

Interview with Prof Malatesta, Managing Editor of Journal of Financial and Quantitative Analysis (JFQA)

This interview was held on January 7, 2004 in his office of the University of Washington

Prof Hoshino: Ok, then Prof. Malatesta, I have several questions. First I'd like to ask about JFQA because you are managing editor, there are three, I think managing editors of your journal, and please explain your role and functions in your journal. Especially you have just an editor as well as managing editors.

Prof. Malatesta: We do have three managing editors. Two of the managing editors are not at the University of Washington. One managing editor is Stephen Brown, at New York University, School of Business, another managing editor is Hendrik Bessembinder, who is at the University of Utah and myself here, at the University of Washington.

The managing editors all have responsibilities for developing the content of the journal. Papers are submitted for review to the journal. I allocate those papers among the three managing editors. We do not have an equal share of the manuscripts flow. Stephen Brown is allocated 20 percent of the manuscripts. And Hank Bessembinder and I split the remaining 80 percent, so Hank takes 40 percent and I take 40 percent.

Papers are all sent here to the University of Washington initially. So I send papers to Stephen and Hank based on their research interests. Stephen focuses mostly on investment topics, Hank is a specialist in the market micro-structure literature and most of my research is in the corporate finance area. So we are trying as much as possible to take the responsibilities for papers in our respective research areas. Managing editors then assign papers under their supervision to referees for review and the journal functions as a blind peer review journal. The author's name is deleted from the manuscript and it is sent to reviewers for review. Based on the review we either can decide to accept the paper for publication, ask the author to revise the paper for possible publication or inform the author we are not able to publish the paper.

Actually we are forced to reject approximately 92 percent of the papers that are submitted. So it is pretty difficult to win space in the journal. It is generally

considered to be one of the top four journals in finance published in the English language. Now being the University of Washington editor I have some additional responsibilities over and above developing the content of the journal.

We actually do everything to produce the journal here at the University. It is published by the University and is produced in the University of Washington print plant. So I have a staff here that are responsible for all the business aspect for producing the journal and distributing it. So my responsibilities include managing that staff. My colleagues Bessembinder and Stephen Brown will both provide advice to me of the problems that I asked them. That's really not part of their job, that's my job. We also have an advisory editor, we call him consulting editor. Jonathan Karpoff. Jon was a managing editor for many years, I believe he started in 1990. Last summer he decided that he wanted not to be managing editor any longer but he agreed to stay on for a year in an advisory capacity. So he still helps to manage the journal but is phasing out, reducing his service to the journal.

Prof. Hoshino: I understand recently, I understood that JFQA is a part of Western Finance Association but actually it is independent, it became independent, so would you explain those processes.

Prof. Malatesta: That's very interesting. Many years ago, almost forty years ago, the University of Washington, School of Business's Finance department had a chairperson named Stephen Archer. And Stephen Archer and some of his colleagues had the idea to form an association of finance professors located on the West Coast, and through this association to promote research and scholarship in finance. The association that they formed was the Western Finance Association and it was initially financed, subsidized by the University of Washington Business School dean, who thought it a worthy project. For many years the University of Washington Business School was the administrative centre for the Western Finance Association. And the Journal of Financial and Quantitative Analysis (JFQA) was also started because of the vision of Stephen Archer. So the two things came about at the same time together. Now over the years the Western Finance Association and the journal both grew to be much more professional

organizations than they were initially.

I believe it was 1988 or it may have been 1989, the Western Finance Association and JFQA formally separated and since that time the journal has been very much a separate entity from the Western Finance Association.

Let me just double-check, check the date. Here is the 1987 volume. It was produced by Western Finance Association and then all a sudden in September 1988 no longer there, so in the summer of 1988 the association and the journal decided to part company.

Prof. Hoshino: Ok, I saw the end of the year report of managing editors in October 2003 and that is I think the latest. There you mention that there is 12 month period ended in the September 2003 JFQA received 315 submitted papers, down 80 percent of the previous year paper total of 450 papers were available for evaluation, 315 new submission plus 64 invited submission and submitted the paper under review as a renew of period. Usually 64 invited submission which are free from review process.

Prof. Malatesta: No, no those are invited re-submission.

Prof. Hoshino: Oh invited resubmission.

Prof. Malatesta: Resubmission, So those paper had been submitted in a earlier period, have been reviewed, based on review the managing editors invite the authors to revise their paper and send a re-submission to us. Most papers that are published in the journal, they require several revision to accept the publication. That is part of the way the journal serves the profession is to help the authors to improve their work.

Prof. Hoshino: Now I understand the process. In the report you also say, you congratulate the winner of the William Sharpe award for their excellence in the financial research. Would you explain about this award?

Prof. Malatesta: We annually give an award to the author of one paper published in the journal during that calendar year. We select that based on the vote of our associate editors and managing editors. We try to pick the paper that most people feel was the best one that was published in the journal. And during the previous year that award went to Paula Tkac and Diane Del Guercio for their paper on funding flows.

Prof. Hoshino: So this awards means William Sharpe, who is Noble prize winner in Economics, donated some amount of money to JFQA.

Prof. Malatesta: No, no Prof. Sharpe did not funding award but Professor Sharpe's Nobel prize winning work was done while he was at the University of Washington Business School. He was an Assistant Professor of Finance in the mid-1960s when he wrote the paper for which he won the Nobel Prize, the famous Sharpe model. So we felt that having an award named for him was an appropriate honor for him, but his friends and colleagues were the ones who donated the money to fund the prize.

Prof. Hoshino: Could I ask how much money, fundamental money for award?

Prof. Malatesta: Five thousand dollars.

Prof. Hoshino: Five thousand dollars. That is amount of money given to the recipient. How much money is originally finding money.

Prof. Malatesta: Original funding? I am afraid I don't have a ready answer for that, There is an endowment that is building. At the present time we are funding the prize from the journal's operational funds. At a future date I would hope the endowment will reach a level where it will be able to fund the prize in perpetuity but right now we are just building the endowment.

Prof. Hoshino: I understand that your journal charge 200 dollar submission fee for subscriber and 250 dollar for non subscriber to JFQA.

Prof. Malatesta: That's right.

Prof. Hoshino: I don't know any academic journal asking submission fee in Japan. How about academic journals in the U.S. ?, Do you have any idea?

Prof. Malatesta: I think almost all the economic journal that published in North America, certainly all the finance journals they do charge submission fees. Ours seems like a lot of money, but if we compare to Journal of Financial Economics it does not seems so, but let check what the submission fee for the financial economics, it has a large number. A submission fee of 400 dollar for current subscribers.

Our submission fees are important for the funding for the journal.

Without submission fees we would not really be able to continue. We do not run the journal for profit, we try to break even, and usually we come close to that. We lost money last year and made a little money a year before.

Prof. Hoshino: You can pay your submission fee from your research fund in the States, I think, But in Japan being a Professor of National University we can not pay

the submission fee from our research fund only from our pocket. We need to change our system to the American standard.

Prof. Malatesta: Yes I think so. If your University wants to encourage to publish they should pay the paper re-submission fee.

You know to publish in this journal, I published five or six article over micro area and it always takes at least three or four revisions each time and you pay that.

Prof Hoshino: So each time, it becomes...\$400 times 4 = \$1,600 to publish a paper in finance journals.

Could you explain, so called top finance journal in the US now ?

Prof. Malatesta: Which are the top journals?

Prof. Hoshino: Say, yah may be top five or top ten.

Prof. Malatesta: The top four are easy to name, almost everybody that you will ask would come up with the same four name, how much they write down may be a little bit different but everybody will agree that Journal of Finance, Journal of Financial Economics, Review of Financial Studies and the JFQA are the top USA finance journals.

Now to go to the top five there becomes a little bit more, a little bit more questionable. But I think that most people will include the Journal of Business, which is published in the University of Chicago. As the title implies that it is not solely a finance journal. Now once you set out of the top tier realms there are literally dozens and dozens of good journals, they are good journals but are not considered to be the very top outlets. Most of the top four that I mentioned end up rejecting approximately 90 percent of the papers that are submitted, so they're very selective, publishing in these journals is very challenging. In the top universities, to get tenure, you have to publish in the group of journals. Here at the University Washington to get tenure one has to publish 4-6 articles in this top tier of journals or in the top economics journals. A publication in the American Economic Review obviously is good publication in general. But those are main stream economic journals, they are not the specialty finance journals.

Prof. Hoshino: So you come closer to the economic journals.

Prof. Malatesta: Oh yes, oh yes.

Prof. Hoshino: How about top ten economic journal or top five economic journal, is there any ranking?

Prof. Malatesta: You know there was an article about this. Well, This is just an article about finance journals,

so it does not include those main stream but this is sort of consistent with what I say, the authors have a particular way of trying to judge the perceptions of quality and here is how they ranked. Here is the top five : Journal of Finance, JFQA, Journal of Financial Economics, Journal of Business, Review of Financial Studies.

So once you get below there you have a lot of other journals.

But economic journals that every one would agree are top ranked journals, certainly The American Economic Review, Journal of Political Economy, Quarterly Journal of Economics, *Economica*, *Econometrica*, those would be certainly considered.

Prof. Hoshino: You are managing editor of JFQA and how many articles have you published in your own journal?

Prof. Malatesta: How many I have published in JFQA? Two.

Prof. Hoshino: Only two? Not so many. I have many in my journal.

Prof. Malatesta: I should say one of them was one before I was editor.

Prof Hoshino: So after editor only one.

Prof. Malatesta: Oh yes.

Prof Hoshino: How long have you been editors, Managing editor?

Prof. Malatesta: Since 1987.

Prof Hoshino: It will be 16 years which is really long. Usually in Japan we change every two years, I served two years and two more years from now, total four years, so 16 years is very long.

I heard that in United states when you recruit new professor, say assistant professor from a University, you are going to pay say between 90 thousands to 195 dollar thousands us dollars. This is real story or not?

Prof. Malatesta: That's pretty reasonable range. At the University of Washington our assistant professors that we hired last year, we offered approximately 15 thousands dollar per month. Now the way we pay and this is true for most US business school. We state this salaries on a monthly basis but we also pay what we call research support in summer. So typically this might be 135 thousands dollars for 9 month plus an additional 2 months summer support at that same monthly rate.

So what does that amount to 135 plus ... 165 thousands dollars on an annual basis, now there are other

universities that pay more than we do, the top private universities, University of Chicago, Carnegie-Mellon University, Duke University, University of Pennsylvania Wharton school, They will pay more than we do! And then those are other universities that do not have the same research fund and they will pay less, the universities such as say California State University at San Francisco somewhere between 90 and 120 thousands dollars in a year, all together would be reasonable range.

Prof. Hoshino: Ok, I understand.

How about the difference between assistant professor and full professor among those top ranking Universities, very narrow or almost none?

Prof. Malatesta: Often, often negative.

Prof. Hoshino: Negative?

Prof. Malatesta: Oh yes.

Prof. Hoshino: Assistant professors are more than full professors?

Prof. Malatesta: Oh yah.

Prof. Hoshino: Then all full professors want to be assistant professors.

Prof. Malatesta: That's true.

It cause a terrible problem, a terrible morale problem. If you have been working for 20 years and know you have done everything well and all of a sudden you are making less money than someone who is brand new. Yes it does happen.

Prof. Hoshino: Does it happen?

Prof. Malatesta: A smart business school dean try to make sure if does not happen very much, you want your associate and full professors a little bit more than assistant professor. But what happens is that increase in the demand for business school degrees has cause a great increase in the man for the new faculty so the salaries, hiring salaries have grown very very rapidly, And it been very difficult to hire new faculty at the same time as you increase the salaries of the existing faculty. It is very costly, it has lead to this ... *salary inversion*.

Prof. Hoshino: Inversion? There is not inversion at all in Japan.

Next, I'd like to talk about conference. Have you ever organized academic conferences in states or in foreign countries?

Prof. Malatesta: About myself ? I have done so twice. I mention to you that we had the conference once jointly with University of Tsukuba, so we held one conference in

Tokyo and that organizing mostly that is organized by Professor Kako and his colleagues. And then we had in 1996, we had the 2nd joint Washington- Tsukuba conference here and I organized that. I also organized at least I helped to organized a conference several years ago that we held in Darmouth campus and this was in connection with the special issue of JFQA on international corporate governance. So I did it twice, both conference were pretty small conference, it is not like the Western Finance Association or American Finance Association where there are 1000 of people. But they are small conferences.

Prof. Hoshino: How many number of the participants of the Tsukuba- Washington conference in 1997?

Prof. Malatesta: 1996. How many participants? Ah, I am not sure, I never counted it specifically but I think that is something like if you counted everybody that attended probably 40 to 50.

Prof. Hoshino: Actually last year November I organized that conference on 'Japanese Association of Administrative Science', number of participants was 130, I organized that conference in Tokyo campus not at the Tsukuba main campus because many people prefer to go central Tokyo rather than coming to Tsukuba, because of location advantages I set it Tokyo campus.

Prof. Malatesta: But we had the conference in Tokyo, we had very nice arrangement we actually had the sessions at the international house.

Prof. Hoshino: Oh, International house, Many people can stay there, that's actually very good place.

This time I attended at the ASSA(Allied Social Science Associations) conference in San Diego and I think that in most cases American academic meetings usually held in hotels not in universities. I don't know any other case, exceptional case but you organize many conferences in the hotel. Why you select hotel rather than university?

Prof. Malatesta: I think it is the size of the conferences. Smaller groups we can host here in the University but we have here every year for more than 15 years a conference of north western universities, University of Oregon, University of Washington, University of British Columbia, Simon Frazer and others, but we have the finance conference for a long time and we hosted here in University of Washington campus because we are centrally located, because it is easy for people to come, it is easy for people to organize to come and we are

happy because it is our campus and they all come here . So we have that in University of Washington but it is small enough for us to do that. You know we are talking 30-40 people at most and we have the facilities but when we get the size of Western Finance Association when hundred of participants we don't have the facilities to organize that, we don't have the space to meet and so we have to go to the hotel rather than university

Prof Hoshino: Hundred means how many hundreds? Not one, two, three, several hundreds?

Prof. Malatesta: Several hundred. Yes, but I am looking for theHere is the program of last Western Finance Association meeting. And you see we got, these are the people who were presenting papers or discussing papers. We got how many, this is like an 80 on a page, so 80, 160, 240, 320, 400.

And there are the other people, who were not on the program, they came too. At least five hundreds people.

Prof Hoshino: So number of people is determining factor for the location.

Prof. Malatesta: I think so.

Prof Hoshino: I attended at the Pacific Basin Financial, Economics and Accounting Conference which was held in Taipei last year. The number of participant I think around 300 and Vice president Loo of Taiwan Government made a speech for the Conference. I heard last time the main speech was made by President Lee of Taiwan.

Prof. Malatesta: I was very disappointed that I missed that conference, The conference usually scheduled in the summer and it was changed because of SARS and I did not know that, and I was actually in Taipei giving short series of lectures at the National Chengchi University.

Prof. Hoshino: National Chengchi University. Oh yes, my graduate student at Tsukuba is from this University.

Prof. Malatesta: I was there when the conference happened I did not know that, I could stop a taxi and go on I heard about it pretty later, Because when I was leaving in the Airport I coincidentally in the airport

lounge, I met a professor whom I know well. So that was stupid. I went to his conference the year before when it was in Singapore.

Prof Hoshino: See, it is very difficult to have conferences in Tokyo, or in Tsukuba because of fund raising, CF¹ raises a lots of money, and I think he spends quite a lot.

Prof. Malatesta: Oh yes it is so expensive, the way his conference are organized, everything he take care, conference participants each day, wonderful luncheon, and dinner you know very expensive.

Prof Hoshino: This time I have four free luncheons and dinners.

Prof. Malatesta: In United States for this type of conference we don't do anything like that.

Prof Hoshino: You don't do ?

Prof. Malatesta: No, we do not do , Compare to the conferences that held in Asia our conferences are miserable, it is terrible.

Prof Hoshino: So each participants pay to his or her own part?

Prof. Malatesta: Oh yes. It is actually more difficult now because as you know the situation of American Finance Association. Even meals are very expensive.

Prof Hoshino: No, that is reasonable price, \$55 or \$45 per person for dinner, I think,

Lunch 40 dollars? Yes very reasonable and hotel give a big discount I think because of negotiation by the Associations.

Prof. Malatesta: I think we paid 95 dollars a night in those hotel rooms. We probably have cost twice as much otherwise.

Prof Hoshino: Yes twice.

Prof Hoshino: Actually in my case, I have a little bit late to reserve, so I have to stay other hotel not association reserved hotel but other hotel which was close to the main head quarter of association, so that was only my choice. If I reserved earlier, that's better. I think I'd like to finish interview. Thank you very much for your cooperation.

1 CF is a nickname of Cheng-few Lee who is Distinguish Professor of Finance at the Rutgers University and Editor of Review of Pacific Basin Financial Markets and Policies, Quantitative Finance and Accounting and Organizer of Annual Conference of Pacific Basin Finance, Economics and Accounting.

Paul H. Malatesta

Professor of Finance

Norman J. Metcalfe Faculty Fellow

PhD University of Rochester 1982

MS University of Rochester 1976

BA University of California, Santa Barbara 1973

PHONE: 206.685.1987

EMAIL: pomalat@u.washington.edu

