lageraaen and I'm hosting this episode along with Eric Raine. Today's guest is Professor Michael Dambra. He has his PhD in accounting, experienced as a private equity consultant at KPMG, and is the professor of the first year MBA class, Accounting for Management Decision Making. We talk about the relevancy of his accounting course, his time in consulting, what it's like getting a PhD and more.

Professor Dambra, thanks so much for being here.

Michael Dambra:

Happy to be here. What's up?

Patrick Lageraaen:

Maybe you could start by just telling us a little bit more about yourself. Where are you from? How'd you get to this position?

Michael Dambra:

Sure. Sure. So going back to college, I started at St. Bonaventure, so I was a upstate New Yorker my whole life, and got my MBA from St. Bonaventure. Graduated in 2003. My first job was an auditor with KPMG, so I did that for a couple years. So auditing is looking through financial statements, meeting with clients, making sure that the accounting information's correct under standards in the United States. And so it gave me a lot of different exposure to different companies, whether it was... You get a lot of variety in that career. So sometimes, I was auditing in Napa Valley and looking at how wine's produced. Other times, I was in Rochester looking through the detailed financial statements of a student loan company. And so the variety and interactions I had were great. You're also thrown into exposure real fast. So I did that for a few years. After that, I valued private equity because I always had this kick to get into more finance topics, and so did accounting for a couple of years, then did some finance. My ultimate goal was always to go back and get my PhD. I did that at the University of Rochester again, an hour down the

road, and I got my PhD in accounting, because I like teaching, I like being around people and I like presenting. And so after six years through the PhD program, I started at UB in 2014, and since then I've been teaching the MBA class here at the School of Management.

Patrick Lageraen:

So in that, did you always know you were going to get a PhD? Did you know consulting wasn't for you eventually?

Michael Dambra:

So the good and the bad about both being a consultant and an auditor, is you get a lot of exposure fast, but it's also a lot of hours and you're sort of writing down your time increments in 15 minute intervals, whether I'm going out to lunch with a client, or if I'm working on training, or if I'm trying out a new valuation.

And so the itch for going back to school came in when I did about five years in private sector, and particularly when I was doing as an auditor, it was the implementation of Sarbanes-Oxley. So big regulations were happening and I was putting in at times during busy season, 70, 80 hour weeks.

And I remember after one busy season, I had probably changed two footnotes in like 120-page financial report. And I was like, "There's got to be a bigger impact in society on this." And so that really pushed me to go back in my PhD because I feel like I can make an impact as a professor here at UB through my teaching and through my research, and I've certainly been able to do that.

Eric Raine:

Yeah, I think you mentioned the hours that you're putting in. And I think it's one of those things where you go in early on and what you're doing, you feel like you're making an impact, and then you start to see the reality around the work that you're doing, and then you're also balancing that against your work-life balance. And you're looking at is this sustainable? Can I keep doing this for years on end? Is there an end in sight, I guess, for that type of workload? How did that translate to the PhD program? Because obviously, there's a lot of work involved with that, and that's a long trajectory. So how did you transition? What was that like?

Michael Dambra:

So you have to be a little bit self-disciplined to get a PhD because there's no one watching you, attendance usually isn't mandatory, and there's certain thresholds where you need to pass. Like when you do your dissertation or when you write papers, there's no one over your shoulder. There's just a sort of expectation that you can create a research paper that's going to impact a business or have a profound implication on academic research. That's the goal.

And so being a self-starter is really required for that. But I certainly didn't miss recording time, recording intervals. And as an academic now, it's pretty similar where I show my friends my Google Calendar and it's freaking blank, unless I'm teaching. And so that's frustrating to my friends that are still working because they have four, six conference calls a day, and that's just not how my world is anymore, certainly in the PhD program and now. And so I really enjoy the freedom you get both in the PhD program, and the freedom I have now.

Eric Raine:

Absolutely. Especially, that's a big change to go from having 15-minute intervals where you're kind of logging your entire day piece by piece to then switching right into something where you have an open day and you decide how it goes.

Michael Dambra:

Yeah.

Patrick Lageraen:

But then again, you have no idea how much time you're spending.

Michael Dambra:

No, no. You're going to have some days when you're doing research where you're trying different things, you just get nothing and so you don't accomplish things. That's a little bit frustrating. But the good thing about working in public accounting, it gives you some discipline in working hours. And so I had no problem filling a day doing research, studying for PhD level courses.

And so it's sort of like what you learn in Dr. Fotak's class where there's a pretty significant upfront investment, which you're all going with your MBA, which I do with my MBA and my PhD. And so upfront investment, I worked a lot of hours when I was doing KPMG, private equity, but I learned a ton. And then the PhD program, same thing. I was spending a lot of hours learning, but the payoff is now I have

this incredible job, I get to teach really smart students, I get to do really cool research, and my schedule is as blank as I'd like it to be.

Eric Raine:

Yeah, that's awesome.

Patrick Lageraen:

So you got your PhD, you came to UB. What are your roles and responsibilities like now in your current position and what classes do you teach?

Michael Dambra:

Yeah, yeah. So I'll start with teaching. So I'm in the core, so I teach the second accounting course here in the UB School of Management MBA program. And so that's going to be based on internal accounting information, where Dr. Tarrant teaches more external. So I teach this course. I also teach a course on valuing firms. I teach that in the Masters of Accounting program.

Then occasionally, I will teach in the PhD level courses. I teach a PhD seminar in accounting research. So that's sort of my broad teaching schedule. Responsibilities, the longer you're here, the more gray your hair gets, the more responsibility you get. And so now, I'm coming up on, this is year 10 at the School of Management, and now it's helping the junior faculty with their research. It's more of a leadership role, organizing new programs. We're actually pursuing a masters in accounting analytics. So I've been involved in that and then also try to give some pretty significant guidance to our PhD students and help them with their research.

Patrick Lageraen:

We're going to come back to your MBA class in a minute, but just real quick, what's that PhD class about accounting research? What do you teach in that?

Michael Dambra:

I'll have the students present, and I'll also discuss both classic research and new research. So accounting research, the common question on my end when I talk to people like, "What do you do as accounting research? That sounds so boring." But it's actually fascinating because managers need to provide

information to the market. And we talk about if managers disclose good news, what happens? Well, the stock market goes up. Disclose bad news, market goes down, but there's incentives.

And so you might disclose, project really good news, but you're trying to get a stock price bump, you're trying to sell executive compensation. And so there's just really interesting incentives that go on. So when we talk about accounting research, a lot of it, it's not just sort of debits and credits, it's more manager's communication to the market. And then I do a lot of regulatory research. And so in these classes we sort of discuss, we critique, we re-debate existing research, what's good about it, what's bad about it and how to improve.

Patrick Lageraen:

So is it about like reading between the lines, trying to figure out what's actually going on behind the scenes based on what they're releasing and the timing of it?

Michael Dambra:

In terms of research, yeah, absolutely. Because everybody wants to release good news, but to the extent you're too aggressive, there's litigation risk, you can get sued. And so there's certain bounds in which managers sort of provide information. Sometimes they're fully truthful, sometimes they're not. And some of the accounting research tries to get at that, tries to reap to the lines, as you said, to try to figure out what managers' true incentives are and essentially what can they get away with.

Patrick Lageraen:

Yeah.

Eric Raine:

So one of the things that comes to mind, and I had a question on was sort of the process of managing expectations. So internally, you're having conversations based on what's happening financially, but then you're also deciding, "Okay, well what components of the information we have internally, are we going to allow to go out to the external environment?" Does it get into some of that too, as far as that balance between how much are you kind of disclose one from a legal perspective, but then also from like maybe a strategy perspective?

Michael Dambra:

Absolutely. Yeah. I mean, I think the markets would probably prefer full disclosure. So you disclose every sort of quarterly projection, every sort of annual projection, what you expect to invest, but that also sets a benchmark and that sort of creates pressure. And there's a lot of research out there that it causes myopia where you might sort of cut R&D to hit an earnings target, or you might be more aggressive with your accounting to hit an earnings target, but that can hurt the long-term value of a firm. And so there is a significant trade-off.

Patrick Lageraen:

Short-term focus. Yeah.

Michael Dambra:

Absolutely. And so what you typically see from firms is they sort of start... They've never call it a policy, but there's a sort of expectation once managers set it, we're going to provide an EPS forecast or a sales forecast once a year, and we're not going to change it. And so they sort of condition the market. Because once you start, they're going to keep asking for more and more as far as equity analysts, big institutional investors, they want to know everything. But you want to set a policy because you don't want to just give instantaneous... just continuously give, and then lead to that sort of short-term focus, which is bad for firms.

Patrick Lageraen:

Are those policies on a firm level?

Michael Dambra:

They are, yeah, it's going to vary firm by firm. There's going to be some interest-free concentration. They would never call it a policy, but certainly they're going to have... If what you disclosed this year is going to be highly correlated to what you're going to do next year in terms of providing forecasts in the market.

Patrick Lageraen:

So coming back to your MBA class, MGA 605, Accounting for Management Decision-making, what do students learn in this class?

Michael Dambra:

So I love the class. It's the favorite class, my favorite class I teach here at UB. We talk about what I refer to as internal information. So the first class Dr. Tarrant's class is more external completed financial statements to help essentially investors make decisions, where my course is more geared towards, "Hey, there's a bunch of data here. How can I organize it in a useful way such that I can make decisions?"

And so we're going to cover things in my class such as forecasting budgeting. It's really important. Again, sometimes there's external expectations from the market if you're in a public firm. For a private firm, you're deciding on budgeting, "How much can I invest this year? How much staffing can I bring in?"

So we're going to cover some budgeting. We're going to cover a lot of cost analysis. We're going to cover sort of incentives because a lot of us are driven by incentives. And so I like covering that because the mix between accounting performance and how you're compensated, there's a strong relationship between the two, whether it's the firm as a whole or your department. How you perform is going to be how you're compensated. And I try to get the students to understand that.

Eric Raine:

One of the things that Patrick and I really enjoyed in the course, and we've talked about outside the classroom, is sort of how you look at costs and how you frame accounting structure and the perspective internally around where are we allocating costs and how that has such a significant impact.

Patrick Lageraen:

That was so interesting.

Eric Raine:

Examples that we used included things where it's like, "Okay, if we're going to look at breaking down, looking at the hours worked by employees or maybe how much is the cost of a single good that we're having to purchase, and then we're structuring costs around that stuff," you can kind of go six ways to Sunday on the same endpoint, but those different angles that you take along the way can significantly change the way that the outcomes are. So could you talk a little bit about what like cost allocation, how that impacts accounting for firms?

Michael Dambra:

Yeah, yeah, good question. So that's probably one of the more interesting things I think in this course, too. When you think about accounting, boring, revenues minus expenses, who cares? But with really

simple firms, that might be the true where you have one product and sort of maybe a really limited cost base couple employees. But as firms get more complicated, as you start to diversify your product base, then you have a bunch of different costs going in and it's referred to as overhead.

And so when firms generate a lot of overhead, that means that there's electricity, there's depreciation, there's different plant costs, there's different employees that work multiple jobs. How do we direct that and how do we assign that to different products? Because as future managers, like you two, you're going to eventually have your own department where you're going to be bringing in revenues, and then there's going to be costs that are either direct to your company or assigned.

So that assignment's really important because it's not so straightforward when you're sharing costs across multiple departments.

Eric Raine:

Absolutely.

Michael Dambra:

And so cost managers really need to understand overhead and, "What's appropriate to allocate to my department?" Because ultimately, that's going to affect the profitability of your individual department or your individual product, and that's going to directly lead to how you're evaluated at your firm.

Patrick Lageraen:

Right.

Eric Raine:

I think one of the things that I remember that stood out to me was the fact that there was an example that you used in a general sense, without getting into too much of the specific details, a firm might've been looking at like, let's say a department or a certain product that they're selling and they're there going, "You know what, over the last two years, it looks like this might be something that we need to sunset because of it's just now working out. We don't know if there's profitability here." And again, that's based on the way that they were looking at cost structure.

And then when you go in and take a different angle on that same stuff with the same people in the same department and same moving parts, if you change the way you focus on how you're allocating those costs, it ends up being a division that not only shouldn't be necessarily sunset, but it actually might be

one of the more profitable areas of the company. And it really was just the lens you're looking through. And I thought that that was so interesting.

Michael Dambra:

And I usually bring a speaker and I bring CFOs in the past and the textbook examples we talk about, some students might roll their eyes like, "Well, that's not really how it works." And it really is. We had a good example of that from a CFO that came in and talked about the product of meatballs versus the product of, I forgot what it was, frozen food or something.

Eric Raine:

Right. That's like meatballs, of all things.

Michael Dambra:

It's not a typical thing to think of, but yeah, the way you're allocating costs, I mean it absolutely affects decisions, it affects profitability. And so my course is sort of targeted around that. And I also try to make it relatable for our future students out there. I'll show clips from The Office that are very related to what we cover.

Eric Raine:

We love that, yeah.

Michael Dambra:

It really reinforces the topics we cover in the class.

Patrick Lageraen:

For me, that was one of my biggest key takeaways from the class was the fact that a department could be shut down based on how fixed costs are allocated. Meanwhile, it's profitable. After leaving the class, I've talked to multiple managers and I always ask them, "How is it with fixed overhead allocated to your department?" Including my father. And they all say, they always fight with it. They're always in a constant battle to figure out what actually should be allocated to my department.

Michael Dambra:

And so that's a great point, because students oftentimes would get curious like, "Why do I need to take a second accounting course, but I'm not going to be an accountant." That's true, but you're going to be compensated, and oftentimes you're going to have a P&L or a profit and loss statement that's a triple view. And so you need to know how those costs are assigned and whether it's fair, because it will directly affect how much you make.

Eric Raine:

And especially if you're a manager in a certain division and the C-suite's looking at you or executives are coming to you and saying, "Hey, we've got some bumps in the road here. We need to figure something out." And let's say you're on the chopping block or your people, and as a leader you're thinking, "Well, how can I advocate properly to make sure that we're looking at this the right way?" And I think what this course does is it provides you with the knowledge and context from an accounting perspective specifically, even if you're not an accountant, how crucial it can be that if you use the right lens and you communicate properly with the right knowledge and context, not only might you save jobs in your division, but you might actually improve outcomes for the company on a bottom line basis.

Michael Dambra:

Yeah. And distinguishing from Ian's class, which uses external information, the internal information is forward-looking, so your new budgeting. And that can get control what the expectation is of how you perform for the year, that's going to affect your compensation, how much funding you get to make to invest. And so it's going to cover a broad array of topics that are going to affect all sorts of managers and certainly not just accountants.

Patrick Lageraen:

A term I've heard a few times with managers dealing with the accounting department of their respective firms is the tail wagging the dog, the accounting department deciding decisions for profit centers. What do you think about that?

Michael Dambra:

I mean, the accountants do have some control. They do have some power, but I think this sort of course can enable you, because you're saying, "Fight back, Pat," and that's true. You're going to have to fight back, but you're going to have to have knowledge on why this is appropriate. So if you have some better

understanding of, "Hey, look at these costs are allocated on revenues, I'm going to tell you why that's bad, X, Y, and Z."

Eric Raine:

Exactly.

Michael Dambra:

And so that kind of stuff can really help you in your career.

Patrick Lageraen:

Yeah. So coming back to your class, it's a two-hour class for seven weeks in the spring semester. How do you structure your lectures? It was kind of in two parts, right?

Michael Dambra:

So lectures are going to be, the first half of the class, oftentimes I'll show, I'll talk about material, talk about theories, introduce concepts, and then the second part is it's more applied. And so we're going to go through examples in class of exactly what we talked about. And so I will bounce around, I will go through and see who's stuck and help out people that don't understand the topic. And then I'll sort of integrate videos or real-time topics as appropriate.

Eric Raine:

I think going through the course, where you're learning and then almost immediately applying examples helps with it really sinking in because seven weeks goes by very fast. And so it's sort of all gas, no breaks type of situation where it's like, "Okay, there's a lot of information to learn here. It can be really valuable as long as I know how to translate the information you're teaching us into how do I actually do this on a regular basis once I'm out there and I'm managing and I'm doing this." So I think that sort of balance between the two makes a really big difference for students.

Michael Dambra:

Cool. I mean, there's discussion on flipped classrooms. I never flipped the classroom, but I sort of do in class because it's, as you said, Pat, first half topic, second half applied. Because it is a two-hour class, I do give a break halfway through.

Patrick Lageraaen:

Thank you.

Michael Dambra:

Yeah, you're welcome. Get a Tim Horton's cup of coffee, talk to your friends on a project that's due because two hours consecutive anything is really a handful.

Patrick Lageraaen:

But I think that's a benefit of it being so quantitative in that you can split it in half and then... Because two hours of straight lecture, that's a long time.

Michael Dambra:

Oh, yeah.

Eric Raine:

Not only is it long for students, but it's actually double that for you because there's the cohort split into two and you teach that for two hours.

Patrick Lageraaen:

Do it all over again.

Eric Raine:

And you get this short little break in between and then you got a whole fresh set of eyes coming in the room and you got to redo it all over again. I'm trying to remember back, I think we were the second, for Patrick and I, we were both in the same split on the cohort and we came in the second half of it. And so I felt like there was never that sense of like, "Oh man, I got to rerun through this for two hours." You were always just as energetic and ready to go for us. And I think that makes a really big difference for our experience.

Michael Dambra:

Yeah. The professors in the, what we refer to as the core MBA classes, are all pretty energetic. They're pretty engaged. A lot of us have work experience, and that's really useful because we'll talk about different things in my class where I experienced issues with cost allocation or where I experienced

differential incentives. Sometimes, the incentives made me do good things and sometimes the incentives made me do bad things. But that sort of work experience is something we try to bring and discuss with our students.

Patrick Lageraen:

So I think we talked about this a little bit. I just want to clarify the point. From my perspective, this seems like one of the top maybe three most important classes we take in the core. Why do you think that this class is important for MBA students, future managers?

Michael Dambra:

Future managers? Yeah.

This is going to go revert back to my PhD training. I believe a lot in agency theory. So agency theory talks about the difference between what managers want and then what shareholders want. And so sometimes interests are misaligned and what accounting can help us is sort of bridge that gap. So shareholders essentially want higher stock prices or higher value. Managers want higher compensation. Well, sometimes those are in polar opposites. What's good for stock prices may not necessarily be good for me, and what's good for me may not be exactly best for shareholders.

And so we can use accounting as a contracting methodology such that as my individual product line does well, or my department does well, I do well and shareholders do well. And so when I think about takeaways for MBA students, understanding incentives, understanding how accounting can turn into value, super valuable, how to sort of organize to understand a profit and loss statement that's going to affect shareholders, that's going to affect value, that's also going to affect how I'm evaluating and how I'm compensated.

And so just understanding organizing costs I think is really important. The second thing I would say is if you're interested in entrepreneurship, which we have a pretty big group here on entrepreneurship, just learning the basics of breakeven analysis. How much money do I need to finance a new hire? How much financing do I need to expand my operations? And so understanding the interplay between volume of products sold or services sold, the revenues I can generate from that, and the breakup between what we refer to as fixed costs versus variable costs is super important.

Eric Raine:

I think that bringing that to front of mind so that managers, future managers, MBA students sitting in the classroom understand that there's sometimes that differing perspectives on shareholder value versus managerial incentive alignment and finding a way to make the two work symbiotically. Because at the end of the day, we're human beings and we might have the best of intentions, but still at the end of the day, we're going to have even a subconscious, sometimes conscious, but many times it's subconscious draw towards, "Well, how am I incentivized? What I'm doing on a regular basis with my team, is this actually better for me or is it better for the shareholders?"

And even if you think you're aiming towards shareholder value, you're still probably somehow going to find a way to make it better for yourself, even if you don't necessarily mean to. Other times, it could be more nefarious where people are just looking out for themselves.

But I think a lot of the leadership training that we get through the MBA program keeps that front of mind, that really what we need to be doing is making sure that we're looking out for the benefit of our people, our teams, our company, and our shareholders, but we're still humans. And so I think understanding that that is happening simultaneously and then using accounting as a way to bridge that gap, like you talked about, is one of the things that I think is a great takeaway for students in your class.

And I think for people that are either prospective students considering the program or maybe people listening to this podcast that just accepted an offer for the MBA program, and they're coming in and they're thinking, "Oh man, accounting, I don't have experience and I know there's a couple core classes I have to take." But if you come into it with a mindset knowing there's a lot of value to take away from it and that it's not just about crunching the numbers, but the impact that it has can make a really big difference.

Michael Dambra:

Absolutely. And we'll start from ground zero, so it shouldn't be something you're intimidated about, like learning about basics, cost allocation, and what is revenue versus cost. We'll start at ground zero and we'll build up from there.

Another thing that I think my class and other classes in the MBA program are good at is just communication. There's a lot of participation in our class. There's a lot of discussion. Some of the cases, they aren't all just numbers, sometimes it's ethics, and that's sort of the gray area stuff is really interesting.

Patrick Lageraen:

So at the end of the class, we do that project where we determine how costs are driven, right?

Michael Dambra:

Yep.

Patrick Lageraen:

Could you maybe explain a little bit more about that?

Michael Dambra:

Yes. So the last, the final project in MGA 605 deals with using what we refer to as regression analysis to allocate costs. And so if you break out my class in different chunks, you first have to organize the data and once the data is organized, you make effective business decisions. And so one of the things we're going to teach in MGA 605 is how to use what we refer to as regression analysis, to look at real live public firms and see how their costs are split up. And that's going to help us in two ways. One, it's going to help us project future costs, and so we can use the models we create to project future costs for this firm. And two, it's going to help us potentially allocate. Once the data is organized, it's going to help us make decisions. So you can look at it across even different companies. Sometimes we can use airlines. What's the cost structure of Delta versus Southwest? How does it benefit and hinder them? And so the-

Patrick Lageraen:

Probably pretty similar.

Michael Dambra:

Yeah, they are. But what's interesting is Southwest, you look at it, there's not a lot of product diversity. They have the same airplane.

Patrick Lageraen:

Yep. 737.

Michael Dambra:

Yep, the 737.

Patrick Lageraen:

Yep.

Michael Dambra:

And so you're going to find a little bit difference in fixed costs for some variable costs across those two different airlines just because of the homogeneity across Southwest.

Patrick Lageraen:

They probably have lower maintenance costs, less switching between airplanes. Delta has Airbus and Boeing and all different models between those.

Michael Dambra:

Yeah. So you just need differential training. Those are two very different companies, but it's pretty interesting.

Patrick Lageraen:

Interesting example.

Eric Raine:

And the thing that's fun about that I think too, is that it goes to show that because of the diversity of the MBA program, I know we were talking before the podcast and people have heard before too, Patrick's interest after graduation going into these different areas that you might not necessarily think of right off the top of your head when you're talking about MBA programs and we're talking about finance or it depends what jobs you're going into. And there's a lot of different types of interest for people after they graduate.

And I think the thing with the different types of examples we get from class shows how you can apply that to whatever trajectory you're going to be on. Even learning about how, even in the entertainment space, things that you don't necessarily think about as far as figuring out unique ways to figure out cost drivers and cost allocation, it's applicable to literally every single type of company.

Michael Dambra:

Yeah, absolutely. It's not just manufacturing. Certainly service has to do the same sort of stuff.

Patrick Lageraen:

I think that's why I said it's probably one of my top three most applicable classes out of the core, just because it's so applicable to everything that we do.

Michael Dambra:

Yeah, you're going to bump into it if you become a manager. You certainly have to use internal information to make decisions.

Patrick Lageraen:

And then also it's just about being literate in communicating with other departments. You have to go into a meeting with accounting and know a little bit about what you're talking about.

Michael Dambra:

Yeah. Again, if you're going to fight for a different allocation or if you're trying to fight for more capital, you have to come in with data. And so we're going to deal with that in our class.

Patrick Lageraen:

All right. For the record, is cost of goods sold a variable cost or a fixed cost?

Michael Dambra:

Pat's asked me this because we fought. I forgot what the conclusion... Well, certainly my take is it's mixed, but I think Pat and I were going back and forth on it.

Patrick Lageraen:

I believe my argument was it's a variable cost because it's literally driven by sales. Otherwise, you have no cost of goods sold. But I do understand that there's fixed costs that go into it.

Michael Dambra:

That's funny. See, people remember stuff from their class. That's good.

Patrick Lageraen:

Of course.

Michael Dambra:

That's good.

Eric Raine:

But that's what makes it fun too, is that there are gray areas with any section of business really. And understanding the nuance within that is a great takeaway from the course, especially because it's going to apply again to whatever avenue students are interested in taking.

Patrick Lageraen:

So accounting as a major or career path as a whole. I know you said you're talking about starting a new MS in accounting.

Michael Dambra:

Yeah. So we have MS in accounting analytics.

Patrick Lageraen:

Analytics.

Michael Dambra:

So I think what's happening right now is pretty wild. I mean, with this explosion in AI. I think it's going to change accounting a bit in terms of the sort of entry-level jobs that we used to see, things like being a bookkeeper, recording debits and credits.

Patrick Lageraen:

Data entry.

Michael Dambra:

Yeah, data entry, QuickBooks, that sort of stuff. My expectation within five years, that stuff's going to be gone. Usually those that get degrees out of the University at Buffalo, that's not the sort of accountant that we usually try to... Those aren't jobs we try to fill, put it that way.

So our accountants, our auditors are a little bit more advanced. And so I'm curious to see what happens in the next five, 10 years. But certainly for the typical jobs we hire for, when we fill up the big four, so Ernst & Young, Pricewaterhouse, Deloitte, those consulting type roles, there's been a lot of emphasis towards increased data analytics skills.

And so when I got my masters in 2003, there was no talk of coding, no talk of tableau or using these different SAAS or STATA data sets. Where now I think accountants are now learning these different skills, which I think is great. And so I think the accounting profession, the accounting career is going to be a lot more data-intensive than it has been. And I think that's a good thing because it's going to give you skills that can go out and do a lot of different jobs.

Patrick Lageraen:

It should also in theory, increase its accuracy.

Michael Dambra:

Yeah. As you can have better access or better control over the data, you should be able to get more accurate data and hopefully make better business decisions.

Patrick Lageraen:

So if accounting's for you, there's all sorts of degrees you can get. You're going to get a BA in business accounting, MS in accounting analytics or a PhD in accounting. What do the career trajectories look like for those different tiers of accounting degrees?

Michael Dambra:

So if you're getting a bachelor's in accounting, that would be more of an internal position like treasurer, where you're analyzing internally, making decisions. What we see typically is with the master's program, they need 150 credit hours. If you get a master's of accounting, that could either be regular accounting or accounting analytics. So the master's of accounting would be more of big four. And so you're going to become an auditor. And the eventual chain of command is the ultimate goal is to become a partner in an auditing firm, so consulting or you're going to work internally as a chief financial officer.

But what's cool about getting an accounting degree is there's going to be a lot of demand for someone who knows financial statements, and you're going to pick up some of that through the accounting courses in the MBA program here. But for instance, when I worked for KPMG for three years, the private equity shop that I ended up working for, their number one hire was former CPAs, because you know your way around financials and they can teach you how to turn accounting into value.

And so you have a lot of spider web trajectories starting with accounting, starting with basis, and there's a lot of demand for that in the market. The last thing, the PhD is a little bit more specific. So if you get a PhD in accounting, the two paths, the most common one's being a professor like me.

Patrick Lageraen:

Academia. Sure. Research.

Michael Dambra:

And then the second one is going to be research-intensive where you work for a hedge fund. And so some people have those really good skills where they'll work in asset pricing and we'll see accountants go that direction as well.

Eric Raine:

One of the things that I was curious about, especially with this rapidly changing environment with technology and AI, is it seems as though there has to also be coordination between courses because one professor might talk about like with Dom, we talked with him, we had an episode where we talked about sort of AI and IT, IS and all of that stuff, but then a lot of those applications are also going to impact accounting. And then understanding how you can leverage that type of technology in accounting specifically. What is that like from your side as faculty to work with other professors to coordinate that? Is that something that is specifically done? Is it happening organically or do you have a set structure on how you go about accomplishing that goal?

Michael Dambra:

So I don't think there's a direct path of how we incorporate that. I would say it's both informal and then during departmental meetings we'll talk about it. And so departmental meetings we'll talk about, "Well, how are you using ChatGPT in class?" Oh, for instance, for my course project, if I need to find competitors to a company and we're analyzing costs, easy thing to throw in ChatGPT and spit out what are the publicly-traded companies in the beer industry, and then it'll tell you Sam Adams, Heineken.

And so sometimes I refer to, at least on my end, ChatGPT is useful as far as it's Google search on steroids for some of the real basic stuff. In terms of how it's going to fundamentally change accounting, it's sort of more of a wait and see approach. I think academics, something we struggle with right now is it sort of changes how we have to teach. So I can't just give a vanilla assignment, have it graded, because you can

just throw in ChatGPT, even though I tell you you're not supposed to. So it's certainly changing the sort of content and the way we're delivering our classes as well.

Eric Raine:

And that balance between, like you said, if you're saying, "Hey, you're not supposed to go do this a certain way," but there are these resources out there. And in the two-year full-time MBA program we, as students in a changing environment like this right now, I think we also are looking to find ways to actually plug into that and use it the right way because we're going to come out of the program and we're going to be in these positions where we might be facing competitors that are utilizing these types of AI. And so we also want to find a way to be able to balance the right way to get through it.

And I think from our experience, at least, and I know this because it's changing so fast, it's different last year for us in our full-time first year at MBA versus this year and like you said, over the next five years. But finding ways to be able to do that in a classroom I think has been really interesting, especially to hear your perspective on how much should we be utilizing and learning from it versus how much we be avoiding it so we're not losing the core foundation of what we're trying to learn.

Michael Dambra:

Because for instance, I wouldn't want you to use ChatGPT to solve a breakeven analysis because you're not learning anything. You're just making a computer do work and you're not going to pick it up. You're not going to be able to apply it in the future. So that's sort of a bad use of chat GPT. But if you're trying to do industry research, it's amazing. The amount of data it can pull and respond to questions is great. Let me ask a question for both of you. How have you used it so far? What's your experience with ChatGPT?

Patrick Lageraen:

Well, when it first came out, I think a lot of people just assumed it would be good for everything, and they would put stuff in it and then it would just spit out wrong information as if it was real. And then we were pretty quickly trained on its limitations. So now I use it mostly for research, like you were saying. It's just a faster way to pull data from Google, but then if you're going to rely on that data, you do have to go check it and make sure you can actually find the source on Google.

Eric Raine:

Absolutely. And I think even in the time that I've started using over the last two years, some of it was more experimental and just learning like, "What is this thing doing? What information is it giving me?" Into Patrick's point, you learn pretty quickly that it gives you confident answers and they're the wrong answers, but it's confidently portrayed.

And so I think understanding that if you go into it, assuming that we need to apply the human element of understanding, of interpreting that information makes a very big difference in the way that we leverage it. But I found, to answer your question more specifically, like my personal experience with it is I've used it for things that are... You're able to compile information really quickly and you're able to expand. It really comes down to the prompting, and that's what I've learned a lot over the last year and a half is if you prime it properly and you build in prompts and then use that to cumulatively build the information you're trying to get out of it, you get more accurate information.

And I found it very useful for things that you're writing. Like if you have to write something and you need to provide structure around like, "How should I formulate the way that I'm going to approach a topic?" It can help get the ball rolling.

Patrick Lageraen:

It's really good at the English language.

Eric Raine:

And it's so fast. But then what you do is you basically go from there and build on your own outside of AI and you're doing your research and you're plugging things in and changing it. And so really, it's a good starting point, but it's really not something that I found personally as something that produces an output that's really useful. It's just more of it's taking what's in your head and kind of your thought processes, and then you're just supplementing it with what it's generating. That might take you down another avenue and be like, "Oh, that's interesting that I brought this up and it plugged this into my input. Maybe I should go learn more about that part of it and then plug it into what I'm doing," if that makes sense. So it's really, it is kind of like a Google search on steroids, but at the same time it's very creative. And then it kind of changes the way that you think on the human element of how to approach topics and find information that is useful for the output.

Michael Dambra:

Yeah. I like how both of you said how it's confident but wrong. It's like a confident liar, and I've had that experience. If I'm looking up a certain regulation, it's like, "Okay, what did ASC 715 do? Or where is this disclosed?" And it'll spit right out, and then I write back, "No, that's not true." And ChatGPT will say, "Oh, you're correct. I'm sorry for the misunderstanding." So it immediately apologizes.

Eric Raine:

It's like, "Yeah, you got me."

Patrick Lageraen:

But to be fair, that limitation where it spits out wrong info perfectly confidently, that's really a limitation with ChatGPT and not AI in general.

Michael Dambra:

True.

Patrick Lageraen:

That could be programmed out.

Eric Raine:

And it is changing. Like the different iterations of even ChatGPT specifically has changed even in the last six months to a year, and it's probably changing as we speak right now. And by the time people might listen to this episode, it could be a little bit a different variant.

Patrick Lageraen:

It'd be great if it displayed like a confidence interval.

Michael Dambra:

Yeah, that'd be pretty cool, right?

Eric Raine:

Or that it provides sources with the information it's giving to you, so then you can dive into the sources and then learn more about certain things that you might not have necessarily thought to look at right away.

But I've also done things where just for fun, I'll test it and I'll ask it questions where I already know the answers to what I'm asking, but I want to see what it thinks the answers are, and then I can compare. Or even just doing things like coding. I don't really have much of a background with coding. I do find it really interesting. I've messed around with different things. Python I found really interesting. And one of the things that I did just for fun was open up Python, go to ChatGPT and say, "Hey, I want to build an algorithm for solving blackjack. If I get this hand and I'm seeing this at the dealer and this is at the table, what do I do?"

And then what you can do is use the code to build yourself something creative for yourself just for fun. And then I'm doing things that I would've never really been able to do. I would've had to spend a year learning how to do Python and all these different things, but in a matter of like a half hour, I could build a whole program. And again, it's not for anything necessarily useful, but it's just for me to learn how to leverage ChatGPT and also learn how to maybe do some coding along the way. So things like that are the ways that I've been utilizing it. But for the most part, I really don't use it for anything substantial at this point.

Michael Dambra:

With ChatGPT on the research side, it's sort of interesting, because people are, like you said, Eric, people are using it for coding. So if you don't know how to merge these two distinct databases, or if you need to run a particular statistical analysis, "So how do I code a probit analysis?" Then it'll sort of spit out code. I think that's really useful, and that's going to be pretty big in the PhD level research.

I also find, so one of my other jobs as an academic is I write. I decide what papers get into other journals. They'll ask me to be an independent expert, and you have to write a report. And sometimes my report lacks tact. And so I'll tell ChatGPT, "Make this referee report." We call them... We're essentially a referee. I'll ask ChatGPT to make my referee report nicer. And it does. Sometimes it gets too nice. It's like, well, when I see this paper again, I'm like, "No, no, no, no, no. You don't get to decide why the paper's accepted," but it does a great job with tone and it's-

Eric Raine:

Tone. Yeah, absolutely.

Michael Dambra:

... a fantastic copy editor.

Eric Raine:

Yeah. Yeah. I've even done that before where if it's something that I'm just looking to, again, generate ideas, I'll say, "Hey, give me a couple paragraphs on this. I want it to include A, B and C. I already know that this is part of what I want to see. "Give me an idea of what you think makes sense to say or how to do this." And then it'll do that in five seconds and I'll read it, and then I'll say, "You know what, tone that down in this first paragraph, but make the second one sound a little more formal," and it'll do it instantaneously.

Michael Dambra:

That's amazing.

Eric Raine:

And then you can go from there. But I think that sort of sandbox approach where you can just create what you want and see what it gives you is what makes it really useful, at least in its current version. But obviously, it's expanding and changing really fast, and us knowing how to utilize it as it changes is also I think something that's a good takeaway from the MBA program, too.

Patrick Lageraen:

So your example of putting in information that you've already curated and then just having it tweak it a little bit. I think it's a good use of ChatGPT or AI in general, but I think what's worrying to me and others is it replacing your skills. So on another podcast episode, we were talking about students using it to write an email. Can they write an email now? Do they know how to write a well-worded email to a professor, or are they just outsourcing this skill so they never have to do it?

Michael Dambra:

Right.

Eric Raine:

But I think that's what happens after you have it generate something, it comes down to like what do you do with it? And if you're just copy and pasting something from it, and then you're just onto the next thing and you're utilizing it to just knock out tasks, it's really not a great use of it.

Patrick Lageraen:

You could use it to teach you.

Michael Dambra:

Yeah, absolutely.

Patrick Lageraen:

Yeah, emulate it.

Michael Dambra:

That's not a good replacement for critical thinking. If you're just making ChatGPT answer a case question, then what's the point? We're here to learn. We're here to talk about stuff in the gray area, and if you take some computer response, you're not really developing your own critical thinking skills, which you're going to need in your career.

Eric Raine:

But I think the argument with utilizing it more is that what you can do is if you're going to spend a lot of time writing and creating long form documents, it can do it so fast that maybe you can actually spend more time on the critical thinking part.

Patrick Lageraen:

And less on the actual structure of wording.

Eric Raine:

Yeah, exactly. And so it can create more efficiency for you. And I think that's what I've found to be helpful in the instances where I have utilized the AI or ChatGPT to help me get my thoughts lined up, is that it's just freeing up that time that you might just spend trying to write things when really it's like, "Look, help me write something and just get it going and I'll take it from here." You know what I mean? And I think that sort of interaction with it right now is really useful.

Michael Dambra:

Sometimes the hardest part for starting a memo or a paper or a research project is that get that... the cursor's blinking, right? It's blank. That's tough. And so just getting that first paragraph down does make a big difference.

Eric Raine:

Exactly.

Patrick Lageraen:

Like the SpongeBob episode where he spends an hour on the letter T, write stuff. The.

All right, so bringing it back a little bit to your time at KPMG.

Michael Dambra:

Yeah.

Patrick Lageraen:

So were you able to get your CPA there?

Michael Dambra:

I was. Yeah.

Patrick Lageraen:

That counts for time towards the CPA?

Michael Dambra:

Yep. So to get a CPA, you need 150 credit hours. And so I had that through St. Bonaventure, and then you need a year of work experience. So that's the sort of requirement to become a CPA. And then you got to pass the exam. So I took the exam in 2003, but it was cool.

I mean, it's very similar if you're going to start a KPMG as an auditor, it's very similar to being a consultant. You're billing hours, you're learning a lot, and you're moving fast. And so again, going back to the Dr. Fotak example, right? Investment now, pay off later. And so I'm so happy I started my career there because I learned a ton. You're leading sort of engagements after your second year, which is intimidating, but you're getting a ton of valuable experience and you're going to be able to leverage that. Either there's rapid advancement through KPMG, if I stuck around, it could have been managers, director, partner. Or if you want to do something else, there's a lot of flexibility in accounting. And so I always loved finance. And so now I'm in this world where I'm half accounting and half finance, and so happy for it.

Patrick Lageraen:

Yeah. What was the learning curve like when you first started that position? Did you feel like a fish out of water at all?

Michael Dambra:

Yeah. I mean, you missed the safety of college, right?

Patrick Lageraen:

Yeah.

Michael Dambra:

No schedule, sort of work on your own, to I have to bill hours between 9 A.M. to 7 P.M. And so that change in structure was big for me to learn. And then a lot of the times, it's helpful what you learned in class. I knew a lot about accounting and debits and credits, but actually doing the actual audit work, interacting with managers. So probably the soft skills took me a little bit longer. Let me give you a good example.

So I was on an engagement, this is my first year at KPMG. I learned this particular skill. I had an expertise in valuing firms that had student loans. And so I was flying around the country and doing these audits. And one of the first jobs I was on by myself, it was a company, a student loan provider out in Texas. And so I don't know if I talked about this story in class. So I'm talking, I look through, I'm doing the audit, and I realize that the form letter they're providing for delinquent student loans isn't fitting with government regulations. And so I found a problem with it. What I should have done was talk to the managers offline at that company and say, "Hey, this is what the form letter should say. Here's what yours says. Here's what the difference is, and this needs to be corrected." But what I ended up doing was I set up a meeting with the partner, with boss's bosses. So we had a bunch of executives in the room, didn't really introduce myself and just said-

Eric Raine:

Just threw it out there?

Michael Dambra:

Yes, "Here's a problem and it's an audit issue." And the client was so mad we ended up losing that client because I didn't have those soft skills built up.

Eric Raine:

And you had the best intentions. You're like, "Hey, I found this. This is great, right? Here you go." And they're like, "What?"

Michael Dambra:

Well, no one wants to be told what they're doing wrong, right? And so the way I did not have my soft skills developed well enough. And so that led to a bad relationship and losing that client. And so that's something I wasn't as prepared for out of St. Bonaventure. But UB MBA grads, you wouldn't have that problem. So you're going to have a lot of interactions with the managers and stuff.

Patrick Lageraen:

But that comes down to an understanding of the actual client-consultant relationship. You're not there to get them.

Eric Raine:

It's not a gotcha.

Michael Dambra:

No.

Patrick Lageraen:

Yeah. There's no gotcha moment. They're your client. You're supposed to be taking care of them.

Michael Dambra:

Yeah. They're paying us for a service. And so that's another thing about doing a lot of these accounting professions. It's not just this troll in a cubicle. You have a lot of face-to-face interactions with managers, with CFOs. And so I wouldn't shy away from an accounting career because it is, yeah, you're using data, but you're constantly interacting. You're learning stuff in a gray area, which is always interesting.

Eric Raine:

I think thinking back on this and you talking about these types of examples and how impactful they were to your downstream, like going into your PhD teaching, the examples you bring up in the classroom, is that, even though that was a three-year timeframe, and you're coming up on 10 years now here at UB teaching, and it's like you're getting maybe further away from when that experience happened in your career trajectory. But at the same time, those things are just as relevant today as they were at that exact time when they happened. And then us learning through your examples provides us the chance to say, "Wow, that's something that I just learned in the classroom," rather than maybe learning it the hard way and losing a client or seriously...

Michael Dambra:

Yeah, absolutely. Don't do what I do. Because the technology of how auditing is done is now is way different than it was when I was at KPMG. But the sort of face-to-face social interactions, that'll always happen.

Eric Raine:

Absolutely.

Michael Dambra:

And so it's very relatable, even though it happened sometime in the past.

Patrick Lageraen:

So at the end of last spring semester, as we were wrapping up our course, you gave us a bunch of advice, unlike departing students.

Michael Dambra:

Yeah.

Patrick Lageraen:

Yeah. Do you have any advice for us, soon-to-be-graduating MBAs, or maybe prospective MBA students who are considering a program like this?

Michael Dambra:

So for prospective MBA students, I would say give us a hard look. We do really cool stuff. We do experiential learning. We have a lot of work experience amongst our various professors. And you get this diverse group of students in the MBA program. Some are engineers. I had an architecture majors, some are international. And so getting that sort of diverse group is really good for you guys in terms of interaction, interacting, learning how others think. And so prospective students, yeah, give us a good look.

For departing students, I think my advice would probably stay pretty similar to what I say in the classroom. One is you're getting this MBA and you're learning all these different skills. If you start this career, if you go on this career path, if you're doing pharmaceutical stuff or you're a captain on a ship, you don't love it, you have such a good background to do something else.

I started out as an auditor and I ended up valuing private equity. They're similar in their data, but they're so different. And so having these sort of great business school degrees, like you would get out of here, you just have a lot of options to do something different. And so I was thinking about this this morning. The other advice when I say you can move, if you don't get up in the morning and you're not excited about what you're doing, then do something else. I was excited this morning. I got an email. I checked my email at 4 A.M., just not a good sleeper, and I had something researched that was really exciting and I was just pumped to come to work today and talk to my co-authors about it, and just teaching. If I have a really fun case coming up, I do a really fun ethics case, MGA 605. I'm excited to come to work. I'm excited to hear students' different perspectives. It's super fun.

And so if you don't have that in your career, then I would always look to do something else. The other advice I'd have for you two in particular is think about that MPV project. Maybe you don't love your job right away in day one, but if it's gaining experience like I did as a CPA, like putting in those hours an hour is going to pay off in the long run.

For instance, when I was an assistant professor here, it's a lot of hours on research. So I was working nights, I was working long hours. I like what I did, but it was real time-intensive. But I try not to be myopic, as I talked about in class. And so this long run payoff, now I'm tenured here at UB, I'm an endowed chair. I have a job for life and something I love, and if I don't want to work for a day, I don't have to. And so it's pretty sweet.

Patrick Lageraen:

That's great.

Eric Raine:

I think that's really valuable advice, and it's something even Patrick mentioned. We remember that, being told that and taught that and really bringing it to light as students, because sometimes we really do just focus on the project we have this week or the exam we have coming up or graduation's getting closer, and then we're thinking, "Okay, we're going to try to apply for this certain job." And really when you change your perspective on how will that bake into that cake of your whole career over the next 20, 30, 40 years, depending on where you're at in taking your MBA. Because there's a mix of students. You have students that are coming in straight from undergrad, students that are coming in maybe from overseas and moving to the US, people that have worked for a couple years, or people that have worked for 15 or 20 years and they're really trying to take that next step. But the advice that you're providing there is applicable to every single one of us in the classroom.

And if you really take that to heart and then not just hear it as good advice, but apply that to the way that you're thinking, it can really change your perspective on your day-to-day. Because to your point, I think students sometimes think, "I want this perfect job. I want it to pay well. I want to have good work-life balance." And you kind of want to have your cake and eat it, too. But at the end of the day, you still have to perform a role. You have to gain experience. You can't just jump to a high level job straight out of a degree program, even if you have years of experience with work. But if you know that you're trusting the process, and that the ingredients that bake into that career cake, that is the thing that I think is most important to be able to take away from that type of advice.

So we appreciate the fact that you're sharing that with us. And one of the thing I'll say too, while we have you here is I think that it's extremely noticeable from a student experience perspective. So when you think about the exchange of what happens in a classroom, we are investing in ourselves in our future, on our education. We're paying to come to school, we're coming in, and it's an exchange where we're trying to take something away from it and be able to apply that and have it be valuable. But we have to take that upon ourselves also. But I think the thing that makes it easier for us as students is having professors like you who love what you do. You wake up to a 4 A.M. email and you're excited about what's going on and you're in it for the long haul, and you're talking about all these incredible things you're doing, the people that you work with and the students that you're excited to come and teach.

It's extremely noticeable from the student side. And I think it makes it a lot easier to learn challenging topics or to change our perspective and actually hear what you're saying and apply it rather than it's just

in one ear, out the other, and it's just a point in time piece of advice. And so also knowing that if we have the opportunity to do that too, where we can take your lens and say, "Hey, you know what? We should really enjoy what we're doing every day, and if we're not, we have the skillset to be able to make the change."

Michael Dambra:

Absolutely.

Eric Raine:

So we appreciate that advice, and I think it's really applicable to us as students. But people listening to this episode, if you're a prospective student considering the school, these are the types of perspectives that professors are bringing to the classroom and it makes a really big difference in our student experience.

Patrick Lageraen:

And I think it's evident in this podcast too, the advice of if you don't love what you're doing, do something else that someone who doesn't love their job or someone who doesn't love their job wouldn't say that.

Michael Dambra:

No, that's right. Yeah. I mean, being an academic is amazing, right? I like teaching. I like doing research. So let me give you a quick research. So impact is something that I think a lot of students care about more, and that's one of the reasons I left public accounting. And so impact, obviously in the classroom, I can teach you interesting stuff, cost allocation, which you never think would be interesting before my class.

Patrick Lageraen:

Super interesting.

Michael Dambra:

So I get to learn, I get to guide careers, super fun. And then research has a way of impacting which I really like, which I didn't have the ability to do when I was an auditor. So one quick impact story on the research side.

So I did a lot of research on SPACs. I talked about a little bit in my class, but SPACs were a big deal. COVID was a weird time. SPACs were happening. I bought some crypto, I got a dog. So there's a lot of weird stuff going on during COVID. But one thing happened in the financial markets, there are a lot of these SPACs, these are called special purpose acquisition companies. So it's a blank check that raises capital for the sole purpose of acquiring a private company.

And so what's different about special purpose, if you go public via a SPAC versus a traditional IPO, you get to provide forecast to the market. We talk about, my class about forecasts, and there's incentives to provide aggressive forecasts because you could potentially raise more money for investors.

And so we did a study around SPACs and their forecasts, and we found that the more aggressive that these SPAC forecasts were, they generated more retail buys, they generated more market reactions, they were more biased, and these firms were more likely to underperform, more likely to get sued, more likely to miss their projections.

Eric Raine:

No kidding.

Michael Dambra:

So yeah. It's just some fundamental stuff we talk about in class about forecasting, incentives. And so we write this paper about it, it gets huge media attention. I've been on Yahoo Finance, I've been quoted in Wall Street Journal. And in terms of what really made me proud is in terms of impact, we finished our paper, we wrote a letter to the SEC about it. It's called a Common Letter. And they just made a final rule in January 2024. They banned firms, the SPAC from providing forecasts, and they cite-

Eric Raine:

Talk about impact.

Michael Dambra:

Yeah, right?

Eric Raine:

Wow.

Michael Dambra:

And they cited our comment letter in paper 17 times in their final rule.

Patrick Lageraen:

That's amazing.

Eric Raine:

That's incredible.

Michael Dambra:

Yeah, it's just a cool way being an academic, you can do impact in the classroom and outside the classroom through our research.

Patrick Lageraen:

Yeah, amazing stuff.

Eric Raine:

Yeah, I mean, congratulations. It's awesome to be able to see you put in a lot of time, a lot of effort, you make career shifts, you're thinking about impact. That's how you ended up here in a lot of ways. But then to see how that is actually going to have a ripple effect in the markets and how firms are performing is incredible. So thanks for sharing that with us. That brings up another question that I think we wanted to ask too, is you just gave a great example of how research you have done has made impact. What are some of the current things that you're doing with research, if you can share a little bit about future topics or areas of discussion that you might be looking into right now or maybe in the near future?

Michael Dambra:

Yes. So I do a lot on regulatory studies, which means a rule changes. And what's super interesting about that stuff, it comes back to agency theory. Who's it best for? A rule changes. Is it best for shareholders? Is it best for managers?

And so one of the papers that I'm working on right now deals with bailouts. And so I generally have a negative feeling about bailouts. When you give people free money, they tend to use it not efficiently.

And so what we look at is there's a subset of pension plans that have been really bad... really poorly funded. So meaning that they don't have enough money to meet retirees' future benefits. And they're chronically underfunded. And there's been an attempt to fix the underfunding by, in the past, we've thought about giving these underfunded pension plans loans, so a loan where they had to pay back over time. But those provisions couldn't pass through Congress.

So two years ago, there was a blue house, a blue senate, and a blue president. And so we ended up doing, at the end of a period before the Congress turned over, they passed what essentially was a bailout. And so they gave \$90 billion to these underfunded plans, free money. And so what the problem with bailouts, and you've seen it in the banking sector, is it often leads to what we call adverse selection. So you're sort of not doing what's best with the money.

And so we do an event study and we analyze, "Let's look at how these firms that got bailed out, these plans that got bailed out, how do they respond?" What we find is number one, they allocate more money towards risky investments. So it's referred to as a multi-employer pension plan. These subset of plans invest more aggressively, which isn't great for retirees, because you could lose it as markets go up or down. So more aggressive investments. They're more likely to increase plan benefits. And so government gives a big bailout to a bunch of unionized plans, we chase the money, that subset of plans as eligible or eligible in the future to get bailouts are giving more benefits to the retirees. And so it's not necessarily increasing the funding, it's letting them pay themselves more.

And we also see increased fees in terms of general, the sponsors that are running the plans get paid more, and then the investment consultants get paid more as well. So it's a good example of sort of moral hazard. It's hard in that you feel bad for the retirees that may not be able to get this funding, but it's also, it's not the responsibility of taxpayers like us to bail out bad decisions for other people. And so the sort of decision to give free money often leads to adverse unintended economic consequences. And we're working on that right now. That's a real fun project.

Eric Raine:

That's fascinating, especially because obviously there's a lot of different things tied up in that type of research. But again, impact. That's going to have impact-

Patrick Lageraen:

For sure.

Eric Raine:

... one way or another. And to try to make an analogy, I feel like sometimes it helps to be able to simplify topics by thinking of it this way. But it almost seems like you have like a fire that's burning, and that fire really should probably go out. But at the same time, you're thinking, "Well, if we make it burn a little hotter, a little faster, maybe that's the way to go."

And so feeding it cash through a bailout might be a situation where you think you're doing the right thing by just keeping it burning when really maybe it needs to be extinguished. And then there needs to be a way to avoid fires in the future. And then sometimes, you'd say, "Here's your buckets of water, or here's your gasoline, depending on how you spend it." And it's like it's either going to make that fire burn longer and it's going to be worse in the end, or you're applying it in ways that maybe you can help put that fire out sooner and do it in a way that can save people.

Because like you said, the retirees that are on the receiving end of something like that, they went in with a certain expectation in a contract to be like, "Hey, here's what my retirement's going to look like." And if it's not funded properly, if there's things that are getting diverted, like you said, you're following the money, just giving it more cash might not be the way to solve the problem. So it's taking the research and then also turning it into like, "What do we do now?" So you're looking back retrospectively. Like you said, you're looking back at a period of time, money was given out, how did it flow through the system? What should we do next time? And I think that that translates into the impact, if I'm understanding it correctly.

Michael Dambra:

Yeah, that's exactly right.

Eric Raine:

And doing that can be a pretty challenging process. Because I would imagine, it seems like you'd have some pushback, right? I mean, you're looking at things where people are like, "Hey, hey, don't go too far looking into this stuff because we might not have done it the right way." But you're like, "Look, I'm looking at just what happened and you're bringing it to light so that way you can make a positive impact." And you're not just trying to go back to the boardroom, like you said in your example with your previous work history where you lost the client and you're like, "Oops, I maybe communicated that the wrong way." Do you find the translation between that type of experience in your past and the way you're doing this research?

Michael Dambra:

We do have freedom of speech in academia, and so I try not to be political when I write because our conclusions or what we find is math-based. So I think some of the bailout, there's a political process, which whatever it is, it is, but we're just showing, "Here's what happened. Here's what we see in the data." And if that's a good or bad thing, we certainly have opinions that we'll push on, but we won't push too hard. We like to have our sort of data and our empirical analysis speak for itself.

So I guess that's another benefit of academia, you're allowed to speak freely. And I don't really think bailouts are a good idea, but I don't have to consider it from a political perspective.

Eric Raine:

Exactly.

Michael Dambra:

I can just look at it from an economic perspective.

Eric Raine:

Yeah, you're looking at it from like, "Look, I'm just looking at the numbers in the raw information, and we're translating this into how it's actually impacting what's going on in the marketplace and individual people that are affected by it." And then they can do with it what they think makes sense, even if you might have a certain perspective on it. But it really is completely separated from any type of political angle as much as it is just, we're just looking at the numbers.

Michael Dambra:

Yeah. And the scary part about that bailout stuff, and you saw it in the financial crisis like 10 years ago, where we see the most action most changed behavior are the well-funded plans. So the plans that see these other plans get... I shouldn't say unlimited, but they get a lot of free money, the pension plans that have been doing the right thing for the past couple decades are going to look over to this poorly funded plan, which has made horrible decisions like, "Well, if they're getting bailed out, we might as well ramp up risk and pay ourselves more too," because there's going to be a bailout in the future. And so the big risk is the expectation of future bailouts.

Eric Raine:

Really interesting. And that comes back to what you talked about earlier with incentive alignment, right?

Michael Dambra:

Yeah.

Eric Raine:

Because if you know that incentive exists out there, then maybe they'll start to make changes to say, "Hey, if we go this way, we'll be bailed out, or we'll get different type of funding," and it's just a cycle and it's a race to the bottom then.

Michael Dambra:

Well, I mean, think about it. A good example is let's say you two go to the casino and you're typically risk-averse, and you don't like spending money at the casino. But if you see the person next to you lose all their money on a roulette table, but the casino ends up giving them free money and says, "Well, try it again," it's going to change your behavior, right?

Eric Raine:

Yeah, absolutely.

Michael Dambra:

Because there's no risk of loss. And so it's something very similar in the pension sector, which worries me.

Eric Raine:

Interesting. All right. Yeah. Well, thank you very much for taking the time to sit with us today. A really interesting conversation. I know Patrick and I could sit here all day and just talk about this stuff with you. We find it really interesting and I think it's continuously showing how important it is to understand accounting and really see the impact that it can have, and whether no matter what we're going into, it's highly applicable to the things that we're doing on a daily basis and the companies we're working for and ultimately for the shareholders that we're looking to provide value to. So, thanks.

Patrick Lageraen:

Yeah, thank you.

Michael Dambra:

Absolutely. Was happy to be here. Happy to talk. And prospective students, come hunt me down. Former students, come see me. I like to talk about this stuff. So thanks for your time.

Patrick Lageraen:

Great, thank you.

I hope you enjoyed this episode. Again, we were speaking with Professor Michael Dambra, PhD, professor of the first year MBA class Accounting for Management Decision-making. Thanks for listening.