Global Journal of Business Research

VOLUME 5 NUMBER 1 2011

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LIQUIDITY, MANAGEMENT EFFORT AND PERFORMANCE

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ABSTRACT

This research examines reform in China. We argue the reform will lead the socialist-market-economy into capitalism. Reform offers opportunities to alter ownership of equity and frees management from control of the communist party. This research discusses the relation between market liquidity, investment decision and financial performance. The results from an analysis of 1002 firms show that reforms have significant impacts on the investment decisions. We discover there is a nonlinear relationship between market liquidity and financial performance. We argue this explains a high ratio of tradable-shareholders shareholdings. We divide tradable shareholders into five groups by different ranges ownership percentage. The results were significant but the directions of influence in each group were different. We suggest that the province-policy may be an important variable in the future research.

JEL: Classification: G12, G34, P2

KEYWORDS: Liquidity, division of equity tradability, consideration, investment decision, nontradable share.

INTRODUCTION

Liquidity is drawing attention increasingly from traders, regulators, exchange officials and academics. Recent empirical evidence supports the theory that liquidity can increase investing activities of firms. This occurs reducing agency problems, holding larger-than-expected cash balances (Opler, Pinkowitz, Stulz and Willamson, 1999), and that public pools of liquidity allows firms to diversify their portfolios because of information asymmetry between firms and public market (Myers and Majluf, 1984).

When Insiders sell their stocks, reducing their share holds, they allow more shares to circulate in secondary markets, increasing market liquidity. The increase of market liquidity has the effect that speculators engage in the stock market introducing additional volatility in stock prices. They buy and sell stocks to gain benefits depending on market information. The marginal benefit they make must be equal to the marginal cost of external corporate governance. Holmstrom and Tirole (1993) pointed out this effect has the benefit of producing external corporate governance.

Due to the unique history of China, listed companies in A-share market can divide their stocks into tradable and nontradable shares. At the end of year 2004, nontradable shares account for 64% of all shares. Obviously, the different market system and structure between tradable and nontradable shares seriously complicate securities market development. Managers focus more on the nontradable shareholders' supervision and their evaluation of stock performance. Nontradable shareholders only rely on net value as an indicator of management performance. As a result, management only allows some tradable stocks to be listed. The premium from selling newly listed stocks can be converted into owners' equity and improve the company's net value. In other words, managers do not pay attention to market performance which relates to interests of tradable shareholders, but they do pay attention to the intrinsic value of any tradable stocks. The extent to which tradable stocks can be converted into nontradable stocks is called the intrinsic coefficient. When the intrinsic coefficient is higher, the contribution of tradability acknowledged by nontradable stocks is larger producing greater tradability value. The result is that management can

TWIN-RATE UNCERTAINTY, DEBT AND INVESTMENT DECISIONS– EVIDENCE FROM DOW JONES PANEL DATA

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ABSTRACT

This article modifies the intertemporal optimization model proposed by Bo and Sterken (2002) by considering firm debt composition to derive a more suitable physical investment function and evaluates how twin-rate(i.e., interest rate and exchange rate) uncertainty, derived from the issuance of domestic and foreign debts, influences firms' investment decisions. The new model focuses on the effects of financial leverage—the use of debt and its role in the financial structure of a company—on firm decisions under uncertainty. Empirical results reveal that from the viewpoint of market standing, companies in Dow Jones Indexes decrease their investment as uncertainty increases. Moreover, when the foreign interest rates are lower along with lower exchange rate volatility, companies in the Dow Jones Indexes are inclined to increase the issuance of overseas firm debt in order to finance their planned investments.

JEL: G10; G32

KEYWORDS: Twin-rate uncertainty, debt, investment decisions

INTRODUCTION

The relationship between firm investment and uncertainty continues to fascinate economic researchers, because the effects of these uncertainties on firm investment present an impression of chaos and ambiguity. Huizinga (1993) documented that sources of uncertainty are found to be significant factors that influence the sign of the investment-uncertainty relationship. It is apparent that to analyze the investment-uncertainty relationship, we must think more carefully about the source of uncertainty.

A firm's investment decisions can be divided into two types: financial investment and physical investment. For physical investment, many studies have focused on adopting the cash flow model to derive investment functions. Nickell (1978) utilized the intertemporal optimization model to derive a firm's investment function under uncertain cash flows. The benefits of Nickell's dynamic objective function include the fact that it considers the dynamics of cash flow as well as the uncertainty factors inherited in this function. Bo and Sterken (2002) extended the dynamic objective function (i.e., the discounted cash flow function) used by Nickell (1978) to formalize a new investment function to analyze the relationship between interest rate uncertainty and firm investment. However, in deriving the investment function, Bo and Sterken assumed the firm maximizes discounted cash flow, which is affected only by firm debt and interest rate uncertainty. Meanwhile, debt in the model is generally called firm debt and cannot be further divided into sub-debts, which would be useful in judging the investment-uncertainty relationship. Due to the continuing process of internationalization and the prospering development of financial markets, many firms in developed countries utilize foreign capital to finance physical investment at lower costs. For example, by floating overseas debt in Europe (i.e., European Convertible Bonds, ECB), many U.S. firms obtain much less costly capital to finance their investment. In other words, considering only the effects of

FORECASTING FOREX VOLATILITY IN TURBULENT TIMES

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ABSTRACT

The present study is an attempt to evaluate the predictability of the foreign exchange volatility in thirteen countries. The data covers the period of 2005-2009. To effectively forecast the volatility in the exchange rates, a GARCH model is used. The study compares the results between crisis period and a set of normal periods. The empirical results reveal that almost all countries except Thailand witnessed non-existence of volatility shocks at least once in a three year pre-crisis period but all the sample countries had volatility shocks in the crisis period of 2008-09. This apparently indicates that forecasting can be made at least for the next day given the high degree of volatility in the crisis period. T*he paper also reveals that exchange rates tend to have persistent conditional heteroskedasticity, and hence, could be predicted with one lag term.*

JEL: C53; F31; G17

KEYWORDS: Forecasting, GARCH, Foreign exchange rates, Volatility, Financial Crisis

INTRODUCTION

Since the introduction and implementation of the floating exchange rate system in 1971, volatility has become a buzz word in the financial markets. Many countries' currencies are floating freely against each other implying the economic principles of demand and supply prevail in the foreign exchange market. The FOREX markets and their activities have evolved tremendously during past few decades. Gone are the days when foreign exchange transactions were used as part of commercial, investment and central banks. Globalization and economic integration have impacted the involvement of foreign exchange transactions by multinational corporations, hedge funds, private investors, individual investors, speculators and arbitrageurs. This has changed the shape of foreign exchange market from a traditional limited-hour operational system to 24-hour electronic-based and market-oriented mechanism. Today, this market is believed to be the largest financial market in the world with an estimated daily turnover of US$ 3.2 trillion. According to BIS Survey 2007, turnover in traditional foreign exchange instruments such as spot, forwards, swaps etc increased by 71% and reporting dealers' turnover with both other financial institutions and non-financial customers almost doubled.

The above-mentioned dynamics have instilled a distinct feature in the foreign exchange market i.e. 'volatility'. Foreign exchange market volatility peaked in 2008, soon after Lehman Brothers collapsed. A worldwide recession followed. Though moderate volatility has always been welcomed in FOREX market circles, the recent pattern of volatility has become an issue of concern for the monetary policy makers and economists. The recent summit of G-7 nations in October in Istanbul expressed a deep concern over the unusual and abnormal behavior in exchange rates. It was noted that 'excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability'. This is not the first time excess volatility has triggered a debate. Financial crisis and economic turbulence have been witnessed in the past from time to time, and the same issue were debated. This sparks a further discussion of why volatility clusters cannot be captured in the times of turbulence. We know volatility refers to fluctuations in a time series data due to the flow of time dependent information. It may be of concern to find out whether the past returns are able to predict the future returns in the exchange rates. While capturing volatility, one may observe that there are some calm periods with relatively small returns and some wide swings with large positive and negative returns. This is characterized as volatility clustering. If

THE EFFECT OF WORKING CAPITAL PRACTICES ON RISK MANAGEMENT: EVIDENCE FROM JORDAN

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ABSTRACT

Working capital does not receive a great deal of attention in financial decision making. Perhaps this is because it involves investment and financing for the short term. Nevertheless, it is an important component of firm financial management. This study investigates the relationship between aggressive/conservative working capital practices and profitability as well as risk. The sample includes 59 industrial firms and 14 banks listed on the Amman Stock Exchange for the period of 2004-2008. The results indicate a negative relationship between profitability measures and working capital aggressiveness, investment and financing policy. Firms have negative returns if they follow an aggressive working capital policy. In general, there is no statistically significant relationship between the level of current assets and current liabilities on operating and financial risk in industrial firms. There is some statistically significant evidence to indicate a relationship between standard deviation of return on investments and working capital practices in banks.

JEL: E44, G11, G30, G31, G32

KEYWORDS: Banks, Degree of aggressiveness/conservativeness, Working Capital Practices, Profitability, Market Rate of Return, Tobin's q, Operating risk and Financial risk.

INTRODUCTION

Corporate finance basically deals with three decisions: capital structure decisions, capital budgeting decisions, and working capital management decisions. Among these, working capital management is a very important component of corporate finance since it affects the profitability and liquidity of a company. It deals with current assets and current liabilities. Working capital management is recognized as an important concern of the financial manager for many reasons. For one thing, a typical manufacturing firm's current assets account for over half of its total assets. For a distribution company, they account for even more. The maintenance of excessive levels of current assets can easily result in a substandard return on a firm's investment. However, firms with inadequate levels of current assets may incur shortages and have difficulties in smoothly maintaining day-to-day operations. Efficient working capital management involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet short term obligations on one hand and avoids excessive investment in these assets on the other hand (Eljelly, 2004).

The corporate finance literature has traditionally focused on the study of long-term financial decisions, particularly investments, capital structure, dividends and company valuation decisions. However, short-term assets and liabilities are important components of total assets and need to be carefully analyzed. Management of these short-term assets and liabilities warrants careful investigation since working capital management plays an important role for the firm's profitability, risk and value. The optimal level of working capital is determined to a large extent by the methods adopted for the management of current assets and liabilities. It requires continuous monitoring to maintain proper level in various components of working capital.

Working capital is current assets (cash, receivables, inventory, etc.) minus current liabilities (debt obligations due within one year). Working capital may also be viewed as the amount of a business's

LOCAL MONOPOLY, NETWORK EFFECTS AND TECHNICAL EFFICIENCY – EVIDENCE FROM TAIWAN'S NATURAL GAS INDUSTRY

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ABSTRACT

This paper examines the optimal number of natural gas firms in each region of Taiwan. In order to separate large local monopoly companies from the small ones, this paper constructs a firm-level panel data analysis for the industry covering the period 1995-1999. The optimal number of firms in each region is estimated by using the minimum efficient scale theory. In addition, a non-neutral stochastic frontier production function is used to detect the impact of the local monopoly, the network effects and cost structure on the natural gas firms' technical efficiency.

JEL: D42, L95, O30

KEYWORDS: Local monopoly, network effect, non-neutral stochastic frontier production function, technical efficiency, natural gas industry

INTRODUCTION

According to the energy statistics of the Bureau of Energy of the Ministry of Economic Affairs (2005), a total of 9,373 million cubic meters (Nm^3) of liquefied natural gas (LNG) was imported into Taiwan in 2005. When compared with the 856 million Nm^3 imported in 1990, this represents an average annual growth rate of 17.30%. The level of LNG consumption, this rose from 606 million Nm^3 in 1990 to 8,674 million Nm^3 in 2005. Of this quantity consumed, some 87.50% was for electricity usage, 9.88% for industry, 1.71% for residents, 0.83% for businesses and 0.08% for others.

The production of natural gas amounted to 1,327 million Nm^3 in 1985 declining to 547 million Nm^3 in 2005. The amount consumed was 1,391 million Nm^3 in 2005 compared with 1,130 million Nm^3 in 1985. The average annual growth rate was 1.05%. This study reveals that the consumption of natural gas has exhibited an increasing trend and implies that the usage of natural gas has gradually been adopted by the country. In view of the limitations regarding the supply of domestic natural gas energy, Taiwan depends increasingly on imports of natural gas.

Compared to coal and petroleum, natural gas is a source of energy with low carbon and it is clean. It produces no SO_X when burning. It produces only 20-40% of NO_X and 60% of CO_2 with less air pollution than coal. Faced with the requirement to reduce CO_2 emissions in accordance with the "Kyoto Protocol", the Taiwan government has introduced low-polluting energy policies and has extended the usage proportions of low-polluting energy sources such as natural gas. For example, the authority plans to abolish the imposition of a tariff and commodity tax on natural gas, encourage the utilization of natural gas by taxing coal, and replace coal with natural gas to generate electric power. Since the ratio of natural gas to the total amount of domestic energy is only 8%, there is still room to push for an increase in the use of natural gas.

In 2005, there were 25 local natural gas firms in Taiwan. Each was established at a different time and are spread out across different operating locations. Although the total number of firms differs from region to region, the natural gas industry in Taiwan is a chartered industry that causes the operation of each firm to be similar to that of a local monopoly. However, to our knowledge few studies consider this characteristic. Burton (1994), Bernard and Weiner (1996), Raphael (1998), Gort and Sung (1999) and Filippini and Wild (2001) discuss the insecticide, petroleum, telecommunications, telephone and electricity industries, respectively, without referring to the natural gas industry. The industry requires huge capital investments

EVIDENCE ON HOUSEHOLD SAVINGS IN ITALY

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ABSTRACT

Recent financial crises have revealed the importance for the industrial and financial development of countries. In Italy, in the first quarter of 2009, growing concerns about personal economic prospects and the evolution of the labor market have impaired consumers confidence providing motivation for increasing precautionary savings. Generally the savings propensity of Italian households is undergoing a series of changes that are related not only to the dissemination of innovative financial instruments but also to the changing demographic structure of the population. The aim of this research is to analyze the relationship between population structure and Italian household savings. Data is collected on Italian household saving published by the Bank of Italy, and data related to some demographic and economic indicators. The study finds that, in the current Italian population, saving choices are markedly different between generations, geographic areas and qualifications.

JEL: E21, G20, G21, J10, J11

KEYWORDS: Household saving, demographic transition, financial data

INTRODUCTION

Saving is an important element for country growth. The current climate is characterized by increasing levels of concern and uncertainty by Investors and households. Because of severe financial recently, the saving potential of households has decreased. Moreover, the recent vicissitudes in international financial systems have increased mistrust towards financial instruments. This mistrust has put a strain on the relationship between investors and financial operators. Historically, financial investment was oriented primarily towards instruments issued by banks such as intensified disposals of investment fund units. Following the financial crisis of 2007, the household saving rate rose from 0.4 percentage points to 11.9% in 2008. The increase interrupts a downward trend under way for over twenty years. In the mid-1980s the saving rate stood at around 28% (Bank of Italy, 2009).

The literature on saving includes several studies on the effects that the changing population structure plays on the formation and accumulation saving (Miles, 1999; Rossi and Visco, 1995). Particular interest is shown towards demographic transitions indicating a shift from a traditional regime characterized by high fertility and high mortality, to a modern regime with low birth rates and mortality rates. Italy is distinguished by the aging process expected in the coming decades. This aging process could lead to a reduction in savings, due to a low savings rate among young people. This could adversely affect the accumulation process (Borsch-Supan, 1996; Jappelli, 1999; Jappelli and Modigliani, 1998).

The aim of this research is to analyze the relationship between population structure and Italian households saving. The research uses a multi-disciplinary approach and is developed through the collection and re-elaboration of data published by the Bank of Italy. Specifically, data on a survey of Italian household income and wealth in 2006 are examined along with some demographic, economic and financial indicators. The remainder of the paper is organized as follows: Section 2 discusses household savings and demographic transition in the literature, Section 3 describes the data and methodology and Section 4 presents the results. Section 5 concludes the paper.

GOING GREEN: INCENTIVES FOR THE ELECTRIC POWER INDUSTRY

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ABSTRACT

The electric power industry finds itself at a critical juncture—increased regulation of its emissions combined with a shift in U.S. energy policy to emphasize renewable energy. Industry executives must determine the timing and the extent of their investments in clean technology to preserve the use of coal as a viable option. It is time for those executives to question whether they should make investments merely to comply with new regulations or to go beyond meeting regulations to enhance the industry's environmental (green) performance and reputation. We argue that an industry with a poor reputation in some areas (e.g., emissions) should want to improve its reputation. This could lead to enhanced profits for the industry, reduced pressure from regulatory bodies, and enhanced goodwill in the community. We investigate the company and industry-wide profit incentives for firms in the electric power industry to use clean versus dirty coal technology. Our model provides equations to show the total industry profit as a function of the participation percentage of players in the industry. We conclude with managerial implications and suggestions for future research.

JEL: C02, C61, M10, O21

KEYWORDS: Green, *n*-person prisoner's dilemma, clean coal, tragedy of the commons

INTRODUCTION

As the climate change legislation debate continues, industry faces great uncertainty regarding impending changes in regulations and the investments required to meet those regulations. For example, recently we witnessed attempts at worldwide regulation of greenhouse gases at the Copenhagen Climate Conference at which delegates failed to reach a binding agreement due to disagreements on emissions, payments into a global fund by richer countries, and deforestation reductions (Hawser, 2010). Within the United States, the U.S. Senate considered, but failed to pass, three climate change bills during 2009: the Bingaman-Specter bill, the Lieberman-Warner bill, and the Manager's Amendment to the Lieberman-Warner bill (Richards & Richards, 2009).

The electric power industry, in particular the sector using coal as fuel, appears to be operating under extreme uncertainty regarding greenhouse gas regulation. For example, in October 2007, Kansas denied a permit for a proposed coal-fired plant based on the plant's anticipated carbon dioxide (CO_2) emissions (Sioshansi, 2007). Since 2007, at least 84 projects and $64 billion of investment in coal-fired plants were canceled and/or put on hold in the U.S. due to the uncertainty regarding legislation of greenhouse gases and the lack of a breakthrough in carbon capture and sequestration (Sioshansi, 2010). Victor and Rai (2009) lamented that the financial crisis in the U.S. has killed plans for investment in clean coal technology. However, during this same period of reduced investment in clean coal technology, the U.S. Department of Energy earmarked $16.8 billion toward *renewable* energy (Holden, 2009).

The electric power industry finds itself at a critical juncture—increased regulation of its emissions combined with a shift in U.S. energy policy to emphasize renewable energy. However, coal is still the dominant fuel source, accounting for about 59% of electric power generation (Energy Information Administration, 2007b). Industry executives must determine the timing and the extent of their

DO FEMALE CONSUMERS HAVE HIGHER ETHICAL PERCEPTIONS OF MARKETING?

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ABSTRACT

Studies have found either females being more ethical than males or no significant differences. Ethical evaluations and judgments lead to intentions, and behavior. Furthermore, marketing activities create positive, e.g., ethical, or negative, e.g., unethical, perceptions of firms' market offerings. The purpose is to make an initial study of consumers' ethical perceptions of firms' marketing strategy and to clarify prior findings of these somewhat inconsistent results of gender differences toward marketing ethics. Two propositions are presented with each under different cues and intensiveness levels. The conclusion is that under certain conditions – "it depends" – there are differences between male and female consumers' ethical perception of firms' marketing strategy.

JEL: D11; M31

KEYWORDS: Consumer behavior, ethical perceptions of marketing, gender differences of ethics

INTRODUCTION

Marketing, more than any other area in a business, is undoubtedly the most visible to the public. It is the "face" of the organization either in person, e.g., sales representatives, or in actions, e.g., advertising. While marketing provides firms a competitive advantage, it can also create great harm if not meeting the ethical expectations of consumers, e.g., aggressive high pressure selling, deceptive advertising. In a 1961 survey of 1,700 executives, 80% responded that in their industry there were "practices which are generally accepted and are unethical" (Baumhart, 1961, p. 160). More recently, it was found in a 1997 survey of public perception that ethics were "at 5.7 on a 10-point scale, the lowest recorded in the 13 surveys conducted since 1959" (Heubusch, 1997, p. 29). Marketing strategies are critical in creating a positive image and trust, by establishing acceptable practices and relationships, to meeting or exceeding consumers' ethical expectations, and for retaining and attracting new customers.

Consumer studies have generally focused on ethical behavior in such areas as (1) culture (Swaidan, Vitell, Rose and Gilbert, 2006), (2) international markets (Erffmeyer, Keillor and LeClair, 1999), (3) race (Swaidan, Vitell and Rawwas, 2003), (4) age (Vitell, Lumpkin and Rawwas, 1991) and (5) gender (Glover, Bumpus, Sharp and Munchus, 2002). Within this latter affluence of consumer research, gender has attracted much attention and continues to warrant further investigation. Approximately one-half of the studies have found females being more ethical than males with the remaining one-half of the studies finding no significant differences between genders (Ford and Richardson, 1994). Another study reported that of the 21 empirical studies nine found no differences between the genders and 12 where females were more ethical than males under certain situations (Low, Ferrell and Mansfield, 2000). O'Fallon and Butterfield concluded that "there are often no differences found between males and females, but when differences are found, females are more ethical than males" (2005, p. 379). While these studies have been consumer-focused, they have been generally in regard to consumer behavior characteristics, e.g., shoplifting (Moschis and Powell, 1986), ideology (Rawwas, 1996). Only one study was found to be related to marketing strategies, and that was an ethics study of moral norms associated with environmental-friendly packaging (product) as perceived by Danish consumers (Thøgersen, 1999).

A NEW MEASURE OF EMPLOYEE SATISFACTION

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ABSTRACT

Employee satisfaction involves not only efficient usage of human resources, but also preservation and securing vital company information. Satisfaction lowers fluctuation of employees, positively influences productivity indicators, and thus overall company output. Therefore it supports long-term stability and competitiveness. The problem with evaluating and interpreting gathered knowledge is that it can be greatly influenced by subjective evaluator criteria. It this article a methodology for evaluating employee satisfaction is developed. The goal is to quantify employee satisfaction by means of a factor that indicates employee satisfaction. The indicator was empirically tested in a selected company in 2003 and 2009. Results indicate that the employee satisfaction indicator developed here has predicative ability. However, it is necessary to update partial indicators and their weights over time to reflect the current economic situation.

JEL: J53, M12, O15

KEYWORDS: employee satisfaction valuation survey, employee satisfaction indicator, company information securing

INTRODUCTION

Human resources are strategically the most important company resource, even though it cannot be expressed in numbers from a financial point of view. The task is the motivation of employees to produce high-quality output. Motivation is closely linked to employee satisfaction (Kaplan, Norton, 1996), which is one of the main motive forces of future company output. Moreover, a content employee has no reason to change his/her occupation reducing workforce fluctuation. Consequently, the costs for training new employees are reduced and revenues are maximized by using trained employees (Belcourt, Wright, 1998).

The influence of satisfied employees manifests outside the company, in customer and supplier relations (Styblo, 2001). Another reason to ensure employee satisfaction is the safety of company information. We cannot delimitate the information only as strategic, because such information is probably not available to common workers, but in small businesses it could be information about suppliers, customers structure, and work processes etc. With narrowly specialized workers there is a danger, that they can be hired by a competitor.

All the findings stated imply that it would be appropriate to engage employee satisfaction issue in more detail and to find ways and methods of measuring it a methodology of satisfaction evaluation.
Usage of causal analysis can help us to delimitate more causal relationships. The following are considered important: a) in terms of work output: Insufficient work output → unwillingness of employees to maximize their work output (in quality and quantity areas)→ insufficie nt motivation → no motivating influence is clarified → employees are not satisfied. b) in terms of internal information safety: Company information leakage→ bad company climate → unsatisfied workers. Application of deductive causal analysis can identify insufficient work output and information leakage – employee dissatisfaction (Myskova, 2003).

The article is divided into several parts. First the existing literature related to employee satisfaction is examined. These results indicate that the problem is important for further company development. In next

PERCEPTIONS OF MANAGEMENT ACCOUNTING SERVICES

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ABSTRACT

Internal service quality is important to management accounting (MA) service providers and users to promote good communications, ensure high standards of service, and to support good organizational decision making. However, there is little research concerning MA quality issues despite the prevalence of service quality research in other service areas. The purpose of this paper is to investigate differences, and their sources, between perceptions of management accounting services as reported by accounting service users and providers in a corporate organization. We collected qualitative interview data from managers and staff from different functional units about specific MA services by asking questions about user-provider perceptions of MA services in the areas of communication and satisfaction while applying the internal customer service perspective. We supplement our analysis with quantitative data based on the interviews. Our findings show evidence of user-provider perception gaps and provide a foundation for management actions to improve MA service quality.

JEL: M41

KEYWORDS: Management accounting services, user-provider perceptions, service satisfaction, service quality

INTRODUCTION

In this paper, we report on user versus provider perceptions of management accounting (MA) services in a corporate organization. The purpose of this study is to investigate sources of perceptual differences between MA service users and providers in the areas of communication, satisfaction, and quality using the internal customer service perspective (Hollowell et al., 1996; Lings and Brooks, 1998). This study details efforts by management of one organization to improve the services of MA to meet the needs of users. We collect and compare qualitative and quantitative evidence derived from interviews of MA (provider) and non-accounting (user) personnel. We report and analyze this information both by specific MA service and overall. A consistent perception of MA services by providers and users is essential because if perceptions differ, then the goals for services will also differ. Different goals lead to different courses of action and conflicting perspectives on MA service providers and their performance.

Service quality is an extensively-researched area, with hundreds of articles published across numerous organizational and service settings, including transportation (Bonsall et al. 2005), health care (Ward et al. 2005), public administration (Callahan and Gilbert 2005), and information systems (Watson et al. 1993; Bharati and Berg 2005). However, research concerning the quality of accounting services is nearly non-existent. Following this and subsequent studies, we may learn 1) if, generally, MA provides services that meet the needs of users, 2) about the nature and extent of communication difficulties between MA and users, 3) if and how organizations evaluate MA services, 4) how MA influences their roles within organizations, and 5) about management actions in response to perceptual differences in service quality.

The remainder of this manuscript is organized as follows. The next section provides the literature review. Section three discusses the data and methodology. In section four, we discuss our results. Conclusions appear in the final section.

MARK-TO-MARKET AND THE WIDENING GAP BETWEEN FINANCIAL AND TAX ACCOUNTING

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ABSTRACT

In the wake of the recent financial meltdown, financial reporting under both North American generally accepted accounting principles (GAAP) and international financial reporting standards (IFRS) has involved renewed attention to the structures and constraints of "mark-to-market" and similar expressions of fair value accounting. Despite some significant opposition by banks and other financial institutions (and their political champions), mark-to-market has enjoyed a relatively high level of support by securities regulators and by the accounting profession. Meanwhile, mark-to-market as a tax accounting concept has recently been subjected to a sustained attack by the Internal Revenue Service, courts, and legislators. This paper examines the recent Treasury regulations, revenue rulings, court cases, legislative proposals and other legal regulatory and administrative promulgations and pronouncements that comprise this renewed opposition to mark-to-market, in an effort to identify and articulate this widening gap between financial and tax accounting in the United States. Inductive research methods include legal research and analysis, and case studies.

JEL: M4, M40, M41

KEYWORDS: Tax accounting, fair value, mark-to-market, tax administration.

INTRODUCTION

In the case of *Thor Power Tool Co. vs. Commissioner* (439 U.S. 522, 1979), the United States Supreme Court acknowledged that tax accounting and financial accounting are two different and separate disciplines. In that case, the notion of "lower of cost or market," an accounting protocol that is widely used in financial accounting for inventories, was effectively abolished for tax accounting purposes. This despite the Internal Revenue Code's premise that businesses and other tax reporting entities use the same accounting principles on their tax returns as they do on their financial statements (26 USC § 446). In some ways, *Thor Power* represents the beginning of a bifurcation of the two accounting systems, and the gap between tax and financial accounting has become more obvious and more pervasive through the decades since that case was decided.

In more recent years, even as financial accounting within the United States and other countries around the world is converging into a globalized system of international financial reporting standards (IFRS), the gap between tax accounting and financial accounting in the United States is has widened even further. This paper examines the recent court cases, administrative pronouncements, and legislative initiatives that have combined to create this larger separation between these two approaches to accounting. After taking into account the history of, and scholarly literature relating to, the tension between tax and financial accounting in regard to fair value accounting, the current status of fair value accounting is considered. In particular, recent legislative, administrative and judicial developments that have combined to halt, and even reverse, the accommodation of fair value accounting within the tax arena. Finally, this paper addresses the significance and the impact of this phenomenon, and the increasing burden that it imposes on business operations as they are required to maintain sufficient books and records so that they can comply with both accounting methods.

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

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