Reflections on Editing the Journal of Finance, 2006-2012

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"The AER is a fire-hose: in my first year I handled 275 manuscripts."
-Preston McAfee (this volume)

If the American Economic Review is a fire-hose, the Journal of Finance is a tsunami! In my first year as Editor of the Journal, I handled 1,275 manuscripts. If one takes revise and resubmits into account, that figure is even larger. Over my six years (2006-2012) as Editor, I handled approximately 7,500 submissions. Even at the point of my "retirement" on July 1, 2012, I still had more than 500 manuscripts under my control. The job does not go away until these manuscripts are settled.

A little background on the Journal of Finance. It is the official Journal of the American Finance Association (AFA). The Journal was founded in 1946. Among economics journals, the Journal of Finance ranks third in total citations (behind American Economic Review and Econometrica) and fourth in terms of five-year impact factors (behind Journal of Economic Literature, Quarterly Journal of Economics, and Journal of Political Economy). In 2011, the acceptance rate was 5.4% and the median turnaround time was 42 days.

The Invitation

In September of 2005, I received a telephone call from René Stulz of the Ohio State University. I was not sure why he was calling. I initially thought he was going to invite me to a seminar. He then said that he was the chairperson of the AFA's Editorial Search Committee and that the Association wanted to offer me the job of Editor of the Journal of Finance.

I was speechless.

I had no idea that René was leading the search committee. Indeed, only a week before did I learn that the Association was searching for a new Editor. I was tipped off by an email that was mistakenly sent to me instead of John Campbell (AFA President) of Harvard University. The email was a long treatise by another finance person nominating himself for the job. I deleted the email and didn't think of the matter any further.

During the long pause that followed Rene's offer, a number of things went through my mind.

First, René, who served as Editor from 1988 to 2000, was not just the Chair of the search committee – René is arguably the most successful Editor in the history of the Journal of Finance. When he took over the Journal, it was not known as the top journal in the field of finance. The Journal of Financial Economics, which began in 1974, had overtaken the Journal of Finance. In addition, a new journal in finance, the Review of Financial Studies, debuted with its first issue in the spring of 1988 and was instantly an A-level journal. René's leadership, however, led to a renaissance that elevated the status of the Association's journal to the number one position in the field. This legacy continues: revealed preferences of authors indicate that among the three A-level journals in the field today –Journal of

Finance, Journal of Financial Economics, and Review of Financial Studies – the Journal of Finance is generally considered the top journal.

Second, in 1994 René made me an Associate Editor of the Journal of Finance at a relatively young age (I graduated from the University of Chicago in 1986). I served as Associate Editor of the Journal until 2000. René had also taken some risk in publishing my paper "The World Price of Covariance Risk" in the Journal in 1991. His detailed comments on the manuscript moved the paper from making a marginal contribution to a significant contribution to international finance.

All of this is going through my head over this long pause after he pops the question.

I wanted to say "YES!!" However, I needed to carefully consider the opportunity. I thus thanked René and said that I needed to talk with a few people first. In particular, I was interested in talking with the outgoing Editor as well as my Dean. I received Rene's permission to discuss the offer with these individuals.

Due Diligence

René served as Editor for 12 years. The next Editor, Rick Green of Carnegie Mellon University, served only three years (2000-2003). Robert Stambaugh of Wharton also served only three years (2003-2006). Since the AFA requires at least one year's notice, both of these Editors provided notice after two years on the job. It was therefore unlikely that any paper published in the Journal would have these individuals' name on it as Editor. This raised the question: why only three years? Had the number of submissions exploded, making it impossible to do the job?

I raised this concern with Rob, the outgoing Editor. Rob was on my dissertation committee at the University of Chicago. I have a great memory of pitching my dissertation to him in his office in 1985. He thought it was very good work. It was surely publishable in the Journal of Financial Economics or the Journal of Finance. However, he was unsure it was good enough for a Chicago dissertation!

With regard to the Journal of Finance, Rob said something very important. In particular, he said that his own research went best when he could find a week or so to devote much of his attention to it. That was a challenge at the Journal, where new papers arrive every day. When Rob said this, I realized that I might be able to do the job as my research style is different. I tend to work on multiple projects at the same time, switching back and forth with little or no set-up time. I could thus envision doing some Journal work and then some research work, switching back and forth, without much impact to my ability to conduct research.

Next I spoke with my Dean, Doug Breeden. When Doug heard of the offer, his response was "TAKE IT!" Duke's young business school had yet to have an editorship of such a premier journal. Doug made it easy for me. He offered: 1) no teaching for N+1 years, where N was the number of years I was Editor; 2) no chairing of any committees and only light committee work at the school in general; 3) an administrative assistant; and 4) course relief for a coeditor if I decided to choose one from Duke. This was an extremely generous offer.

The Western Finance Association

There was a complication, however: the Western Finance Association (WFA). In the field of finance, there are two main "meetings," the American Finance Meetings (part of the Allied Social Science Association (ASSA) meetings) held in January and the WFA meetings held in June.

The AFA/ASSA meetings are mainly for recruiting and much of one's time is spent in a hotel room interviewing candidates. The AFA/ASSA meetings are huge, with people attending from many fields.

In contrast, the WFA meetings are only for those in the field of finance. There is no recruiting. There isn't even any advertising. The WFA meetings are often held in remote locations and involve three days attending sessions and talking to colleagues. The meetings are very competitive, with about 1,400 papers submitted and 144 selected to be on the program. Each paper is reviewed by two referees. Most papers on the program end up in A-level journals.

I had previously agreed to be Program Chair for the 2007 meetings. This means that in the fall of 2006 (during my first six months as Editor of the Journal of Finance), I would have to handle 1,400 WFA papers as well as the onslaught of Journal of Finance papers.

In an effort to spread the load, I asked the WFA if there was any possibility of deferring the Program Chair job. The answer was no. However, in the back of my mind I was thinking that we had seen this before. Rick Green, Editor of the Journal from 2000 to 2003, was WFA President in 2000 and served as Program Chair the year before.

The Review of Financial Studies

Over the 1999 to 2005 period, I served as Coeditor of the Review of Financial Studies. The structure of the RFS is different. There is an Executive Editor (who was Maureen O'Hara of Cornell University) and usually four Coeditors, with papers essentially divided up among the Coeditors and Editor. While I managed more than my one-fifth or one-quarter share of the papers, the flow of papers was very small compared to that of the Journal of Finance. In my busiest year at the Review, I probably oversaw 400 papers. The Journal of Finance would triple that load.

The Dilemma

The dilemma I faced was as follows. I wanted to accept the Journal of Finance job, but I wanted to commit to two terms (i.e., six years), not one term of three years. This raised the question of how would I manage the Journal of Finance job (and the WFA job) while maintaining my research … and still have time for my family (three children that at the time were aged 14, 11, 9).

The Solution

a) *Substantially reduce my time commitment for the WFA*. Much of the time of the Program Chair was devoted to making 2,800 referee assignments. I decided to automate this process. I sketched out an algorithm whereby authors submitting papers would categorize their papers. The algorithm also relied on information from the Program Committee so that each member provided areas of expertise. We needed filters for conflicts of interest (like home institutions). The algorithm was coded up by the then Duke Ph.D. student Jules van Binsbergen. I also appointed three of my colleagues at Duke as "Co-Program Chairs." This made meeting my responsibilities to both the Journal of Finance and the Review of Financial Studies feasible.

b) *Take advantage of Duke University relief*. Actually, I did not take advantage of all of it. I explained to the Dean that it would be a mistake to set the precedent of buying off all my courses. Doing so would run the risk of, in the future, some other area within the school getting an editorship and demanding "the Harvey deal" (even though their journal might have only a quarter of the submissions that the Journal of Finance has). I suggested that Duke pay for two courses off and ask the AFA to buy out the rest. The AFA agreed to this arrangement.

c) *Appoint a Duke-based Coeditor.* My long-term coauthor and colleague, John Graham, agreed to be Coeditor. At the same time, he had an offer to be Coeditor for the Review of Financial Studies, which he turned down when he accepted the job with the Journal. He substantially helped with decisions on empirical corporate finance papers as well as determined paper order and interface with the publisher. We met at least weekly to discuss papers in progress and assign both Associate Editors and referees.

d) *Substantially step up desk rejections*. At the Review of Financial Studies, I was not allowed to desk reject, which was very frustrating to me. At the Journal, I aimed to desk reject 30% of submissions. If I could manage to reduce effective new submissions to approximately 800 papers after the desk rejects, this would put me in the ballpark of the volume of papers that René Stulz handled as editor.

e) *Change the role of the Associate Editor.* In the previous Editor's regime, Associate Editors mainly suggested referees. I developed a new protocol whereby Associate Editors: 1) gave a more detailed preliminary judgment of the paper in addition to suggesting referees; 2) got the paper back if either they initially liked the paper or the referee liked the paper so they could give more detailed comments; and 3) shepherded the paper through the process conditional on a revise and resubmit.

f) *Change the number of Associate Editors.* The idea here was by increasing the size of the board, I could ask for more time (but less frequently) from the Associate Editors. In addition, with an expanded board, the Associate Editors would generally be assigned papers directly in their areas of expertise, making it easier for them to give their own evaluation of the papers.

g) *Knowledge of the referee pool.* One factor I did not fully appreciate at the outset was that I knew the referee pool. Over my six years at the Review of Financial Studies, I had used probably 1,000 referees and developed a knowledge of who was good and who was not. I knew the people that were late. I generally knew who to go to. Importantly, this knowledge was fresh because my term with the Review of Financial Studies ended in 2005 and my term with the Journal was set to begin in 2006.

With the above in place, I accepted a three-year term as Editor with an option to extend it to a six-year term after the first year. After one year, I exercised this option and extended my contract through 2012.

Key Insights

1. *You are going to make mistakes.* You are going to accept papers you should have rejected and reject papers you should have accepted. There is no way to eliminate this risk. After you realize you made a mistake, you need to move on. If it eats you up, then this is the wrong job for you.

2. *Maintain a no quid pro quo policy.* You routinely get papers from both former journal editors (who might have accepted your papers) or current journal editors (who might be considering your papers). You must treat these papers as you would any paper. In rejecting a paper at the Journal of Finance, one may fear that doing so could negatively impact their chance at the other journal. Too bad. That is just part of the job.

3. *Have authors undercite your own work.* John Campbell, President of the AFA, gave me this advice – and it is wise. Authors sometimes think that their chance of a revise and resubmit will go up if there are 12 cites of the Editor's work. At least for me, this strategy had the opposite effect on the probabilities. On papers that did get a revise and resubmit, I often struck references to my own work. Optics are important and readers of the Journal should not get the impression that the Editor is using the editorship to increase citations to his or her own work.

4. *More readers are better than fewer.* The norm in the field of finance is generally one referee. It is impossible for the Editor to read all 1,300 Journal of Finance submissions each year. Under my system, an Associate Editor and a referee would read the paper. The Associate Editor also had the option of assigning two or more referees. Multiple referees were usually assigned to papers we had favorable priors on, or to controversial papers. Every revise and resubmit, about 120 in most years, I carefully read and marked up. Many papers in the empirical Corporate Finance area were also read by the Coeditor. Hence, even with a single referee, each paper was read by at minimum three readers and potentially many more. In my calculus, the more readers, the less noise in the decision making.

5. *Be aggressive on conflicts of interest.* There were many levels of recusal.
   a. Part of the Associate Editor's job was to suggest a referee that had no conflicts of interest with the paper being evaluated. Sometimes a paper had to be sent to a referee with whom there would be a conflict (for example, a paper criticizing the referee's own work), but in those situations multiple referees were assigned.
   b. The Associate Editor had to reveal if they had any conflict of interest with the author of the submitting paper or a competing paper.
   c. I assigned an Acting Editor if the author was 1) a Duke faculty member; 2) a current Duke Ph.D. student; 3) one of my former students; or 4) one of my coauthors. In addition, I assigned Acting Editors for: 5) papers that competed with or criticized my papers; or 6) papers that competed with or criticized papers by other Duke faculty. Acting Editors were drawn from a pool of senior people in the finance profession as well as Associate Editors. The Acting Editor chose the referees and wrote the decision letter. This was not an anonymous job. The initial letter to the referee did not have my name on it. I had no input in the process (other than choosing the Acting Editor). If the paper is published, the initial footnote will include a credit to the Acting Editor.

6. *Be especially diligent in your own research area.* Not all mistakes are equal. In particular, publishing a paper that is (ex post) below the margin paper in your own research area is far worse than publishing a paper that is below the margin in an area you are not known for. I therefore routinely assigned extra referees if the paper was in one of my areas. Again, optics are important and it is damaging to a journal for readers to perceive that the Editor is simply promoting his or her own research agenda.

7. *Use external advisors.* In situations in which a paper was a close call, I appointed an Advisory Editor. The Advisory Editor might give a high-level opinion. The Advisory Editor might also review the entire file (referee and Associate Editor correspondence and reports).

8. *Recognize that Impact Factor is an imperfect measure of quality.* It is short-sighted to make decisions simply based on the expected number of citations. For example, I doubled the number

of theory papers in the Journal of Finance. I did this knowing that such papers gather far fewer citations than some other areas.

9. *<u>Don't fixate on turnaround time.</u>* If you doubt the quality of the review and the paper is at the margin, get another review. Turnaround time in finance averages below two months for each of the top three journals so a little extra time is not a big deal.

10. *<u>Decide quickly.</u>* Once you have the referee and Associate Editor reports, there is no reason to sit on a paper and wait to make a decision. Time is not your friend because there are set-up costs such as refamiliarizing yourself with the paper. Also, authors want quick resolution. You cannot stall on rejections. Yes, it is true that receiving rejections is painful, but as Editor you need to be able to hit the "reject button" and move on. You cannot let it get to you. If you do, you are in the wrong job. I found it much easier to reject papers at the Journal of Finance than at the Review of Financial Studies because getting rejected at the Journal was not the end of the line for a paper—authors received excellent feedback and with a solid revision had a much greater probability of placing the paper at the Journal of Financial Economics or the Review of Financial Studies.

11. *<u>Work hard on first revision/up and out</u>.* As an author, I was always frustrated with multiple rounds of refereeing. Sometimes new issues came up on the revision and sometimes some of the rounds seemed trivial. At the Journal of Finance, I instituted a system whereby most of the work is done in the initial report. In addition, speculative revise and resubmits were not issued (i.e., papers were rejected). Hence, the author would have a lot of work to do after receiving the first report. By 2011, the probability of a paper (that would eventually be published) being accepted after just one revision was greater than 50%. After the second revision, the cumulative probability was 95%. When I took over, the cumulative probability on the second revision was only 40%.

12. *<u>Aggressively desk reject</u>.* Sometimes you know by the title of a paper that it is not appropriate for the top general purpose journal in your field – for example, "Tests of the CAPM in Morocco." Many authors submit papers to the Journal of Finance knowing their paper has zero chance of getting a revise and resubmit recommendation. They simply intend to use the referee report as input for a revision and then submit the paper to a B- or C-level journal. Indeed, some authors submit a first draft of a paper with potentially no one reading it before the referee gets it. Given the $100 submission fee and the less than two-month turnaround, this was a good deal for the submitting author. However, I ended this practice through an aggressive desk reject policy. The Journal asks a lot from the referees and it is not fair to make them readers of papers that have no chance at a top journal. The one exception that I made to the desk rejection rule pertained to papers submit by newly minted Ph.D.s. In such cases I usually sen the paper on to referees. If the paper was clearly below the bar, however, I sometimes asked rookie faculty members to withdraw the paper but provided some feedback and allowed them to submit the paper again in the future.

13. *<u>Track late referees and referees to be avoided</u>.* I created a Google document listing late referees. Some of these referees are highly valued. The document helped allocate these high quality but late referees to papers for which their advice would be particularly important. The document also included a list of referees to be avoided, i.e., blacklisted, due to poor reviews in the past.

14. *<u>Beware referee and area fixed effects</u>.* As I said earlier, knowledge of the referee pool was one of the key reasons I could do the Journal of Finance job efficiently. Knowing the referee pool means that as Editor you can apply fixed effects – some referees are too tough and some are too easy. Both of these categories of referees can be excellent reviewers, it is their recommendation that needs adjusting. There also exist area fixed effects. In particular, I found that referees in the areas of asset pricing theory and corporate finance theory tend to be tougher than referees in some other areas. Again, benefiting from my time at the Review of Financial Studies (where I handled both empirical and theory papers across the spectrum of finance topics), I was able to make some adjustments.

15. *<u>Mitigate appeals</u>.* Appeals are a nightmare. Over my six years, I handled 210 appeals. Most of these appeals came in the first three years. At that point, we altered the policy such that authors were allowed one appeal every three years. This applied to all authors on the appealed paper. The tipping point was a paper for which the Associate Editor recommended desk rejection. The author of this particular paper had appealed multiple times in the past. I decided to send the paper to two reviewers. The first reviewer said it was the worst paper he had ever reviewed – not just for the Journal of Finance but any top finance journal. The second review was highly negative. With three highly negative assessments of the paper I rejected the paper. Shortly thereafter the author appealed the decision. I had had enough. I went to the AFA and asked for a new policy. The once-every-three-years rule greatly decreased the number of appeals.

16. *<u>Guide authors to spend extra effort on the abstract and introduction</u>.* The abstract and introduction are key to marketing a paper. I therefore recommended that authors spend a lot of time rewriting their abstract and introduction. A successful abstract and introduction should clearly state the paper's new economic insight, as well as make the case that the new economic insight is "big" enough for the flagship journal in our field. Further, abstract and introduction need to be pitched to the general reader, not a specialist in the area of the article. The abstract and introduction also need to be engaging so that the general reader is interested in exploring the rest of the paper.

17. *<u>Be willing to learn about other areas</u>.* One unexpected bonus of editing a general purpose journal is that the Editor gets to learn about other areas. I most looked forward to reading papers outside my areas of specialization. Though I was not an expert in these areas, I always felt I could contribute to the paper. At minimum, the Editor needs to understand what the paper is doing and why it is important. Authors need to make that clear.

18. *<u>Take risk</u>.* One of the greatest mistakes the Journal of Finance ever made was to reject the famous paper by Fischer Black and Myron Scholes on option pricing. This paper, which appeared in the Journal of Political Economy in 1973, is one of the most-cited papers in finance. Scholes went on to win the Nobel prize for the paper (Black would have won too but he passed away at an early age). I did not want to be the Editor that rejected the next Black and Scholes paper. Consistent with my first point on making mistakes, it is better to take some risk on papers, knowing that some of them will be mistakes. To illustrate some risk taking, in the October 2010 issue of the Journal of Finance I published a paper in the emerging area of neuro-finance. The article includes color images from f-MRI brain scans. I also published papers dealing with genetics and finance. As a third example, the Journal published an ingenious paper whereby the

authors used audio recordings of CEOs at quarterly conference calls and ran the audio through a computer program to assess the probability that they were telling the truth.

19. *Advice for authors.* 1) The paper should be read and commented on by colleagues before submitting. 2) Ideally, the paper has been presented in seminars and conferences. 3) Treat any comment in a seminar or conference like a referee comment, address these comments, and when appropriate email the commenter to explain how you addressed the suggestions. 4) In your paper make it very clear what the new economic insight is and why it is important. 5) Theory papers should: i) explain why the model is useful; ii) make clear where the paper deviates from past models; iii) not merely fit a known fact but offer new testable implications; and iv) include a discussion of both the strengths and the weaknesses of the approach. 6) Empirical papers should: i) explain why the finding is important; ii) clearly differentiate the paper's approach from past approaches; iii) not be shackled by past methods (we do X because another did X in the past); iv) present a clear economic justification for the empirical examination; v) convince the reader that there has been minimal data mining; vi) check for robustness and influential observations; and vii) use state-of-the-art econometrics.

20. *Advice for referees.* 1) Be efficient. If the paper is clearly below the bar, you don't need to write a long report. 2) Be clear in your advice in the cover letter. The Editor wants to know your opinion. The Editor does not want to read "It is a tough call that I will defer to your editorial judgment." 3) The key question to consider: is the contribution big enough for the top journal in the field? 4) It is not your job to rewrite the paper.

Other Initiatives

As Editor of the Journal of Finance I had many aspirations. However, with approximately 1,300 manuscripts to oversee each year, most of these initiatives had to be put aside. Two examples of projects that were not fully implemented are as follows:

A. *Replication policy.* Along with the Editors of the Journal of Financial Economics, Bill Schwert of the University of Rochester, and the Review of Financial Studies, Matt Spiegel of Yale University, I drafted a detailed replication policy. The idea was that all three top finance journals would have the same policy. A number of top economic journals have already implemented replication policies. We circulated the draft policy among the boards of the Associate and Advisory Editors. It is an understatement to say that there was a furor – more than half of the Associate Editors and Advisors had strong negative opinions on the replication policy. Their arguments comprised three main points. First, the policy would impose a large burden on authors. In addition, there were fears that authors would have to provide programming support to the many faculty and students around the world trying to replicate. Second, finance, in contrast to general economics, makes extensive use of proprietary data. There was a concern that even with exemptions to the replication policy, researchers would be discouraged from using proprietary data. Third, the one economics journal that did not have a replication policy, the Quarterly Journal of Economics, had seemingly pulled ahead of the other top economics journals. Following a lively online debate about the policy, in the end it was shelved.

B. *Digital Publishing.* I had a grand vision of a different delivery system and enhanced functionality for the Journal of Finance. However, I did not have the time to spearhead this effort because of the large number of papers that I had to manage each year. The AFA searched for an "Internet Editor" but never found the right candidate. Nevertheless, I did make some changes. First, I made sure that the historical backfile was complete. Certain pages were missing from older issues of the Journal. Second, I had both JSTOR and Wiley (publisher of the Journal of Finance) insert hyperlinks in the PDFs of the historical articles. The hyperlinks make it easier to move from one article to another and hence make research more efficient.

New Initiatives

Shortly after I retired, I accepted a new position with the AFA, namely, Editor, AFA Digital Publishing Initiatives. This position allows me to complete the unfinished business related to bringing the Journal into a new digital era. There are three prongs in the strategy.

1. *Enhanced functionality of Journal of Finance articles*. By now most of you have probably accessed HTML versions of journal articles. While there is some increased functionality, these versions are often clunky and thus a flat PDF is still generally preferred to the HTML. The idea of enhanced functionality is to maintain the clean appearance of an article (using reflowable HTML5) while adding new features. The result is similar to an e-reader, in particular, the article looks like a page from the Journal, but there are a few differences. For instance, there is a left-hand side bar in which full references to any paper cited in an article pops up. Click on a citation and you go immediately to that paper, no matter where it is published. Unfortunately, only articles from 2004 (which are coded in XML) are easily converted to the new functionality. We face the challenge of fully digitizing the entire backfile from 1946-2003. To be clear, this involves not simply "scanning" historical files to PDF, but providing full searchability and potentially retypesetting the entire backfile.

2. *Mobile delivery*. There will be two delivery models.
    a. HTML5 version of the Journal. With an Internet connection, this version will allow you to access the Journal with a smart phone or tablet. This delivery mechanism will provide the enhanced functionality described above.
    b. iOS version of the Journal. This version will work directly with Apple products (iPad, iPhone). Essentially, this version will allow you to download a Journal of Finance "app" that contains the complete history of the Journal of Finance. The articles will look like the original articles and have increased functionality, but not at the same level as the HTML5 version available through an Internet connection. For instance, links will exist between Journal of Finance articles, but not to articles published by other journals.

3. *New website for the Journal of Finance*. The Journal of Finance website has not been touched in 10 years. It is embarrassing. The new website is set to launch in December 2012.

Conclusions

The Journal of Finance is impossibly large for only one person to manage – the Journal exists thanks to the cooperation of many people. I was very lucky to have a Coeditor, John Graham, two offices down the hall who provided an amazing amount of help. Our excellent Assistant Editor, Wendy Washburn, shielded me from most of the administrative burdens of the job. Our expert copy editor Brenda Priebe polished every article published under my Editorship. AFA Executive Secretary Treasury David Pyle has a deep knowledge of the journal's history and was always available for advice. The Associate Editors and referees were thoughtful and exemplified a culture of extraordinarily prompt turnaround. For instance, while the turnaround time is bimodal (due to desk rejections), 83% of manuscripts were processed in less than 100 days in 2011. In addition, many of the papers going more than 100 days involved a second referee, which was to play in the authors' favor. Here is the statistic I like the best: on December 31, 2011, the longest that any paper had been in review was only 160 days. So of the 1,300 papers, not a single paper was in review more than six months.

For me, editing the Journal of Finance was the greatest challenge of my career. I learned so much. And I will miss it.

Fortunately, the Journal of Finance is in good hands with the new Editor, Ken Singleton of Stanford University.