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## International Faculty Profile

Tim Baldenius

Professor of Accounting

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*Tim Baldenius's research interests are in managerial accounting. He has studied the incentive effects of transfer pricing methods in divisionalized firms and the impact these rules have on investments. More broadly, he is interested in the areas of decentralization and performance evaluation. Professor Baldenius teaches the core managerial accounting course and PhD courses.*

Can you share some information with us about your academic background?

I went to school in Germany. I found that I really enjoyed the process of academic research while working on my master's thesis, which was on incentives in the healthcare sector among insurers, patients and doctors. So I decided to pursue a PhD at the University of Vienna. The student-to-professor ratio was easily 10 times higher there than it is here, so I actually got to teach a lot and found that I enjoyed the mix of teaching and research.

Subsequent to the University of Vienna, you served on the faculty of the Haas School of Business at UC Berkeley and then arrived here at Columbia Business School. How would you compare your experience teaching in Austria with teaching in the United States?

Unlike the United States, university is free in Austria, so students tend to have lower expectations over there about the quality of the teaching and tend to be more laid back. Here, there's a different sense of entitlement in the classroom because people are paying for their schooling, something that I never encountered in Germany and Austria. At first, of course, it added pressure on me as the person who had to deliver, but I also realized that it was far more rewarding. Students here are more focused than in Europe, presumably at least because once you commit significant resources

to an endeavor you want to get something out of it. In Austria, on the other hand, people often just want to be a student because it comes with lifestyle benefits: it's free, it facilitates cheaper health insurance and people get to go clubbing longer in life. The key difference, however, is that students here have more work experience than those I've encountered back home, as MBA programs are still fairly new to the Austrian-German educational system. Students' hands-on experience makes teaching here more eventful and unpredictable.

### Why did you choose to specialize in accounting?

I came into accounting more from the economics side. I was interested in game theory, in how people behave in organizations and in how they respond to the environment you let them operate in. It's true that in the media you read much more about the workings of markets as opposed to the workings of organizations, but when you look around at the determinants of overall economic activity, it is partly attributable to how people behave in organizations. That, of course, aggregates up into each organization and results in how a GE or some other company is regarded in the marketplace. At the end of the day, you can break it down into transactions that are done on the level of individual managers, whose activities are largely guided by their business's accounting system. So I feel in some sense it is like a black box, and we only see the big animal moving around, but this big animal consists of lots of muscles and nerves, and that is basically the accounting system and how people behave in response to that. I always found it was very interesting; maybe I should have become a surgeon instead, but that involves a lot of gore. So I decided accounting is the nonbloody version of understanding small processes better.

### So that explains why accounting, but why managerial as opposed to financial accounting?

Managerial accounting is composed of basically the same principles everywhere in the world. Financial accounting is more about "Well OK, here are all these things that have taken place—how can we map them into numbers in a way that could be used to mislead investors?" I was more interested in how transactions happen in the first place: Why do people behave the way they do? They behave that way because they respond to their incentives. Today, there is an infatuation about markets, and that is what CEO incentives are all about. But we have also seen the downside of market-based incentives, earnings management and firms doing everything to cook the books. I think accounting-based performance measures are here to stay with us for their reliability and because they can be tailored more specifically to particular objectives.

Has the social stigma related to accounting affected the way you teach in the classroom?

Very few of my friends actually know that I teach accounting. I try to create a Chinese wall between them. The “A” word is usually shunned [*lots of laughter*]. In the classroom, I rely—perhaps too much?—on self-deprecating jokes, but I think such colleagues as Julian Yeo, with his highly interactive classroom methods, such as singing, are going about it the right way to show there is this beast inside the accountant [*more laughter*].

What do you enjoy the most about teaching MBAs here at Columbia Business School?

For me, it’s a really good grounding device. You tend to get too bogged down when you do research all day. At the end of the day you want your research to have something to say about what’s going on in the real world, and teaching really provides that. It’s also nice in the other direction; it’s a give-and-take thing to find people who think that what you have to say is actually interesting.

I basically see students for six weeks in my core accounting half-term course, and I would like to see at the end of the six weeks that my teaching has influenced their view of how businesses are run. I don’t always get this feedback right after the class ends, but I have had students come back from their summer internships with comments like, “Wow, I was sitting there in class thinking why bother, but half of the topics we covered in the course actually came up over the summer!” That is a very nice confirmation that it is actually relevant.

Outside of teaching, what sort of extracurriculars have you enjoyed the most at Columbia Business School? We know you were involved in the Chazen study tour trip to Rwanda last summer.

Rwanda is probably the most rewarding extracurricular experience that I have had here. I don’t know if I would have traveled there by myself. One of the reasons why I had not done this sort of thing before was my focus on research and teaching. It is sometimes difficult to get a nontenured professor to participate in these study tour trips because people can get single-mindedly focused on research and teaching. So, there is a reason why I did this study trip after receiving tenure.

Please tell us more about the trip.

Twelve students, an administrator from the Social Enterprise Program and I went on the trip, which was organized by the Social Enterprise Club and was focused on developmental economics. Most of the students probably knew more about developmental economics than I did, so I did some homework to read up on it beforehand. We visited Millennium Village, which is part of a UN initiative with which Columbia has been involved for some time. It's a holistic project built around agriculture, schooling and healthcare that aims to create self-sustaining villages. We also visited coffee cooperatives, some government officials and the minister of health in charge of AIDS prevention. I think it's a particularly worthy experience with us coming from the Business School to talk about the interaction between the public and private sectors.

One of the things that surprised most of us is that many of the mechanisms that we use in running private companies are often used by government officials and aid organizations in terms of providing behavioral incentives. The whole debate about microfinance as opposed to aid pervaded all of the discussions that we had. For instance, as part of the Millennium Village project, we can give farmers grain or we can provide the fertilizer as a loan, and the month they bring in the harvest, they have to pay us back with a small nominal interest fee. So it was really interesting to see that these are not mutually exclusive spheres of ways of thinking about incentives. At first, I wondered what I could bring to the table for development, coming from accounting, but I think the two are much closer than I ever thought before, and many of the students had a similar experience. I think it would be very nice to follow up with a case study or something similar.

You have taught both MBA-level and PhD-level courses. If you could teach any course in the world without constraints, what would you like to teach?

I would like to gauge interest to see if there is some demand for an elective, half-semester course that would look at compensation systems and the work that management-consulting firms are doing in this regard. We have become used to thinking of management consulting more from a marketing side or the operation side, but I think one of the key areas where these firms are very active is compensation systems.

What research are you currently engaged in?

I am quite interested in corporate governance and the dual role that boards play in terms of providing both strategic guidance and ideas to management, and the audit function of boards. I find the interplay between these two functions interesting. Board members know that top managers often have private agendas that are not fully aligned with the shareholders' interests. If the board comes up with good ideas, what incentives do they have to communicate these to managers, especially if it anticipates that these managers have their own private agendas? The goal is to study whether there are complementarities between the audit and the consulting roles of a board: are board members who are entrepreneurial types more willing to share their insights with management if the board's audit function is strong?

What advice would you give current students?

Not to narrow down too early. You may come in here thinking you want to learn about option pricing only and that is it. I think that is a mistake. There is an enormous richness of things to be learned that may not immediately be of use but may be five to seven years into your career. I think students should be more open-minded about courses that may not scream out for their attention right away based on what they intend to do one or two years from now. They should also attend speaking events that enable them to meet leaders who visit the Business School and the University more broadly.

Given your background, what advice do you have for those who are Americans looking to travel or live abroad?

Don't be scared. It's not as hard as you think. I did it far too late; I didn't even leave Europe until I was 29, and I wish, in retrospect, I had done it much earlier. In fact, I have some friends that have become relocation junkies of sorts. They really enjoy moving around. It truly is easier than people think.