Global Journal of Business Research

VOLUME 4 NUMBER 3 2010

CONTENTS

A DYNAMIC FINANCIAL RATIO ADJUSTMENT MODEL

Yating Yang, National Chiao Tung University
H.W. Chuang, National Taiwan University

ABSTRACT

This paper proposes an alternative model for analyzing the dynamic adjustment process of financial ratios; the model includes a firm's internal effect, industry-wide effect, and strategic management. The model can explain (1) that a firm's financial ratios reflect unexpected changes in the industry, (2) active attempts to achieve the desired target by management, and (3) an individual firm's financial ratio movement. We consider the internal effect of the dynamic adjustment process of financial ratios to an equilibrium state on a firm, and use quarterly data rather than annual data for examining these effects. Empirical findings indicate that the specific effect on the firm indeed improves the explanatory ability of the dynamic adjustment process of financial ratios. Further, optimal target financial ratios may be affected by a firm's internal movement, external shocks, and strategic adjustment by the management.

JEL: C51; G17; M41

KEYWORDS: Financial ratio adjustment, Industry-wide effect, Lev's model

INTRODUCTION

Financial ratios are often used to evaluate a firm's financial performance by investors. Additionally, these ratios are used to measure financial situations of a firm through a comparison of its ratios with others in the same industry sector. Lev (1969) was the first to employ a partial adjustment model for describing the dynamic adjustment process of firm's financial ratios. After Lev's dynamic adjustment model, the following empirical and analytical studies (Frecka and Lee, 1983; and Wu and Ho, 1997) find that firms attempt to adjust their individual values with those of the industries in which they operate, thereby aiming to identify the areas of abnormal performance in their organization. Why must industry averages be the expected targets for financial accounting ratios? This is because investors usually compare economic conditions within the industry. If the extent of earnings of a firm differs considerably from the industry average, investors may regard it as a good indication of the future success of a firm (Kallunki and Martikainen, 1999). Thus, the amount of earnings management of a firm must not substantially deviate from the industry average. Therefore, Wu and Ho (1997) proposed an error correction model that explains the evolution of financial ratios over time. They concluded that there are two main effects can explain financial ratio movements. The first effect is a passive adjustment effect that occurs due to exogenous factors that affect the entire industry in which a firm operates, and the second effect is the active adjustment effect that is caused due to the efforts of the management to achieve the desired target. We further propose an alternative model that includes a firm's internal effect, industry-wide effect, and strategic management for analyzing the dynamic adjustment process of financial ratios. The model helps to explain a firm's internal financial ratio movement that can adjust to the financial ratio short-term equilibrium state for an individual firm.

In this paper, we focus on the Taiwanese notebook PC industry. In the fiscal year 2006, the growth in the shipments of Taiwanese notebook PCs to over 80% of the world market rose to 6.3 billion units. The business models of OEMs (Original Equipment Manufacturers) such as Quanta, Compal, Wistron, and Inventec—the top four Taiwanese notebook PC manufacturers—are completely dependent on orders from international brands; therefore, the proportion of OEM business for the Taiwanese notebook PC industry has remained at approximately 90%. Taiwanese notebook PC makers enjoy certain advantages over their worldwide competitors in terms of product design, manufacturing cost, flexible shipment, and global logistics, which have resulted in the current OEM industry model. Thus, it is important to analyze the financial ratios among these companies.

STOCK MARKET VOLATILITY: A COMPARISON OF COMPUTER AND CELLULAR HARDWARE COMPANIES

Neil Terry, West Texas A&M University
Anne Macy, West Texas A&M University
Amjad Abdullat, West Texas A&M University

ABSTRACT

Stock market volatility has been omnipresent in the information technology sector. This manuscript compares the stock performance of computer and cellular hardware companies across six different twenty-month periods between the years 1996-2006. The focus periods include the browser era, the Y2K era, the post-Y2K era, the post-9/11 era, the outsourcing era and the mobile/wireless era. The lowest stock market returns are in the Y2K or post-9/11 eras for all eight firms. The highest stock market returns for the eight companies in the study focus on four different eras. The results imply that while computer and cellular hardware companies have a tendency to decline in price in a down market, positive return periods in a bull market are not highly correlated within the industry.

JEL: D0; G1; L8

KEYWORDS: Abnormal Stock Returns, Cellular Hardware, Computer Hardware, Stock Market

INTRODUCTION

The information technology sector has transformed the economy and changed the basis of competition (Sampler, 1998). Information technology boosts the efficiency of the decision-making process and is perceived by many executives as an integral part of their business strategy (Molloy and Schwenk, 1995; Bartholomew, 1998). Investors have struggled to comprehend the potential and the limitations of information technology companies as the industry has continued to evolve over time. Not surprisingly, the volatility of stock prices for information technology firms has been extreme as many companies struggle to survive a couple of years after reaching a peak stock valuation. On March 10, 2000 the NASDAQ composite peaked at an intra-day high of 5,132 and declining to half of its value within a year before finding a bear market bottom on October 10, 2002 with an intra-day low of 1,108. The excessive rise and fall of information technology companies offers a unique opportunity to evaluate industry nuances associated with bear and bull markets.

The purpose of this research is to compare the stock market performance of multiple computer and cellular hardware companies across multiple information technology eras. The six period classifications are the browser era, Y2K era, post-Y2K era, post-9/11 era, outsourcing era, and mobile/wireless era. Apple, Dell, Ericsson, Hewlett-Packard, Nokia, Motorola, Qualcomm, and Sony are the eight computer and cellular hardware companies included in the study. The organization of this manuscript is into five sections. First, the related literature on financial performance of information technology companies is discussed. The next section offers background information relating to the six information technology eras applied to this study, the computer and cellular hardware industry, and the eight specific companies that are the focus of this study. The third section presents data and methodology. The fourth section puts forth results from the application of a nonparametric technique in order to compare stock market returns across different information technology eras for the eight companies. The final section offers concluding comments.

STATES OF NATURE AND INDICATORS OF MANAGER'S CORRUPTION IN INDONESIA

Putu Anom Mahadwartha, University of Surabaya

ABSTRACT

This research investigates private sector corruption. The research focuses on a firm's life cycle as it relates to corruption. Free cash flows to dividends and leverage are used as indicators of private sector corruption. The research examines Non-financial firms listed on the Indonesia Stock Exchange from 1994 to 2006 including 1,680 observation years. Six hypotheses are tested using the Generalized Methods of Moments and Wald tests. The results demonstrate that leverage policy is a major indicator of firm micro level corruption while dividend policy is not. The results show maturity stage firms have the highest corruption levels and declining stage firms have the lowest levels.

JEL: G3; G30; G38

KEYWORDS: Growth, maturity, star, decline, free cash flow, dividend, leverage, corruption

INTRODUCTION

Agency theory argues that dividend and debt are powerful mechanisms to control agency conflicts. This research examines the corruption of managers as it relates to stages of development of non-financial industry firms in Indonesia. Development stages are categorized into four quadrants, as shown in Figure 1. This research argues that development stage has different effects on managers' corruption activities.

Managers of growth stage firms have less control over and levels of free cash flow. The condition arises from higher future investment opportunities for growth stage firms. Managers of maturity stage firms have greater control over and levels of free cash flows implying lower future investment opportunities. As a result, they can use free cash flows for their own interests. A firm with low growth and low cash flow enters the declining stage. Managers of declining firms have limited opportunities to use cash flow for their own interest. Firms with high growth and high cash flow are in the star stage and have sufficient investment opportunities to invest, and sufficient cash to finance the investment. However, the managers have more opportunities to use the cash flow for their interests than managers of declining firms.

Dickinson (2007) supported the use of cash flow to categorize a firm's state of nature. Dickinson (2007) showed cash flow patterns provide a parsimonious, but robust, indicator of firm life cycle stage that is free from distributional assumptions inherent when using a univariate or composite measure. Mahadwartha (2007b) fails to support that the managers will be obedient and truthful in using firm's cash flow. Mahadwartha (2007b) showed that dividend as shareholders' bonding mechanism for managers' pre-requisites fails and is insignificant in reducing managers' pre-requisites. The results suggest that the corruption at the firm level becomes severe when the dividend is an ineffective bonding mechanism. Another bonding mechanism is debt level. This research will strengthen Mahadwartha's (2007b) research results and examine the relationships of the dividend and debt as bonding on the cash flow. This research tests those mechanisms using four states of nature on Figure 1.

This research investigates corruption hypotheses on manager's action at it relates to four states of nature. Tests of corruptions levels as it relates to the effectiveness of dividend and debt as bonding and monitoring mechanisms. Specifically, the research problems are as follows: a) Do growth stage firms

MULTIDIMENSIONAL PERFORMANCE MEASUREMENT IN ISLAMIC BANKING

Ehab K. A. Mohamed, The German University in Cairo

ABSTRACT

Most of the studies that have examined management accounting practices have done so irrespective of the nature and characteristics of organizations. Little is known about the impact of the difference in the nature of organization on management accounting practices. Hence, this study investigates the impact of the nature and characteristics of organizations on management accounting practices, in particular on non-financial performance measurement practices in the banking sector. Several Islamic Banks have been selected in the Gulf Cooperation Council (GCC) countries in order to explore the impact of the nature and characteristics of these institutions on management accounting practices. This study reveals that the nature and characteristics of organization have a great impact on performance measurement practices in different Islamic banks.

JEL: G21, G24, M21, M31

KEYWORDS: Islamic Banking, management, accounting practices

INTRODUCTION

Interest in multidimensional performance measurement has grown rapidly in recent years as evidenced by the increased number of literature investigating the topic. The increased attention to such measures not only by academics but also by businessmen, managers and consultants reflects the pressure resulting from a rapidly changing business environment and increased competition. The implications of non-financial success factors are emerging in a highly competitive business environment. These receive more emphasis in service organizations that achieve the benefits of performance measurement.

The dynamically changing environment in which organizations operate has rendered it essential for organizations to modify their strategies to respond to the changing environment. Globalization, intense competition, growth of the financial industry, and a heightened need for consistent accounting information systems have been of an increasing interest in the development of alternative approaches to management accounting (MA) and performance measurement (PM) systems. Management accounting (MA) practices are increasingly being used for measuring multidimensional aspects of firm performance. However, little is known about such practices in the service sector and even less is known about the practices in developing countries. Although much has been written about the need for accurate multi-dimensional performance measures, comparatively little is known about the role of management accounting in measuring non-financial performance measurement (NFPM) in services. This study aims to investigate the impact of the nature and characteristics of organizations on non-financial as well as financial performance measurement in the highly competitive financial industry with particular reference to Islamic banking.

The paper is organized as follows: Section 2 briefly reviews the literature as a means of stating the current problem. Section 3 identifies the research methodology. Section 4 reports on the practices of management accounting in performance measurement in Islamic banks in the Gulf Cooperation Council (GCC) countries. Section 5 provides summary and conclusion.

LITERATURE REVIEW

Performance measurement has been traditionally used as control means to assess whether organizations have met their financial goals. Performance measurement systems were a means of exercising control and meeting financial goals in hierarchical manufacturing organizations (Nanni et al., 1990). However, contemporary business environments have led organizations to change their traditional management control patterns (Otley, 1994).

EVIDENCE ON HEDGE RATIOS CHANGES AROUND THE SUBPRIME MORTGAGE CRISIS

Wei-Hsi Hsu, National Yunlin University of Science and Technology
Yung-Shi Liau, Nanhua University
Jack J.W. Yang, National Yunlin University of Science and Technology

ABSTRACT

During the subprime mortgage crisis period, the New Century Financial Corporation was the biggest subprime mortgage lender in the United States and declared bankruptcy on April 2, 2007. This paper compared two types of hedge ratios--the hedge ratio before April 2, 2007 and the hedge ratio after April 2, 2007. We applied the hedge ratios of American, British, Canadian, German, Hong Kong and Japanese stock futures markets to examine the hypothesis. It is shown that the serious subprime mortgage crisis has led to a greater average hedge ratio in all six markets and the average hedge ratio has had a more obvious change in America, Britain, and Hong Kong. In other words, the results show that when the investors are in the asymmetry return of the financial assets they are inclined to weigh adverse evidence more heavily. The results are consistent with the findings of Lien (2005). These findings are helpful to risk managers dealing with stock index futures in the above markets.

JEL: G01, G15

KEYWORDS: Hedge ratios, Subprime mortgage crisis, DCC-GARCH

INTRODUCTION

The aim of hedging is to use futures markets to reduce a particular risk. The risk might relate to a foreign exchange rate, the level of the stock market, or some other variable. Generally, hedging may be divided into three types. First, a perfect hedge is one that completely eliminates the risk. Perfect hedges are rare. Secondly, a short hedge is a hedge that involves a short position in futures contracts. A short hedge is appropriate when the hedger already owns an asset and expects to sell it at some time in the future. Thirdly, hedges that involve taking a long position in a futures contract are known as long hedges. A long hedge is appropriate when an investor knows it will have to purchase a certain asset in the future and wants to lock in the price now. According to the situation of the market an investor can adopt any one hedging ploy to reduce the risk of the investment. In other words, hedging employs long-short strategies to reduce the variance of risk at the same time. One example is when an investor holds stocks he can adopt a short position on futures to offset risk. Hence, the measure of adopting a long-short position is defined as the hedge ratio, which represents the investor's attitude for future risk. Generally speaking, when the market trend is stable, the hedge ratio will become smaller, whereas if a big fluctuation of the market takes place it will get bigger.

Formerly, research about hedge ratios has overemphasized looking for the best value or comparing the models of the hedge ratio. For example, Park and Switzer (1995) estimated the risk-minimizing futures hedge ratio for three types of stock index futures: (i) S&P 500 index futures, (ii) major market index (MMI) futures, (iii) Toronto 35 index futures and the results reveal that the hedge ratio which is estimated by Bivariate cointegration GARCH is superior to the conventional ordinary least square (OLS) and OLS with cointegration (OLS-CI). Lien et al. (2002) compared OLS and constant-correlation vector generalized autoregressive conditional heteroscedasticity (VGARCH) and claimed that the OLS hedge ratio performs better than the VGARCH one. Floros and Vougas (2006) measured the hedging effectiveness of the Greek stock index futures using four different methods: (i) OLS, (ii) error correction

EVIDENCE ON CORPORATE GOVERNANCE COMPLIANCE BY PALESTINE SECURITIES EXCHANGE LISTED FIRMS

Naser Abdelkarim, Birzeit University
Khadija Ijbara, Birzeit University

ABSTRACT

Good corporate governance is widely recognized as essential for the creation of a better and more attractive investment climate. The key objective of this descriptive research is to examine the extent of compliance of firms listed at Palestine Securities Exchange (PSE) with corporate governance "best practices" from managerial perspective. The study provides evidence that the PSE listed firms do not comply satisfactorily with corporate governance best practices specially when it comes to Board Composition and Independence. On the other hand, the non-compliance level in the area of transparency and disclosure was not as obvious. The study identifies a number of factors that may contribute to this non-compliance including the non-existent of enforceable code of corporate governance and the outdated Company Law that is still in effect in the Palestinian Territories, and finally the family dominance over corporate affairs . The value of this study stems from providing an evidence on compliance with good corporate governance by firms operating in under-developed country with a small and simple but growing economy. The findings of this paper are considered relevant and helpful when evaluating the maturity of Palestinian economy, as well as the degree of PSE efficiency.

JEL: G34

KEY WORDS: Corporate Governance, CEO Duality, Boards' composition, Boards' effectiveness, Transparency and Disclosure.

INTRODUCTION

The issue of corporate governance emerges from the relationship among three groups in determining the direction and performance of the corporation. More specifically, the first group is the investors/shareholders who participate in the profits of the enterprise without being responsible for the operations, the second group constitutes of management who runs the company without taking the responsibility for personally providing the funds. To make this possible, laws have been passed so that shareholders have limited liability and, correspondingly, limited involvement in a corporation's activities. That involvement does include the right to elect directors who have a legal duty to represent the shareholders and protect their interests. As representatives of the shareholders, the third group appear to be the directors who have both the authority and the responsibility to establish basic corporate policies and to ensure that they are followed (Wheelen & Hunger, 2004). Therefore, a corporate governance problem arises from the separation of control from ownership (Nam and Nam, 2004).

Over the last two decades the world witnessed a series of events that made the topic of corporate governance a priority for both the business community and international financial institutions around the world. Impressive business failures have driven the demand for change in many countries. More recently, many reported scandals, financial crises, or institutional failures in East Asia, Russia, and the United States have brought corporate governance issues to the forefront in developing and developed countries and transitional economies, causing these countries to pay more attention to the corporate governance issues, especially the passive role played by boards of directors, the demand for increasing fairness,

COMPREHENSIVE INCOME IN TIMES OF CRISES: EVIDENCE FROM SPANISH COMPANIES

Francisco Sousa Fernández, University of Cantabria
María Mercedes Carro Arana, University of Cantabria

ABSTRACT

Given the increasing importance of comprehensive income as an indicator of corporate performance internationally, especially since the revision of International Accounting Standard 1 (IAS 1) by the International Accounting Standards Board (IASB) in 2007, in this paper we intend to assess its impact on the more traditional net income during the period 2004-2008 for the select group of the Spanish IBEX-35 listed companies, pursuant to the information disclosed in accordance with said IAS. This will allow us to verify the importance of comprehensive income for the corporate groups at a time of serious financial and economic crisis as was 2008. The non-parametric Wilcoxon Signed-Rank Test was used to perform the corresponding statistic comparisons, as the variables did not conform to normalcy. The results showed a statistically significant impact of comprehensive income on net income for three of the five years that were studied, especially for 2008, when there was a spectacular decline in corporate performance when considering the impact of the first on the second. This confers more informational relevance to comprehensive income, being much more in tune with market reality than traditional net income.

JEL: M41

KEYWORDS: Comprehensive Income, Net Income, Times of Crises, Spanish Companies (IBEX-35)

INTRODUCTION

The most influential accounting standard setters around the world, among which are the Accounting Standards Board (ASB), (FRS 3, 1992, revised in 1993, 1999 and 2007), the Financial Accounting Standards Board (FASB), (SFAS 130, 1997), and the IASB (IAS 1, 1997, revised in 2003 and 2007), require that companies disclose their comprehensive income, considered in the Statement of Financial Accounting Concepts (SFAC 6, 1985, par. 70) by FASB as all changes in equity during a period except those resulting from investments by owners and distributions to owners.

This is determined by adding to net income the expenses and revenues that the regulations state should be directly recognized in equity, such as unrealized gains and losses in available-for-sale securities, adjustments associated to derivatives and cash flow hedges, and certain foreign currency translation adjustments. Thus, we have an accounting income more in tune with market reality than the more traditional net income.

The importance of comprehensive income as an indicator of corporate performance internationally is increasing, especially since the revision of IAS 1 by the IASB in 2007. We have reviewed current literature and in this paper we assess the impact of comprehensive income on the more traditional net income during the period 2004-2008 for the select group of Spanish IBEX-35 listed companies, pursuant to the information disclosed in the Consolidated Financial Statements in accordance with the International Financial Reporting Standards (IFRS) by IASB, and in particular with the aforementioned IAS 1.

As the period 2004-2008 comprised years of economic and stock market expansion, with steep drops in the stock markets in 2008, we have a period that allows us to assess the importance of comprehensive income compared to net income in the corporate groups during the years of economic bounty as opposed to 2008, which saw a serious economic crisis and drops in the international stock markets.

In order to perform the pertinent statistical contrasts it may have been suitable to use the paired T-test for the case of two related samples, but the variables did not conform to normalcy in any of the years studied. Therefore it was considered more appropriate to use the alternative non-parametrical Wilcoxon Signed-Rank Test.

A STUDY OF BANK CUSTOMERS' PERCEIVED USEFULNESS OF ADOPTING ONLINE BANKING

Hsueh-Ying Wu, Aletheia University on Matou Campus
Chun-Chun Lin, Far East University
Cheng-Lung Li , Kun Shan University
Hsing-Hui Lin, Texas Tech University

ABSTRACT

*As information technology rapidly changes the fabrics of industries in recent years, the trade of online banking has become more diversified. Specializing in unlimited, speedy and convenient services, online banking has transformed traditional banking in many countries. The managements' ability to anticipate and respond to such changes in the financial marketplace, thus, has a decisive influence on the success or failure of many retail banks. The present study, exploratory in nature, was intended to develop a comprehensive conceptual framework from which researchers could empirically examine and explain the relationship between customers' perceived usefulness of online banking and the relative advantages of online banking, its website quality***,** *knowledge & support***,** *information quality and customer trust in Taiwan. Multiple regressions were conducted to test the above-mentioned relationships. The statistical results show that relative advantages, trust and perceived ease of use .are more important and critical to customer's intension of online banking adoption. This study further offers a marketing insight for managers to effectively deploy online system and service. In designing online banking services, software developers should pay close attention to informative content that will be, above all, perceived by customers as useful and relevant.*

KEYWORDS: Online banking, technology acceptance model (TAM), perceived usefulness , perceived ease of use, relative advantage, website quality, knowledge & support, information quality, trust.

IINTRODUCTION

As information technology rapidly changes the fabrics of industries in recent years, the trade of electronic banking has become more and more diversified. Specializing in unlimited, speedy and convenient services, on-line banking has transformed traditional banking in many countries **(**Anguelov, Hilgert & Hogarth, 2004; Lichtenstein & Williamson, 2006). The managements' ability to anticipate and respond to such changes in the financial marketplace, thus, plays a pivotal role in the success or failure of retail banks (Gan, Clemes, Limsombunchai & Weng, 2006).

There is no doubt that the web is now transforming all facets of business, and its impact on customer service has been felt on a daily basis. Pure service organizations, such as banks, provide electronic services to their customers. Because of the ever-increasing revenues generated by online services, it is essential that the organizations using this avenue get it right, lest that they risk losing a major source of income. Business firms with poor online service are guaranteed to lose their competitive edge to those who invest in carefully designing their services and are well organized and smoothly delivering (Gronfeldt & Strother, 2006).

In light of current prevalence of online banking, commercial banks in Taiwan have been trying to popularize and improve their online banking systems (Wang, Wang, Lin, & Tang, 2003). However, performance of Taiwan's banking industry has deteriorated over the last few years – foreign banks have the highest ROE and EPS (Liu, 2007). The increasing use of online banking as an additional channel of marketing banking service has significantly improved the financial performance of community banks in the U.S. (Acharya, Kagan, & Lingam, 2008). While banks are fully experienced in capturing economies of scale, developing business in international trade, increasing market prowess and creating "brand" image with the physical side of their operations, online banking presents a different set of challenges (Avery, Baradwaj, & Singer, 2008). Moreover, companies with poor online service are bound to lose its competitive edge to those who invest in making their service carefully designed, well organized and smoothly delivered (Gronfeldt & Strother, 2006). To guide our study, we utilized Davis's Technology Acceptance Model (TAM) and conducted a face-to-face survey to investigate customer's intension of online banking adoption in Taiwan banking industries.

A COMPARATIVE ANALYSIS OF SOCIAL SERVICES AND SOCIAL SECURITY PROGRAMS IN THE INTERNATIONAL ARENA

Constance J. Crawford, Ramapo College of New Jersey
Raymond Rigoli, Ramapo College of New Jersey

ABSTRACT

Providing social services to meet the needs of society is at the foundation of the United States political system. Social Security and related social services, created to protect the integrity of our political system, has been a moral triumph. But an important question remains:"Are we adequately meeting the needs of our at-risk population when compared to the international community?" The research in this paper will be based on both primary and secondary research. The research results will be analyzed and presented as viable alternatives and recommendations for improving the current crisis in the United States social welfare programs.

JEL: M41

KEYWORDS: Social security, social welfare programs, political system

INTRODUCTION

Some critics have likened the current Social Security system to a modern day version of a "Ponzi Scheme as the Unites States effectively confiscate monies from the younger generation to pay for the aging of America (Chapman, 2009). Can a society based upon a capitalistic economic system effectively administer programs tantamount to a "Welfare State "(Tevault, 2008)? The effective administration of social programs aimed at providing social risk services to the disadvantaged and elderly members of the United States society is at the core of the issue. Are there more effective programs currently in existence in the international arena that could become the template for the United States to improve their current social programs?

By the late 1800's Europe recognized the need to develop social programs to ensure the stability of their economic systems. Germany, in 1889, created the first Social Security Retirement Program to promote the concept of "safety nets" for their aging population (Lockhart III, 2004). The United States entered the Social Security arena after an economic failure, triggered by the Stock Market Crash of 1929, sent the capitalistic driven economy into a "Great Depression." From 1929 through 1934 the need for Government sponsored social programs became apparent as untold members of the United States populace fell into financial disrepair.

President Roosevelt responded with the Social Security Act of 1935 which created monthly benefits to individuals attaining the age of 65 and no longer working (Kollmannn, 2001). The act also provided benefits to the unemployed, aid to dependent children and for medical services. The act was amended throughout the years, but the first recognition of a major crisis in the system became apparent in the late 1970's (Kollmann, 2001). Currently referred to as" FDR's folly" , the need to restructure and improve the Social Security system continues today as we search for an acceptable solution which will allow us to provide a social net for the elderly and the disadvantaged without causing an economic crisis (Tevault, 2008).

DID FASB 157 CAUSE THE FINANCIAL CRISIS?

Peter Harris, New York Institute of Technology
Paul R. Kutasovic, New York Institute of Technology

ABSTRACT

In light of the financial meltdown that followed the bankruptcy of Lehman Brothers in the fall of 2008, there is considerable debate in the financial community on the appropriate accounting methodology used to value financial assets. In fact, many analysts on Wall Street argue that much of the blame for the current financial and economic crisis is due to fair value accounting and the implementation of FASB 157, which regulators put into effect for financial statements released after November 15, 2007. The argument is that with assets trading in illiquid markets, financial institutions reported outsized losses by writing down the value of their security and loan holdings even if they had the intent and ability to hold the assets to maturity. The critics of FASB 157 charge that these sharp write-downs contributed to the failure of banks and forced others firms into a difficult financial situation. This study examines the issues surrounding fair value accounting and looks at the role accounting played in the financial crisis. We conclude that fair value accounting played no significant role and is the preferred accounting framework for financial institutions.

JEL: G01, G10, G21, M41

KEYWORDS: Fair-value accounting, FASB 157, mark to-market, level 1, 2 and 3 assets

INTRODUCTION

The financial crisis that occurred in the US in 2007-2008 had its roots in the collapse of the residential real estate market. The result of this collapse was a sharp decline in housing prices that adversely affected the value of mortgage–related financial products held on the balance sheet of many financial institutions. Financial Accounting Standard 157, which the Securities and Exchange Commission (SEC) put into effect for financial statements released after November 15, 2007, required commercial and investment banks and some insurance companies to mark-to-market their assets, particularly the mortgage backed securities. As a result, financial institutions recognized large losses in 2007 and 2008 due to marking-down the value of the mortgage backed securities (MBS) on their balance sheets. In addition, the markdowns reduced the value of bank regulatory capital, forcing banks to raise additional capital and creating uncertainty among investors about the health of the banks.

The main criticism of this accounting standard is that assets classified as "other than temporarily impaired" are marked-to-market ,no matter if the security is available-for-sale or being held-to-maturity. FASB 157 requires financial institutions to look at market inputs from sales of similar assets even if there is no active trading market. Thus, with illiquid markets financial institutions may be forced to take outsized losses by writing down the value of the security even if they both have the intent and ability to hold the assets to maturity. The resulting lower sale value may be below the security's value based on its future cash flows. The critics of FASB 157 charge that these sharp write-downs contributed to the failure of banks and forced others firms into a difficult financial situation. This study examines the role accounting played in the financial crisis and is organized as follows: section 2 provides a literature review of fair value accounting, section 3 discusses asset categories under FASB 157, section 4 discusses the impact on the investment community, and the paper ends with conclusions and suggestions for future research in section 5.

LITERATURE REVIEW

The financial crisis began in February 2007 as shown by Taylor (2008) and Wingall, Atkinson and Lee (2008) and the problems grew dramatically following the demise of Lehman Brothers in September 2008. What preceded the crisis was an explosive growth in mortgage lending and the securitization of mortgage loans. The unprecedented drop in housing prices that began in 2006 resulted in growing defaults on mortgages and made it difficult for financial institutions to determine the true value of the mortgage-related assets held on their balance sheet. The fact that these assets traded in illiquid markets exacerbated the problem. Thus, accounting rules used to determine asset values took on a central stage in the crisis.

INNOVATION PROCESS IN CANADIAN AND US HOTELS

M. Shahadat Hossain, SUNY Potsdam
Vinod Kumar, Carleton University
Uma Kumar, Carleton University

ABSTRACT

This study explores the innovation (NSD) process in hotels. We review the existing NSD models and investigate if they explain the innovation process in hotels both in Canada and the US. Six new services are identified and examined closely. Based on the results we find distinct differences in the innovation process in hotels from other service industries and propose an activity based innovation process model for hotels. The study also attempts to understand if the development process is an informal or a formal one and reveals that is as much systematic as it is creative. The study provides a guideline for managers to adopt, in implementing an NSD process.

INTRODUCTION

The innovation and new product development literature is rich with numerous studies spanning the last four decades. However, the attention has always been on the manufacturing sector. Studies of the same in the service sector to date are sparse (Stevens and Dimitriadis, 2005; Alam and Perry, 2002; Edvardsson and Olsson, 1996; de Brentani, 1993). It is now recognized that the service sector is clearly growing at an explosive rate, particularly in comparison to manufacturing (Atuahene-Gima, 1996) and that it accounts for 70% of the GNP and of the employment in most developed countries (Stevens and Dimitriadis 2005).
Furthermore, the value of innovation has been clearly recognized as a vital strategic tool for competitive advantage (Bowers 1989) making a study of the new service development (NSD) process of major importance for both academics and practitioners.

Tourism is considered a core service industry and has become one of the major international trade categories. The export income generated by international tourism ranks fourth; after fuels, chemicals and automotive products. From 1950 to 2007, international tourist arrivals grew from 25 million to 903 million according to the UNWTO 2008 edition of tourism highlights report. The global hotel, restaurants and leisure industry generated total revenues of $2.3 trillion in 2007 according to the Datamonitor industry market research (2008)

The overall export income generated by these arrivals (international tourism receipts and passengers transport) grew at a similar pace, outgrowing the world economy, exceeding US$ 1 trillion in 2007, or almost US$ 3 billion a day. North America accounts for 95.3 million international travelers (UNWTO, 2008). According to the Canadian Tourism Commission's 2007 annual report the total tourism revenue in 2007 reached $70.2 billion for Canada. Hotels and lodging plays a pivotal part in the tourism industry we find it necessary to study the sector from the innovation perspective. Of the studies to date in service innovation process the emphasis has been mostly on the financial sector. Given the turbulent nature of the industry (Ottenbacher and Gnoth, 2005) the firms in the industry are continuously forced to innovate in all aspects of operation.

This study reviews the existing models that explain the NSD process (NSD Process and Innovation process are used interchangeably in this study) and applies the two models that Alam and Perry (2002)

REVIEWERS

The IBFR would like to thank the following members of the academic community and industry for the much appreciated contribution as reviewers.

ARBITROS

El IBFR agradece a los siguientes miembros de nuestro cuerpo de *Ad-Hoc Reviewers* por su contribución académica.

HOW TO PUBLISH

Submission Instructions

The Journal welcomes submissions for publication consideration. Authors wishing to submit papers for publication consideration should e-mail their manuscripts to editor@theIBFR.com. Complete directions for manuscript submission are available at the Journal website www.theIBFR.com. Papers may be submitted for initial review in any format. However, authors should take special care to address spelling and grammar issues prior to submission. Authors of accepted papers are required to precisely format their document according to the guidelines of the journal.

There is no charge for paper reviews. The normal review time for submissions is 90-120 days. However, authors desiring a quicker review may elect to pay an expedited review fee. Authors who pay the expedited review fee are guaranteed an initial review within two weeks of submission and receipt of the fee. Authors of accepted papers are required to pay a publication fee based on the length of the manuscript. Please see our website for current publication and expedited review rates.

Authors submitting a manuscript for publication consideration must guarantee that the document contains the original work of the authors, has not been published elsewhere, and is not under publication consideration elsewhere. In addition, submission of a manuscript implies that the author is prepared to pay the publication fee should the manuscript be accepted.

Subscriptions

Individual and library subscriptions to the Journal are available. Please contact us by mail or by email to: admin@theibfr.com for updated information.

Contact Information

Mercedes Jalbert, Managing Editor
The IBFR
P.O. Box 4908
Hilo, HI 96720
editor@theIBFR.com

Website

www.theIBFR.org or www.theIBFR.com

PUBLICATION OPPORTUNITIES

REVIEW of BUSINESS & FINANCE CASE STUDIES

Review of Business & Finance Case Studies

Review of Business and Finance Case Studies publishes high-quality case studies in all areas of business, finance and related fields. Cases based on real world and hypothetical situations are welcome.

All papers submitted to the Journal are double-blind reviewed. The RBFCS is listed Cabell, Ulrich's Periodicals Directory. The Journal is distributed through SSRN and EBSCO*Host* publishing, with presence in over 70 countries.

The journal accept rate is between 15 and 25 percent

BEA Business Education & Accreditation

Business Education and Acreditation (BEA)

Business Education & Accreditation publishes high-quality articles in all areas of business education, curriculum, educational methods, educational administration, advances in educational technology and accreditation. Theoretical, empirical and applied manuscripts are welcome for publication consideration.

All papers submitted to the Journal are double-blind reviewed. BEA is is listed Cabell, Ulrich's Periodicals Directory. The Journal is distributed through SSRN and EBSCO*Host* publishing, with presence in over 70 countries.

The journal acceptance rate is between 15 and 25 percent.

AT Accounting & Taxation

Accounting and Taxation (AT)

Accounting and Taxation (AT) publishes high-quality articles in all areas of accounting, auditing, taxation and related areas. Theoretical, empirical and applied manuscripts are welcome for publication consideration.

All papers submitted to the Journal are double-blind reviewed. BEA is listed Cabell, Ulrich's Periodicals Directory. The Journal is distributed through SSRN and EBSCO*Host* publishing, with presence in over 70 countries.

The journal acceptance rate is between 5 and 15 percent.