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26-29 May 2014, Athens, Greece

Edited by Gregory T. Papanikos

THE ATHENS INSTITUTE FOR EDUCATION AND RESEARCH

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(In Alphabetical Order by Author's Family name)

Preface

This abstract book includes all the abstracts of the papers presented at the *12th Annual International Conference on Accounting & Finance, 26-29 May 2014,* organized by the Athens Institute for Education and Research. In total there were 37 papers and 42 presenters, coming from 19 different countries (Australia, Canada, Egypt, France, Indonesia, Iran, Israel, Libya, Malaysia, Poland, Russia, Singapore, South Africa, Sweden, Taiwan, Tunisia, U.K., Ukraine, USA). The conference was organized into VIII sessions that included areas such as Accounting and Finance: Banking and Finance, Financial Reporting, Tax and Auditing, Innovation and Knowledge Systems, Standards. As it is the publication policy of the Institute, the papers presented in this conference will be considered for publication in one of the books of ATINER.

The Institute was established in 1995 as an independent academic organization with the mission to become a forum where academics and researchers from all over the world could meet in Athens and exchange ideas on their research and consider the future developments of their fields of study. Our mission is to make ATHENS a place where academics and researchers from all over the world meet to discuss the developments of their discipline and present their work. To serve this purpose, conferences are organized along the lines of well established and well defined scientific disciplines. In addition, interdisciplinary conferences are also organized because they serve the mission statement of the Institute. Since 1995, ATINER has organized more than 150 international conferences and has published over 100 books. Academically, the Institute is organized into four research divisions and nineteen research units. Each research unit organizes at least one annual conference and undertakes various small and large research projects.

I would like to thank all the participants, the members of the organizing and academic committee and most importantly the administration staff of ATINER for putting this conference together.

FINAL CONFERENCE PROGRAM
12th International Conference on Accounting & Finance, 26-29 May 2014, Athens, Greece

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14. Dr. Vasileios Filios, Academic Member, Accounting and Finance Research Unit, ATINER & Associate Professor of Accounting, University of Ioannina, Agrinio, Greece.
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C O N F E R E N C E   P R O G R A M

(The time for each session includes at least 10 minutes coffee break)

Monday 26 May 2014

08:30-09:15 Registration

09:15-09:30 Welcome and Opening Remarks

- Dr. Gregory T. Papanikos, President, ATINER.
- Dr. George Poulos, Vice-President of Research, ATINER & Emeritus Professor, University of South Africa, South Africa.
- Dr. Peter Koveos, Head, Accounting and Finance Research Unit, ATINER & Professor of Finance, Syracuse University, USA.

09:30-11:00 Session I (Room E): Hedging, Efficiencies and Business Performance
Chair: Peter Koveos, Head, Accounting and Finance Research Unit, ATINER & Professor of Finance, Syracuse University, USA.

1. Mei-Chen Lin, Professor, National Taipei University, Taiwan & Jian Rong Lan, Student, National Taipei University, Taiwan. Price Momentum and Stock Price Synchronicity. (Day before Lunch).
2. Li Wang, Associate Professor, The University of Akron, USA & Stephen Maker, Professor, University of Wisconsin Oshkosh, USA. Is SFAS 133 Cash Flow Hedge Accounting Relevant?
3. Tharindra Ranasinghe, Assistant Professor of Accounting, Singapore Management University, Singapore, Gerald Lobo, University of Houston, USA & Linn Yi, University of Houston, USA. Hedging, Investment Efficiency, and the Role of Information Environment.
4. Christina Yuliana, Lecturer, Atma Jaya Catholic University of Indonesia, Indonesia, Loh Wenny Setiawati, Lecturer, Atma Jaya Catholic University of Indonesia, Indonesia & Megawati Oktorina, Lecturer, Atma Jaya Catholic University of Indonesia, Indonesia. Key Success Factors of Small and Medium Business Entities.

11:00-13:00 Session II (Room E): Banking and Finance
Chair: Venancio Tauringana, Associate Professor, Bournemouth University, UK.

1. Hans Jeppsson, Researcher, University of Gothenburg, Sweden. Information Asymmetry, R&D Disclosures and the Choice between Equity-Selling Mechanisms. (Monday 26 May 2014 morning).
2. Dipinder Randhawa, Deputy Head, SIM University, Singapore & Niti Pawakapan, Chulalongkorn University, Thailand. Informally Defined Property Rights and Access to Finance.
3. *George Tannous, Professor, University of Saskatchewan, Canada & Iuliia Ilina, Graduate Student, University of Saskatchewan, Canada. Fee-Based Services and the Volatility of Bank Earnings.
4. SengHo Jeon, Director, Daewoong Pharmaceutical Co., Korea, Jong Oh Kim, Korea National Open University, Korea & Joung Hwa Choi, Seoul National University, Korea. The Relationship Between the R&D Efforts and the Firm Value in the Pharmaceutical Industry. (Monday 26 of May).
5. Fthia Abusafrita, Staff Member, Al Zawia University, Libya. The Rate of Adoption of Strategic Marketing Planning (SMP) By The Libyan Commercial Banks (LCBs). An Exploratory Study.

13:00-14:00 Lunch

14:00-15:30 Session III (Room E): Innovation and Knowledge Systems
Chair: George Tannous, Professor, University of Saskatchewan, Canada.

1. Linda Lo, Professor, ESC Rennes, France. A Knowledge-Based View of Management Accounting.
2. Riana Goosen, Lecturer, University of Stellenbosch, South Africa. A Practical Approach for Management: Implementing IT Governance at an Operational Level.
3. Eugenia Georgiades, Associate Lecturer, Griffith University, Australia. How Secure is Personal Information on Social Networks? When Good Things Go Bad.
4. *Venancio Tauringana, Associate Professor, Bournemouth University, UK & Musa Mangena, Professor, Nottingham Trent University, UK. Dual Language Reporting on the Nairobi Stock Exchange: Decision Usefulness or Impression Management?
5. Nimrod Hirsh, Senior Risk Underwriter, Ben-Gurion University, Israel, Ilanit Gavious, Senior Lecturer, University of the Negev, Israel & Dan Kaufmann, Senior Researcher, Ben-Gurion University, Israel. The Impact of Pyramidal Ownership Structures on Investments in Innovation in High-Technology Firms.

15:30-17:30 Session IV(Room E): Market Studies
Chair: Linda Lo, Professor, ESC Rennes, France.

1. *Robert Cressy, Professor, University of Birmingham, UK. Startup Debt Rationing and Firm Quality: A French Lesson.
2. Gregory Koutmos, Professor, Fairfield University, USA, Kenneth Hogholm, Professor, Hanken School, USA & Johan Knif, Professor, Hanken School, USA. Asymmetric Dynamic Linkages between Returns on Banks Andother Industry Portfolio Returns.
3. *Emmanouil Platanakis, Doctoral Researcher, University of Reading, UK & Charles Sutcliffe, Professor, University of Reading, UK. Asset Liability Modelling and Pension Schemes: the Application of Robust Optimization to USS.

21:00-23:00 Greek Night and Dinner (Details during registration)
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1. Benzion Barlev, Professor, The Center for Academic Studies, Israel & Joshua Rene Haddad, Professor, The Center for Academic Studies, Israel. The Form is the Message – A Cognitive Approach to the Framing of the Balance Sheet.(Tuesday 27 of May).
2. Bassam Baroma, Assistant Professor, Tanta University, Egypt. The Impact of Performance-Related Variables on Forward-Looking Disclosure in the Annual Reports of Non-Financial Egyptian Companies.
3. Joseph Tzur, Senior Lecturer, Ruppin Academic Center, Israel & Benzion Barlev, Head, The Center for Academic Studies, Israel. A General Model for Cost Estimation in an Exchange.
4. Didem Gundogdu, Lecturer, Anglia Ruskin University, UK. Accounting for Intangibles – A Critical Review of the Role of Financial Reporting in Firm Valuation.
5. Daniel Van der Merwe, Lecturer, Stellenbosch University, South Africa. Insight on the Voluntary Disclosure of Accounting Ratios in Annual Reports of South African Companies Listed on the Johannesburg Stock Exchange.

6. Peter Koveos, Professor, Syracuse University, USA, Li Bai, Shanghai Lizin University of Commerce, China & Min Liu, Tongji University, China. An Ontology-Augmenting XBRL Extension Model for Accounting Information Analysis and Financial Cost Decisions.

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Chair: Emmanouil Platanakis, Doctoral Researcher, University of Reading, UK.

1. Leonard Willemse, Lecturer, University of Stellenbosch, South Africa. An Analysis of the Barriers to Entry for Small Business Owners Imposed by Income Tax Legislation in the Developing Country of South Africa.
2. Sophia Brink, Lecturer, University of Stellenbosch, South Africa & Herman Albertus Viviers, Lecturer, North-West University, South Africa. Taxability of Client Loyalty Programme Benefits.
3. Yuan-Tang Tsai, PhD Candidate, National Taiwan University, Taiwan & Taychang Wang, Professor, National Taiwan University, Taiwan. Constraint or Signal? The Relationship between Auditor Industry Expertise and Related-Party Sales.
4. Omid Pourheidari, Associate Professor, University of Kerman, Iran, Gholamreza Soleimany Amiri, Assistant Professor, Alzahra University, Iran & Rahmat Allah Houshmand Zaferanie, Master in Accounting, Shahid Bahonar University, Iran. Investigation of the Firms Special Characteristic and the Auditor Size on the Prior Period Adjustments: Iranian Case.
5. Woon Wong, Reader, Cardiff Business School, UK. Skewness and Kurtosis Ratio Tests: With Applications to a Study of Multiperiod Tail Risk.

12:00-13:30 Session VII (Room E): Standards
Chair: David Walker, Professor, Georgetown University, USA.

1. Jie Zhou, Assistant Professor, National University of Singapore, Singapore. Do Analysts Act Strategically to Induce Management Guidance? Evidence from the Post-Reg FD Period.
2. Ashraf E. Elbakry, Senior Lecturer, University of Huddersfield, UK, Hussein A. Abdou, Professor, University of Huddersfield, UK, John Pointon, Professor, University of Huddersfield, UK & Roger J. Lister, Chartered Accountant, University of Huddersfield, UK. The Impact of the Compulsory Adoption of IFRSs in Europe.
3. Sawcen Chebaane, Teaching Assistant, University of Manouba, Tunisia & Hakim Ben Othman, Full Professor, University of Tunis, Tunisia. Value Relevance of Earnings and Book Value of Equity after the Adoption of IFRS: The Case of Emerging Markets.
4. Mariem Mejri, Temporary Accounting Teacher, LIGUE, Tunisia & Hakim Ben Oathman, Full Professor, LIGUE, Tunisia. The Impact of IFRS Adoption on Liquidity Risk of Islamic Insurance Takaful.
5. Mustafa Mohd Hanefah, Professor, Sains Islam University of Malaysia, Malaysia & Murad Abuaddous, PhD Student, University Sains Islam Malaysia, Malaysia. Accounting Standards, Goodwill Impairment and Earnings Management in Malaysia.

13:30-14:30 Lunch

14:30-16:00 Session VIII (Room E): Country and Regional Studies
Chair: Hussein A. Abdou, Professor, University of Huddersfield, UK.

1. David Walker, Professor, Georgetown University, USA. Will Japan's Three Arrows Policy Hit Its Target.
2. Liudmila Guzikova, Associate Professor, Saint-Petersburg State Polytechnical University, Russia. Strategic Prospects of Mortgage Housing Crediting in Russia.
3. Pawel Mielcarz, Assistant Professor, Kozminski University, Poland, Krzysztof Jackowicz & Lukasz Kozlowski. The Impact of Political Connections on the Operational Performance of Non-Financial Firms in a Context of a Post-Transition European Economy.
4. Tetiana Bogdan, Chief of Division, Institute for Economics and Forecasting of the National Academy of Sciences, Ukraine. Macroeconomic Implications of Foreign Capital Flows in Ukraine.

17:30-20:30 Urban Walk (Details during registration)

21:00- 22:00 Dinner (Details during registration)

<u>Wednesday 28 May 2014</u>
Cruise: (Details during registration)

<u>Thursday 29 May 2014</u>
Delphi Visit: (Details during registration)

Accounting

Fthia Abusafrita
Staff Member, Al Zawia University, Libya

The Rate of Adoption of Strategic Marketing Planning (SMP) by the Libyan Commercial Banks (LCBs). An Exploratory Study

Purpose: The purpose of this paper is to explore the foundations of SMP process in the LCBs being adopted in 2007. The primary research objectives are: to identify the managerial and performance related benefits of an SMP approach; to understand the process of SMP practice in the LCBs; to analyse the impact of contextual factors (internal and external factors) on the current state of development of an SMP approach in the LCBs; and to conclude as to the potential benefits of an enhanced rate of SMP adoption and recommend how it would best be achieved.

Design/methodology/approach: An interpretive approach was considered the appropriate option to explore this issue. The combination of qualitative and quantitative techniques were chosen to collect the required data. The descriptive statistic analysis was used to analyze the structured questionnaires, and the pattern matching approach was utilized in order to analyze the semi-structured interviews. This research was carried out prior to the events in Libya in February 2011.

Findings: The major findings revealed that comprehensive strategic plans are in place, but that the processes by which they are created have significant limitations. In addition, SMP in the LCBs is still evolving and that it is, currently, in growth. In terms of marketing lifecycle, marketing in LCBs is in its infancy stage, it was found, contrary to expectations that marketing departments have only been established recently. For this reason a number of barriers to SMP were found.

The main contributions of the current research are: understanding of the process of SMP that is being introduced into LCBs; determining the contextual factors that affect the implementation of SMP; identifying the major barriers to the success of the implementation of SMP and providing a practical framework for SMP in the LCBs in order to enhance its success.

Benzion Barlev
Professor, The Center for Academic Studies, Israel
&
Joshua Rene Haddad
The Center for Academic Studies, Israel

The Form is the Message – A Cognitive Approach to the Framing of the Balance Sheet

This study argues that the vertical form of the balance sheet is preferable to the dominant horizontal form. It emphasizes, relying on cognitive psychology, that farming of balance sheet information may arouse attention to crucial economic indices, enhance awareness, and affect the average investor's investment decisions. An inquiry into the history of the balance sheet in the U.S. discloses unsuccessful efforts to establish the horizontal as the standard form. It reveals also that endeavors to enhance the usefulness of the balance sheet overlooked the form of presentation. A questionnaire-study of 703 students reveals preference for the vertical form regardless of gender, specialization, year of study, and subjects' role, CEO, investors and CPAs. This study is quite timely because the FASB is discussing, currently, the structure of financial reports.

Bassam Baroma
Assistant Professor, Tanta University, Egypt

The Impact of Performance-Related Variables on Forward-Looking Disclosure in the Annual Reports of Non-Financial Egyptian Companies

Purpose: the main objective of this study is to test the relationship between a numbers of variables represented the firm characteristics (performance-related variables) and the extent of the level of voluntary disclosure (forward-looking disclosure) in the annual reports of Egyptian firms listed in Egyptian Stock Exchange. This study used empirically investigates hypothesized impact of performance-related variables on the extent of forward-looking disclosure.

Design/methodology/approach: this study uses a list of forward-looking keywords to determine the differences in the level of forward looking disclosure between firms in different sectors. The sample included 49 non-financial firms listed in Egyptian Stock Exchange for the years 2008, 2009 and 2010. Statistical analysis is implemented using a multiple linear regression analysis.

Findings: the results show that profitability (measured by earning per share) and liquidity ratio were significantly positive in the years 2009 and 2010 with the level of forward-looking disclosure. While, they were insignificantly only in the year 2008 with the level of forward-looking disclosure. However, profitability (measured by return equity ratio) variable was found insignificantly association with the level of forward-looking information disclosed in the annual reports for all the three years.

Research limitations/implications: There are several limitations in this study. First, the study used the same list of forward-looking items as applied in previous studies. Second, the items which selected do not show their level of importance observed by financial information users. Third, the study applied unweights approach to measure the level of forward-looking disclosure. Finally, the study concentrated on non-financial listed firms in Egyptian Stock Exchange and excluded financial and insurance firms.

Originality/value: The results of this study are more important to the investment community to evaluate the extent of forward-looking disclosure in valuation the firm characteristics (performance-related variables) by Egyptian firms as a developing country. There is a little number of studies that have examined the forward-looking information disclosure in developing countries in general and the Middle East in particular; no study yet has tested disclosure of forward-looking

information in the annual reports for Egyptian firms. Moreover, all previous studies examined the forward-looking disclosure in the annual reports for only one year, but this study examined it for a long period (three years).

Sophia Brink
Lecturer, University of Stellenbosch, South Africa
&
Herman Albertus Viviers
Senior Lecturer, North-West University, South Africa

Taxability of Client Loyalty Programme Benefits

A client loyalty programme is a programme through which the clientele and loyalty of members are retained by awarding members with points or miles (usually accumulating on membership cards) as reward for the acquisition of goods or services from qualifying suppliers participating in the loyalty programme. These points or miles may be exchanged by the member for benefits that could take on various forms, like a direct cash-back, a cash-back voucher, goods or services or a discount on the future acquisition of goods or services from the same qualifying suppliers. Client loyalty programmes are a common phenomenon in the South African market and the popularity of these programmes has increased drastically over the past few years. Despite the fact that client loyalty programmes have been prevalent in South Africa since the 1980s, it is interesting to note that up until now the benefits received by a consumer in the form of goods, services or discounts from a client loyalty programme have never been subject to normal South African income tax. Also no guidance on the income tax treatment of client loyalty programme transactions in the hands of the consumer has ever been issued by the South African Revenue Service. The main objective of the research was to investigate whether the existing provisions in the South African Income Tax Act and related case law provide the basis for taxing client loyalty programmes in the hands of the consumer as natural person. The research also investigates the possible reasons as to why client loyalty programme benefits have not been taxable in the hands of the consumer. In order to meet this objective local literature were analysed to determine the correct income tax treatment and it was found, from a theoretical point of view, that these benefits received are not capital in nature and that it would be possible to determine the value of these benefits. As a result, it would be possible to tax client loyalty programme benefits as they meet all the requirements of the definition of 'gross income'.

Sawcen Chebaane
Teaching Assistant, University of Manouba, Tunisia
&
Hakim Ben Othman
Full Professor, University of Tunis, Tunisia

Value Relevance of Earnings and Book Value of equity after the adoption of IFRS: The Case of Emerging Markets

The purpose of this study is to examine the effect of mandatory adoption of International Financial Reporting Standards (IFRS) on the value relevance of earnings and the book value of equities.

We focus on value relevance considered as a market based measure of earnings quality.

Our sample consists of two emerging markets IFRS adopters: South Africa and Turkey. These selected countries have different legal systems. Turkey is a civil law country with bank orientation. However, South Africa is a common law country characterized by an active stock market and a full disclosure of accounting information to investors.

We concentrate on listed companies on Johannesburg stock exchange (JSE) and Istanbul Stock exchange (ISE) from different industries. We consider 7.250 firm-year observations related to the period 1998-2012.

Based on previous studies, our expectations about the variation of the value relevance during the pre-adoption of IFRS and the post-adoption periods are mitigated.We also expect that value relevance of earnings and book value of equities is more significant in South Africa, as a common law country, than in Turkey in the post -adoption period given that IFRS are mostly adopted in countries with active capital markets and where accounting information aims at satisfying the needs of present and potential investors.

Ashraf E. Elbakry
Senior Lecturer, University of Huddersfield, UK
Hussein A. Abdou
Professor, University of Huddersfield, UK
John Pointon
Professor, University of Huddersfield, UK
&
Roger J. Lister
Chartered Accountant, University of Huddersfield, UK

The Impact of the Compulsory Adoption of IFRSs in Europe

We address the impact in Europe of the compulsory adoption of the International Financial Reporting Standards (IFRSs) on the value-relevance of accounting information. Taking the case of Germany and the UK, notable respectively as code law and common law jurisdictions, we investigate the influence of potentially significant variables on share prices: we advance Ohlson's model by introducing macroeconomic and new accounting variables. Our results based on Ohlson's model suggest that the adoption of IFRS has increased the explanatory power of accounting information in both Germany and the UK; with a greater relative impact in the UK than in Germany. Our modified Ohlson model suggests that the adoption of IFRSs increased explanatory power for Germany, and that all our new accounting variables are significant. For the UK our modified Ohlson model yields mixed results. Prior to IFRS adoption new variables, namely leverage and accruals emerge as significant, while dividend payout and size are not. Following IFRS adoption, dividend payout became significant and leverage became insignificant. Macroeconomic variables do not seem to have had any impact on share prices following IFRS in Germany, whereas they have impinged significantly in the UK.

Eugenia Georgiades
Associate Lecturer, Griffith University, Australia

How Secure is Personal Information on Social Networks? When good things go Bad

The increased use of social media in the commerce sector has seen a surge of breaches of users' personal information. The way in which corporations safeguard and protect personal information is often overlooked when considering the nature of cybercrime, which targets corporations on a global scale. Despite the current legislative regime for corporations complying with data breach laws, information systems are vulnerable and misused to facilitate cyber attacks that target a corporation's information systems and its data. This paper provides an overview of the risks associated with the use of social media for corporations and evaluates whether corporations/business provide adequate protection/ measures for protection of personal information. This paper will examine whether the legal protection for the protecting of users personal information is effective specifically related to social networks/ social media.

Riana Goosen
Lecturer, University of Stellenbosch, South Africa

A Practical Approach for Management: Implementing IT Governance at an Operational Level

Most businesses today operate in an environment where advanced Information Technology (IT) infrastructures are present and IT related activities form an integral part of any business' operations. Effective and efficient IT controls need to be implemented in order to ensure the IT risks are appropriately addressed. The King III report, being South Africa's corporate governance standard, has assigned the responsibility for the implementation of IT governance principles to the board of directors and senior management of companies. The guidance provided is however vague and unclear. Although various IT control frameworks exist, it remains theoretical in nature and management struggles to effectively implement these controls, at an operational level. Management often does not understand how these framework's control processes relate to the specific technology which is in fact utilised by IT management.

The main objective of the research is to develop an approach which can assist management in implementing an effective IT governance system at an operational level. The approach was developed by performing a literature review of certain best practice IT control frameworks, implementation methods of such frameworks, IT related risks, access paths, relevant IT technology components and the interrelationship between these components and its configuration controls, as well as defining strategic business objectives.

It was found that access paths will play a pivotal role in ensuring an effective IT system is possible at an operational level and can be used to understand a company's computer system. An access path can be defined as the manner in which an end user gains access to an IT system, by activating a certain access path. An access path is formed by various IT components, such as computers, operating systems, routers, the internet connection, servers and any other IT components that need to be activated in order for an end user request to be executed.

It was found that when management analyses these underlying access paths' IT components, implement the correct configuration controls and ensure it is aligned with the organisation's strategic objectives, the implementation of an effective and efficient IT governance system is possible at an operational level. This will ensure a company's business and IT objectives are aligned and the key IT risks are identified and risk managed. This approach will provide business managers with a way to understand the relevant IT aspects of a company, considering the relevant IT risks their company is exposed to and whether IT is in fact adding the appropriate level of value to the business, based on its strategic objectives.

Gundogdu Didem
Lecturer, Anglia Ruskin University, U.K

Accounting for Intangibles – A Critical Review of the Role of Financial Reporting in Firm Valuation

The aim of this paper is to provide a critical review of the literature on the accounting treatment of intangibles and discuss possible implications of non-recognition of intangibles for market valuation of firms. Academics have long argued that existing systems of accounting and financial reporting are insufficient to support business models that are largely driven by innovation and intangibles. It is emphasized that current accounting and financial reporting systems were designed for a manufacturing-based economy, trade and consumption of physical goods, and therefore such systems are inadequate for a knowledge-based economy driven by intangible experience, technologies and ideas. The accounting problem regarding intangibles emerges from the need for providing relevant and faithfully represented information about the intangible dimension of businesses. This dimension comprises innovations and technologies, organizational structures and capabilities, control processes, brand names, customer lists and databases, social, professional, and political networks that contribute to a firm's operations at various levels.

As intangible investments have become the main drivers of value creation, accounting regulation for such investments have acquired more importance over the recent years. However, there has been a worldwide debate among major accounting standard-setting bodies with respect to the accounting treatment of intangibles. In the UK and global context, current accounting standards rarely recognise intangible investments as assets. Following the rise of a knowledge-based economy, the relative lack of recognition of intangible investments has been referred to as one of the factors leading to a growing difference between the book value and market value of firms. The existence of information asymmetry emerging from the lack of firm-specific information is a crucial source of imperfection in markets. Based on an informational approach, the objective of accounting should be designed to improve such asymmetry in capital markets. This argues for the role of improved accounting systems combined with voluntary disclosure of information on intangibles.

Nimrod Hirsh
Senior Risk Underwriter, Ben-Gurion University, Israel
Ilanit Gavious
Senior Lecturer, University of the Negev, Israel
&
Dan Kaufmann
Senior researcher, Ben-Gurion University, Israel

The Impact of Pyramidal Ownership Structures on Investments in Innovation in High-Technology Firms

This study examines the effect of pyramid holding structure in high-tech firms, on innovation. The Israeli case provides a unique opportunity to examine this effect due to the prevalence of pyramidal structures in the country and because Israel is innovation Oriented.

As part of the analysis, we distinguished high-tech firms operating in biotech from firms operating in other advanced technology. Biotech firms in our sample are differentiated by higher business risk. They engage primarily in research and development investments, and are mostly still in the early development stages.

To examine the effect, we compared the research and development inputs and outputs at firms controlled by pyramidal structures to non-pyramidal firms. Then we examined the effect of a pyramidal structure on research and development, within this structure. We compared the inputs and outputs of firms' research and development at the bottom of the pyramid, where there is a high degree of separation of control, from cash-flow rights, with firms further up the pyramid where there is less separation of control from cash-flow rights.

We found that while biotech firms controlled by a pyramidal structure tend toward high intensity investment in research and development relative to other firms, they nevertheless did not have an advantage in research and development output. In our opinion, these differences are rooted in the separation of control from cash-flow rights. This argument is strengthened by the findings from within the pyramid structure. We find that firms operating in the biotech industry and are at the bottom of a pyramid structure, tend to high intensity investment in research and development, relative to biotech firms further up the pyramid. Conversely, we found that research and development productivity of biotech firms in the bottom of the pyramid is lower than biotech firms operating at the top of the pyramid.

Linda Lo
Professor, ESC Rennes, France

A Knowledge-Based View of Management Accounting

To practitioners and business executives, management accounting is applications in business management. Contemporary reviews in literature highlights accounting research has become insufficiently innovative and increasing detached from practice and society (Hopwood 2007; 2008; 2009; Baldvinsdottir et al., 2010 cited in Parker et al.2011, p.6). This prompted the reflections and attempts to further investigate the gap so as to gain more insights and understanding.

Purpose –This paper aims to propose the knowledge-based view as contribution and innovation to management accounting.

Design/methodology/approach – The paper takes the form of literature review on the evolutions of management accounting and argument.

Research limitations/implications –The evolutions of management accounting for the last 3 decades provides insights of development to update and between research and practice. It also urges new perspective and approach to management accounting research.

Originality/value – The discussion offers aspects to innovate management accounting strategically which plays its role in the 21st knowledge century as discipline and in higher education's learning pertaining as new perspective in research and practice.

Mariem Mejri
Temporary accounting teacher, LIGUE, Tunisia
&
Hakim Ben Oathman
Full Professor of Accounting & Finance, LIGUE, Tunisia

The Impact of IFRS Adoption on Liquidity Risk of Islamic Insurance Takaful

The objective of this study is to investigate the relationship between International Financial Reporting Standards (IFRS) adoption and liquidity risk of Islamic insurance Takaful companies. Takaful, or Sharia-compliant insurance, is a relatively recent market with a potentially huge customer base, a large number of Takaful companies are reporting under IFRS which gives rise to complex accounting and reporting issues. Yet, it is obviously important for Takaful companies to be regulated under international standards if they are to move forward as part of a global industry without tainting compliance with Sharia. Fair-value accounting involves reporting assets and liabilities on the balance sheet at fair value and recognizing changes in fair value as gains and losses in the income statement. Using a sample of Islamic insurance companies' annual reports from 10 countries between 2009 and 2012, we introduce asset liability management as a mediator variable to the relationship between IFRS adoption and liquidity risk. We expect that the IFRS adoption has a positive effect on liquidity risk of Takaful companies. This might be explained by the volatility of assets and liabilities values caused by fair value accounting under IFRS.

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Accounting Standards, Goodwill Impairment and Earnings Management in Malaysia

This paper aims to investigate whether the provisions of MFRS No.136 (that is equivalent to IAS No.36) allows for earnings management technique termed "big bath" in Bursa Malaysia, and to examine the application of goodwill impairment loss recognition under the same provisions for five different sectors between 2011-2012.

Data were collected from five different sectors from Bursa Malaysia for the years 2011-2012 consisting of 115 companies. In order to achieve the objectives of this paper the firms were grouped into two groups. One group recognized goodwill impairment loss with no change in CEOs among 28 firms, and the second group recognized a goodwill impairment loss with a change in CEOs among 7 firms. Further analysis was done on firms with positive earnings against negative earnings.

The findings suggest that the application of the provisions of MFRS No.136/IAS No 36 allows for earnings management or "big bath". The findings show active impairment loss recognition when firms change their CEOs. About 70% of the firms with new CEOs reported goodwill impairment and the rest reported positive goodwill recognition and disclosure. The analysis further shows that a number of firms are still struggling to comply with MFRS No.136, whereby some firms still recognize a fixed amount of impairment each year, while others disclose full goodwill impairment in accordance with MFRS No.136. This study aims to provide evidence on earnings management in Malaysia, and the application of goodwill impairment loss in five different sectors.

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Investigation of the Firms Special Characteristic and the Auditor Size on the Prior Period Adjustments: Iranian Case

The aim of this research is investigate of the firms' special characteristic and the auditor size on the prior period adjustments in the producing companies listed in Tehran Stock Exchange (TSE). To this aim, some elements such as the firm size, financial leverage, profitability and firm age have been considered as the special characteristics of the firms. Measuring the criteria of the auditor size, auditing institutes belonged to the formal accountants' community and auditing organization due to having a large number of employees and longer life were considered as small auditing institutes and large auditing institutes, respectively. The applied data have been gathered from the firms listed in TSE during 1998 to 2010. Multiple linearly regression model has been used to examine the hypothesis of the research. The results of the research revealed a negative and meaningful relation between the variables of the firm size, profitability, and auditor size with the prior period adjustments. Additionally the findings showed a meaningful relation between the variables of the financial leverage, and firm age with prior period adjustments.

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Hedging, Investment Efficiency, and the Role of Information Environment

There are conflicting theories as to whether managers use hedging to alleviate underinvestment problems caused by costly external financing (Froot, Scharfstein, and Stein, 1993) or to promote opportunistic overinvestment (Tufano, 1998; Kumar and Rabinovitch, 2013). In this paper, we investigate this unresolved issue by examining the hedging and investment behavior of independent US oil and gas producers.

We measure hedging intensity as the fraction of quarterly oil and gas production hedged through derivative instruments. Propensity to under/overinvest is measured through three distinct approaches employed in prior literature (Harford, Mansi, and Maxwell, 2008; Richardson, 2006; Biddle, Hilary, Verdi, 2009).

Our results indicate that, on average, managers use hedging to promote overinvestment, but not to alleviate underinvestment problems. Further analyses indicate that transparency of the firm's information environment plays an important role in this regard. Consistent with greater information transparency attenuating adverse selection problems and improving the firm's ability to access external financing, we find that the propensity to use hedging to alleviate underinvestment problems is decreasing in the transparency of the information environment. By contrast, the propensity to use hedging to promote overinvestment increases when information transparency is higher presumably because better information quality makes it harder for managers to access external financing to invest in value destroying projects.

In further tests, we also find that the propensity to use hedging to promote overinvestment is primarily present in firms that use put options.

The findings of this study should be of interest to both academics and practitioners.

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Dual Language Reporting on the Nairobi Stock Exchange: Decision Usefulness or Impression Management?

The paper reports on the results of an investigation of the practice of dual language reporting (in English and Swahili) on the Nairobi Stock Exchange through a content analysis of annual reports of 36 companies over a three year period (2005-2007). We specifically examine whether dual language reporting is associated with ownership and governance variables. In addition we also surveyed managers to get valuable insights on the underlying motivation for dual language reporting as suggested by Merkel-Davies and Brennan (2007). Our results indicate that 62% of the companies are engaged in dual language reporting and that there is a wide variation in the nature of the sections of the annual report that are presented in dual languages. Logistic regression results suggest that there is a significant association between ownership variables (foreign ownership, institutional investment), one governance variable (proportion of finance experts on the audit committee) and dual language reporting. Questionnaire survey results reveal that the motives for dual language reporting include: (1) the need to inform ordinary shareholders who do not understand English well; (2) demonstrating to local people that the company cares about the way it does business in Kenya, and (3) the need to continue company financial reporting tradition. Overall, our results suggest that decision usefulness and impression management are motives behind dual language reporting on the Nairobi Stock Exchange. The findings have important implications for research on motives behind discretionary disclosure.

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Constraint or Signal? The Relationship between Auditor Industry Expertise and Related-party Sales

Auditor industry expertise is a popular research issue for a long time. Most studies focus on the relationship between auditor industry expertise and audit quality. However, seldom researchers discuss the signal function of industry specialist auditors, whether a company has incentive to hire an industry specialist auditor in order to enhance outsiders' confidence in its financial reports. This study tries to fill this gap.

We choose related-party sales as our main test variable. Based on prior findings, there are two possible but contrary explanations for the association between related-party sales and auditor industry expertise. First, due to the higher possibility that opportunistic activities may happen within related-party sales and the higher audit quality providing by industry specialist auditors, hiring an industry specialist auditor can constrain opportunistic activities and thus decrease the level of related-party sales. On the other hand, because of the higher possibility that opportunistic activities may happen within related-party sales, investors have doubts when a company announces a higher level of related-party sales. To mitigate the concern from outside investors, the management prefers to hire an industry specialist auditor to audit its financial reports since people believe industry specialist auditors can provide better audit quality.

By using the unique data in Taiwan, we can test our hypotheses at both firm and partner level. Our empirical results support the second explanation. That is, industry specialist auditors have the signal function. By hiring an industry specialist auditor, a company delivers a message that its management is reliable even it has a higher level of related-party sales. However, the incentive of hiring an industry specialist auditor will be weakened if a company has one or more independent directors on its board because both of them have the similar signal function. Our findings are consistent at both firm and partner level.

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A General Model for Cost Estimation in an Exchange

Current Generally Accepted Accounting Principles (GAAP) state that the cost of an asset acquired for cash is the fair value of the amount surrendered, and that of an asset acquired in a non-monetary exchange is the fair value of the asset surrendered or, if it is more 'clearly evident', the fair value of the acquired asset. The measurement method prescribed for a non-monetary exchange ignores valuable information about the 'less clearly evident' asset. Thus, we suggest that the fair-value in any exchange be measured by the weighted average of the exchanged assets' fair-value estimations, where the weights are the inverse of the variances' estimations. We demonstrate our valuation process under three models. This alternative valuation process accounts for the uncertainty involved in estimating the fair values of each of the asset in the exchange. The proposed method suits all types of exchanges: (monetary and non-monetary). In a monetary transaction, the weighted average equals to the cash paid because the variance of its fair-value is nil.

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Insight on the Voluntary Disclosure of Accounting Ratios in Annual Reports of South African Companies Listed on the Johannesburg Stock Exchange

Disclosure of financial information is essential for decision-making by interested parties. A simple set of financial statements no longer satisfies the needs of these parties. Open access to information drives organisations to achieve their goals and strengthen their credibility. The primary objective of financial reporting by a company or organisation is, therefore, to meet the information need of users in such a way that there is no question about the quality of their financial statements.

Management is in a position to enhance the effectiveness of its chosen tool of communication, namely the annual report, by developing and improving voluntary disclosure policies and strategies to attract investors. Thus, the level of information disclosed voluntary by South African companies is of real interest to prospective investors.

Increasing exposure to international capital markets obliges South African companies to satisfy the information demands of foreign investors and to provide these investors with more transparent, meaningful, reliable and relevant information in their annual reports. Ratio analysis serves as a useful tool with which a company's performance could be accessed and compared. The voluntary disclosure of ratios in the financial statement should lead to a better understanding of the financial strengths and weaknesses of a company. If ratios are valuable to users then companies should disclose them in order to reduce user uncertainty and consequently lowering the cost of capital.

The purpose of this study was, firstly, to investigate the factors that motivate companies to disclose financial ratio data to the shareholders through their annual reports and, secondly, to establish empirically the relationship between seven specific measurements and a particular type of voluntary disclosure, viz. that of accounting ratios disclosed by companies listed on the Johannesburg Stock Exchange (JSE). The seven specific measurements examined were: profitability, return on investment, gearing, liquidity, efficiency, size and industry.

To achieve this, South African companies listed on the Johannesburg Stock Exchange were used for the survey. A stratified random sample is selected using 2012 annual reports. Descriptive statistics were used and in accordance with other voluntary disclosure studies, a multivariate

analysis was employed to gain a deeper understanding of the disclosure decision. It was decided that logistic regression was an appropriate analytic tool by which to test the hypotheses.

The study found that the extent of financial ratio disclosure is low with more extensive disclosure within the sub-categories of profitability, return on investment and size. Lager firms provide more extensive financial ratio disclosure. Financial ratio disclosure, although important, is under-research. The South African regulators need to consider more explicit guidelines or mandatory requirements.

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Is SFAS 133 Cash Flow Hedge Accounting Relevant?

The study examines whether hedge accounting information prepared under FAS133 is useful for stock market participants to assess the effectiveness of firms' derivatives risk management efforts. Prior studies (e.g., Gigler et al. 2007; Makar et al. 2013) have identified the mixed attribute problem associated with FAS 133 hedge accounting. This problem is accentuated for partial hedges and partial hedges are prevalent in practice for FX risk management.

We examine this issue with three related research questions:

1. More extant use of effective FX derivatives should reduce a firm's FX exposure. We find that FAS133 information on the extant of derivative use for firms reporting effective hedges help explain market participants' FX exposure estimates; 2. Makar et al. (2013) document that cash flows relate to FAS133 information (OCIGL) and the extant of derivative use (HR) in the following way: Net Cash Flow Effects of FX Rate Changes_t = $[1 – (1 / HR_{t-1})]*OCIGL_{t-1}$. We find that FAS 133 information on the effective use of derivatives is reflected in firm level cash flows in a similar way; 3. We find that market-based FX exposure estimates relate to $[1 – (1 / HR_{t-1})]$ and $(OCIGL_{t-1})$ in a systematic way that's consistent to the formula identified in Makar et al. (2013). The systematic relationship provides additional evidence supporting the notion that FAS133 information is useful for market participants to assess the effectiveness of firms' derivatives risk management efforts despite its limitation.

Our findings can be informative to the joint projects of the FASB and the IASB on both hedge accounting and on other comprehensive income by examining the relevance of mixed attribute model information. Our findings also suggest that firms can utilize FAS 133 to creditably communicate their effective use of derivatives.

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An Analysis of the Barriers to Entry for Small Business Owners Imposed by Income Tax Legislation in the Developing Country of South Africa

South Africa is listed as one of a number of developing countries by The International Statistical Institute based on specific criteria set by the World Bank and the United Nations. Sustainable economic growth is of the utmost importance for a developing country such as South Africa. To achieve this growth the South African Government has on more than one occasion stated that small businesses in South Africa are instrumental in the growth of the South African economy as it is a source of job creation and a counter to poverty. Research however indicates that small businesses face many obstacles, such as relatively high tax compliance and administrative costs. It was therefore proposed in the 2008 Budget Review that a turnover tax system be implemented for micro businesses with a turnover of up to R1 million per annum to simplify the tax compliance process. To date a very small number of businesses has made use of this system. Similarly section 12E was introduced earlier in the Income Tax Act No. 58 of 1962 to offer additional income tax relief to small business owners. Sections 12E(4)(a)(iii) and (d) and paragraph 3(b) of the Sixth Schedule however prevent certain small business owners from making use of these concessions. The tax concessions currently provided by South African income tax legislation are deemed to be very exclusive and counterintuitive to the objective of promoting entrepreneurial development. The conclusion is made that potential entrepreneurs are deterred by these concessions and that alternative incentives should be investigated. This paper investigates these barriers to entry and explores possible solutions to the problems presented by them.

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Key Success Factors of Small and Medium Business Entities

This study aims to seek the key success factors for small and medium business entities in Jakarta and surrounding areas. There are three critical success factors of performance: (i) strategy that is supported by the control system management, (ii) business motives and selection of accounting methods; (iii) organizational culture. Those factors were tested using structural equation models to find which one is the ultimate factors that determining the success of small and medium business entities. The test results that demonstrate the central role of organizational cultures and selection of accounting methods in the achievement of organizational performance. This result is expected that can give the information to owners and managers of small and medium business entities before making a decision. In additions, the research's result is expected that can also give the information to the Government before granting credit and making policies for small and medium entities.

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Do Analysts Act Strategically to Induce Management Guidance? Evidence from the Post-Reg FD Period

I examine whether, and to what extent, analysts strategically issue optimistic forecasts to induce management guidance in the post-reg FD period, when private communication is prohibited. I hypothesize that in rational anticipation of managerial incentive to meet or beat earnings targets, analysts may strategically withhold their unfavorable initial forecasts in an effort to induce managers' guidance. Supporting this prediction, I find that analysts' initial forecasts are more optimistic for firms that are less likely to guide. Further, I show that this negative relation is less pronounced when there are more analysts forecasting the same firm and essentially becomes insignificant when the number of analyst following exceeds 10 (Free-riding effect). This finding suggests that public goods aspect of management guidance results in free-rider problems creating circumstances in which analysts' incentives to issue optimistic forecast are insufficient. Finally, I examine a subset of firms whose guidance decisions are unlikely to be influenced by analyst forecast. I find that the negative relation between initial optimism and management guidance does not exist for firms that guide regularly or rarely (Ceiling, Floor effects). My study provides new evidence of how analysts act strategically to induce public information and contributes to the further understanding of the effect of Reg FD on the relation between analysts and managers.

Finance

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Macroeconomic Implications of Foreign Capital Flows in Ukraine

This paper investigates the macroeconomic and financial stability risks of the foreign borrowings by emerging markets' corporations and estimates the effects of debt-creating flows for the Ukrainian economy by applying a multiple-regression analysis. Ukrainian experience confirmed that at the upturn stage unregulated capital flows induce economic overheating, inflationary pressures, excessive appreciation of the exchange rate, credit boom and asset price bubbles. In 2008 being affected by global shocks, capital flows reversed suddenly, causing sharp currency depreciation and output decline.

For Ukrainian economy debt-creating flows proved to have statistically significant impact on the growth and decline of real GDP, fixed capital formation, domestic interest rates and real effective exchange rate of the national currency. Estimated coefficients in the model of fixed capital formation show that foreign borrowings by Ukrainian corporations equivalent to 1% of GDP is associated with acceleration of fixed capital formation by around 1 percentage points. I found that net inflow of foreign capital to the Ukrainian economy leads to hryvna appreciation, while net outflow of capital to hryvna depreciation: 100 mn USD of foreign capital inflows to private and public sector predicts appreciation of the hryvna's REER of around 0.1 percentage points. A model of real interest rates suggests that inflows of foreign banks' loans or eurobonds floatation equivalent to 1% of GDP is associated with domestic real interest rates reduction by 0.17 percentage points. I also found that debt-creating flows to Ukrainian economy are pro-cyclical and enhances macroeconomic volatility. Capital flows promote GDP growth at the upturn stage and deepen the GDP decline at the downturn stage. Moreover, unstable capital flows is an important determinant of the real exchange rate volatility.

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Startup Debt Rationing and Firm Quality: A French Lesson

How widespread is credit refusal amongst business startups? Are refused businesses higher or lower quality than those offered money? How important is collateral availability in mitigating rationing? Is the effect of rationing on business survival transitory or persistent? We answer these questions using an unbalanced panel of some 36,500 French startup firms and 11,600 closures over the period 1994-2000. Potentially rationed businesses (those with viable projects denied loans) constitute only 7% of those applying. Startups refused a bank loan, however, tended to be of lower quality, as measured by startup characteristics, than those offered money, a finding consistent with bank efficiency. However, we also find that the chances of loan refusal are lower for those entrepreneurs with startup collateral, indicating bank inefficiency. Examining the dynamics of refusal, we find that firms denied a startup loan have a permanently lower hazard of survival over the next six years than their bank-funded counterparts. Initial conditions more generally, such as the level of market competition and the financial and human capital of the entrepreneur, are critical for subsequent survival and their effects are again highly persistent. Finally, businesses characteristics vary much more across than within firms, thus confirming the importance of government support for SMEs at an early stage.

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Performance Evaluation of Russian System of Mortgage Housing Crediting

Russian system of mortgage housing crediting (SMHC) was created on the basis of the American two-level model uniting the market of mortgage loans and the market of mortgage based securities. It began to act on contemporary legislative base since 2005, rapidly grew till 2008, survived the crisis, recovered quickly and now passes through qualitatively new stage of its development.

Macroeconomic background and situation in housing sphere are very specific in Russia due to large territory of country, heterogeneity of regional economic development, low incomes of population, current structure of housing stock, poor construction techniques, weakness of the banking system and inadequate population expectations connected with SMHC.

Systematic development of SMHC is now possible only on the principles of strategic approach taking into account the features mentioned above. In 2013 few governmental documents on strategic development of SMHC were published but the formulated objectives and mechanisms of their achievement seem to be insufficiently substantiated.

Within the paper it is supposed:

- to characterize main targets and basic principles of Russian SMHC
- to indicate macroeconomic factors determining:

a) specific characteristics of SMHC development
b) requirements to strategic plans of SMHC development

- to review current state and main steps of SMHC development and their quantitative parameters
- to analyze the governmental strategy of SMHC development
- to identify strategic potential of SMHC development
- to estimate possibility of strategic development indicators achievement

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The Relationship between the R&D Efforts and the Firm Value in the Pharmaceutical Industry

In addition to R&D spending, the performance of NDA and patent approval also has been key surrogate marker of R&D efforts of the pharmaceutical firms. Based on prior researches which explain positive correlation between R&D spending and firm value, this study expand the relationship into the performance of NDA and patent approval. The results show that Korean firms are more responsive to patent approval, but non-Korean firms, on the other hand, are more responsive to NDA approval. This is because many of recent patents approval of Korean firms are related to innovative discovery of novel drug candidates, and the commercial value of NDA approvals accomplished by non-Korean firms is remarkably high and NDA approval moves further to worldwide launch. The findings in this study implies that it is still better for both Korean and non-Korean firms to continue R&D efforts which fit each firm's specific strategy in order to maintain and upgrade their firm value as well as to develop new drivers of potential growth for corporate sustainability management at the same time managing the financial capacity well through its firm-specific execution.

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Information Asymmetry, R&D Disclosures and the Choice between Equity-Selling Mechanisms

This study examines the impact of information asymmetry and monitoring of corporate managers on the choice between equity-selling mechanisms. More specifically, I study the link between R&D disclosures and other measures of information asymmetry as well as ownership measures and firms' choice between rights offerings and private placements. Using a hand-collected sample of mandatory and non-discretionary R&D disclosures of public biotechnology firms, I find that firms tend to issue equity publicly rather than privately following credible R&D disclosures, i.e. when information asymmetry is low. In contrast, I find no support for the monitoring hypothesis. A detailed analysis by investor type confirms that monitoring does not seem to be an important determinant in the choice of equity-selling mechanisms. The results of the study indicate that the degree of asymmetric information prior to the equity issue announcement correlates positively with subsequent shareholder take-up by existing investors and lend support for an equity flotation pecking order (Eckbo and Norli, 2005). Stock market reactions to the equity flotation methods are consistent with predictions.

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Asymmetric Dynamic Linkages between Returns on Banks Andother Industry Portfolio Returns

This study revisits the issue of dynamic linkages between returns on industry portfolios and contributes to the discussion by specifically focusing on the role of the banking industry in the dynamic linkages among industry portfolio returns. Using monthly returns on 48 US industry portfolios, the results show that the dynamic linkages between the returns on the banking industry portfolio and other industries often are asymmetric in two ways. First, there appears to be a one-directional causality relation running from the banking industry to several other industries but seldom the other way around. One-month lagged banking industry returns seem to improve predictability of returns on several industry portfolios. Surprisingly, for many industry portfolios returns on the banking industry portfolio can be regarded as exogenous and Granger cause other industry returns. Second, the cross-autocorrelation is found to be asymmetric in a sense that on average the impact of a one-month lag of the return of the banking portfolio is about twice as high in the lower part of the conditional return distribution than in the upper part. Furthermore, the empirical results indicate that returns on the banking industry portfolio are dynamically connected to two of the classic four asset-pricing risk factors. Returns on the banking industry portfolio Granger cause and lead the returns on the size factor and the momentum factor.

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An Ontology-Augmenting XBRL Extension Model for Accounting Information Analysis and Financial Cost Decisions

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Price Momentum and Stock Price Synchronicity

This study investigates the return from a mixed strategy based on stock price synchronicity and momentum. We find that momentum profit is positively correlated with stock price synchronicity, and that price reversal is prevalent only among low synchronicity stocks. The prices of stocks with high price synchronicity under-react, therefore exhibit strong medium-term momentum and no long-term price reversal. However, investors in stocks with low price synchronicity tend to overreact, which weakens medium-term momentum and enhances long-term price reversal.

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The Impact of Political Connections on the Operational Performance of Non-Financial Firms in a Context of a Post-Transition European Economy

This study analyses the impact of political connections on the operational performance of non-financial firms in a context of a post-transition European economy. Using a new and detailed data set covering the 2001-2011 period, we found that politically connected firms are much more numerous in Poland than previously reported in the literature. We established that political connections usually lower profitability measured on the level of income from sales. However, the relationship between political connections and operational performance was affected by the characteristics of the former. Namely, the negative impact was the strongest when a firm possessed multiple connections, had politically connected members of the supervisory board and employed ex-politicians with central government experience. Therefore, our findings did not support claims based on the resource dependence theory that political connections improve the operational performance of firms.

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Informally defined Property Rights and access to Finance

A concomitant of rapid urbanisation in developing economies has been the expansion of the urban informal sector, with street vending as one of its most visible manifestations. Street vendors and hawkers form a vibrant and ubiquitous part of urban landscapes in developing economies, accounting for a significant proportion of income generated by migrant and resident workers and supplying basic goods and services for those at the bottom of the economic pyramid. The informal sector comprises a large, amorphous and poorly understood and measured segment of the economy. Extant research shows that micro enterprises are important institutions for reducing economic inequality and promoting employment and economic growth in developing economies.

Drawing upon preliminary analysis of data from a series of interviews and about 500 surveys, this study addresses two questions. First, how are de facto 'property rights' that seem to impart long term stability to vendors established in a sector that comprises entities lacking formal legal recognition. Second, does this stability endow vendor's access to credit and other inputs essential for survival of these micro enterprises? Preliminary findings suggest that street markets evolve as a value enhancing deliberate decision-based valuation of costs and benefits associated with 'formality'. High registration costs, low levels of literacy, and low entry and exit barriers all motivate the decision to remain 'informal.'

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Fee-Based Services and the Volatility of Bank Earnings

Deregulations allowed Canadian banks to engage in non-traditional fee-based services since the early 1990s. Today, almost half of the bank income is generated from a wide range of fee-based services including non-traditional activities. This paper provides an empirical analysis of the fee-based income in the largest six Canadian banks. We divide the fee-based income into thirteen components and analyze each component separately. We find that income from some sources of fee-based income is highly dependent on the Canadian economic factors such as the Canadian Gross Domestic Product (GDP), the Toronto Stock Exchange equity trading volume, the Consumer Price Index, and oil prices. Moreover, we analyse the diversification effects of fee-based income. We use a simulation model of a hypothetical bank assuming the term structure of interest rates varies over time stochastically following a forecasted trend and link the rates on assets and liabilities to movements in the term structure. The simulation model generates the fee-based income using a forecast of macroeconomic variables and the relations obtained through the empirical analysis of fee-based services. In addition, the model assumes fee-based services will require initial fixed setup costs that need to be committed at the beginning of the planning horizon.

We simulate bank earnings with different configurations of the balance sheet (various combinations of fixed- and variable-rate assets and fixed- and variable-rate liabilities) and under different interest rate environments. We find that for banks that offer only traditional borrowing and lending services, natural hedging works well and only under extreme and unlikely shocks in interest rates natural hedging will not be enough to avoid financial distress. Thus, using the derivatives market for hedging may be necessary to avoid extreme risks. In addition, the results show that some sources of fee-based income, such as trading, investment banking, and underwriting services generate highly volatile income that can be negative and have the potential to increase the volatility of bank earnings. Yet, other fee-based services provide stable streams of income and lead to less volatile earnings. In a bank that is moderately engaged in trading activities, fee-based income can serve as a hedging tool against interest rate risk.

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Will Japan's Three Arrows Policy Hit Its Target?

Prime Minister Abe has proposed a "three arrows" monetary and fiscal program to stimulate the Japanese economy. These approaches alone are not likely to return Japan to the economic power it enjoyed before the asset price bubble in 1991. This study provides a model that explains the Japanese rate of inflation as a function of important economic variables and simulates economic policies to reach the goal of a two percent rate of inflation, combining a significant depreciation of the yen-dollar exchange rate, an aggressive fiscal policy, and continued monetary easing. The empirical inflation equation is input to a Fisher Equation to show the necessary substantial rise in nominal interest rates that would be required for the Japanese real return on capital to become positive and attract domestic and international investors.

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Skewness and Kurtosis Ratio Tests: With Applications to a Study of Multiperiod Tail Risk

This article extends Lo and MacKinlay (1988)'s variance ratio test to that of skewness and kurtosis. The proposed tests are based on generalized methods of moments. In particular, overlapping observations are used and their dependencies under IID assumption are explicitly modelled so that more information from the data is incorporated. As a result, relatively more powerful tests with good size properties are obtained. The proposed tests are relevant to the risk management industry where multi-period forecasts of tail events are required. This is particularly useful since most risk models and tests on tail risks are carried out based on daily data whereas risk measures for capital requirement concern with multi-period tail risks. Empirical applications of the tests find significant higher order nonlinear dependencies in world major equity markets. Moreover, failure to correctly model such nonlinear relationships is likely to have a negative impact on the accuracy of forecasts of multi-period tail risk.