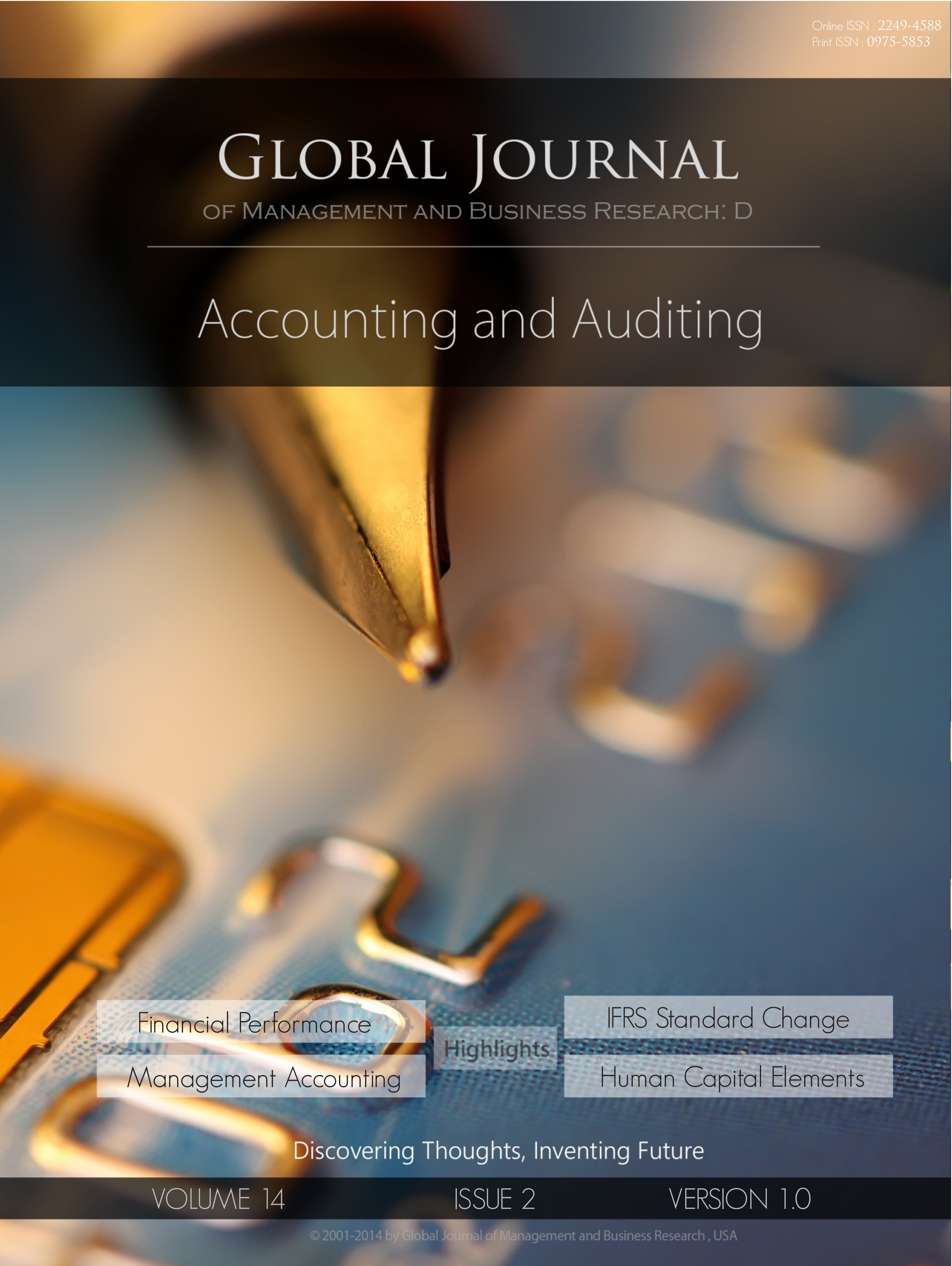
Online ISSN : 2249-4588
Print ISSN : 0975-5853

Global Journal of Management and Business Research: D

Accounting and Auditing



Highlights

Financial Performance

Management Accounting

IFRS Standard Change

Human Capital Elements

Discovering Thoughts, Inventing Future

VOLUME 14 ISSUE 2 VERSION 1.0

Global Journal of Management and Business Research : D
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Volume 14 Issue 2 (Ver. 1.0)

Open Association of Research Society

Incorporation No.: 0423089
License No.: 42125/022010/1186
Registration No.: 430374
Import-Export Code: 1109007027
Employer Identification Number (EIN):
USA Tax ID: 98-0673427

Global Journals Inc.

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Publisher's Headquarters office

Global Journals Inc., Headquarters Corporate Office, Cambridge Office Center, II Canal Park, Floor No. 5th, ***Cambridge (Massachusetts)***, Pin: MA 02141 United States

USA Toll Free: +001-888-839-7392
USA Toll Free Fax: +001-888-839-7392

Offset Typesetting

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22 USD (B/W) & 50 USD (Color)

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200 USD (B/W) & 250 USD (Color)

Contents of the Volume

Global Journal of Management and Business Research: D
Accounting and Auditing
Volume 14 Issue 2 Version 1.0 Year 2014
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

The Market Impact of Financial Restatements after Sarbanes-Oxley

By Ronald Stunda
Valdosta State University, Georgia

Abstract- This study analyzes the market price effect of financial restatements in a pre- versus post-SOX environment. Restatement of financials has long been an issue with investor groups and regulators alike. Since the advent of the Sarbanes-Oxley Act, we have seen a general increase in restatements and this has furthered to alarm these investor groups and regulators. Previous studies have analyzed predominantly pre-SOX effects of restatements on firm security prices, and have found the effects to be negligible. The studies that have attempted to assess the post-SOX security price effects have had limitations in years studied, numbers of firms, and robustness of models. This study overcomes many of these weaknesses by incorporating more study years (8 in each the pre- and post-SOX time periods), more firms (2,104 pre-SOX and 3,407 post-SOX firms), and greater robustness in the model (exclusion of overlapping announcements and tightening of the announcement window).

Study results support prior pre-SOX studies that indicate minimal effect of financial restatements on security prices. However, the assessment of post-SOX firm restatements indicate that financial restatements have a significant downward effect on security prices, indicating that investors do perceive post-SOX financial restatements differently from those issued in pre-SOX time frames.

GJMBR-D Classification : JEL Code: M00, M39

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The Market Impact of Financial Restatements after Sarbanes-Oxley

Ronald Stunda

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The implication is that regulators and investor groups may be justified in their concern over the number of restatements subsequent to the passage of Sarbanes-Oxley. Although the vast bulk of the restatements do not result from misbehavior by management, there seems to exist a negative perception by stockholders of firms filing financial restatements. As a result, investors tend to bid down the market price of such firms. These results hold implications for all firms contemplating financial restatement.

I. Introduction

In July 2002, Congress enacted the Sarbanes-Oxley Act (SOX)[1] in response to various corporate scandals including Enron, WorldCom, Tyco, and Global Crossing. Some of the major provisions of SOX include:

- The requirement that executive officers certify all Form 10-K and 10-Q reports filed with the Securities and Exchange Commission (SEC);
- The requirement that the CEO and CFO draft a written statement to accompany all financial statements that the latter present fairly the financial condition and results of the company's operations;
- The affirmation by the CEO and CFO that they have evaluated the effectiveness of the firm's internal controls and report any deficiencies or material weaknesses in such controls;
- The section 404 requirement of a report by management on the company's internal controls. The report must include an assessment of internal controls and be reviewed by the firm's auditors;
- A prohibition against an auditor providing certain non-auditing services during the time that firm performs auditing services;
- The establishment of the Public Company Accounting Oversight Board (PCAOB), which is responsible for the promulgation of auditing standards for public companies and performance of inspections of auditors of public firms;
- A tighter Form 8-K filing deadline (four instead of five days); and
- The imposition of harsher penalties for corporate criminal fraud.

Interestingly, implementation of three of these key regulatory provisions occurred almost at the same time. PCAOB Auditing Standard No. 2 (for section 404 audits on internal controls over financial reporting (ICOFR)) was approved by the SEC on June 17, 2004. Second, PCAOB inspection reports of public company auditors were first disclosed in August 2004 (Chang, Cheng and Reichelt. 2010). Third, the SEC tightened the Form 8-K filing deadline from five to four days in August 2004. Hence, it can be seen that August 2004 is a legislative watershed date for SOX implementation (Chang, Cheng and Reichelt. 2010). These and other SOX related requirements may have led to more financial restatement announcements (Public Company Accounting Oversight Board PCAOB 2007))

The risks associated with auditing increased significantly in the post-SOX period. SOX altered the regulatory regime of auditing by shifting the oversight of audit firms from the AICPA to the PCAOB. Also, Auditing Standard No. 2 lowers the risk threshold by mandating that the auditor examine all internal controls that could impact the occurrence of fraud that could have a material impact on the financial statements (Griffin and Lont 2010). "This standard also results in higher costs for auditors regarding significant deficiencies 'in internal controls' and 'reasonable assurance' that 'no material weakness' exists by

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[1] Pub. L. No. 107-204, 116 Stat. 745 (2010).

Global Journal of Management and Business Research (D) Volume XIV Issue II Version I Year 2014

defining a deficiency as significant and a weakness as material 'if there is more than a remote likelihood' that a material misstatement will not be prevented or detected (Griffin and Lont 2010). Also, the insurance and other liability-related costs increased significantly in the post-SOX period (Rama and Read 2006).

Increased auditor risks and costs may have led to a rise in auditor conservatism and thus restatement of financial reports (Bryan-Low 2003). Hence, SOX may have brought about a change in the implications associated with releasing a set of financials. Investors' concerns over the integrity of financial reports report may have significantly changed after SOX.

II. Purpose

This study examines the change in the market response to restatement announcements as a result of SOX. While it is well documented that the number of announced restatements increased dramatically since SOX (Weirich 2006), their impact on market value remains to be determined, as does the impact on investor confidence. It should be noted that announced restatements per se are not necessarily bad if they restore confidence in the reported financial numbers, and are more effective in incorporating information into share prices. By measuring the impact of restatement announcements on security prices of companies who have announced their intent to restate pre- and post SOX, it is possible to quantify changes in investor reaction to such announcements and therefore determine if investors react differently in an era of increased accountability and oversight.

III. Literature Review

a) Background of the restatement issue

The number of financial restatements has been a concern for regulators even before the passage of SOX. In 2002, The General Accounting Office (GAO) conducted a comprehensive study of restatements from 1997 to 2002. The GAO found that the number of restatements grew from 92 in 1997 to 225 in 2001. The number of restatements grew even faster after that. A follow-up report by the GAO in 2005 reported over 650 restatements in that year. Taub (2010) finds that the number of restatements has remained high in subsequent years.

It is often assumed that a financial restatement is due to fraudulent behavior, however, there are other reasons far more likely than fraud. Plumlee and Yohn (2010) found four reasons that may be attributed to restatements. Those include: errors in the corporation's internal controls, intentional misrepresentation, problems from complex transactions, or a problem that arose from application of an accounting standard. In that study, the most common reason for restatement was found to be poor internal controls by the corporation. Plumlee and Yohn find this reason to be the prevailing cause of restatement in both pre- and post- SOX time frames. Williams (2012) finds that larger corporations (defined as greater than $1 billion in market capitalization) in particular, have developed stronger internal controls since the passage of SOX, whereas smaller companies have been slower in this process. As a result, Badertscher (2013) discovers that because of greater internal controls, the numbers of financial restatements among larger firms has declined since SOX implementation.

The Plumlee and Yohn study also analyzed the effect of restatements on net income. The study revealed that the majority of the restatements had a negative impact on net income. This confirmed a GAO study of 2006 which analyzed firms restating financials. The result of that study showed that approximately 40% of restatements were due to a revenue recognition problem, which resulted in lower income levels, while 20% of the restatements were due to an expense recognition problem, which resulted in lower income levels.

b) Regulatory concerns over restatements

The two regulators in the forefront of the U.S. capital markets are the Department of the Treasury and the Securities and Exchange Commission (SEC), and both are concerned with financial restatements. A report issued in 2008 by the Treasury Department detailed the changing nature of restatements (Scholz 2008). At about this same time, The SEC formed an Advisory Committee on Improvements in Financial Reporting (CIFR) to recommend ways to improve the usefulness of financial information to investors while reducing the complexity of the financial reporting system while minimizing restatements (CIFR 2008). One major recommendation resultant from this committee was the need to clarify guidance of financial restatements. The committee found restatements to be confusing to the average investor and as a result, sought to have them reduced in number. One way the committee recommended in accomplishing this dealt with materiality guidance. Under U.S. Generally Accepted Accounting Principles (GAAP), immaterial errors do not require restatement. CIFR believes that in some cases a quantitatively material error should be deemed immaterial if, for instance, the error relates to a business segment or one-time item that does not affect firm value or firm trends. CIFR also recommended that prior periods should not be restated for errors that are not material to those periods, even if the cumulative error is material in the current period.

Needless to say, these recommendations are controversial at the Financial Accounting Standards Board (FASB). Many market participants and investor groups do not want the current GAAP procedures of restating prior periods to correct errors to be changed.

They believe that the CIFR's recommendations grant too much discretion over disclosure issues to the preparers, and will thus make financials even more difficult for interpretation by the user. However, many see the CIFR recommendations as a valiant effort to at least stem some of the financial restatement growth.

c) Studies involving restatement returns

Plumlee and Yohn (2010) made no attempt to associate the impact of restatements on security prices. Studies conducted by Hranaiova and Byers (2007) and Scholz (2008) did attempt to associate financial restatements with security prices in a pre-Sox environment and found that restatement announcements to be negligible on security prices. These studies confirmed the 2006 GAO study which also found restatements to have a minimal impact on firms' security prices, mainly because of fewer restatements involving abusive or aggressive accounting practices and more cases where firms are restating to correct minor or technical deficiencies.

Subsequent studies such as Gordon, Henry, Peytcheva (2008), Sun (2008), Hennes, Leone, and Miller (2007), and Swanson, Tse, and Wynalda (2008) also examine the effect of restatements on security returns in a pre-Sox environment and also find negligible association between restatement and security returns. In addition, they also evaluate very short time periods in their analysis (ranging from 2-5 years), and utilize a long window for the restatement announcement (ranging from 3 days to 3 weeks).

This study will expand on prior research by assessing the market effect of financial restatements in a pre- versus post- Sox time frame. The pre-Sox time frame will consist of restatements made during the years 1996-2003, while the post Sox time frame will consist of restatements made during the years 2005-2012. The event window will center on the date that the restatement is made public. An event study will then be performed to assess market reaction to restatements made in a pre-SOX time period and then compared to the reaction in a post-SOX time period. Since U.S. regulators have placed importance on how investors perceive financial restatements, this study will be the first to indicate just how, and to what extent investor groups interpret financial restatements via stock price, before and after implementation of SOX.

IV. Hypotheses Development

As previously noted, extant studies focusing on market reaction to financial restatements tend to primarily utilize data from a pre-SOX (i.e., prior to 2002) time frame. These studies show minimal impact on the security prices of corporations filing restated financials. The other aspect of these prior studies is that they used rather limited data points (i.e., average 3 year periods and 330 restatements). Limited data points have a tendency to bring into question the robustness of the results, in other words, can the findings be generalized across a broader perspective of both time frames and corporations? By utilizing both increased sample periods and total numbers of firms, the results of this study can then be compared to past studies and assessed for conformity. This gives rise to the first hypothesis, stated in the null form:

H1: The share price responses to unexpected earnings in a pre-SOX environment for firms issuing restated financials are not significant.

As we have seen, the focus on restated financial statements by U.S. regulatory agencies is primarily in a post-Sox time period. This is the time frame under which current governances apply and investor groups are most concerned. It is this time period that we therefore hope to gain better insight on the impact of financial restatements and their relevance to security prices. Again, prior studies indicate minimal impact of restated financials on security prices (in a pre-SOX era). Do these finding hold in a post-SOX environment? The answer to this question would seem very important to regulators, investor groups, and managers. This gives rise to the second hypothesis, stated in the null form:

H2: The share price responses to unexpected earnings in a post-SOX environment for firms issuing restated financials are not significant.

V. Sample Selection

The aim of this study is to investigate the share price behavior of publicly traded firms to the presence of restated financial reports in both a pre- and post SOX time frame. Following Chang, Cheng and Reichelt (2010), August 2004 is used as the partition date between a pre- and post-SOX environment. The year 2004 is excluded from analysis to eliminate potential confounding events. The pre-SOX period is 1996-2003 and the post-SOX period is 2005-2012. A database was assembled for the above time periods first utilizing the Audit Analytics database, which represented 9 different industries and disclosed restatements for the study periods. A Lexis-Nexis and Electronic Data-Gathering, Analysis and Retrieval (EDGAR) search was then conducted to discover the appropriate release date of the restated financial report. The database was compiled to capture all announced restatements of quarterly and annual financial statements. These included restatements filed through amended financial statements as well as "stealth" restatements. Glass and Lewis (2006) report that as many as 45% of restatements do not use amended reports to restate financials, thus they are considered "stealth restatements." This study includes the "stealth" restatements in the database so as to not bias results.

Unlike past restatement studies (Palmrose, Richardson and Scholz 2004; Anderson and Yohn

2002), this study takes into consideration that there may exist overlaps between restatement events of issuers which would violate the independently identically distributed (IID)assumption set forth by Campbell and Wasley (1993) and later by Seiler (2000). To overcome this, an analysis is made of the database in order to eliminate any samples where the announcement dates overlap or "cluster." This not only permits adherence to the IID assumption but allows for more robustness in analyzing ultimate results. Table 1 indicates the breakdown of the pre- and post-SOX samples before eliminating overlap announcements and after eliminating overlap announcements.

Table 1 : Study Sample by Sample Period

	Pre-SOX	Post-SOX
All restatement announcements (including overlap announcements)	2,492	3,926
Overlapping announcements	388	519
All restate0ment announcements (excluding overlap announcements)	2,104	3,407

VI. Methodology

a) *Hypothesis One*

The purpose of the test of the first hypothesis is to assess the relative information content of unexpected earnings of share prices in a pre-SOX environment for firms issuing restated financials. The following model is used to evaluate information content:

$$CAR_{it} = a + b_1UE_i + b_2MB_{it} + b_3B_{it} + b_4MV_{it} + e_{it} \quad (1)$$

Where: CAR_{it} = Cumulative abnormal return firm i, time t

A = Intercept term

UE_{it} = Unexpected earnings for firm i, time t, for all pre-SOX firms in sample

MB_{it} = Market to book value of equity as proxy for growth and persistence

B_{it} = Market model slope coefficient as proxy for systematic risk

$MV_{i\,t}$= Market value of equity as proxy for firm size

e_{it} = error term for firm i, time t

The coefficient "a" measures the intercept. The coefficient b_1 is the earnings response coefficient (ERC) for all pre-SOX firms in the sample (2,104). The coefficients b_2, b_3, and b_4, are assessed for any potential contributions to the ERC for all firms in the sample. To investigate the effects of the information content of the pre-SOX restated financials on ERC, there must be some control for variables shown by prior studies to be determinants of ERC. For this reason, the variables represented by coefficients b_2 through b_4 are included in the study. Unexpected earnings (UE_i) is measured as the difference between the actual earnings (EA_i) and security market participants' expectations for earnings proxied by consensus analyst following as per Investment Brokers Estimate Service (IBES) (EX_i). The unexpected earnings are scaled by the firm's stock price (P) 180 days prior to the forecast:

$$UE_i = \frac{(EA_i - EX_i)}{P_i} \quad (2)$$

For each cross sectional sample firm, an abnormal return (AR_{it}) is generated for event days –1, 0, and +1, where day 0 is defined as the restated earnings release date identified by EDGAR. The Dow Jones News Retrieval Service (DJNRS) is also reviewed to insure that confounding factors, such as change of corporate ownership or form, or management change, are minimized by excluding any firms which contain these events. The market model is utilized along with the CRSP equally-weighted market index and regression parameters are estimated between –290 and –91. Abnormal returns are then summed to calculate a cumulative abnormal return (CAR_{it}). Hypotheses 1 is tested by examining the coefficient associated with the unexpected earnings of pre-SOX firms restating financial reports. There are two possible conclusions; results may be noisy, or interpreted as being less beneficial to investors, which in this event, $b_1 \leq 0$, or these firms will possess an information-enhancing signal to the investor, which will result in $b_1 > 0$. Subsequent significance is then assessed.

b) *Hypothesis Two*

The purpose of the test of the second hypothesis is to assess the relative information content of unexpected earnings of share prices in a post-SOX environment for firms issuing restated financials. A model similar to the one utilized for hypothesis one is again used for hypothesis two. The only difference is that the coefficient of interest (b_1) measures all post-SOX firms in the sample (3,407). Similar metrics are used in order to keep comparisons between the two sample periods as similar as possible.

Ordinary least squares (OLS) regression is used to test the model for hypothesis one and two. Cross-sectional dependence and heteroskedasticity are not likely to be present in stock return metrics since sample firms are not affected by common event dates. (Binder 1985; Bernard 1987; Grammatikos and Yourougou 1990). However, whenever a set of multiple regression variables are employed, there is a probability of the presence of multicollinearity within the set of independent variables which may be problematic from an interpretive perspective. To assess the presence of multicollinearity, the Variance Inflation Factor (VIP) is utilized.

VII. Results

a) Hypothesis One

As indicated in Table 2, the response coefficient b_1, representing unexpected earnings for all firms during the pre-SOX study period was -.02 with a p-value of .15. The other control variables were not found to be significant at conventional levels. This finding indicates that when assessing the impact of restated financials on security prices in a pre-SOX time period, the association, even though negative (i.e., -.02) is not significant at conventional levels. This supports prior research that finds that in a pre-SOX environment, there is minimal effect of the restated financial statements on firms' security prices. Hypothesis one, which suggests that the security price effect of restated financials in pre-SOX time periods is insignificant, cannot be overturned.

In addition, whenever a set of multiple regression variables are employed, there is a probability of the presence of multicollinearity within the set of independent variables which may be problematic from an interpretive perspective. To assess the presence of multicollinearity, the Variance Inflation Factor (VIP) was utilized. Values of VIP exceeding 10 are often regarded as indicating multicollinearity. In the test of hypothesis 1, a VIP of 1.5 was observed, thus indicating the non-presence of significant multicollinearity.

Table 2 : Stock Price Effect of Pre-SOX Restated Financials

Test of Hypothesis 1

Model: $CARit = a + b_1(UEit) + b_2MBit + b_3Bit + b_4MVit + eit$

	a	b_1	b_2	b_3	b_4	Adj. R^2
. 07	-.02	.15	.08	.09	.218	
(.60)	(1.47)[a]	(.46)	(.34)	(.22)		

b_1 = information content of all firms in the full sample
b_2 = control variable for growth and persistence
b_3 = control variable systematic risk
b_4 = control variable firm size

a = significant at .15 level
n = 2,104 firm financial restatements
time period = 1996-2003

b) Hypothesis Two

As indicated in Table 3, the response coefficient b_1, representing unexpected earnings for all firms during the post-SOX study period was -.08 with a p-value of .01. The other control variables were not found to be significant at conventional levels. This finding indicates that when assessing the impact of restated financials on security prices in a post-SOX time period, the association is negative and significant. These results seem to indicate that in a post-SOX environment, investors perceive restated financials to have a negative or bad news impact and therefore adjust stock prices downward accordingly. Hypothesis two, which suggests that the security price effect of restated financials in post-SOX time periods is insignificant, must be rejected.

The Variance Inflation Factor (VIP) is again utilized to assess multicolliniaerity in the regression model. In the test of hypothesis 2, a VIP of 1.7 was observed, thus indicating the non-presence of significant multicollinearity.

Table 3 : Stock Price Effect of Post-SOX Restated Financials

Test of Hypothesis 2

Model: $CARit = a + b_1(UEit) + b_2MBit + b_3Bit + b_4MVit + eit$

a	b_1	b_2	b_3	b_4	Adj. R^2
. 05	-.08	.10	.11	.15	.243
(.42)	(2.36)[a]	(.32)	(.29)	(.18)	

b_1 = information content of all firms in the full sample

b_2 = control variable for growth and persistence
b_3 = control variable systematic risk
b_4 = control variable firm size

a = significant at .01 level
n = 3,407 firm financial restatements
time period = 2005-2012

VIII. Conclusion

This study analyzes the market price effect of financial restatements in a pre- versus post-SOX environment. Restatement of financials has long been an issue with investor groups and regulators alike. Since the advent of the Sarbanes-Oxley Act, we have seen a general increase in restatements and this has furthered to alarm these investor groups and regulators. Previous studies have analyzed predominantly pre-SOX effects of restatements on firm security prices, and have found the effects to be negligible. The studies that have attempted to assess the post-SOX security price effects have had limitations in years studied, numbers of firms, and robustness of models. This study overcomes many of these weaknesses by incorporating more study years (8 in each the pre- and post-SOX time periods), more firms (2,104 pre-SOX and 3,407 post-SOX firms), and greater robustness in the model (exclusion of overlapping announcements and tightening of the announcement window).

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Global Journal of Management and Business Research: D
Accounting and Auditing
Volume 14 Issue 2 Version 1.0 Year 2014
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

An Empirical Test of the Effect of Intangible Capital on Financial Performance and Market Value in the Jordanian Companies

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Abstract- The effect of Intangible capital on the financial performance of all the companies is still poorly defined Intangible capital for all companies in the third millennium can be considered as a competitive advantage. In the modern era, organisations make use of two distinct sources for value creation and profit which are tangible and intangible resources. The main objective of this research thesis is to explore the effect of intangible capital on the financial performance and market value of Jordanian companies. For this reason, we are going to carry out an empirical study drawn from 51 listed companies in Amman Stock Exchange from 2007 till 2012. Intangible capital has been given more attention among the companies of developed nations such as USA, Italy, Australia and others. The results were analysed by using Palic method. The results achieved show that there is a significant relationship between intangible capital with market value and the financial performance of all the active companies. Applicable results of this study suggest the importance of intangible capital in financial performance of companies.

Keywords: *intangible capital, value creation, financial performance, market value, jordan.*

GJMBR-D Classification : *JEL Code: M31, N20*

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Strictly as per the compliance and regulations of:

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I. Introduction

Intangible capital (IC) is gaining importance in today's knowledge economy and plays a key role in improvement, productivity as well as in the performance and competitiveness of the organizations. The Intangible capital includes the following areas i.e. human resources, ,human resources research and development, organizational structure and processes technology and rights related to Intangible property, consumer networks and software. Management of Intangible capital is a field that uses creativity, new management techniques, information technologies and different ways of conceiving organization in the new post-industrial knowledge economy. Numerous attempts were made to the development of a widely accepted definition of Intangible capital. Klein and Prusak (1994) have contributed to the universal definition of IC as Intangible material that can be formalized, captured and exploited to produce higher value assets. In the same way, Edvinsson and Malone (1997) and Sullivan (2000) define IC as knowledge that can be converted into value. Stewart (1997) states that the Intangible resources such as knowledge, experience and information, are the tools of wealth creation and defines Intangible capital as the new wealth of organizations.

Intangible capital (IC) represents the collective knowledge that is embedded in the personnel, organizational routines and network relationships of an organization (Stewart, 1997; Bontis & Choo, 2002; Kong, 2008). Intangible capital has been recognized as an essential resource that organizations need to develop to gain sustained competitive advantages (Chen, 2008; Kong & Prior, 2008; Schiuma & Lerro, 2008). Intangible capital can be defined as the economic value. of three categories of intangible assets of a company-that includes human capital, organisational capital and social capital collectively. Strategic analysts argue that sustained advantage can occur only in the situations in which physical, human, and organisational capital varies across the firms and where some firms may be unable to obtain necessary resources that are benefiting other firms. Intangible capital is viewed as a sub-set, where the term intangible relates to assets without physical existence and capital refers to assets retained by the organisation to contribute to future profits. Intangible resources are more likely to produce a competitive advantage because they often are rare and socially complex there by making them difficult to imitate (Black and Boal, 1994). Intangible capital is firm's overall or holistic capacity and capability which emerges from its creative and flexible orchestration and co-ordination of its human capital, innovativeness, proficiencies and capabilities, streamlined processes and expertise. Intangible capital bundles knowledge resources like constellation of employees, users, processes and technologies and work enabling a company to make a difference to usersi±. In the last decades academia has drawn attention to the role of knowledge in business development. A general consensus is that organizational capabilities are based on the management of knowledge for it is the source of organizational sustainability and competitive advantage. Given the intangible nature of knowledge, many concepts were anticipated in the academia and each try to capture a particular phenomenon. Though successful companies recognize that investing in knowledge is essential to their ability to create high value products and services.

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Identifying, valuing, managing Intangible assets is a very difficult task to business managers. Among the different notions, Intangible capital (IC) has been an interesting expression since FORTUNE magazine first published Thomas Stewart's writing in 1991.

Today, the use of intangible assets has a significant impact on the success and survival of the organizations, as it creates a new field of study and research in the management. The most important intangible assets that have been studied is Intangible capital and its derivatives. Productivity and business performance of many organizations depends on effective management of Intangible capital, create value by investing in Intangible capital and focus on Intangible capital as a source of competitive advantage (Costa, 2012). So, the identification, and management of Intangible capital have particular importance. Intangible capital is all non-monetary and non-communication resources that are fully or partially controlled by the company and will create value for the company (Ross et. al, 2005).

Intangible capital has grown in the field of science and knowledge. The term Intangible capital was first introduced by John Kenneth in 1969. Before that, Peter Drucker used the 'knowledge' worker instead of it. However there is no consent on the definition of Intangible capital؛ accordingly, Intangible capital is processes and assets which are usually not reflected in the balance sheet. Intangible capital in the organizations is recognized as an intangible asset based on knowledge (Min lu, 2012).

In recent years with the increasing Changes in importance of science, the inability of traditional accounting systems can be seen more to measure the true value of intangible assets. So, in this study the true value of intangible assets based on knowledge will be included in the financial statements. With this in mind that assessing and considering the true value of intangible assets and knowledge in the financial forms of companies has increased more than ever, in the present study the effect of intangible capital on financial performance and market value of companies is examined using five evaluation criteria.

II. Literature Review

The term Intangible capital for the primary time was employed in 1969 by economic expert John Kenneth, on justify the gap between book value and market value in establishments. After that, Karl Erik Svei by Swedes comptroller thought of the shortage of reflective Intangible capital in ancient balance-sheets. In nowadays knowledge-based economy, Intangible capital is that the most vital capital in each organization and it will result on the performance of the organization all told aspects (Riahi Balkauie, 2003). Besides ancient accounting technique play a crucial role in activity and reportage intangible assets, however these ways in today's data-based organizations during which knowledge constitutes a serious a part of its assets, cannot live the present data in them, so that they would like major changes(Anthony Rojas, 2007). The term "Intangible Capital" (IC) was initial revealed by John Kenneth diplomatist in 1969 (Hudson, 1993), however Stewart (2001a) claimed the primary use back to 1958 once he started Intangible capital study with Itami UN agency later revealed Mobilizing Invisible Assets in Japan in 1980. In general, Intangible capital means that over simply "intellect as pure intellect" however conjointly a degree of "Intangible action". In this sense, Intangible capital is not solely a static intangible intrinsically, however AN abstract method. It's the type of movement from "having" data and skills to "using" data and skills. A synthesis from living literature provides 3 interconnected constructs (Bontis, 1996; Edvinsson and Sullivan, 1996; Ross and Ross, 1997; Stewart, 1995).Amongst the 3 Human Capital (HC) contains the ability, skills, experience, and Intangible agilities of the individual workers (Bounfour, 2002; Brooking, 1996; Edvinsson and Edmund Malone, 1997; Rosset al., 1997; Stewart, 1997). Structural Capital (SC) includes processes, systems, structures, brands, Intangible property, and different intangibles that area unit in hand by the firm however don't seem on its record (Bounfour, 2002; Brooking, 1996; Edvinsson and Malone, 1997; Stewart, 1997). a 3rd construct is Social Capital (SC) that resides either at the individual or the structure level. A bigger proportion of gift analysis has examined these types of Intangible capital in isolation. However, observing any of those subcategories separately would most definitely lead to an incomplete account of an organization's Intangible capital (Brooking, 1996; Lev, 2001; Ross et al. 1997). Moreover, the property of Intangible capital isn't universal and also the evolution of Intangible capital isn't a typical trade development. It's so necessary for researchers to develop AN industry-specific measure tool. Solely sporadically examine info} collected would improve the strategic use of AN organization's data assets relate to Intangible capital, there area unit totally different definitions concerning this term and therefore there's no single and also the same definition concerning it. Some necessary definitions of Intangible capital area unit as follows: Intangible capital, is that the supply of intangible assets that always isn't mirrored within the balance-sheet (Eduinson, 1997). Intangible capital includes data, information, Intangible capital and skill which will be employed in worth creation (Stivart,1999).Intangible capital refers to the all offered data assets in a corporation through that it will assure its permanent activity also as gaining a competitive advantage(Anderson,2004). As mentioned on top of Intangible capital includes 3 elements: human, structural and relative capital. each is delineate briefly below: Human capital Human capital represents the stock of workers data in a corporation (Benetis & others, 2002). Human capital forms the muse of Intangible capital and while not that Intangible capita cannot be enforced (Chen & others, 2004). While not Intangible capital, there's no innovation in merchandise, services, and industrial processes (RiahiBalkauie, 2003).In different words Intangible capital includes data, proficiency, and skills of the organization workers which will be employed in resolution structure issues. as a result of human capital belongs to the organization workers, so it are often claimed that thusrt} of capital isn't in hand by the organization and so, with the withdrawal of workers from organizations, this capital is also taken out from them. Thus, organizations request to stop capital outflow by changing it to different kinds of capital (Rus & amp; others, 1997).

Young et al. (2009) studied a sample of Asian banks for eight countries and located that physical capital and human capital area unit the most factors that make worth for the companies. The same study was done by Ting and Lean (2009) on Malaysian companies and for nine years (1999-2007), they found through empirical observation that the indicator VAIC and a few indicators of gain were completely associated with the money sector of the Malaysia. Chan (2009) conducted a study on a sample of all corporations of the droop Seng exchange for the amount 2001 to 2005. He studied the link between the potency of the IC of those corporations and its elements (human and structural) with measures of firm performance: market valuation, come back on assets (ROA), come back on equity (ROE) and productivity measure. The results of the study showed that solely structural capital encompasses a important and positive relationship with gain measures (ROA and ROE).

Abeysekera (2011) examine the result of current-period Intangible capital revealing on earnings and current annual stock come back throughout a civil-war amount. His study finds that corporations don't embrace the present amount Intangible capital revealing within the current stock come back and also the increase within the current-period Intangible capital revealing activity haven't any influence on earnings enclosed within the current stock come back. Future accounting-based earnings, if per the present era, against this area unit enclosed within the current stock come back. The findings offer insights into the Intangible capital revealing observe and its influence on stock come back during a civil-war setting.

Wagiciengo and Belal (2012) investigate concerning Intangible capital disclosures by South African corporations. The most purpose of their study is to look at the extent and nature of Intangible capital disclosures in 'Top 20' South African corporations over a five years amount (2002–2006). The results show that Intangible capital disclosures in Republic of South Africa have enlarged over the five years study amount with bound companies reportage significantly over others. Out of the 3 broad classes of Intangible capital disclosures human capital seems to be the foremost well-liked one. This finding stands in sharp distinction to the previous studies during this space wherever external capital was found to be most well-liked class.

III. Valuation of Intangible Capital

According to management literature, it's impracticable to manage one thing that cannot be measured and reported. There are already several tries to live and report Intangible capital, however they're in their primary phases, thus there's an extended thanks to bring home the bacon their appropriate positions. To the present purpose, over thirty ways are introduced for activity Intangible capital which will be divided into four general classes. A. Direct Intangible capital practices: these ways predict dollar worth of Intangible capital through distinguishing their elements. As Intangible capital elements area unit known, they'll be evaluated endlessly and directly. They'll management the ultimate worth of the organization Intangible capital through a mix (Taliyang, 2011) in excess. By dividing the ensuing annual financial gain in excess to the corporate monetary value of capital, the worth of company Intangible capital is calculable. D- ways of score (credit) card: during this technique totally different elements of intangible assets area unit known and for every of those indicators area unit provided and or they're displayed in corresponding graphs. The ways of score (credit) card area unit the same as direct Intangible capital assets however the distinction is that in these ways there's no estimation of real worth of non-tangible assets. The investment {market worth|market price|value}: This technique focuses on shrewd the distinction between company market value and value of shares and it classified the calculated distinction as non-tangible assets or Intangible capital. as an example, if current worth of shares during a company within the exchange is adequate ten million dollar and its value of shares equals to 1 billion bucks, then dollar worth of Intangible capital of the corporate are adequate nine billion bucks. C- The come back of assets technique: during this method, average financial gain before company tax during a definite amount is split on the common of the worth of physical assets within the same amount. Then the ensuing variety is compared with the common of the come back of trade assets. If the ensuing distinction is zero or negative, the corporate has no Intangible capital surplus to average of trade and it's assumed that its Intangible capital equals to zero. However if the ensuing distinction is positive, it's assumed that the corporate has Intangible capital surplus to the common of trade and it's positive. The distinction (positive) is increased to the common of physical assets worth of the corporate within the same amount to work out the common annual financial gain.

Observing the inflated significance of IC in price creation, Pulic (2000, 2002) developed a helpful measure tool particularly the Valued other Intangible constant (VAICTM). Not like ancient accounting that focuses on business news, Pulic (2000) was curious about the motive force {of price|useful|valuable|im portant |of import} creation and expressed that there ar 2 key resources for other value creation: capital utilized (consists of physical and money capital) and Intangible capital (consists of human and structural capital). VAIC has received attention from each teachers associated in apply for it provides an example for peer researchers to create on. for instance, Chang (2007) takes R & amp; D and Intangible property into thought to boost informative power in his pilot study of engineering sector. The result ends up in the present study and a changed VAICTM is projected to incorporate a brand new Intangible capital element, Innovation Capital. though there are criticisms on the constraints of VAIC (Andriessen, 2004), an outsized range of analysisers still adopted VAIC in their research (Chen, et al., 2005; Chang 2007; Kamath, 2007; 2008; Chan, 2009). A main reason is that VAIC uses knowledge from money statements and minimize potential knowledge sound judgment from victimization alternative instruments. A basic tenant for VAICTM is to look at resource potency in making price for the corporations. A principle is to calculate the worth other (VA) of a firm by subtracting input from output, excluding labor expenses from input. In money terms, it's given as in (1) (S. Chang, 2011)

(1) : VA = gram – sgaExp. + LExp. = in operation financial gain + LExp

Where VA is price added; gram is gross margin; sgaExp: mercantilism, general, and administrative expenses; LExp : labor expenses that Pulic (2000b) calls human capital. In keeping with him, the worth of human capital (HC) and structural capital (SC) is delineated by the labor expenses and therefore the distinction between VA and HC. From this description, HC and SC are denoted as follows:

(2): HC = LExp

(3): SC = VA- HC

HC denotes human capital, SC for structural capital; Pulic states that human capital and structural capital ar reciprocal. The less the contribution of human capital, the additional structural capital is enclosed. Consecutive step is to assess social capital, and in keeping with Pulic's VAIC model, social capital is calculated by the capital utilized that equals the value of net assets of the firm.

IV. Hypothesis Formulation

The present paper makes an attempt to enrich the Intangible capital literature, thus, hypothesising as:

Hypothesis 1 : There is significant effect of Intangible capital on financial performance.

Hypothesis 2 : There is significant effect of Intangible capital on Return on equity and Return on assets.

Hypothesis 3 : There is significant effect of Intangible capital on Growth Revenues **Hypothesis 4:** There is significant effect of Intangible capital on Created shareholder's value

Hypothesis 5 : There is significant effect of Intangible capital on the ratio of market value to book value.

V. The Research Methodology

An broad literature survey was done to observe a methodology for carrying out this study. Finally, the VAIC approach was allocated for present study adopted from Pulic (2000) (38).

a) *Sample and Data Selection*

The data were collected through secondary sources. The six-year amount of study was taken from the annual years 2007-2012, the cause for selecting this era was that the information needed for the study were on the market for these years. Applied mathematics society is chosen from firms within the Amman exchange in industries and numerous teams. The sample systematic technique has been chosen. The conditions are:

1. Firms that result in their yr at the tip of March annually.
2. Firms that in years 2007-2012 haven't modified their monetary amount.
3. Firms that there's access to their monetary info and different needed info.
4. Firms that are listed in tend Exchange before 2006.
5. To not be among the Banks and credit and monetary investment establishments..
6. Throughout the amount firms shouldn't be losses.
7. Firms that their stop image don't have quite six month inaction within the analysis amount.

With the appliance of on top of limitations, forty nine firms listed in Amman exchange from industries (pharmaceuticals, electrical machinery, vehicles and components, machinery and instrumentation, basic metals, food except sugar, different non-metallic minerals, chemicals, wood product, metal product, computers , cement, ceramic Hg) has been chosen.

b) *Variable definition*

The model: The model projected here by Pulic9 is predicated on the model adopted of VAIC that has been antecedently utilised to different similar studies6, 11-13. during a much-cited contribution to the literature, corporations are divided to four sections (based on dividing ancient sector) together with producing and raw materials (15 firms), industrial and services (24 firms), food and beverages (12 firms) and menage product and private (28 firms). Within the study of Dimitrios Maditinos14, this model was explained as following:

c) *Independent variables*

This study includes four freelance variables15: i. VACA, indicator of import other potency of capital utilized, ii. VAHU, indicator of import other potency of human capital, iii. STVA, indicator of import other potency of structural capital, iv. VAIC, the composite total of the 3 separate indicators as price of intangible capital. The primary step towards the calculation of the on top of variables is to calculate price other (VA). VA is calculated in keeping with the methodology projected by Maditinos16. Second, capital utilized (CE); human capital (HU) and structural capital (SC) ar being calculated: Ce = Total assets* - intangible assets HU = Total investment on workers (salary, wages, etc(SC = VA – HU Finally, VAIC and its 3 parts ar being calculated: VACA = VA / Ce, VAHU = VA / HU, STVA = SC / VA, VAIC = VACA + VAHU + STVA the employment of the on top of activity methodology is argued to produce sure advantages2, 11,17-20: i. it's simple to calculate. ii. it's consistent. iii. It provides standardized measures, thus, permitting comparison between industries and countries. iv. knowledge ar provided by monetary statements that ar additional reliable than questionnaires, since, they're typically audited by skilled public accountants.

d) *Dependent variables*

This study includes 2 dependent variables: i. Market-to-book price ratios, ii. monetary performance. The market-to-book price quantitative relation is just calculated by dividing the value|value} (MV) with the value (BV) of common stocks: MV = variety of shares * Stock price at the tip of the year.

BV* = Stockholders' equity - Paid in capital of most popular stocks MBV=MV / BV (1) wherever, MBV is that the market-to-book price quantitative relation as 1st variable quantity. (*In all cases, that goodwill was enclosed within the value of an organization of the sample, the desired subtraction was conducted). The monetary performance is measured with the employment of 3 indicators: come on equity (ROE): ROE = profits / Shareholder's Equity, ROE measures organizations profitableness by revealing what proportion profit an organization generates with the money shareholders have invested with. come on assets (ROA): ROA = profits / Total Assets, ROA is associate indicator of however profitable an organization is in relevance its total assets. It offers an inspiration on however economical the management uses assets to come up with earnings. Growth revenues (GR): GR = [(Current year & apos; srevenues / Last year & amp; apos; srevenues) -1] * 100 percent GR is that the most ancient live that indicates the expansion of a company. Here, we have a tendency to use GR for monetary performance as second variable quantity. Therefore, during this analysis, models ar as following:

$$MBV = VACA + VAHU + STVA + VAIC \qquad (2)$$

$$GR = VACA + VAHU + STVA + VAIC \qquad (3)$$

VI. Results and Discussion

a) *Hypothesis test results*

Hypothesis 1: There is significant effect of Intangible capital on financial performance.

According to the results of regression model about the primary main hypothesis recommended in table (1), the significance level of datum F all told four regression models is quite accepted significance level (0.05%)and thus total regression model is important for them. Considering the amount of the constant (P-Value) of estimated variables within the models shows that the calculable variables don't have significance level lower than (0.05%) therefore don't have any result on financial performance.

Table 1 : The first main hypothesis test results

Variable	Coefficient	statistic t	Overall regression model			
			Statistic F	P-value	D-W	Determination Coefficient And modified Determination coefficient
VAIC	0.003	0.105	0.011	0.916	1.846	R^2=0.000 AdjR^2=-0.004
VACA	0.003	0.063	0.004	0.95	1.844	R2=0.000 AdjR2=-0.004
VAHU	-0.008	-0.212	0.045	0.832	1.843	R2=0.000 AdjR2=-0.004
STVA	-0.059	-0.639	0.408	0.523	1.837	R^2=0.002 AdjR^2=-0.002

The first hypothesis take a look at results show that among four calculable variables, none of them have a significant result on monetary performance of company. These results aren't in line with results by ((Chen chow (2005), bench tan and colleagues (2007), Bentis (1998)).

Hypothesis 2: There is significant effect of Intangible capital on Return on equity and Return on assets.

According to the regression model results about second main hypothesis that's conferred in table(2), the significance level of datum F within the 3 regression models associated with (VAIC,VACA,VAHU) is a smaller amount than accepted significance level (0.05%) and total regression model is meaning for them. Significance level of regression model of (STVA) is quite accepted significance level (0.05%) and its regression model is significant. Considering the importance level (P-Value) of calculable variables within the models shows that from four calculable variables, 3 variables (VAIC, VACA, VAHU) with significance level under (0.05) have effect on assets come and equity come.

Table 2 : The Second hypothesis test results

Variable	Coefficient	Statistic t	Overall regression model			
			Statistic F	P-value	D-W	Determination Coefficient And modified Determination coefficient
VAIC	0.015	0.206	0.042	0.837	1.563	R^2=0.000 AdjR^2=-0.004
VACA	-0.027	-0.501	0.251	0.617	1.563	R2=0.001 AdjR2=-0.003
VAHU	0.059	1.214	1.473	0.226	1.551	R2=0.006 AdjR2=0.002
STVA	-0.011	-0.094	0.009	0.926	1.559	R^2=0.000 AdjR^2=-0.004

The second main hypothesis results show that from four calculable variables within the model, there's a positive and vital result between the corporate assets come with intangible property, constant of other price of employed capital and constant of other price of human capital.

Hypothesis 3: There is significant effect of Intangible capital on Growth Revenues

According to take a look at results of the regression model for third hypothesis that's painted in table (3),significance level of datum F within the regression model associated with (STVA) is under accepted significance level (0.05%) and general regression model is meaning for it. Significance level of regression model for(VAIC, VACA, and VAHU) is quite accepted significance level (0.05%) and regression model is significant for them. Considering the constant of significance level (P-Value) of variables within the models shows that from four calculable variables, the variable (STVA) with significance level under (0.05%) has an effect on earnings rate of growth.

The third hypothesis take a look at results show that from four calculable variables within the model, the constant of added price of structural capital incorporates a positive and vital result on assets growth, however different parts of intangible capital constant of other price indicates no vital result on financial gain growth. The results show that regardless of the structural capital of company is higher, it'll have positive result on assets rate of growth. With concerning Operational definition of variables structural capital or in different worlds, client capital the created added price is completely different from other price created by intangible capital of company. Therefore any reduction or increase in human capital can lead to a amendment in constant of other price of structural capital. Low human capital caused to extend in other price constant of structural capital, thus results in company's revenue growth that reflects the positive result of structural capital on company’s revenue growth.

Table 3 : The Third hypothesis test results

variable	Coefficient	Statistic t	Overall regression model			
			Statistic F	P-value	D-W	Determination Coefficient And modified Determination coefficient
VAIC	0.163	1.802	3.248	0.043	1.812	R^2=0.013 AdjR^2=0.009
VACA	0.497	8.277	68.506	0.000	1.707	R2=0.220 AdjR2=0.217

VAHU	0.129	2.13	4.535	0.034	1.804	R2=0.018 AdjR2=0.014
STVA	-0.009	-0.06	0.004	0.952	1.818	R^2=0.000 AdjR^2=-0.004

Hypothesis 4: There is significant effect of Intangible capital on Created shareholder's value

According to take a look at results of the regression model for fourth hypothesis that's painted in table (4), significance level of datum F within the regression model (VACA) is under accepted significance level (0.05%) and regression model for its meaning. significance Level of regression model (STVA, VAIC, and VAHU) is quite accepted significance level (0.05%) and regression model is important for it. Considering the constant of significance level (P-Value) of variables within the models shows that from four estimated variables, the variable (VACA) with significance level under (0.05%) has a sway on created price for each share.

Table 4 : The Fourth hypothesis test results

variable	Coefficient	statistic t	Overall regression model			
			Statistic F	P-value	D-W	Determination Coefficient And modified Determination coefficient
VAIC	0.103	1.164	1.355	0.246	1.937	R^2=0.006 AdjR^2=0.001
VACA	-0.054	-0.818	0.669	0.414	1.961	R2=0.003 AdjR2=-0.001
VAHU	0.054	0.913	0.833	0.362	1.938	R2=0.003 AdjR2=0.000
STVA	0.286	1.913	3.741	0.047	1.929	R^2=0.015 AdjR^2=-0.011

The fourth hypothesis take a look at results show that from four calculable variables within the model, the constant of added price of utilized capital incorporates a negative and vital result on created price for shareholders, however mother parts of intangible capital constant of other price don't have result on created price for shareholder. The results show that by increase of constant of other price of utilized capital (low operational assets of company or increasing the other price distributed to interest groups) the created price for shareholders decreases.

Hypothesis 5: There is significant effect of Intangible capital on the ratio of market value to book value.

According to the results of regression model concerning the fifth hypothesis conferred within the table (5), the significant level of datum F all told four regression models is quite excepted significance level (0.05%) andm whole regression model is important. Considering the constant of significance level of the (P-Value) of estimated variables within the models shows that the calculable variables don't have significance level lower than (0.05) so don't have any result on the company's value to value (MTB).

Table 5 : The Fifth hypothesis test results.

Variable	Coefficient	Statistic T	Overall regression model			
			Statistic F	P-value	D-W	Determination Coefficient And modified Determination coefficient
VAIC	-0.060	-0.262	0.071	0.790	1.497	R^2=0.000 AdjR^2=-0.004
VACA	-0.333	-1.987	3.948	0.048	1.538	R2=0.016 AdjR2=-0.012
VAHU	-0.086	-0.562	0.316	0.575	1.499	R2=0.001 AdjR2=-0.003
STVA	-0.236	-0.621	0.385	0.535	1.492	R^2=0.002 AdjR^2=-0.003

Global Journal of Management and Business Research (D) Volume XIV Issue II Version I Year 2014

Effect of intangible capital performance on the quantitative relation of value to value wasn't confirmed. The inefficiency of capital markets will be the rationale for rejecting the hypothesis. The results and findings of this study ar in line with some similar studies, and ar in conflict with some others. for instance, although some researchers (Najib Ullah (2005) - subgenus Chen et al. (2005) - Palic (2000)) emphasize on the role of intangible capital in explaining the distinction between value and value of firms, this analysis is in linewith another analysis (Hong subgenus Chen (2009) (1 & 2) - Bank Fyrr and Stein (2003)) didn't realize any reason on the relationship between intangible capital and value.

VII. Conclusion

The goal of this paper was to test the existence of long run relationship between intangible capital and its effects on firms' market value and financial performance in Jordan. After the measurement model of intangible capital and its components using a value-added intangible capital (VAIC) submitted by Pulic model, Their effects on five performance indicators defined in this study including return on equity, return on assets, growth revenues, Created shareholders value and the ratio of market value to book value per share were analyzed by means of regression. It can be recommended to pay attention and focus more on intangible capital in organizations and understanding the importance and impact of this factor on the overall performance of the organization and positive effects on the process of value creation in organizations as a factor influencing the performance of financial organizations. Since in the research model, human capital is a key factor in determining the role of intangible capital, providing a competitive environment in the order to determine the salary levels of employees, it increases the large amounts research model.

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Global Journal of Management and Business Research: D
Accounting and Auditing
Volume 14 Issue 2 Version 1.0 Year 2014
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Human Capital Elements and their Influence on Performance: Evidence from Uganda's Manufacturing Firms

By Sulait Tumwine, Sentrine Nasiima & Dr. Nixon Kamukama
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Abstract- *Purpose*- The purpose of this paper is to establish the elements of human capital that are influential in steering the performance of medium and large manufacturing firms (MLMC). Design/methodology /approach: A valid research instrument was utilized to conduct a survey on 359 MLMCs (256 Medium firms and 103 large manufacturing companies) and 897 respondents that are representative of 397 MLMCs and 1,087 respondents. Correlation and regression analysis were conducted to ascertain the validity of the hypotheses.

Findings- It was established that human capital elements (employee educational level, experience and motivation) are associated with MLMC`s performance. Furthermore, human capital as a whole accounts for 55.9 percent of the variation in performance Uganda`s MLMCs.

Research limitations/implications- Only a single research methodological approach was employed, future research through interviews could be undertaken to triangulate. Multiple respondents in MLMCs (CEO, finance manager and human & administrative manager and senior employees) were studied neglecting others. Furthermore, the study used the cross-sectional approach- a longitudinal approach should be employed to study the trend over years. Finally, human capital was studied and by the virtual of the results, there are other factors that contribute to MLMC`s performance that were not part of this study.

Keywords: *human capital, education, experience, motivation, medium & large scale manufacturing companies and performance*

GJMBR-D Classification : *JEL Code: J24, H83*

HUMANCAPITALELEMENTSANDTHEIRINFLUENCEONPERFORMANCEEVIDENCEFROMUGANDASMANUFACTURINGFIRMS

Strictly as per the compliance and regulations of:

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Sulait Tumwine [α], Sentrine Nasiima [σ] & Dr. Nixon Kamukama [ρ]

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Practical implications- There is need to intensify initiatives to encourage greater understanding and acceptance of human capital, Select appropriate elements that includes employee education, experience and motivation in order to have quality workforce to establish and grow MLMCs, provide employment, be competitive and contribute to countries GDP.

Originality/value- This is the first paper in sub-Saharan Africa to test empirically the relationship between human capital and performance of MLMCs in the Ugandan context.

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I. Introduction & Motivation

Medium and large sized manufacturing companies (MLMC) dominate the manufacturing sector around the globe accounting for 80 percent of the total number of companies (OECD 2010, European Commission 2007). In Uganda, the manufacturing sector has since 2000`s to-date gained a commendable 6 percent growth per annum contributing 51 percent to Uganda`s GDP and to its growth by 37 percent (MoFPED, 2012). The same is shared by many developing countries in Africa and on the globe. Coupled with their contribution to GDP, academic research highlights the importance of MLMC for employment creation and economic development (Drucker 1985; Birch 1987; Storey 1994a), their operation result in price increases for raw materials, market competition and competitiveness for the finished products resulting in reduced prices, improvement in product quality and technology to meet quality and demand (McDougal et., al 1992)

The manufacturing sector therefore provides important benefits to the Ugandan economy, for example employment provided to the skilled, semi skilled and unskilled changes their lives because they earn a living from it, boosts the country's GDP, and narrows the tax base among others. Because of these importances, most developing countries including Uganda have devoted their effort towards attracting investors by gazeting land and putting in place infrastructure. Because of this demonstrated potential, the importance of the manufacturing sector becomes of much interest to both the government and other stakeholders with regard to their survival especially brought about by the human capital (HC) they employ for them to gain reasonable assurance for survival and better performance. However, this great potential can only be guaranteed when the manufacturing firms have within them appropriate HC.

The challenges arising from HC in Uganda came to limelight in 2010 when the price of the products manufactured by leading manufacturing companies on the Mombasa auction sales market were half priced (from 3.55 USD per kilo to 1.98 USD) due to their poor quality compared to the market standards and pricing which was attributed to ineffective workers engaged in production (Daily Monitor, July 13, 2010, Mawejje, 2010). This was in addition to most manufacturing firms investing huge sums of money to develop and manage their HC in order to better their performance but no tangible results have been shown on paper (Seleim et, al, 2006, Mawejje, 2010). This has often led to some of

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these firms closing business (see Kasita and Emojong, 2010; Tentena, 2010) and of recent Sembule steel rolling in Uganda which was been attributed to ineffective HC (Bagadawa, 2013).

In addition, the recent "meltdowns" of significant companies in the USA, UK and the late 1980s industrial crisis in Europe raised the finger to the HC of companies as in most cases; the top and middle managers were found lacking competences and intellectual agility as far as discharging their duties was concerned (Okpara, 2011). Therefore, effective HC has been noted to be of significant value for firms in developing countries because it can lead to managerial excellence (Okpara, 2011). According to the Intellectus model developed by Cic (2003), it's difficult to single out what drives an employee to perform although considerable efforts have been spent on studying HC (Kamukama et., al 2012, Seleim 2006), there is no single, competence and integrative model of effective HC that would act as a benchmark for effective HC in Uganda's manufacturing firms.

Accordingly, much of the research about HC have been carried out in the developed countries especially in Scandinavian countries (Sharabati et al.,2010), Asia, USA and North Africa; that it is expected to provide important information other than performance. However, none of the prior studies have investigated the contribution of different Human capital components in Less Developed Countries especially in the manufacturing sector. Besides, there is a great interest in advancing HC in developing countries and Uganda in particular because;

1. The adopted industrial approach that is aimed at liberalizing the private sector away from the states ownership; for which Uganda adopted following the World Bank recommendation in 2000, 2005 & 2010.
2. The increasing competition locally and internationally for quality products at affordable prices and market share (sales).
3. The idea that HC increases performance is generally accepted up to board room level in addition to the general agreement that accounting is backward looking at only physical assets, new methods are needed.

It is therefore within this framework that we consider the influence of HC as an important facilitator of performance in manufacturing firms which has never been exhausted in developing countries. The aim of this study thus is to contribute to the development of a strategy and mix of the firm`s HC that incorporates the impact of both employee competences and their motivation and the extent to which HC contributes to performance of manufacturing firms in less developed countries especially Uganda.

The paper is organized into five sections and begins with the brief overview of the research study followed by the theoretical reviewed related literature and hypothesis, methodology, analysis of results and the last part gives discussions, conclusions, research implications, limitations and suggested areas for further research.

II. Theoretical Framework and Literature Review

a) Theoretical framework

According to Becker (1993), Human Capital Theory explains that formal education is highly instrumental and necessary in improving the production capacity of the workforce. This is because the knowledge and education acquired increases the productivity and efficiency of workers by increasing the level of cognitive stock of economically productive human capability which is a product of innate abilities and investment in human beings (Schutz, 1997; Psacharoponlos & Woodwall, 1997). However, the application of the theory increases learning efforts by employees and requires a firm to recruit highly qualified employees, train them yet at one point they will live because the firm does not own them (Bronchi, 2003, Castronova,2002; Crepaz and Moser, 2004). In addition, the theory provides little attention to natural ability of workers who end being influenced on what to do.

Advocates of human capital theorists argue that an educated population is a productive one, but the major problem lies with the application of the knowledge and education acquired in relation to the output of the workforce at the place of work. Education has been compromised by the political system particularly in developing countries thus affecting the quality.

The Learning Curve Theory by Wright (1987) and Baloff (1991) postulates that experience of workers coupled with confidence and knowledge leads to efficiency and productivity of a firm (Ham, 2000). Drawing from this theory, firm performance is directly proportional to the amount of experience accumulated by a staff in the course of performing his/her duties. However, this theory does not take into consideration the fact that technology can replace humans (BCG, 2005), even employees without experience can perform better than experienced ones if they are using machines (Wright, 1998)

According to Teece, Pisan and Shuen (1997) the Dynamic Capabilities Theory enables firms to integrate, build, and reconfigure internal and external competencies to address rapidly-changing environments. This theory attempts to provide an insight into how dynamic capabilities facilitate achievement of firm performance by responding fast to external and internal environmental changes. It presumes that the firm's capability to change depends on its ability to scan the environment, to evaluate markets, and to quickly accomplish reconfiguration and transformation ahead of the competition (Winter, 2003; & Teece et al., 1997).

Schoermaker(1992), Parahald and Hamel(1990) and Teece et al.(1997) pointed out three dynamic capabilities necessary for the firm to succeed. First, employees need the capability to learn quickly and to build strategic assets. Second, new strategic assets, like knowledge, technology and customer-feedback, have to be integrated within the company. Third, existing strategic assets have to be transformed or reconfigured. Central to these capabilities are competitive advantage and firm performance as a function of industry analysis, organizational governance and firm effects in the form of resource advantages and strategies (Mahoney and Pandian, 1992).

The agency theory stipulates (Donaldson, L., & Davis, J. H. (1991)) that one party the principal delegates work and decision making authority to another party the agent. When the agent is acting on behalf of the principal, the behaviours and decisions exhibited ought to be like those of the principal to benefit the principal, however, the agent may not have the necessarily competences; a reason firm`s collapse while others perform better..

In light of the weaknesses of the reviewed theories, their application and relevance in articulating firm performance should be treated with much caution. This therefore leaves researchers and scholars with no unifying-strong theory to elucidate firm performance. Since firms are faced with an uncertain, competitive and dynamic business environment, there is a need for an approach that can provide a coherent framework to integrate existing conceptual and empirical knowledge to match environmental dynamism. In this case, the dynamic Capabilities Theory, which puts emphasis on resources development and renewal, can be seen as a tentative alternative theory that could be integrated with the theories reviewed above to explain firm performance.

b) Literature review

i. *The concept of Human capital (HC)*

Human capital (HC) represents the individual stock of an organization as represented by its employee's competences (Bontis et al., 2002, Roos et al 1997). Competence includes skills and education at workplace. It can further be looked at as the individual abilities, knowledge, know-how, talent, and experience of both employees and managers of a firm (Edvinsson and Malone, 1999). According to Kamukama, (2010) and Bontis, (1998) this capital is the most important asset a company owns since it is a source that creates competitive advantage though it is more risky and does not belong to the organization per se but to each individual that constitutes the organization.

According to Lafuente and Rabetino (2008), HC is comprised of individual attributes as formal education, previous labour experience, individual well being at the place and even beyond, and the presence of partners who might provide additional expertise. This type of capital is considered unique since knowledge cannot be taken away from the individual as tangible assets and financial capital can. It can therefore be observed that the employee's knowledge brought about by their educational level, their abilities, and level of motivation provided by their employers constitutes a key determinant factor towards the success of any business (Honig, 2001 and Pena, 2004).

Therefore, for organization to get real value from their workforce, HC is central with its key elements of employee education level, experience and motivation.

ii. *Employee educational level*

According to Ruzevicius (2006), the quality of knowledge and the level of education one has gone through, shapes him and overturns organizational performance if well utilized and passed on. This sharing of knowledge should become one of the essential values within an organization. According to Cooper et al., (1994); Gimeno et al., (1997), it is widely recognized that formal education positively impacts on managerial decisions that increases business growth opportunities. This indicates that more educated employees have the necessary skills, discipline, motivation, information and self-confidence to attain higher growth rates in their work place; hence, they are more likely to perceive and exploit business opportunities to better performance (Cooper et al., 1994; Ucbasaran et al., 2008). Secondary, education provides knowledge that may help overcome financial constraints (Evans and Leighton, 1989) and foster business growth (Honjo, 2004).

It therefore of no doubt that successful companies tend to be those that continually put emphasize on skills and knowledge of their employees, rather than on assets, such as plants or machinery (Maheran et al., 2009). Mavridis (2004) further observed that highly-skilled and qualified individuals are needed to facilitate the delivery of high value-added products and services as well as the competences to build consumers' confidence and trust. Maheran et al. (2009) crowned it all by stating that in an increasingly complex and more liberal environment, the competitiveness of manufacturing firms will depend critically on the quality of employee's qualification. Limited literature on the link between employee education level and performance of manufacturing firm`s calls for testing of the following hypothesis.

H1: Employees education level positively influences performance of manufacturing firms

iii. *Employee experience*

Switzer and Huang (2007) argue that on job experience with the organization and overall industrial experience per se is one of the major HC characteristics

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that lead to organizational performance. Studies by Lafuente and Rabetino (2011) describe HC comprising of labor experience and skills accumulated by individuals contributing to business performance. This implies that experience and skills of individual emplo-yees in the organization provide an organization with a mix of capabilities that makes it an organization off choice. Accordingly organization with an effort and commitment to HC formation should institute strategies in form of supportive policies tailored to organizational requirements

Furthermore, previous studies by Schutjens and Wever (2000) and Bosma et al. (2004) found out the relevance of experience as an integral component of HC contributing to the firm's growth. This therefore conforms to the notion that experience and skills is a positive predictor of firm performance. In Uganda, organizations continue to focus and insist on experience and skills as a key to acquire talented work force and a pre-liquisite to getting a job, yet experience is not taught in institutions but nurtured among employees within the organization. This has created mixed feeling in relation to the quality of education provided by institutions of higher learning where they provide more theoretical knowledge than practical skills preferred by employers. Limited literature on the link between employee experience and performance of manufacturing firm`s calls for testing of the following hypothesis.

H2: Level of Employees experience positively influences performance of manufacturing firms

iv. *Employee motivation*

According to Kamukama (2010), employees represent the most valuable and important asset of the organization that has to be harnessed and managed with care and maintaining a motivated and committed workforce is essential to the performance of any organization. McCoy (2012) states that motivation is the underlying reason a person has for acting or behaving in a particular way. In business, the typical default mechanism that management uses to "motivate" employees (to do what they want them to do) is to incentivize the goal by saying "if you do I will give you….". If the incentive is compelling enough to the employee, then the system works resulting in the employee reaping the incentive and management achieves its goal.

Additionally, maintaining competent workforce is costly in the short run and cheaper in the long run, but organizations also pay a significant cost when employees voluntarily leave. This talent drain, results in costly sourcing and development of new talent, but often hurts more in terms of productivity losses and inability to grow. Employee preferences and what they look for from work are determined not just at an individual level, but also over time. An organization that fails to recognize and meet those changing needs over time will underutilize its employees which ultimately cripples its overall performance. As Stanford Professor Jeffrey Pfeffer discusses in his recent book about evidence-based management, pay for performance is a complex issue (Pfeffer and Sutton, 2006). Financial incentives have a motivational, informational and a selection effect, all are very powerful if designed correctly, but become a risky approach if not based on real data on performance. This was also a finding from a recent research effort investigating the linkage of pay-for-performance and financial performance (Berggren and Fitz-Enz, 2006).

Kamukama (2010), in his PhD thesis advanced that most people in the developed world today take food and shelter for granted, and that the job has become something more than simply a means to put food on the table. Many people in developed countries do not view their jobs solely as a means to support their basic needs and lifestyles, but are looking at work as a means to fulfill needs that are higher up in the Maslow Hierarchy of Needs pyramid. Based on his field experience, employees no longer look at salary and allowances as the only motivation, but look at other incentives such as training and staff development at the place of work. In reference to Berggren and Bernshteyn, (2007) work, employees' attitudes towards work and what motivates them appear to be dramatically different than some of their older colleagues. Thus, with increasing demands for competent and educated workforce and a shortage of such individuals, it is becoming more critical for organizations to understand and take into account in its strategic planning and utilization of HC which though has remained lacking in most firms in Uganda. Limited literature on the link between employee motivation level and performance of manufacturing firm`s calls for testing of the following hypothesis.

H3: Employee's motivation level positively influences performance of manufacturing firms

v. *Human Capital and Financial Performance*

HC has been sited to be influential in reducing organizational costs in many ways. The educational level that an employee comes with, experience acquired while at the place of work coupled with the firms motivational level may result in increased output and competitiveness. (Young & Snell, 2004). HC has equally been cited to be instrumental in enhancing customer benefits by helping to increase quality, reliability, and flexibility, creating value for the customers, through production and service delivery process innovations.

In global knowledge – based economy, the issue as to why some firms are more competitive and perform better than others has become a crucial one. This question is in the centre of analysis of many business disciplines and the subject of never - ending debate. In particular, strategic management field has traditionally focused on business concept that affects firm competitiveness and firm performance. Since the mid 1980s the Resource Based View of the firm and subsequently the Dynamic Resource – Based View and the Dynamic Capabilities Approach are dominant paradigms explaining those issues. The Resource Based View of the firm focuses on internal, firm-specific factors and their effect on performance (Grant, 1991, Peteraf, 1993, Amit and Schoemaker, 1993, Collis, 1994).

The study of Bontis, Keow and Richardson (2000) show the positive significant relationship between HC and firm performance for both service and non service industries. Carmeli and Tishler (2004) and riahi-Belkaoui (2003) proved the positive association between HC and firm future performance. On the other hand, the research suggests that the relationship might be industry and country specific. Bontis (1998) in his exploratory pilot study showed a valid, reliable, significant and substantive causal link between dimensions of HC and business performance. In addition, the study confirmed that those three constructs (motivation, education and experience) affect each other, for example education without the support of motivation is practically useless, experience without the support of education is also useless etc. Carmeli and Tishler (2004) go on further on the argument of the importance of interactions between HC elements and they found out that those relations enhance organizational performance.

In general the studies prove the main contention of the resource based view positive relationship between intangibles and firm performance (Bontis, Keow and Richardson, 2000, Riahi-Belkaoui, 2003, Li and Wu, 2004, Chen, Cheng and Hwang, 2005). Different dimensions of firm current and future performance are considered, like survival and profitability (Delios and Beamish, 2001) or firm's market value and financial performance (Chen, Cheng and Hwang, 2005). Ranzijn and Verboom (2004), understood firm performance to be the bottom line, which means profit. Thus, performance of a company depending on the users can be judged from the profit generating potential of an organization or the market share and or asset base. In order to communicate performance, financial analysts use a number of techniques to establish a firm's performance. For this study, such rations as net profit margin (NPM), return on capital employed (ROCE) and earnings per share will be considered. This is in agreement with Spivey and McMillan (2002) who stated one way to know the organization that is doing well is through using the profitability ratios. Based on the inadequacy on the link between human capital and performance, calls for testing the following hypothesis.

H4: Human capital positively influences performance of manufacturing firms in Uganda

III. Methodology

a) Design, population and sample

The study used a cross-sectional, qualitative and quantitative research designs to address the stated hypotheses. The study population included 49,000 registered MLMC`s in Uganda (UBOS directory, 2013). The sample size of 397 MLMCs with 1,087 respondents was generated using Yamanae (1973). According to Yamane (1973), the sampling tables indicate that with this range and at precision levels of +-5% (confidence level of 95%, p = 5), the average sample becomes 397 objects, at precision level of +-3% (confidence level 97%, p= 3) the sample becomes 1,087 objects and at +-7% (confidence level 93%, p=7) it becomes 204 objects. We took the first and second level of 397 MLMCs at precision level +-5 percent and 1,087 respondents (CEO`s, finance, production, human & administrative managers and senior employees) at precision level of +-3 percent which was representative enough for such population and it fairly yields better results. Besides, the sample size generated using this approach fairly mirrors the results one would have got using a table of random samples by Krejcie and Morgan (1970) and Isreal (1992). Stratified and purposive sampling techniques were used based on a firm that was in existence for the last 5 years and employs at least 100 employees and above.

The unit of analysis was MLMCs and CEO`s, finance, production, human & administrative managers and senior employees acted as units of inquiry. The developed MLMCs strata included 286 medium manufacturing firms (MMF) and 111 large manufacturing companies (LMC). Out of the top managers and senior employees targeted per MLMC, five respondents (three top managers and 2 senior employees) were studied. The decision to accept a minimum of five respondents per MLMCs was based on previous scholars such as Baer and Frese (2003) and Ngoma (2009).

By opting for this methodological approach, perfect information symmetry is ensured as such respondents are perceived to know how the employees are handled and the financial gains a firm gates out of the employees hard work. Such symmetry of information could not be as easily achieved by collecting data from other stakeholders such as the public and other lower workers for instance shop attendants, store keepers because they were presumed to have little information regarding the subject matter.

The study variables were operationalized based on previous studies. In addition, a five-point Likert scale developed by Rensis (1930) was adopted for all item scales ranging from 1- strongly disagree to 5 - strongly agree. HC was measured on the basis of employee educational level, employee experience and employee level of motivation in line with the Intangible Asset Monitor (IAM) developed by Sveiby (2001), later modified by Petty and Guthrie (2004). The main focus was on employee know-how, education, qualifications, work – related knowledge and work- related competence. Performance of manufacturing companies was measured using the works of different scholars such as Ledgerwood (2011), Glautier M W E & Underdown B (2001) together with the Performance Monitoring Tool (2006/2008). Financial performance ratios such as net profit ratio (NPM) and return on capital employed ratio (ROCE) were used for each MLMC.

The questionnaire was validated through expert interviews and by a panel of expert practitioners and was then physically delivered to the selected respondents at their work premises on appointment. A survey was adopted as the most appropriate method of data collection and previous research supports the reliability and validity of the self-report measures (Lechner et al., (2006). This approach consists of a selection of key information providers by virtue of their position, knowledge and information available (McEvily and Marcus, 2005).

IV. Results and Discussion

a) *Descriptive Statistics*

Data from 359 MLMC`s (897 respondents) out of the targeted 397 (1,087 respondents) was received representing an average response rate of 91 percent (256 medium manufacturing firms and 103 large manufacturing companies). The larger number of the respondents were males (512) representing 57 percent and females (385) representing 43 percent; 36 percent (319 respondents) had a bachelors degree as the highest qualification, 41 percent (371 respondents) had a diploma, 12 percent (111 respondents) had a certificate and the rest 11 percent (96 respondents) had a masters degree. The majority the MLMC`s 67 percent (241 companies) had been in operation for a period between 5 - 10 years while the rest 33 percent (118 MLMC`s) had been in operation for a period of more than 10 years. The mean score of the element of HC (employee educational level, employee experience and level of motivation) and performance were established as 4.2, 3.9, 3.8 and 4.1 and the standard deviation of 0.56, 0.67, 0.74 and 0.76 respectively and the CVI were established as 0.87, for the HC and 0.77 for performance. Given that the standard deviations are small compared to mean values, it is true that the computed means highly represent the observed data. In effect, the calculated averages are a good replica of reality (Field, 2006 & Saunders et al., 2007).

Principal component analysis for HC was performed (Field 2006) and yielded three factors namely employee education level accounted for 41.3 percent, employee motivation accounted for 32.8 percent and employee experience accounted for 25.9 percent) and performance of manufacturing firms was explained by 66.6 percent.

b) *Testing the hypotheses*

Table 1 : Testing the hypothesis and Correlations

HC indicators		Correlation with export intensity:	Comment
H1	Employee educational level	.356** (.000)	Supported
H2	Employee level of motivation	.293* (.001)	Supported
H3	Employee level of experience	.257* (.001)	Supported
H4	Human capital	.714** (.000)	Supported

*Note: Significance levels *P<0.05 (95%); **P< 0.01 (99%)*

The findings in Table 1, show a significant and positive correlation between employee education level and firm performance ($r=.356^{**}$, $p<.01$; Sig.000), employee level of motivation and firm performance (*r=0.293*, p<.05: Sig.001)*, employee level of experience and firm performance (*r=0.257*, p<.05; Sig.001*). Thus our results support H1, H2 and H3.

As can be seen from the table above, HC (H4) as a whole is associated with firm performance (*r=0.714**, p<.01: Sig.000*). This implies that when shareholders invest more firm funds in recruiting employees with the required qualification and experience and then motivates them appropriately commensurate to their work efforts, the level of performance of manufacturing firm's increases in return.

The research results are in line with those of Barney, (1991), Kamukama (2010) and strategic HRM by Huselid, et al., (2007), who argued that the organization-specific HC is of strategic importance to organizational performance. Thus, the collaboration of HC (Fitz-end 2006) results in the improvement and establishment of efficient and productive systems and processes, and/or the innovation of new products and services.

c) *Regression results and interpretation*

A regression analysis was performed in order to establish the relationship HC has towards the overall performance of MLMC in Uganda. The results are given in tables below

Table 2 : Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% confidence interval for B	
		B	Std. Error	Beta			Lower	Upper
1	(Constant)	18.737	8.769		2.137	.000	1.272	36.202
	Education	.241	.081	.285	2.743	.000	.097	.483
	Motivation	.346	.095	.378	3.637	.001	.156	.535
	Experience	.272	.078	.331	2.245	.001	.108	.511

a. *Dependent Variable: Firm performance*

Regression Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.742[a]	.551	.559	4.35648

Regression results in Table 2 show that HC elements (education level, experience and motivation) explain 55.9 percent of the variance in performance of MLMC`s in Uganda.

V. Discussion and Conclusion

a) *Employee educational level and performance of manufacturing firm*

The findings revealed that Employee educational level improves performance; the key attribute of employee education is that it is measured by the qualification at various levels an employee has entered the company with. The results imply that firms which invest capital to strengthen their recruitment process by way of advertising available jobs, short listing candidates based on job requirement and qualification, and then orientation, job description and job specification properly laid down to employees; benefit the organizations in one way or the other.

These results are in agreement with the findings made by Huselid et al., (2005), who found out that employees represent the most valuable and most costly variable in the execution of organizational performance. He concluded that they must have the right qualification in order to be fit on the right jobs. Otherwise it would be disaster to recruit a wrong person amidst the cost involved, and he or she does improper things.

Therefore, it is important for manufacturing firms in Uganda to recruit employees who have the right qualification for the job.

b) *Motivation and performance of manufacturing firms*

The study revealed that there exist a significant and positive relationship between employee motivation and firm performance. Therefore, boosting an employee by a way of providing him/her with recognition awards, availing employees' overtime and flexible work schedule, staff development and incentive pay between the lowest and high performing employees are deemed to improve organizations performance but in the long run are a waste of organizational resources because they are seen as de-motivators since they form a basis for further demands. There therefore a need for policy on incentives to streamline rewards. In addition, financial rewards are associated with costs to an organization and if not properly regulated; can significantly reduce the profits of an organization there by affecting organizational performance.

Our findings are in agreement with those of earlier scholars such as Berggren and Fitz-Enz, (2006) and Huselid et al., (2005), who argued that maintaining well motivated employees are essential to the success of every organization and that the lack of understanding by those in authority on how to motivate their employees will hurt the organization. Successful organizations are the ones that can find the potential on an individual basis and act upon that potential to fully exploit it.

c) *Employee experience and performance of manufacturing firms*

Results from the study revealed that there exists a significant and positive relationship between employee experience and performance. This goes hand in hand with the education level and the number of years has served either in other organizations or within the same company itself or in addition to other trainings attained. The results imply that firms which invest capital to strengthen their employees level of experience through training and by use of qualified persons, use of several training methods, training based on employee training needs and needs requirement of employees leads to significant performance returns and enables the organization to achieve its goals because an experienced and qualified employee can turn the company round.

This result is in line with the earlier findings and recommendations made by Schutz, (1997); Sakanota & Powers, (1995), in the cognitive theory who stated that employees contain a stock of knowledge that is not an end to its means but needs continuous harnessing through training in order to keep the employees updated on work requirements and dynamics of quality.

d) Human Capital and performance of manufacturing firms

The study findings from the correlation established a significant relationship between HC and firm performance (r=0.714**; p-value<0.01). This implied that when firms invest capital in strengthening their recruitment process to tap qualified employees based on their level of education and experience and then motivates them appropriately, performance increases.

Our results are in line with the findings of the resource-based view (RBV) of the firm developed by Barney, (1991), and strategic HRM by Huselid, et al., (2007), who argued that the organization-specific HC is of strategic importance to organizational performance. Thus, the collaboration of HC (Fitz-end 2006) results in the improvement and establishment of efficient and productive systems and processes, and/or the innovation of new products and services.

The results are further supported by the findings of Olaniyan and Okenakinde (2008), who asserted that HC is a key factor in the performance of an organization. He further argued that it comes up as a result of the process that must be enshrined in the company human resource policy of ensuring that an organization has the right people, who are rightly placed, remunerated and ultimately managing them within, such that they do not resign or exit.

VI. Summary and Conclusion

As a result of the discussion, the study confirms that, HC elements (education level, motivation and experience) are significant predictors of performance in the MLMC`s of Uganda. Of the HC elements, employee education level has the highest significance and therefore is more important in influencing performance of MLMC`s. Thus, a combination of all the HC elements predicts 55.9 percent of the variation in performance of MLMC`s.

VII. Implications for Management and Researchers

a) Managerial implications

The study has introduced a comprehensive understanding of the effect of HC elements on performance of MLMCs. This promotes management effort to improve on their performance that can be facilitated through recruiting employees based on the right qualification and experience in relation to the job requirement and strategic firm objective (profit or wealth maximization and quality objective) and motivating employees appropriately and on time in a more economical and efficient way taking into account the inflationary pressure. The management of MLMCs further needs to encourage greater understanding and acceptance of the HC mix across board in order to create an improved performance, promote economic growth and provide employment to the unemployed.

Since MLMCs are meeting a number of costs when recruiting, training and motivating employees that are becoming unavoidable and making the operation costs high that eventually affects their performance, manufacturing companies should devise a mechanism that can enable cost cutting their other spending areas in order to provide enough to HC development because it is a core to the functionality of any company. This will attract competent workers that will be utilized to improve on output and quality thereby improving on the financial performance of manufacturing companies.

b) Theoretical implications

The study has addressed practical issues that have not been attended to for long by both literature and by practitioners and has further shown that HC is essential for the survival and performance of MLMCs in addition to the employment they provide, improvement in GDP among others. Thus, the study has contributed to the on-going debate concerning the HC in the field of intellectual capital and performance.

From the literature, scholars have different views concerning HC and business management dimensions. This study has brought out the key HC elements (education level and experience of an employee and motivational levels) as crucial elements if MLMCs are to attain better performance. This therefore widens the literature on HC.

c) Limitations of the study

The findings of this study have some limitations that provide the initiatives for future research; and some of these include:

- Due to the confidentiality of the required information, the data provided were based on top managers and senior employees who self-reported on their own MLMC. Therefore, the measures were not based on raw data.
- A single research methodological approach of data collection was used (structured questionnaire). This limited respondents' scope of answering since their views were predetermined.
- Thirdly, a multiple regression for HC elements was done producing a single percent for all the studied components. In addition the result (55.9 percent) for HC is just above average an implication that there are other factors that contribute to performance that needs a further study.
- Finally, the present study is cross-sectional; it is possible that the views held by individuals may change over the years.

In spite of the limitations, policy makers dealing with service provision, academicians, politicians, heads of MLMCs and general public interested in the field of HC might find this study important.

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Global Journal of Management and Business Research: D
Accounting and Auditing
Volume 14 Issue 2 Version 1.0 Year 2014
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Analysis of the Scientific Production and Training in Management Accounting of Doctors in Brazil

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Abstract- The objective of this study was to analyze the scientific production and training in management accounting of doctors in Brazil. To achieve this objective, six Brazilian accounting journals were selected according to Qualis from CAPES (Coordenação de Aperfeiçoamento de Pessoal de Nível Superior –Brazilian Federal Agency for Support and Evaluation of Graduate Education),published from 2001 to 2013, as well as doctoral dissertations in accounting published from 1962 to 2013. The results showed an increase in publications at the beginning of the period analyzed and a slight decrease over the past two years. The training of doctors in management accounting underwent an increase in absolute terms, which in some ways was a reflection of the growth in recent years of doctoral education in accounting in Brazil.

Keywords: *management accounting, scientific production, doctors, education.*

GJMBR-D Classification : *JEL Code: M00, M19*

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Strictly as per the compliance and regulations of:

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I. Introduction

In recent decades, the subject of management accounting has been created in universities as a social science, increasing the credibility and status of this field of knowledge (Baldvinsdottir, Mitchell and Norreklit, 2010).At first, this status led to a growth of research in the fieldof management accounting(Ittner and Larcker, 2001 and 2002; Zimmerman, 2001; Hopwood, 2002; Lukka and Mouritsen, 2002; Luft and Shields, 2002; Chapman, Hopwood and Shields, 2007; Malmi and Granlund, 2009; Vaivio and Sirén, 2010; Modell, 2010; Lukka, 2010), but a decrease in publications has been observed over the last decade (Bonner et al., 2006; Hesford et al., 2007; Merchant, 2010; Lunkes et al., 2012).

Despite this initial growth and its importance, management accounting has been losing ground in academia and in the research world (Lukka, 2010; Merchant, 2008 and2010).According to the literature, publications, mainly in the United States, have been losing ground to other accounting areas, such as financial accounting. This phenomenon is affecting the participation of professors from the management area in graduate programs and in the training new doctorates in management accounting.

Additionally, Merchant (2010) reported that there is an institutionalized culture of what should be considered a study and how studies should be developed. Thus, management accounting has been weakened, and the possibility of a study being accepted for publication in major accounting journals in the United States is lower than for other areas. This phenomenon has led to publications on management accounting being rare in these publications, due to the migration of researchers, in addition to a lack of attraction of new doctoral students to management accounting areas. This scenario has caused non-financial subjects to be removed from the curricula of U.S. accounting programs, and the professors of financial areas are thus becoming the vast majority.

Several studies have been conducted to analyze the level of publications in management accounting in Brazil (Oliveira, 2002; Lunkes et al., 2011), in the United States (Bonner et al., 2006; Hesfort et al., 2007) and in Spain (Pérez et al., 2005; Lunkes et al., 2012).

Although, as stated, management accounting suffers from restrictions and is losing ground in the United States, Hopwood (2008) reported that this phenomenon did not occur in European and South American countries because of the proportionately greater number of papers in management being presented at conferences and workshops in those regions, as well as several conferences in management accounting and (high-quality) journals that publish research on all types of accounting (Merchant, 2010). Aiming to confirm such claims, the research problem of this study was to determine what is the level of publication and training of doctorates in management accounting in Brazil.

Brazil was selected for this study due to the attention that the country has been receiving on the world stage as an emerging economy. Brazil's GDP grew by 7.5% in 2010, occupying eighth place in the world rankings, although, at some point, the country was in sixth place in the world ranking (The Economist, 2013).

To achieve the objective of the study, which was to analyze the scientific production and training of doctorates in management accounting in Brazil, the paper encompasses, in addition to this introduction, an exposition of the origins and development of management accounting and of studies related to

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scientific production and the training of doctorates in management accounting. The third section describes the methodological procedures used in this study. In the fourth section, the results of the research are presented, and the fifth section includesa discussion and the conclusions of the work.

II. Literature Review

a) *Origins and Development of Managerial Accounting*

Since 1960, management accounting has emerged and established itself as a social science (Ryan, Scapens and Theobald, 2002). In general, this process occurred due to an emphasis on empiricism and positivism (Zimmerman, 1979; Watts and Zimmerman, 1979), together with the growth of case and field studies in Europe (Panozzo, 1997; Drury and Tayles, 1994; Drury and Tayles, 2005) and the establishment of this field as an academic subject (Baldvinsdottir, Mitchell and Norreklit, 2010).

During the initial stages of its implementation, management accounting was strongly grounded in economic theories, although this scope has constantly expanded with the inclusion of social sciences, such as sociology, psychology and organizational studies, in addition to mathematical analysis and philosophy. These interdisciplinary developments have aided the implementation and expansion in scope of management accounting and primarily have afforded it academic and professional credibility (Baldvinsdottir, Mitchell and Norreklit, 2010).

However, for many authors (Ittner and Larcker, 2001 and 2002; Zimmerman, 2001; Hopwood, 2002; Lukka and Mouritsen, 2002; Luft and Shields, 2002; Chapman, Hopwood and Shields, 2007; Malmi and Granlund, 2009; Vaivio and Sirén, 2010; Modell, 2010; Lukka, 2010; Merchant, 2010), management accounting is facing two basic problems: (i) lack of publications in major accounting journals and (ii) the training of new doctorates in the management area.

According to Merchant (2010), a smaller proportion of works is published on management accounting compared to other areas. Hopwood (2007 and 2008) also showed concern with the narrowing of perspectives and careers related to research in management accounting.

The consequences of this, according to Merchant (2010), are that non-financial subjects are being removed from the curricula of U.S. accounting programs, and professors in financial areas are becoming the vast majority. Moreover, new doctoral students are not being attracted to management accounting areas, which could create an imbalance in the training of doctorates in accounting.

b) *Previous Studies*

Aiming to assess in the literature the scientific production and training of doctorates, studies related to this research subject are described below.

Oliveira (2002) analyzed the topics of 874 articles published during the period from 1990 to 1999 in the journals *Revista Brasileira de Contabilidade* (*Brazilian Journal of Accounting*)– *R.B.C., Revista do Conselho Regional de Contabilidade do Rio Grande do Sul* (*Accountancy Journal of the Regional Accountancy Council of Rio Grande do Sul*)– *RCRC/RS, Caderno de Estudos/Fipecafi*(*Study Notes/ Fipecafi*) – *C.E., EnfoqueReflexãoContábil* (*Focus: Accounting Reflections*)– *ERC* and *Contabilidade Vista e Revista* (*Views in and Journal of Accountancy*) – *CVR*. The subjects of the articles were classified as managerial accounting, financial accounting, accounting theory, accounting education and research,cost accounting, professional practice, public accounting, public budgeting and public finance and international accounting. During this period, management accounting was the most discussed topic.

Bonner et al. (2006) conducted research on five top U.S. journals (*Accounting, Organizations and Society, Contemporary Accounting Research, Journal of Accounting and Economics, Journal of Accounting Research,* and *The Accounting Review*) during the period from 1984 to 2003. In this study, 2,480 studies were analyzed and classified as auditing (543), financial accounting (1,281), management accounting (532), systems (5), tax (119) and others (180).

Next, Hesford et al. (2007) analyzed the publications in ten English-language journals classified among the best — *Accounting, Organizations and Society (AOS), Behavioral Research in Accounting* (BRIA), *Contemporary Accounting Research* (CAR), *Journal of Accounting and Economics* (JAE), *Journal of Accounting Literature* (JAL), *Journal of Accounting Research* (JAR), *Journal of Management Accounting Research* (JMAR), *Management Accounting Research* (MAR), *Review of Accounting Studies* (RAS), and *The Accounting Review* (TAR) —in the period from 1981 to 2000. This study examined 3,272 publications, finding 916 (28%) in management accounting.

Lunkes et al. (2012) searched seven accounting journals listed in IN-RECS (Índice de Impacto das RevistasEspanholas de CiênciasSociais - Impact Index of the Spanish Social Science Journals) andthe "Teseo" database of the Ministry of Education of Spain for accounting theses. The results showed that publications in management accounting corresponded to only 12% of the total, with decreases in absolute and relative terms over the last five years. The training of new doctorates also experienced a small reduction, with the training of 549 doctors by 2010. Furthermore, graduates in management accounting represented 20.5%; in financial accounting, they represented50.5%; and in other areas, they represented 49%. These values show the relative consolidation of financial accounting in Spain, compared to other areas.

Additionally, one can mention other works, such as Carvalho et al. (2010), who conducted a study to characterize the contributions of organizational life-cycle theories to research on management accounting. To this end, the authors developed a bibliometric study using the ProQuest®database that reviewed 22 other studies. Nascimento, Junqueira and Martins (2010) conducted a bibliometric and content analysis of works from the Conference of the National Association of Graduate Programs in Accounting (Congresso da AssociaçãoNacional dos Programas de Pós-GraduaçãoemCiênciasContábeis -ANPCONT/Brazil) and the Conferences on Accounting and Controllership at the University ofSão Paulo (USP/Brazil), from 2007 and 2008. Cardoso, Pereira and Guerreiro (2007) analyzed research profiles focused on costs in the field of management accounting and control from the National Meeting of the National Association of Graduate and Research in Management (EncontroNacional da AssociaçãoNacional de Pós-Graduação e PesquisaemAdministração – EnANPAD; Brazil) from 1998 to 2003.Additionally, Mendonça, Riccio and Sakata (2009) analyzed the temporal evolution of scientific production in accounting in Brazil and the relationship between the normative and positivist approaches. The EnANPAD Proceedings were analyzed over the period from 1996 to 2005. Along the same line of research, Beuren, Schlindwein and Pasqual (2007) studied the profiles of research in controllership in papers published in the proceedings of the EnANPAD and of the USP Conference on Controllership and Accounting (Brazil) in the period of 2001-2006.

An article by Valacich et al. (2006) analyzed the proportions of articles published in the best journals by business schools in 1994-2003. Engwall (1998) analyzed the French authors who published in international management journals, their geographical origins and the orientations of these authorships. The top15journals in the field of management were analyzed during the period of 1981-1992.

Hesford and Potter (2010) conducted an analysis of accounting articles published in *Cornell Hospitality Quarterly*. Additionally, Alcouffe, Berlande and Levant (2008) studied the process of actor-network building over time, using the Georges Perrin Method (GPM) and Activity-Based Costing (ABC).

White (1996) identified 125 different measurements related to strategy, through a survey of the accounting, manufacturing (production) and management literature. Tahai and Meyer (1999) analyzed 23,637 references from scholarly journals cited in 1,275 articles published in 17 management journals during 1993 and 1994.

III. Research Methodology

This study was characterized as descriptive regarding its objectives (Richardson, 2008). A structured process was used to select articles on accounting, and a literature review was used to examine these articles. The methodological procedures used are explained below.

a) *Structured Process to Construct a Theoretical Framework*

The structured process for the selection and analysis of bibliographic references was divided into three phases: choice of databases, selection of articles and systemic analysis (Rosa, Ensslin and Ensslin, 2009). The first phase grounded the choice of the database; the second obtained a portfolio of articles from a set of pre-determined parameters for the selection of items aligned with the theme (use of keywords, screening of title, abstract and full text, respectively) and that are scientifically recognized (based on the number of citations); and finally, the third stage consisted of the systemic bibliometric analysis of the portfolio of articles.

Based on this structure, articles aligned with the theme of scientific production and doctorates in management accounting were selected. To obtain the selected articles, the phases and stages were conducted sequentially. The ISI - *International Statistical Institute*, SCOPUS and SCIELLO databases were used.

The keywords used were *"scientific production"* and "*accounting doctors*" and their combinations. In the ISI, articles were selected using these keywords and considering the areas of *business, finance, management* and *economics*. In SCOPUS and SCIELLO, the keywords were used when considering multidisciplinary areas.

b) *Procedure for the Selection and Analysis of Research Data*

To generate a discussion considering the Brazilian context, studies were conducted in the major journals on accounting and in graduate programs in accounting, mainly from the perspective of management accounting. To analyze this problem, from the viewpoint of research in Brazil, publications on management accounting in leading accounting journals, according to Qualis (Capes), were identified and analyzed. In addition, the training of new doctorates in accounting by the main higher education institutions (University of São Paulo [Universidade de São Paulo – USP], University of Brasília [Universidade de Brasília - UnB] and Regional University of Blumenau [Universidade Regional de Blumenau – FURB]) was also analyzed.

One limitation of the analysis of accounting journals is worth mentioning here. That is, at the same time that it indicates the profile of research in specific journals, it also stratifies the population of articles because articles on management accounting can also be found in journals from related fields, such as administration, management and production engineering. In this article, we chose to conduct the

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analysis considering specificity. Thus, for the selection of journals, the term "*contabilidade*" or "*contábil*" (both translated as "accounting") was considered,as well as these terms' inclusion in Qualis from Capes (Coordenação de Aperfeiçoamento de Pessoal de Nível Superior–Brazilian Federal Agency for Support and Evaluation of Graduate Education), considering the publications with the best classifications, namely,A1, A2 and B1. The choice of Qualiswas due to its wide spread use in the classification of studies in Brazil, including for evaluating graduate programs in the country, and the impossibility of using another database. Moreover, the accounting field has no journals with A1 classification nor any journals indexed in ISI or JCR. For the selection of articles, a period of 13 years was considered (2001 to 2013).

Six Brazilian journals were selected: *Revista de Contabilidade & Finanças* (*Accounting & Finance Journal*), *Revista de Contabilidade Vista & Revista* (*Journal of Viewed and Reviewed Accounting*), *RevistaUniversoContábil* (*Journal of Universal Accounting*), *RevistaContemporânea de Contabilidade* (*Journal of Contemporary Accounting*), *Revista de Contabilidade e Organizações* (*Journal of Accounting and Organizations*) *and Revista eAdministração e Contabilidade da Unisinos– Base* (*Journal and Administration and Accounting of Unisinos – Base*).

As for the selection of doctorates in accounting, this study included the theses from the "theses" database of the Ministry of Education and Graduate Programs in Accounting in Brazil. All of the programs in the country under the name "accounting" were considered. Data were collected between January and February 2014.

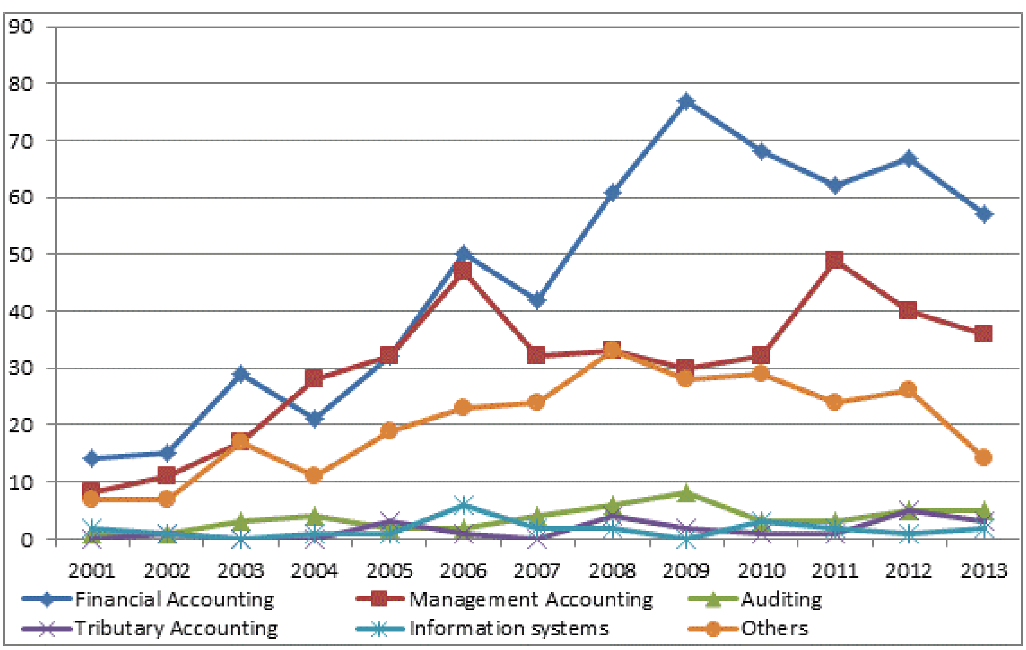
To classify the accounting publications and theses, this study was based on the divisions provided by Brown and Gardner (1985a), Brown and Gardner (1985b), Brown et al. (1987), Shields (1997), Pérez et al. (2005), Hesford et al. (2007), Lunkes et al. (2011) andLunkes et al. (2012),in financial accounting, management accounting, auditing, tax and fiscal accounting, information systems and others.

IV. Presentation of Results

For a discussion from the perspective of scientific production and training of doctorates in accounting in Brazil, this material will be contextualized with an analysis of publications in major accounting journals and the training of new doctorates in accounting.

a) Publication of Studies in Accounting Journals

For the analysis of publications in accounting, six Brazilian journals were selected as indicated in the Methodology section. The results showed that Brazilian accounting journals exhibited an average publication of articles in management accounting for approximately 29.5%. On the one hand, this percentage is similar to the 28% reported by Hesford et al. (2007) in their study of the ten main accounting journals in the United States during the period of 1981-2000. On the other hand, it is significantly greater than the percentage found by Lunkes et al. (2012) in accounting journals in Spain (12%) in the period of 2001-2010.



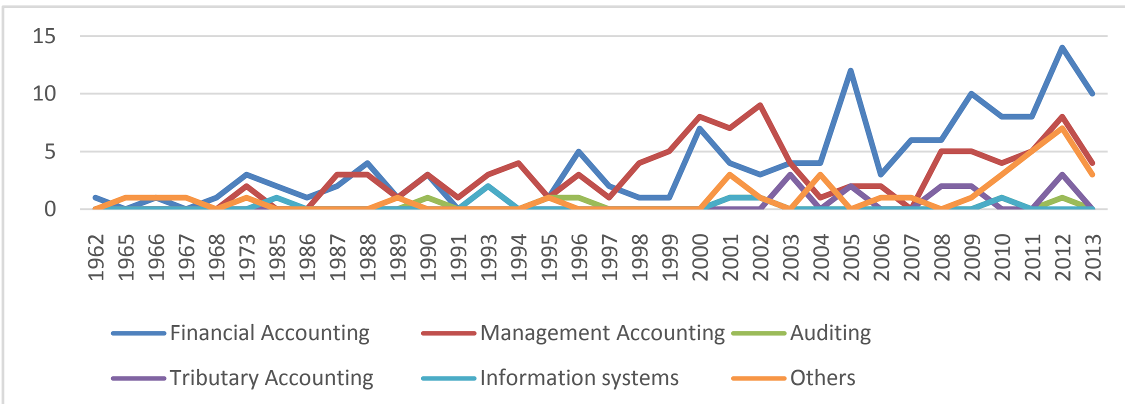
Plot 1 : Numbers of articles published in the main accounting journals

Although the number of articles published in financial accounting has increased greatly since 2006, management accounting grew in the early years, exhibiting a decrease after 2006. That is, 2006 was the turning point, generating an opposite behavior to that of financial accounting, which displayed a rapid growth, with the decrease in publications in management accounting. This phenomenon should be monitored in the coming years to analyze whether the seasonality in the levels of publication will be maintained or whether we are in reality moving toward the same situation as that of the United States (Bonner et al., 2006) and Spain (Lunkes et al., 2012), which have low levels of publication in management accounting.

Another factor worth noting is the low number of publications on the topics of auditing, taxation and systems, which throughout the period analyzed was significantly lower than the levels of publication on financial and management accounting and other areas. There has also been considerable publication in Brazil in the field of accounting education, which explains the number of publications in the “others” category.

b) Training of Doctorates in Managerial Accounting

Doctoral education in accounting in Brazil grew in 2008-2012, with an average of approximately 20 new doctorates per year. Plot 2 shows the training of new doctors in financial accounting, management accounting, systems, tax, auditing and others, by major accounting programs in the country from which doctors graduated during the period covered by the study.



Plot 2 : Number of doctors who graduated from major branches of accounting

The results showed that the training of doctors in financial accounting was higher than that in management accounting and that the proportion of doctors in financial accounting has been growing in recent years, compared to management accounting. This finding corroborates the study by Lunkes et al. (2012) conducted in Spain, in which training in financial accounting was far greater than training in management accounting. This finding indicates that the aspects related to the lack of publication and low training of doctorates in management accounting in Spain were slightly more pronounced compared to Brazil. Overall, Brazil's problem is the low training of doctorates in all branches of accounting.

V. Discussion and Conclusions

The objective of this study was achieved with the classification of publications in management accounting in major accounting journals (Plot 1), and the number of doctors in accounting (Plot 2).

The results concerning the number of publications in management accounting corroborated the findings of Hesford et al. (2007), who conducted a study of ten major English-language accounting journals. However, comparing the findings of this study with those of Lunkes et al. (2012),who conducted a study of seven accounting journals from Spain, and Bonner et al. (2006),who studied the top five accounting journals in the United States, shows that the concerns of Hopwood (2007 and 2008), Merchant (2010), Lukka (2010) and Modell (2010) are justified. Although the initial growth (2002 to 2011) of publications on management accounting in Brazil has slowed, and the number showed a slight decrease in 2012 and 2013, these changes might be temporary.

Some of the explanations highlighted in the literature for the decrease in the number of publications include the following: the lack of depth (Ittner and Larcker, 2001; Hopwood, 2002; Mourisen and Lukka, 2002); the lack of creativity among researchers in management accounting (Zimmerman, 2001); and the lack of data (Ittner and Larcker, 2001; Pérez et al., 2005; Hopwood 2008, and Merchant, 2010). Other causes include excessive focus on describing management practices through case studies and surveys (Zimmerman, 2001; Ittner and Larcker, 2001; Gendron, 2007) and the diversity of conceptual sources (Ittner and Larcker, 2001; Luft and Shieds 2002), which includes the lack of hypotheses (Zimmerman, 2001; Lukka and Mourisen, 2002). These factors, coupled with the new accounting standards in Brazil, which have naturally resulted in increased production in financial accounting, might lead to a narrowing of research in management accounting.

This trend is a possible sign of a future decline and of a lack of publications in management accounting. At this point, it is believed that studies in management accounting should not be evaluated using the same evaluation systems as in other areas of accounting, in terms of the methods and forms of presentation. For example, the U.S. model requires a large number of data for new and emerging issues (MERCHANT, 2010), which makes research in management accounting practically unfeasible because management databases must be constructed, and this construction requires funding sources, which are scarce. One must consider that management accounting must produce its own data, thus making research difficult and costly (ITTNER AND LACKER, 2001 AND 2002; HOPWOOD, 2007 AND 2008; MERCHANT, 2010).

The United States launched its first doctoral program in accounting in 1938 (BEDFORD, 1997). Today, the country has approximately 91 universities that offer doctoral programs in accounting or doctoral degrees in administration with a focus in accounting (HASSELBACK, 2014). Spain offers 32 doctoral programs whose names include the term “accounting” (LUNKES ET AL., 2012), in addition to finance, administration and economics, among other terminologies. In Brazil, there are only eight doctoral programs in accounting: University of São Paulo (USP), created in 1978; University of Brasilia (UB), created in 2006;doctoral program in Accounting and Business Administration at the Regional University of Blumenau (Universidade Regional de Blumenau – FURB), created in 2008; Foundation Institute Capixaba of Research in Accounting, Economics and Finance (Funda- çãoInstitutoCapixaba de PesquisasemContab- ilidade, Economia e Finanças - FUCAPE), created in 2009; University of Bells River Valley (Universidade do Vale do Rio Sinos – UNISINOS), created in 2013, Federal University of Santa Catarina (Universidade Federal de Santa Catarina - UFSC), created in 2013; Federal University of Rio de Janeiro (Universidade Federal do Rio de Janeiro - UFRJ), created in 2013; and University of São Paulo-RibeirãoPreto (USP-RP), created in 2014. This history shows that of the eight doctoral programs in accounting, seven were created in recent years.

These results show that the training of new doctorates in accounting in Brazil has much room for growth and improvement compared to the United States, with 7,531 doctors in 2011 and Spain with 549 doctors in 2010. Moreover, the training of doctors in accounting is low overall, in addition to being concentrated in the field of financial accounting in recent years. Notable is the training of doctorates in other areas of accounting, mainly related to the field of education and teaching. On this particular point, the results were not conclusive because the training of doctorates in management accounting in Brazil has shown consistent growth, which can also be observed in other areas.

Recommendations for future studies include the possibility of expanding research to the identification and analysis of scientific production and the training of doctorates in other accounting branches (auditing, tax accounting and systems), which exhibited low results. Additionally, the inclusion of other databases, such as ISI, SciELO, Dialnet and Latindex, among others, could increase the possibility of inclusion in Brazilian and U.K. journals, among other possibilities. Finally, conducting research into the publication and training of new doctorates in accounting in other countries is another possibility for future research.

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Global Journal of Management and Business Research: D
Accounting and Auditing
Volume 14 Issue 2 Version 1.0 Year 2014
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Accounting, FRQ, Emerging Countries Transition: How can a Country Implement an IFRS Standard Change Successfully?

By Dr. Najeb Masoud
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Abstract- This study examines the variables affecting the decision to adopt IFRS standard by seventy-eight emerging market economy (43 adopting IFRS and 35 non-adopting) over the period 2006-2014. The results of the study are primarily an exploratory process framework for the implementation of IFRS standard changes and secondarily a set of variables seen as affecting the IFRS standard change implementation process in emerging countries. Key variables include the following twelve variables: culture (Anglo-Saxon), political system, educational system, legal environment, economic growth, privatisation, foreign direct investment, firm size, liquidity, and cost of equity capital, audit quality (Big 4) and transparency. Finally the main limitations of this study are outlined and opportunities for future research are discussed, particularly in relation to this study's findings about the requirement to reconsider the usefulness of the relationship between accounting practices and framework adoption of IFRS by emerging countries.

Keywords: international financial reporting standards (IFRS), financial reporting quality (FRQ), adopted/ nonadopted, implementation framework, emerging countries.

GJMBR-D Classification : *JEL Code: M40, M41, M42*

ACCOUNTINGFRQEMERGINGCOUNTRIESTRANSITIONHOWCANACOUNTRYIMPLEMENTANIFRSSTANDARDCHANGESUCCESSFULLY?

Strictly as per the compliance and regulations of:

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I. Introduction

a) *Background*

In last decades the world became a more global arena with eliminating boundaries of countries and financial markets by the international moves of goods and capital. The International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) have proposed, as part of their joint project to harmonise accounting standards. The standard IASB and FASB provided in their common conceptual framework that "*the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity*" (IASB and FASB, 2010). In the common conceptual framework of the IASB and FASB comparability is regarded as a qualitative characteristic that enhances the helpfulness of information. It helps users of financial information to decide between investment alternatives. Comparability implies that similar economic events are reflected similarly in accounting outcomes and different economic events are reflected dissimilar.

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Accounting Standards Board (IASB) issued international financial reporting standards (IFRS) that would be adopted worldwide and establish harmonisation of accounting standards. The European Commission required mandatory adoption of IFRS in the European Union (EU) from 2005 onwards. This is a big step towards global harmonisation in financial reporting as 27 member states of EU adopted a single set accounting rules. The movement towards adoption of IAS referred to IFRS as financial reporting standards accounting model is widely accelerated emerging countries in recent years, especially after EU adoption. It is essential to have high-quality standards and reporting practices to provide users of financial information with what they need (Biobele *et al*., 2013). There is growing evidence that, in various different user-groups, adopting IFRS does improve the comparability and quality of the financial information reported by firms (e.g., Daske *et al.*, 2008; Bissessur and Hodgson, 2012). As Jenkins (2002) stated that, 'high-quality' financial reporting is essential to maintaining an efficient capital market system. In this way, Barth *et al*. (2008) examined the accounting quality of the IFRS in 21 countries and found that less earnings management, more timely loss recognition, and more value relevance as compared to a control group of firms following non-US national accounting standards. These findings help support the idea that accounts prepared under IFRS conventions present users with useful information to increased disclosure are related to less uncertainty for investors and thus, a reduction in the information asymmetry between managers and shareholders, a key goal of the IASB (IASB, 1989, paragraphs 15-18; Diamond and Verrecchia, 1991). Choi and Levich (1991) illustrate that the single set of accounting standards allow for comparison of financial statements between countries. Thus, potential investors are able to compare financial reports that are prepared under the same standards (Larson, 1993). Given the evidence that IFRS has improved the quality of financial reporting information, it is significant to identify conceptual framework that could explain the choice of applying IFRS standard adopted by number 78 emerging countries during 2006 to 2014 period.

b) *Purpose and Research Objectives*

The purpose of the study is to understand how the around hundreds of companies that are reporting under IFRS has led to great interest in the impact of these standards changes after the largest project for the firm has already been undertaken from both academics and practitioners. The two main purported benefits of instituting a single set of global accounting standards are potential improvements in the quality of reported information as well as convergence benefits, such as greater ease of comparing financial statements of companies across countries and consistency in auditing practices. However, despite this wide-spread movement toward IFRS, study on the actual materialisation of convergence benefits is sparse.

Following World War II, each country had its own Generally Accepted Accounting Principles (GAAP), or proper accounting practice. Existing study has concentrated largely on the initial adoption of IFRS standards as a whole, including cost-benefit analysis and research on how companies can convert from local GAAP (Deloitte-IFRS, 2011). Today many countries around the world have begun to adopt these standards or are questioning adoption. It is important to understand the effects of these standards as they have been becoming the sole language for financial reporting. Standard setters, researchers and practitioners emphasise that the mandated adoption of IFRS will have a significant impact on accounting quality. In the wake of the huge changes facing IFRS adoption, research on IFRS standard change implementation and its effectiveness is in high demand (Jermakowicz, 2006).

The idea of a conceptual framework is to "*provide a set of reliable principles and guidelines*" to achieve a present objective (Christensen, 2010: 287), which in the case of IFRS standards adoption in emerging countries. The key idea in this study, however, is to develop the factors that could explain the implement an IFRS standard change successfully by seventy eight emerging countries over the years ranging between 2006 and 2014. Thus, within the conceptual framework model of a country's the following factors have been selected, seven determinants of macro-economic including: culture feature, political system, educational system, legal environment, economic growth, privatisation, foreign direct investment. In addition, the study uses three individual firms Leverage including: firm size, profitability, liquidity; and two corporate governance factors such as; audit quality, transparency. Most of the selected variables were used in previous studies.

The aim of this research is to determine the most appropriate model for the continued viability behind the decision' adoption of IFRS standard by the emerging countries and to consider an appropriate strategy for the local GAAP of emerging countries to undertake change successfully continuation of the implement an IFRS standard. To achieve this aim, the following study objectives were formulated.

1. To represent the role of IFRS standard for quality accounting information;
2. To contribute to recent literature and the enactment of the accounting standards and FRQ for IFRS.
3. To identify factors that affects the success of the implementation IFRSs process.
4. To investigate if does the adoption of IFRSs have an effect on these countries' economies?.
5. To determine whether the new implementation an IFRSs effects on the emerging countries accounting.
6. To provide particular solution regarding the problems of the IFRSs adoption in the context of emerging countries.
7. To present some policy recommendations for adoption and implementation of IFRSs for ensuring good financial report quality.

The key research question incorporating both of these objectives is: ***How can emerging countries implement an IFRS standard change successfully?***. To answer the study question, the theoretical framework and variables are then empirically modified based on policy implications for emerging countries and other countries with likely accounting structure. Providing evidence of causality will influence the degree of urgency attached to policy reforms designed to promote financial market development. In their turn, Ashraf and Ghani (2005) have stressed that the adopting of IFRS in the developing countries will improve the quality of standards and would reduce the expense and time of preparing the financial statements. They also argue that adopting the international standards will increase the efficiency of financial statements in the stock markets which would become more understandable. The current study may be beneficial for international institutions and regulatory bodies as IASC, IASB, developed and emerging countries in understanding the effect of these standards in different country contexts.

II. Theoretical Considerations

a) *Overview of Adoption of IFRS*

In the 21st century, IFRS have been adopted as mandatory standards for an increasing amount of countries worldwide. IFRS are accounting rules "standards" issued by the IASB, an independent accounting standard-setting body based in London, UK, in 2001 (IFRS, 2013). It is timely to provide some historical perspective that might shine a useful light on the IFRS of today. In order to establish global accounting standards, the International Accounting Standards (IAS) was founded in 1975, refers to standards issued by the International Accounting Standards Committee (IASC) since the IASC was published in 1973 to test high-quality accounting standards to be applied internationally. In March 2000, a new IASC constitution was approved and the name of the international standard setting body was changed to the IASB. The new board (IASB) reports to IASC foundation and assumed its duties in April 2001. The IASB describes its rules under the new label of the IFRS, though it continues to recognise (accept as legitimate) the prior rules (IAS) issued by the old standard-setter (IASC).

However, by 2001 the IASB stated to issue the IFRSs which are mandatory to be adopted at most international stock exchanges except the US which announced its desire to consider the IFRS and there is possibility that the US is going to adopt it as early as 2014 (Kinkela *et al*., 2010). In July 2002, the European Community Regulation 1606/2002 referred to the European Parliament voted to require that all listed companies in the EU apply IFRS starting in the year 2005/2007 and in September 2003 to Regulation (EC) 1725/2003 endorsing all standards IASs in interpretations (SICs) Standing Interpretations Committee standards in EU law, except IAS 32 and IAS 39 and related SICs 5, 16 and 17. On February 27, 2006, the IASB with the FASB have jointly issued documentation to confirming the shared objective of both boards to develop high quality accounting standards to be applied by the international stock markets. Moreover, a number of countries, such as Mexico, Canada, Japan and India, have declared that they are powerfully going to adopt or converge with IFRS during the period from 2009 to 2011 (Kinkela *et al*., 2010). Recently, more than 100 jurisdictions in both developed and emerging countries around the world authorise the implementation of IFRSs is impressive (Guggiola, 2010). And with the passage of time, those that are recalcitrant will become accustomed to the idea that financial reporting, unlike law, should be the same the world over, because the securities markets today are one.

b) Costs and Benefits of IFRS Adoption in the Emerging Countries

Today, IFRSs are the most widely used set of accounting principles across the around the worldwide. Over 120 countries worldwide have been adopted IFRSs in some grade, and more countries are continuing to adopt the standards each year with the hope of increased comparability of financial statements reports (AICPA, 2014). Thus results, would allow investors from all over the world nations' to invest in the best stocks, bonds, and other financial instruments anywhere across the globe economy and not just in their own country or region. According to Lander and Auger (2008), all costs and benefits must be weighed carefully before imposing stricter requirements on companies.

Most of the previous studies have been entirely concerned with costs and problems associated with the adoption of IFRS standard in the developed countries (Bradshaw *et al*., 2004; Jermakowicz *et al*., 2007; Gaston *et al*., 2010; Jarva and Lantto, 2010; Barth *et al*., 2012). For instance, Ball *et al*. (2003), Daske (2006), Lopes and Viana (2007) find that the adoption of IFRSs does not achieve the desired improvement of the quality of accounting information. Clarkson *et al*. (2011) find that IFRS adoption has failed to enhance financial reporting quality, examine 1,722 firms from nine European countries in which early IFRS adoption. Hope *et al*. (2006) find that, consistent with bonding theory, countries with weaker investor protection mechanisms are more likely to adopt IFRS. It also shows that countries that provide better access to their domestic capital markets are more likely to adopt IFRS. However, they have still remained limited as compared to the studies pertaining to the IFRS adoption by the emerging countries, while a number of studies were undertaken (Joshi and Al-Modhahki, 2003; Al-Htaybat and Napier, 2006; Momany and Al-Shorman, 2006; Desoky, 2009; Al-Hayale, 2010; Aly *et al*., 2010). Therefore, Zeghal and Mhedhbi (2006) examined a sample of 32 developing countries having adopted IAS/IFRS and 32 other non-adopting countries. Omneya *et al*. (2003) have examined the language effect on the first introduction of IFRS in Egypt. Through a sample of 72 locally listed companies, the results show that Egyptian companies continue to encounter difficulties in implementing IFRS, given the disparities between the IFRS spirit and philosophy in respect of the local accounting traditions and cultures.

Another way that existing literatures document improvements in accounting quality following voluntary IFRS adoption (Barth *et al*., 2006; Hung and Subramanyam, 2007; Barth *et al*., 2008) to reduce information asymmetry between managers and shareholders and it can be evidenced by proper assets and earnings management, lower cost of capital, and high forecasting capability by the investors about firm's future earnings. To date there is no direct empirical investigate of this argument. A number of countries are early pioneers in this accounting globalisation process, while others are still hesitating or even have reservations of using it. For instance, Ramanna and Sletten (2010) find that countries with less power, low opportunity cost of domestic standards, close proximity to IFRS standards setters are more willing to adopt IFRSs. IFRS adoption therefore could make it less costly for investors to compare firms across markets and countries (Armstrong *et al*., 2007; Covrig *et al*., 2007). Thus, a common set of accounting standards would reduce information asymmetries among investors and/or lower estimation risk by increasing comparability between lower and higher quality firms. Barth *et al*. (2006) suggest that accounting quality could be improved with elimination of alternative accounting methods that are less reflective of firms' performance and are used by managers to manage earnings. There are also other benefits for the adoption of IFRS. In particular, Gordon *et al*. (2008) listed the benefits from adaptation of IFRS standard over the world as follow: (a) better financial

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information for regulators; (b) better financial information for shareholders; (c) enhanced comparability; (d) to increase ability to secure cross-border listing; (e) to improve transparency of results; (d) better management of global operations; and decreased cost of capital.

This raised an interesting possible role for IFRSs adoption. If emerging countries financial accounting is not well adapted to the countries context, perhaps the new IFRSs could fill any gap between financial accounting and the users' needs which, the adoption of IFRS would have many benefits to the emerging countries investors for it would improve standardise the reporting formats, financial reporting quality, and provide more accurate, comprehensive and timely financial statement information. By far, many countries have already adopted IFRS, so the emerging countries would benefit greatly by conforming to global IFRS network and would like to happen in the future. Furthermore, adoption of IFRS could increase comparability between emerging countries and foreign firms immediately compered to gradual convergence between local GAAP and IFRS standard.

III. Empirical Methodology and Institutional Framework

a) *Hypotheses development and Variables' Definition*

In this section, we discuss several hypotheses about the effects of IFRS reporting. We then review the empirical evidence on voluntary and mandatory IFRS adoption in various emerging countries around the world and discuss the extent to which it supports the hypothesised IFRS effects. In much of the IFRS debate, the arguments are presented in general terms and not tailored to a particular country. We therefore revisit these arguments and the evidence in the following null hypotheses are formulated in order to scrutinise the views of different effect of the emerging countries' on the decision of adopting of IFRS standards.

i. *The dependent variable: IFRS adoption in 2006-2014*

Most studies including Hope *et al*. (2006) and Zeghal and Mhedhbi (2006) measured the adoption of IFRS as a dichotomous variable that value I if country adopts IFRS and o otherwise. In our research, we will assign the value 1 for countries adoption IFRS in 2006 to 2014 and 0 otherwise.

ii. *The Explanatory Variables*

In this study, we use two alternative measures of adoption IFRS standards as dependent variables, including emerging countries have recognised their need to participate in the opportunities offered by globalisation (UNGA, 2004), and in consequence, have led the way in adoption IFRS (IAS Plus, 2006). Consequently, the following null hypotheses are formulated.

a. *The Macro-economic Variables*

Culture (CULT)

Since the 1980s Geert Hofstede published his *Culture's Consequences: International Differences in Work Related Values,* based on the topic of culture and its relationship to four major cultural dimensions: the power extent distance, individualism, masculinity and uncertainty avoidance (Hofstede, 1980). Culture is also another factor that explaining the choice of relevant accounting systems of appropriate to each nation, wherein Hofstede's Model was the main cultural framework used to discuss the effect of culture on accounting system (Chow *et al*., 2002). They found that adopting accounting standards of a country might not be suitable to another country due to the cultural differences. Gray (1988) argues that the culture of developing countries is socialist which has a low level of accounting professionalism. Similarly, Zeghal and Mhedhbi (2006) argue that developing countries which are affected by Anglo-American culture are more likely to be successful tin adopting IFRS. Joshi *et al*. (2008) conclude that nationalism may continue to be a major weakness to global adoption of IFRSs.

However, the Arab countries are different in their accounting systems, for example while Saudi Arabia has its own accounting standards, other Gulf countries including the UAE use US GAAP (Abd- Elsalam and Weetman, 2003), Libya use Uk or US GAAP (Masoud, 2014). Kantor *et al*. (1995) point out that Arab countries have similar characteristics such as religion, culture and legal systems. Irvine and Lucas (2006) consider language challenges a factor which questions the capability of developing countries of adopting IFRSs. Nobes (1998) notes that countries affected by the same cultural values are likely to adopt the same accounting criteria. Hove (1986) and Chamisa (2000) have suggested that the adoption of IFRS will be easier for the developing countries with an Anglo-Saxon culture. This can be justified by the predominance of members with Anglo-Saxon origins in the work of the IASB. In their turn, Zeghal and Mhedhbi (2006) have showed that the developed countries with an Anglo- Saxon culture are the most simply to adopt IAS. Using the conceptual theoretical framework of Culture by Hofstede (1980), Gray (1988) IFRSs were issued originally to be applied in developed countries, where the cultural factors are different from those in developing countries. Hove (1986) and Chamisa (2000) have suggested that the adoption of IFRS will be easier for the developing countries with an Anglo-Saxon culture.

From this perspective, it is possible to anticipate that the adoption of IFRS criteria will be more appropriate for countries with an Anglo-Saxon culture. The hypothesis of the framework is culturally an Anglo-Saxon is as follows:

H1. Emerging countries with Anglo-Saxon culture are more interested to adopt IFRS than other countries.

Political System (POLS)

A key objective of the literature is to describe and understand the determination of national accounting standards, a process that is "*political*" power, where such "*power*" can be understood as "the ability of furthering one's interests by imposing sanctions on another (entity) when the converse is not also true" (Bowles and Gintis, 1993: 88). Therefore, one interpretation of political "*power*" is the ability of an entity to further its preferences in a considered allocation through authorisations on another practice (e.g., Bowles and Gintis, 1993, Borooah and Paldam, 2007). In Jordan, Al-Akra *et al*. (2009) have analysed the impact of economic, political, legal and cultural factors on promoting the accounting practices. They conclude that the political and economic factors are the elements which most contribute to this development. Along the same lines, Alsharairi and Al-Abdullah (2009) claim that international harmonisation can be considered a politically unacceptable challenge to national sovereignty. This description is significant to this study since it helps establish the existing political power base at the jurisdictions' IFRS adoption and of states in the governing most of the emerging countries; the following hypothesis appears to be worth advancing:

H2. Emerging countries with more a democratic system power, the more it tends to adopt IFRS.

Educational System (EDUS)

The availability of a high quality education, in general, and of accounting education, in particular, plays a significant role in the adoption of IFRSs (Irvine and Lucas, 2006; Abd-Elsalam and Weetman, 2007). A lack of adequate education, knowledge, training and skills especially in firs few years, often giving rise to improper application of the IFRS standards (Jermakowicz, 2006; Samaha and Stapleton, 2008). While, adopting IFRSs is considered as an advantage over the local accounting standards where in it would it reducing the cost of training staff (McLeay *et al*., 2000). However, Perera (1989) argues that the information produced by developed countries' accounting standards will not provide useful information to make decisions in developing countries. For instance Al-Akra *et al*. (2009) contend that the accounting and auditing education in Jordan acts as a deterrent to the successful implementation of IFRSs. Zeghal and Mhedhbi (2006) indicate that the need to create an active education system is one of the significant factors that affect the accounting standards. They indicate that various developing countries base their accounting education system on one of the developed countries such as UK and US GAAP. Hence, the following hypothesis could be put forward:

H3. Emerging countries with a higher level of the education system, the higher the country will adopt IFRS.

Legal Environment (LEGE)

The key legal system environment in the emerging countries is another factor that influences accounting systems, where in some developing countries are affected by the legal systems of developed countries. Ball *et al*. (2000) argue that much accounting practice is not covered by rules, for reasons that include: practice is more detailed than rules; rules lag innovations in practice; and companies do not invariably follow the rules. According to Zeff (2007), in countries where the regulator is stronger and more powerful, companies are less willing to depart from IFRSs. He adds that regulation bodies must be supported with authority and large budgets to ensure a rigorous enforcement mechanism.

However, the legal system in most of the accounting standards in emerging countries is influenced by the Islamic religion, which is not always easily compatible with IFRSs. Lewis (2001) and Hussain *et al*. (2002) who point out that IFRSs do not pay any attention to the law of Islamic "*Shari'a*". As a result, the *Shari'a* and IFRSs adoption may face obstacles and is not very simply to be combined. Several studies indicate that conflicts exist between the *Shari'a* and IFRS requirements (e.g. Hussain *et al*., 2002; Ratmono and Mas'ud, 2005; Rodrigues and Craig 2007). Since law-based, state and international regulation are absent or weak on the global level, regulatory standards, therefore, any new or revised legislation should be carefully reviewed before it is put into practice. The following hypothesis appears to be worth advancing:

H4. Emerging countries with a legal environment are more likely to adopt IFRS than other ones.

Economic Growth (GROW)

Another factor that affects accounting standards in emerging countries, based on the assumption that "*economic growth promises a better world*" (Cooper *et al*., 2003: 361). It has been observed that in emerging countries with higher economic growth, accounting standards becomes "homogenisation and standardisation", including the imposition of western-centric accounting standards and regulations (Cooper *et al*., 2003: 359). Consistent with this view, Cooke (1993) indicate that accounting standards has a strong relationship with the environmental factors including economic growth. Indeed, while the study of Sedaghat *et al*. (1994) find that IFRS adoption has positive relationship between economic growth and accounting information in developing countries.

It is assumed that the adoption of IFRSs will be "*very important*" or "*important*" for economic growth in their emerging countries in order to establish a high-quality level playing field for globalised markets. Hence, the following hypothesis appears to be more reasonable to advance:

H5. Emerging countries with a higher economic growth rates are more inclined to adopt IFRS than other countries.

Privatisation (PRIV)

Though, privatisation became one of the primary policies adopted by the IMF and the World Bank as part of its economic reform and structural adjustment programme to remedy deteriorating economic conditions, especially in developing nations (Masoud, 2009). Privatisation, however, is defined as the deliberate sale by a government of state-owned enterprises (SOEs) (Megginson and Netter, 2001: 321), or ownership structure (Ball and Shivakumar, 2005; Burgstahler *et al*., 2006). There are, according to King (2003), three reforms to be considered, price liberalisation, stabilisation and privatisation, as preconditions for a successful transition to a market economy. These reforms should all be completed at the same time or in the short-term and, provided that positive adoption of IFRS would be successfully implementation in emerging economy. For instance, China in opening the door to harmonisation with IFRS, which will face challenge its necessity of privatisation its state owned enterprises including traditional regulatory and legal system (Bhagat and Bolton, 2006; IASB, 2006). Omran *et al*. (2008) indicate that a majority of Arab companies are either government or familyowned.

Therefore, increased privatisation, liberalisation, further investment, lower inflation and fewer financial regulations mean that the economic growth rate is far better than it was prior to adoption IFRSs. Hence, the following hypothesis could be put forward:

H6. Emerging countries with higher privatised firms are more inclined to adopt IFRS than other state-owned.

Foreign Direct Investment (FDI)

More countries are following the practice of adopting IFRS or have already adopted it, is also found to be associated with increases in foreign institutional investments (Yu, 2009; Florou and Pope, 2012) as well as foreign individual investments (Bruggemann *et al*., 2009). Moreover, as DeFond *et al*. (2011: 241) note, research on the effect of IFRS on foreign investments is particularly important since it investigates a potential '*real effect*' of accounting, which is aid in making more efficient investment decisions. There are, Borensztein *et al.* (1998) find that FDI is an important vehicle for technology transfer and contributes more to economic growth than domestic investments, and Goldstein and Razin (2006) therefore, note that if the adoption of IFRS is the driver of the increase in investment flow into the IFRS adopting countries after 2005, the effect should also be evident in the FDI flow. Similarly, Beneish *et al*. (2012) argues that, if improved comparability is the driver of the IFRS effect, one should observe more investment flow into the IFRS adopting countries from other IFRS adopting countries than from the non-IFRS adopting countries. The following hypothesis seems to be worth advancing:

H7. Emerging countries with more open to foreign investments, the higher it will adopt IFRS.

b. Individual Firm Leverage Variables

The adoption of IFRS which restricts the possibilities of income smoothing increases the quality of financial statement information. As leverage is positively associated with the need for monitoring between shareholders and creditors, it can be argued that high leveraged firms are more eager to adopt IFRS in order to reduce borrowing costs compared to low leveraged firms. In this study, the concept of business environment refers to the characteristics of firms, the readiness of companies to apply IFRSs and to bear the associated cost, the capital market development and the type of financing system. These factors are namely most commonly used in the empirical studies: firm size, liquidity, and cost of equity capital.

Firm Size (SIZE)

Firm size is measured by the natural log of assets. The features of firms in terms of ownership dispersion, management form, leverage, and level of organisational decentralisation are influential factors in the application of IFRSs. This argument is confirmed by various studies (e.g. Ball *et al*., 2003; Al-Akra *et al*., 2009; Elsayed and Hoque, 2010). Most of prior study for listed firms in different nations (e.g. Dumontier and Raffournier, 1998; Tarca, 2004; Cuijpers and Buijink, 2005; Gassen and Sellhorn, 2006) who find positive evidence that the propensity to adopt/comply with IFRS increases with corporate size. Irvine and Lucas (2006) argue that the adoption of IFRSs by the UAE was inspired by the international accounting firms. In the same context, Joshi and Ramadhan (2002), and Joshi *et al*. (2008) confirm that result for Bahrain firms. Chand and Patel (2008) found that the presence of international accounting firms is one of the attributes that influence convergence with IFRSs. In addition, countries with financial market that are open to foreign investors are more likely to adopt the IFRS (Jemakowicz, 2006). Based on these arguments, we state the following hypothesis:

H8. Firms listed in the emerging stock markets with a large market capitalisation the more it will adopt IFRS than firms with small market capitalisation.

Liquidity (LIQ)

Liquidity is defined as the ratio of current assets to current liabilities. This ratio shows the ability of the firm to cover its short-term financial commitments and it measures the liquidity of the firm. It is important to mention here that both the World Bank and the IMF require the adoption of IFRSs in order to provide funds to the developing countries (Karim, 2001). Daske *et al*. (2008), illustration that the liquidity benefits around IFRS adoption are not consistently present throughout the EU. Providing empirical evidence, Bekaert *et al*. (2007) find that improvements in local market liquidity are a significant driver of expected returns and liquidity levels in foreign markets where is high. More directly, prior studies tend to focus on the relation between IFRS adoption and average level of liquidity (Daske *et al*., 2008; Platikanova and Perramon, 2009), generally finding an increase in market liquidity immediately following IFRS adoption. Hence, we posit the following hypothesis.

H9. Firms listed in the emerging stock markets with a higher liquidity the more it will adopt IFRS than firms with low liquidity.

Cost of equity capital (CEC)

The literature in accounting, finance and economics has suggested a wide range of estimation procedures for the measurement of a firm's cost of equity capital. *The cost of equity* is measured by the price-earnings (P/E) ratio. As increase in the P/E ratio indicates a lower cost of equity finance for the firm. Bekaert and Harvey (2003) argue that the cost of equity capital is a difficult concept to define and measure. As a result it is measured in a variety of ways by different firms. While the estimates the expected cost of equity capital and the long-term growth rate in a portfolio, but can only be applied to a set of firms (Easton 2004). Hence, with reference to the common conceptual framework Scott (2012: 92) states that "*the primary decision addressed in the Framework is the investment decision in firms' shares or debt*". However, Saudagaran and Diga (2000), point that developing countries adopt IFRSs for the purpose of becoming acceptable in the international market. Hence, we hypothesise:

H10. Firms listed in the emerging stock markets with a higher return on equity the more it will adopt IFRS than firms with lower return on equity.

c. Corporate Governance Variables

A key objective of corporate governance is to ensure financial statements are prepared fairly in accordance with accounting standard (Dechow *et al*., 1995; Davidson *et al*., 2005; Kent *et al*., 2010). Firms with good corporate governance have higher accruals quality, which indicates higher earnings quality.

Audit Quality (AUDIT)

In 1960 a paper published in Fortune uses for the first time the term (Big 8) to refer to the then existing biggest audit firms. As a result of several mergers in the 1990s, they turned into the Big 5, and after Enron and the fall of Arthur Andersen, they finally turned to "Big 4" (Deloitte Touche Tohmatsu, Ernst and Young, KPMG, and Price Water House Coopers). Prior investigation documents that, on average, auditor size is directly linked to audit quality (DeAngelo, 1981; Datar *et al*., 1991; DeFond and Jiambalvo 1994; Craswell *et al*., 1995; Jamal *et al*., 2010). To reduce information asymmetry and agency conflicts between the firm and its stakeholders, high-quality audits serve as a positive governance instrument (Craswell *et al*., 1995; Francis and Wang, 2008; Jamal *et al*., 2010). It is therefore important to point that if Big 4 auditors represent high-quality audits, then the reliability of accounting information will be improve the accuracy of accounting information (Becker *et al*., 1998; Jamal *et al*., 2010). However, Barth *et al*. (2008) declare that developing countries lack the infrastructure to enforce the application of international standards. Following the above arguments, it can be hypothesised that:

H11. Emerging countries with more the choice of a Big 4 audit firm quality, the more it existence to adopt IFRS.

Transparency (TRANY)

The effect of IFRS adoption on information quality is questionable if firms' reporting incentives do not change to align with *transparency*. The application of IFRS is an instrument to increase the transparency and credibility of the firm (Francis *et al*., 2008); this in turn increases the attractiveness of the firm for foreign investors (Covrig *et al*., 2007). Consequently, Gray (1988) indicates that the developing countries possess a strong degree of uncertainty avoidance and power distance significance. This might influence the level of quality information and discloser in these countries (Kantor *et al*., 1995). Therefore, any country requires to increase the external stakeholders would be useful to increase the level of disclosure (Kwok and Sharp, 2005). It can be argued that the adoption of IFRS, the new global reporting standards, would be improve comparability, clarity, transparency and credibility of financial statements and in emerging countries, would lead to better economic efficiencies. The following hypotheses are formulated:

H12. Emerging countries with improve the transparency of financial reporting are more likely to adopt IFRS than other ones.

b) Variables' Econometric Model

i. *Dependent Variable*

The dependent variable, which represents the level of adoption of IFRS, is derived from the Deloitte - IASPlus (2014) report surveying current status of the adoption in a wide variety of jurisdictions as of Jan 05, 2013. Consistent with Hope *et al*. (2006), Karamanou and Nishiotis (2009), and Judge *et al*. (2010), a country is codified "1" dummy variable if it fully adopts IFRS, where all listed domestic and international firms are required to use the standards; otherwise it is codified "0". Consequently, a country that partially adopts IFRS, either by not requiring all listed firms to use IFRS or by adopting a modified IFRS, is codified "0". We can formalise this by the subsequent regression equation as follows:

$$Y_{it} = \frac{\sum_{i=1}^{n_{it}} X_{it}}{n_{it}} \qquad (1)$$

where it Y , is the probability of early adoption IFRS for the i country in the year of time t . There are seventy-eight emerging countries for which data are available on variables in the study covering the period from 2006 through 2014. it n , number of country that were relevant for the *ith* country adoption IFRS in the yeart . it X , 1 if the *ith relevant* entry is adoption IFRS by the country i in the year of time t ; 0 if the *ith relevant* entry is not adoption IFRS; therefore, $0 \leq Y it \leq 1$.

ii. *Independent Variables*

Given the Eq.1 adoption of IFRS in emerging countries can be written in a mathematical manner as follows:

$$Y_{it} = f\,(CULT_{it}, POLS_{it}, EDUS_{it}, LEGE_{it}, GROW_{it}, PRIV_{it}, FDI_{it}, SIZE_{it}, LIQ_{it}, CEC_{it}, AUDIT_{it}, TRANY_{it}) \qquad (2)$$

Given the Eq.2 study variables, we apply an ordinary least square (OLS) model, which is defended as:

$$Y_{it} = \alpha_0 + \beta_1 CULT_{it} + \beta_2 POLS_{it} + \beta_3 EDUS_{it} + \beta_4 LEGE_{it} + \beta_5 GROW_{it} + \beta_6 PRIV_{it} + \beta_7 FDI_{it} + \beta_8 SIZE_{it} + \beta_9 LIQ_{it} + \beta_{10} CEC_{it} + \beta_{11} AUDIT_{it} + \beta_{12} TRANY_{it} + \varepsilon_{it} \qquad (3)$$

To anticipate the possibility of non-linear relationships between dependent and independent variables, a logistic regression is employed. Logistic regression is an appropriate approach where disproportionate sampling from two populations occurs (Maddala, 1991). In logistic regression, the coefficients of the explanatory variables are unaffected by the unequal sampling rates from the two groups (Palepu, 1986). Logistic regression has been generally applied to investigations of IFRS adoption successfully by emerging countries. Independent variables being measured in our logistic regression are summarised in Table 1. Based on the proposed hypotheses, these variables aim to measure internationality, relationship of firm characteristics and IFRS adoption in emerging countries. The model used in the study is as follows:

$$\log\left(\frac{Y_{it}}{1-Y_{it}}\right) = \alpha_0 + \beta_1 CULT_{it} + \beta_2 POLS_{it} + \beta_3 EDUS_{it} + \beta_4 LEGE_{it} + \beta_5 GROW_{it} + \beta_6 PRIV_{it} + \beta_7 FDI_{it} + \beta_8 SIZE_{it} + \beta_9 LIQ_{it} + \beta_{10} CEC_{it} + \beta_{11} AUDIT_{it} + \beta_{12} TRANY_{it} + \varepsilon_{it} \quad (4)$$

Where it Y_{it} is the probability of early adoption IFRS i country in the year of time t , where t is 2006-2014, α_0 refers to the intercept, and β_1 - β_{12} refers to the slopes/regression weights that represent the relationships between dependent variable and independent variables. $CULT_{it}$ countries coulter is a dummy variable that takes the value (1) if the country has an Anglo-Saxon culture and (0) otherwise. $POLS_{it}$ countries political system measured by the Gisted index. $EDUS_{it}$ countries education level, measured by the general literacy rate in the country. $LEGE_{it}$, countries legal system environment is a dummy variable that takes the value (1) if the country has a common law type of legal system and (0) otherwise. $GROW_{it}$, is measured by the annual real growth rate of per capita GDP at purchasing power parity in 2005 constant. $PRIV_{it}$, countries privatisation is a dummy variable that takes the value (1) when the firm is privatised onward, (0) before. FDI_{it}, is measured by foreign direct investment divided by the gross domestic product. $SIZE_{it}$, is measured by *Firms listed in the stock markets* is a dummy variable that takes the value 1 if the country has listed firms on stock markets and (0) otherwise. LIQ_{it} is measured by ratio of current assets to current liabilities of firm i in year of time t. CEC_{it} is measured by return on equity of firm i in year of time t. it $AUDIT$ countries audit quality is a dummy variable that takes the value (1) if an audit quality is Big 4 firm i in year of time t, (0) otherwise. $TRANY_{it}$ is a dummy variable that takes the value (1) if the country has *transparency of financial reporting* and (0) otherwise. ε_{it} is the time-varying error term $\varepsilon_{it} \approx iidN(0, \sigma^2_{\varepsilon})$.

Table 1 : Research Hypotheses and List of the explanatory Variables

Independent Variables		Code	Hypothesis	Measure	Exp. Sign.
The Macro-economic Variables	Culture	CULT	H_1	1 if the country has an Anglo Saxon culture and zero otherwise	+
	Political System	POLS	H_2	Gastil index 1978. A scale ranging from 1 to 7	+
	Educational System	EDUS	H_3	literacy rate (derived from Wikipedia)	+
	Legal Environment	LEGE	H_4	1 if the country has a common law system and zero otherwise	+
	Economic Growth	GROW	H_5	Gross domestic product per capita	+
	Privatisation	PRIV	H_6	I when firms are privatised onward and 0 otherwise	+
	Foreign Direct Investment	FDI	H_7	Foreign direct investment/ GDP	+
Individual Firm Leverage Variables	Firm Size	SIZE	H_8	1 if the firms is listed on large capital markets and 0 otherwise	+
	Liquidity	LIQ	H_9	Current ratio: ratio of current assets to current liabilities	+
	Cost of equity capital	CEC	H_{10}	Return on equity	+
Corporate Governance Variables	Audit Quality	AUDIT	H_{11}	1 if Big 4 firm quality is present, 0 otherwise	+
	Transparency	TRANY	H_{12}	1 if the country has transparency and zero otherwise	+

Source: Developed for this study Subsection 3: Empirical Methodology and Institutional Framework.

c) Sample and Data Collection

To separate developing from developed countries, we use UNDP's classification of countries report (UNDP, 2013). The entire data set for this paper was downloaded from the *World Development Indicators (WDI)* (World Bank, 2014) and the *Worldwide Governance Indicators (WGI)* (World Bank, 2013), with the exception of the accounting standards binary variable and the accounting regulation scores. Countries whose data are missing are excluded from the sample. To test the adoption of IFRS by emerging countries, we are able to retrieve complete data of 78 emerging countries classified into two groups (see Table 1). The first group includes 43 emerging countries that have adopted IFRS (with or without modification) and the second group includes 35 emerging countries, that countries did not adopt IFRS from 2006 until 2014.

Table 2 : Countries Sampled and Their Adoption Status

IFRSs adopted: sample (43) emerging countries				IFRSs non adopted: sample (35) emerging countries		
Africa	Asia	Americas	Europe	Africa	Asia	Americas
Botswana	Bangladesh	Chile	Belgium	Algeria	Bahrain	Argentina
Egypt	China	Ecuador	Bulgaria	Angola	India	Bolivia
Ghana	Jordan	Jamaica	Cyprus	Benin	Indonesia	Brazil
Kenya	Korea (South)	Nicaragua	Czech Republic	Burundi	Iran	Cuba
Malawi	Oman	Panama	Estonia	Burkina Faso	Iraq	Colombia
Morocco	Sri Lanka	Peru	Hungary	Cameroun	Kuwait	Mexico
Namibia	Turkey	Salvador	Latvia	Congo	Lebanon	Uruguay
Sierra Leone	UAE		Lithuania	Libya	Malaysia	Venezuela
South Africa			Poland	Mauritania	Pakistan	
Tanzania			Portugal	Sudan	Qatar	
Uganda			Romania	Tunisia	Saudi Arabia	
Zambia			Ukraine	Nigeria	Singapore	
Zimbabwe			Slovenia		Syrian	
			Slovakia		Taiwan	
			Macedonia		Thailand	

*Notes: (1) **IFRSs** adopted: group of countries that has adopted IFRS; (2) **IFRSs non**-adopted: group of countries that not adopted IFRS. Source: Adopted from Deloitte-IFRS (2014).*

IV. Empirical Results

a) Descriptive Statistics Analysis

Table 3 illustrates that descriptive statistics for the study variables were measured in this research, followed by the *mean* as a measure of central tendency, *standard deviation* as a measure of distribution spread, *minimum* and *maximum* values of all variables for IFRS adoption group and nonIFRS adoption group to check for each variable's normality.[1] In order to generalise the findings from regression analysis, some assumptions have to be met. One of the initial assumptions is the variable type. All variables must be metric or categorical with two categories. As can be seen from Table 3, all the variables are metric, except for adoption IFRS and joint venture which are categorical.

Table 3 : Descriptive Statistics

Independent Variables	Adoption of IFRS = 1				Adoption of IFRS = 0				Tolerance 1/VIF	VIF
	Mean	Min	Max	St. de	Mean	Min	Max	St. de		
CULT	9.07	3.00	19.00	4.13	8.10	3.00	18.00	4.44	0.83	1.22
POLS	6.56	3.00	15.00	6.56	5.29	3.00	14.00	7.26	0.45	2.12
EDUS	15.99	6.00	27.00	16.97	12.53	5.00	25.00	13.82	0.47	2.10
LEGE	4.98	2.00	10.00	2.23	3.78	2.00	10.00	2.44	0.43	2.19
GROW	8.60	3.00	15.00	3.54	7.59	3.00	16.00	3.98	0.75	1.26
PRIV	5.19	2.00	10.00	1.78	4.22	2.00	9.00	1.08	0.71	1.34
FDI	2.50	1.00	5.00	0.90	2.20	1.00	5.00	1.21	0.81	1.23
SIZE	5.72	3.92	8.82	1.35	4.82	3.00	8.39	1.66	0.80	1.18
LIQ	3.44	1.00	4.00	1.11	3.07	1.00	5.00	1.19	0.62	1.59
CEC	2.00	1.00	4.00	1.19	1.00	1.00	4.00	1.54	0.72	1.33
AUDIT	12.28	6.00	25.00	4.45	10.76	4.00	19.00	4.62	0.79	1.21
TRANY	13.63	6.00	22.00	3.87	12.72	5.00	20.00	3.30	0.46	2.16

Notes: (1) Adoption of IFRS = 1: group of countries that has adopted IFRS; (2) Adoption of IFRS = 0: group of countries that not adopted IFRS; (3) the variables are as defined earlier in the Table 1. Source: Data and Summary Statistical Analysis 2014.

Another important issue that needs paying attention to when using multiple regressions is multicollinearity, which refers to the correlation among the independent variables. This exists when there is a strong correlation between two or more predictors in a regression model. One simple way of identifying multicollinearity is to scan a correlation matrix of all the independent variables in order to find out if there is any very high correlation among them (e.g. > .90) (Hair *et al*., 1998; Field, 2006).

There are two common tests to assess the existence of the multicollinearity; they are the Variance Inflation Factor (VIF) and its inverse; the Tolerance value. The VIF values range from 1.18 to 2.19, all well below 10, the value suggested by Myers (1990). Tolerance values range from 0.45 to 0.83 (see Table 3). None should be below 0.1, since tolerance = 1/VIF, also, Menard (1995) suggests that values below 0.2 are cause for concern. Therefore, this is indicating that *multicollinearity* problems may occur in this backward elimination model. As Table 4 shows, there is no high correlation between any of the independent variables and also from Table 3 it can be seen that the values of VIF do not exceed the acceptable level of 10, with no values of tolerance below the recommended level of 0.1. Accordingly, there is no evidence to be found for the existence of multicollinearity. Such coefficient does not matter since it is less than 0.5 and not significant at conventional levels.

[1] Normality provides the degree to which distribution of sample data corresponds to *a normal distribution*, where normal distribution is a theoretical probability distribution in which the horizontal axis represents possible values of variables and the vertical axis represents the probability of those values occurring. Scores on the variables are clustered around the mean in a symmetrical, abnormal pattern known as the symmetrical bell-shaped or frequency curve (Hair *et al*., 2005: 38).

Table 4 : Correlation Matrixes of Independent Variables

	CULT	POLS	EDUS	LEGE	GROW	PRIV	FDI	SIZE	LIQ	CEC	AUDIT	TRANY
CULT	1.000											
POLS	0.131	1.000										
EDUS	0.070	0.098	1.000									
LEGE	0.244	-0.180	-0.112	1.000								
GROW	0.086	-0.169	0.115	0.139	1.000							
PRIV	-0.185	-0.013	-0.179	-0.052	0.060	1.000						
FDI	-0.039	-0.178	0.304	0.112	-0.102	-0.030	1.000					
SIZE	-0.195	0.049	0.019	-0.122	0.020	0.115	0.044	1.000				
LIQ	-0.041	0.081	0.010	0.018	-0.044	0.106	-0.052	0.029	1.000			
CEC	-0.050	-0.382	-0.110	-0.130	0.041	-0.067	0.005	-0.388	0.009	1.000		
AUDIT	0.040	-0.070	0.126	-0.078	-0.146	-0.059	-0.182	-0.423	0.110	-0.051	1.000	
TRANY	0.077	0.132	-0.052	0.161	-0.265	-0.134	0.132	0.038	0.402	-0.195	-0.233	1.000

Note: (1) The variables are as defined earlier in the Table 1. Source: Data and Summary Statistical Analysis 2014.

b) Regression Results

The aim of this subsection is to *present* the overall results of running the ordinary least square (OLS) regression with log transformation analysis with all variables and hypotheses, that is, to explain whether there is a relationship between the emerging countries adoption IFRS (independent/predictor variables) and the probability of early adoption IFRS (dependent/outcome variable). The output of the *SPSS* test, as depicted in Table 5, reveals the hypotheses of the independent variables associated with IFRS adoption. These results offer very significant information about the models fits under study with those accepted and rejected hypotheses. The first step in examining the overall regression models is to assess the statistical significance of the overall regression models, which could be done using the model F-value for the regression models. Table 5 contains two statistical models for hypothesis testing. Model 1 is a linear regression using ordinary least squares estimation, in which we found that all hypotheses are strongly supported. Model 2 is a logistic regression model. Similar to model 1, this model strongly supports the hypotheses. In both models, the F-value is 5.59 and 4.95, which is significant at the 0.05 level (Sig = 0.000) respectively. This means that the models have significantly improved our ability to predict the dependent variable. Thus, the regression model overall predicts the diffusion of adoption IFRSs significantly well.

Table 5 : Regression Results Analysis

Independent Variables	Average Values		Model 1: OLS		Model 2: Logistic		Hypothesis	
	Adopt. IFRS = 1	Adopt. IFRS = 0	t-value	Sig. (2-tailed)	z-value	Sig.		
Constant			-7.193	-0.001***	-15.72	-0.000***		
CULT	2.37	2.37	1.542	0.102	1.602	0.129	H_1	confirmed
POLS	1.09	1.27	-1.492	0.138	1.625	0.194	H_2	rejected
EDUS	1.04	0.98	6.335	0.000***	5.332	0.000***	H_3	confirmed
LEGE	2.92	2.59	6.995	0.000***	7.254	0.000***	H_4	confirmed
GROW	1.45	1.29	1.668	0.050*	1.923	0.070*	H_5	confirmed
PRIV	4.98	5.01	3.922	0.000***	4.069	0.002***	H_6	confirmed
FDI	7.15	8.09	-1.778	0.024*	-0.926	0.498	H7	rejected
SIZE	2.62	2.12	1.932	0.027*	1.423	0.201	H8	rejected
LIQ	0.87	0.92	2.665	0.048**	2.133	0.042**	H_9	confirmed
CEC	2.69	2.49	-0.254	0.401	-0.364	0.724	H_{10}	rejected
AUDIT	8.05	6.57	3.946	0.000***	3.520	0.000***	H_{11}	confirmed
TRANY	1.58	1.77	-1.443	0.076*	-2.706	0.087**	H_{12}	confirmed
R	Sample Size = 78		0.671		0.563			
R^2			0.415		0.389			
F-value			5.592***		4.956***			

*Notes: (1) Significance level: *10%, **5%, ***1%; (2); Adopt. IFRS = 1: group of countries that has adopted IFRS; (2) Adopt. IFRS = 0: group of countries that not adopted IFRS; (4) the variables are as defined earlier in the Table 1. Source: Data and Summary Statistical Analysis 2014.*

The results of the majority of hypotheses are similar for using statistical methods. Confirm or rejection of each hypothesis is based upon the result being statistically significant for at least two of the methods. Therefore, if one method is statistically significant at 1 *per cent* ($P<0.01$) or 5 *per cent* ($P< 0.05$) level, the hypothesis will be accepted. In this context, the contribution of each explanatory variable to estimate the early probability of IFRS adoption by emerging countries hypotheses is tested and justification that might explain reported outcomes is discussed. The hypothesised in both models resulted that macro-economic variables (POLS, CULT and FDI) do not have a significant impact on the decision to adopt IFRS. The non-significance of these variables means that emerging countries do not base their decisions to adopt IFRS on the political system, country culture or the existence of foreign direct investment. Therefore, the regression path is significantly different from zero when t > 1.645 ($P<$ 0.05), t > 1.96 ($P<$ 0.01) for null hypothesis, (i.e. research questionnaire) beta estimate is considered significantly different from zero when t > 1.96 ($P<0.05$), t > 2.576 ($P<0.01$).

The EDUC variable reflecting the level of education has a positive strongest pressure for emerging countries to adopt IFRS and significant at the 0.01 level (Sig = 0.000). This result is consistent with Doupnik and Salter (1995), Street (2002), and Zeghal and Mhedhbi (2006), higher the educational level of a developing country, the higher the country will tend to adopt IFRS. Followed by legal environment system (LEGE) and privatisation (PRIV) are strong positively and significantly at the 0.01 level (Sig = 0.000) related to the decision to adopt IFRS by emerging countries. Both FDI inflows and GDP growth are not significant predictive factors to adopt IFRS. Thus, the results show that the economic benefits associated with IFRS adoption is found to be significantly related to emerging countries decision to adopt IFRS, whereas a higher level of real GDP per-capita means better education, better business environment and wealthier citizens. The results shown from Table 5, it appears that the variables (Size and CEC) did not significantly affect the decision to adopt IFRS in emerging countries. However, hypothesis of the variables (LIQ, AUDIT and TRANY) which is accepted the results of the overall models with a significantly impact the decision to adopt IFRS by emerging countries.

Table 5 also shows that the *R value* (multiple correlation between the dependent variable and all the independent variables combined together) for this models are (0.671 and 0.563) respectively, which is an indication that the model provides a reasonably good explanation of the observed values of the outcome between the dependent and all the independent variables. The value of R^2 is 0.415, which indicates that all the independent variables that are included in the multiple regression model account for 41.5% of the variance in the adoption of IFRSs by emerging countries. This means that our model, which includes demand factors only (attribute of adopters factors), can explain only 41.5% of the variance in the adoption of IFRSs by emerging countries. Therefore, 58.5% of the variation in the adoption of IFRS cannot be explained by the demand side factors alone and there must be other variables that have an influence also and will be able to explain part of variation. The output of the change in the *F*-test, resulting from constructing the multiple regression models, is demonstrated in Table 5. The *F*-test is a measure of how much the model has improved the prediction of the *outcome* compared to the model's level of inaccuracy. In this context, a good model should have a large *F*-test *greater than one at least* (Field, 2006). As such, the model causes R^2 to alter from zero to 0.415 and this change in the amount of variance explained gives rise to an *F*-test of 5.592, which is significant at the 0.01 level (Sig = 0.000) related to the decision to adopt IFRS by emerging countries. At this point, the changed statistics exemplify variance incurred by adding new predictors to the model.

In summary, the research hypotheses H1, H3, H4, H5, H6, H9, H11 and H12 are confirmed for the adaption of IFRS sample, while the study hypotheses H2,H7, H8 and H10 are rejected for not significant predictive factors to adopt IFRS. As, however, adoption of IFRS has crafted by developed countries, might not able to create the same relationship in emerging countries since of different socio-economic and political-economic environments.

V. Conclusion

The main aim of this study was to provide a better understanding of the theoretical framework which has been developed from three theories (agency, signalling and legitimacy) that could provide a scientific base for possible causes of impairment application, and presents a conceptual framework showing the relationship between impairment application and the quality of accounting information. It employs these theories as the essential bases for its argument because these theories provide adequate information about the interpretation of impairment application.

The key study question stated in the beginning was, *"what factors could significantly influence countries decisions to adopt IFRS? This investigates the relationship between the decisions of emerging countries to adopt IFRS and how can emerging countries implement an IFRS standard change successfully?"* This question has been answered through the development of the exploratory framework and the variables affecting the outcome or "success" of the implementation process through using regression results analysis models with a clear process framework for implementation in the relationship between environmental and firms potential factors and the decision to adopt IFRS standard by emerging countries.

Empirically, regression analysis results show that the early likelihood to adopt IFRS is consistent with all must independent variables related to macro-economic and institutional factors have different effects on the adopt IFRS in emerging countries. The (EDUC, LEGE) and (PRIV) variables are strong positively and significantly at the 0.01 level (Sig = 0.000) related to the decision to adopt IFRS by emerging countries. Both FDI inflows and GDP growth are not significant predictive factors to adopt IFRS. Thus, the results show that the economic benefits associated with IFRS adoption is found to be significantly related to emerging countries decision to adopt IFRS. The results shown from Table 5, it appears that the variables (Size and CEC) did not significantly affect the decision to adopt IFRS in emerging countries. However, hypothesis of the variables (LIQ, AUDIT and TRANY) which is accepted the results of the overall models with a significantly impact the decision to adopt IFRS by emerging countries. All of these factors seems' to account for between 39% and 42% of the variance in the adoption of IFRSs (see R^2 in Table 5). There is no statistically significant relationship between the study hypotheses H2, H7, H8 and H10 and the effect decision to the adoption of IFRS by emerging countries. Therefore, the factor analysis test adds support to the theoretical framework of this study, as the factors that emerged from it are consistent to a large extent with the introduction of an exploratory models framework for the implementation process of IFRS standard changes and the identification of variables that affect it. However, the practice of implementing IFRSs in emerging countries will face several obstacles including lack of technical skills, training and inadequate knowledge of Libyan professional accounting, the difficulty to develop it existing high-quality accounting systems, amongst disclosure reports, and a regulatory framework to cope with culture, political system, economic growth and social development, and training of effective accounting.

VI. Contribution to Knowledge

This study seeks to make an original contribution to knowledge by provides an important introduction to this area and has attempted to explore its significance for the high- quality accounting practices. A critical review of this study has added to the existing body of literature and assists the researcher in obtaining new ideas and perspectives, exploring the significant adoption of IFRS in emerging countries framework related to high-quality accounting practices and economic growth in the following areas.

1. Most of the studies on the adoption of IFRSs have been conducted in developed countries; while studies considering IFRSs in emerging and transitional economies are still scarce. It is hoped that such contributions will be beneficial, both academically and professionally. Academically, this research aims to focus attention upon a neglected area in the context of the adoption of IFRSs. Professionally, managers will further seek out the practical implications offered by this study in their actual relationships with their accounting practices in emerging countries.
2. Most of the previous studies in merging countries are descriptive, reporting the adoption rates of IFRSs, without the help of an appropriate theoretical framework and in very few cases through IFRS standards approach. Therefore, this study contributes to knowledge for the first time, a multitude of factors that affect the adoption of IFRSs in these countries, or simply relying on the regression analysis point of views regarding the influence of each of these factors.
3. The funding analysis in this study of both individual and simultaneous impact of demand and institutional factors on the adoption of IFRSs, utilising descriptive analysis as well as advanced multivariate statistical techniques (e.g. factors analysis and simple and multiple regression), is thought to have made a major contribution to the understanding of the adoption of IFRSs in emerging countries and possibly other developed countries. In short, the framework developed for this research is believed to be one of the key contributions of this study.
4. Given the dearth of theoretical framework adoption of IFRSs in emerging and transitional economies, it is hoped that the findings of this study will not only make a theoretical contribution but also make researchers and managers aware of the current state and development of IFRSs in emerging and transitional economies business companies and thus contribute to a better understanding of these techniques in the emerging and transitional countries and reduce the lag in the diffusion of IFRSs adoption among countries. It also provides significant insights into the role of institutions (e.g. academic institutions) and foreign companies, in the diffusion of IFRSs adoption in emerging countries.

VII. Limitations and Future Research

This study however, as any other study of this kind of research, it is subject to a number of limitations. Keeping in mind the following limitations, this study should merely be perceived as a contribution to continue the adoption of IFRSs in emerging economy and not as an end in itself. The limitation of this study can be achieved and discussed below:

1. The major complexity with this study is that heavily depend on archival data. Capturing countries motives is certainly needed to reveal specific reasons regarding the implementation of adoption of IFRSs or not influencing the accounting practicing in the emerging countries context. This would add to the originality and value of this study, as this study will not have the added benefit of learning from others' mistakes.

2. Considering that the decision to adopt of IFRSs in emerging economy are changing over time, investigating the diffusion of IFRSs in different groups of emerging market economies with a longer observation period and bringing more variables into the model may yield interesting results.
3. There was a scarcity of empirical work previously conducted in the study area. This meant a lack of scales and measurements that could be used in order to establish a cause and influence study to examine the relationship between accounting practices and adoption of IFRSs in emerging countries. Additionally, most of the available studies revealed contentious findings that do not encourage future research, as hitherto mentioned.

VIII. Outline for Further Research

The limitations mentioned above, and other thoughts discussions of this study, which would need much empirical work to be done. The following are suggested areas for future research:

1. To the best of the researcher's knowledge, this study is one of the first studies discussed the issue of the conceptual framework to adopt IFRSs by emerging and transitional economies. To validate the conclusions of this study, further comprehensive research is required into the foreign companies has a significant impact on the diffusion of improvement. In addition, a joint undertaking with foreign partner offers an opportunity to copy the foreign partners' techniques (fad factor) or to work under a foreign partner pressure (involuntary factor) or a mixture of these factors. Thus, the area that seems to be promising for feature research is the examination in detail of the nature of the role of foreign companies and other stakeholders on the diffusion of adoption of IFRSs in emerging countries.
2. Future research could expand the technical framework of this study, as more data becomes available in future, such material can be used for testing and identifying additional variables that could have influence on adoption of IFRSs successfully and, therefore, more long-term research is needed in order to investigate the determinants of IFRS standards over an extended period of time. Furthermore, study of the proposed model in other emerging countries is not included in this study could be performed in order to raise further explanation of the empirical model and to reveal more generalised findings.

It would be particularly interesting to discover what are the new IFRSs variables can they be effects on the emerging countries accounting practice? Does the adoption of IFRSs have an effect on these countries' economies statistically significant? What is their correlation to the quality of financial statements or to earnings quality? Finally, how much do IFRS standard changes actually affect business processes to improve high-quality accounting information and disclosure? The analysis in the study has implications for these questions, but more research in the adoption process of the IFRS standard is needed.

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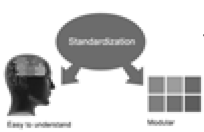

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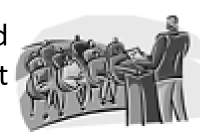
The Board is at liberty to appoint a peer reviewer with the approval of chairperson after consulting us.
The author fees of such paper may be waived off up to 40%.



The Global Journals Incorporation (USA) at its discretion can also refer double blind peer reviewed paper at their end to the board for the verification and to get recommendation for final stage of acceptance of publication.

The IBOARS can organize symposium/seminar/conference in their country on behalf of Global Journals Incorporation (USA)-OARS (USA). The terms and conditions can be discussed separately.

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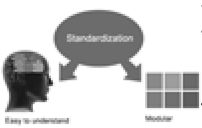

After nomination of your institution as "Institutional Fellow" and constantly functioning successfully for one year, we can consider giving recognition to your institute to function as Regional/Zonal office on our behalf.
The board can also take up the additional allied activities for betterment after our consultation.

The following entitlements are applicable to individual Fellows:

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- • This individual has learned the basic methods of applying those concepts and techniques to common challenging situations. This individual has further demonstrated an in–depth understanding of the application of suitable techniques to a particular area of research practice.

Note :

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- In future, if the board feels the necessity to change any board member, the same can be done with the consent of the chairperson along with anyone board member without our approval.
- In case, the chairperson needs to be replaced then consent of 2/3rd board members are required and they are also required to jointly pass the resolution copy of which should be sent to us. In such case, it will be compulsory to obtain our approval before replacement.
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1. General,

2. Ethical Guidelines,

3. Submission of Manuscripts,

4. Manuscript's Category,

5. Structure and Format of Manuscript,

6. After Acceptance.

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- As always, give awareness to spelling, simplicity and correctness of sentences and phrases.

Procedures (Methods and Materials):

This part is supposed to be the easiest to carve if you have good skills. A sound written Procedures segment allows a capable scientist to replacement your results. Present precise information about your supplies. The suppliers and clarity of reagents can be helpful bits of information. Present methods in sequential order but linked methodologies can be grouped as a segment. Be concise when relating the protocols. Attempt for the least amount of information that would permit another capable scientist to spare your outcome but be cautious that vital information is integrated. The use of subheadings is suggested and ought to be synchronized with the results section. When a technique is used that has been well described in another object, mention the specific item describing a way but draw the basic principle while stating the situation. The purpose is to text all particular resources and broad procedures, so that another person may use some or all of the methods in one more study or referee the scientific value of your work. It is not to be a step by step report of the whole thing you did, nor is a methods section a set of orders.

Materials:

- Explain materials individually only if the study is so complex that it saves liberty this way.
- Embrace particular materials, and any tools or provisions that are not frequently found in laboratories.
- Do not take in frequently found.
- If use of a definite type of tools.
- Materials may be reported in a part section or else they may be recognized along with your measures.

Methods:

- Report the method (not particulars of each process that engaged the same methodology)
- Describe the method entirely
- To be succinct, present methods under headings dedicated to specific dealings or groups of measures
- Simplify - details how procedures were completed not how they were exclusively performed on a particular day.
- If well known procedures were used, account the procedure by name, possibly with reference, and that's all.

Approach:

- It is embarrassed or not possible to use vigorous voice when documenting methods with no using first person, which would focus the reviewer's interest on the researcher rather than the job. As a result when script up the methods most authors use third person passive voice.
- Use standard style in this and in every other part of the paper - avoid familiar lists, and use full sentences.

What to keep away from

- Resources and methods are not a set of information.
- Skip all descriptive information and surroundings - save it for the argument.
- Leave out information that is immaterial to a third party.

Results:

The principle of a results segment is to present and demonstrate your conclusion. Create this part a entirely objective details of the outcome, and save all understanding for the discussion.

The page length of this segment is set by the sum and types of data to be reported. Carry on to be to the point, by means of statistics and tables, if suitable, to present consequences most efficiently.You must obviously differentiate material that would usually be incorporated in a study editorial from any unprocessed data or additional appendix matter that would not be available. In fact, such matter should not be submitted at all except requested by the instructor.

Content

- Sum up your conclusion in text and demonstrate them, if suitable, with figures and tables.
- In manuscript, explain each of your consequences, point the reader to remarks that are most appropriate.
- Present a background, such as by describing the question that was addressed by creation an exacting study.
- Explain results of control experiments and comprise remarks that are not accessible in a prescribed figure or table, if appropriate.
- Examine your data, then prepare the analyzed (transformed) data in the form of a figure (graph), table, or in manuscript form.

What to stay away from

- Do not discuss or infer your outcome, report surroundings information, or try to explain anything.
- Not at all, take in raw data or intermediate calculations in a research manuscript.
- Do not present the similar data more than once.
- Manuscript should complement any figures or tables, not duplicate the identical information.
- Never confuse figures with tables - there is a difference.

Approach

- As forever, use past tense when you submit to your results, and put the whole thing in a reasonable order.
- Put figures and tables, appropriately numbered, in order at the end of the report
- If you desire, you may place your figures and tables properly within the text of your results part.

Figures and tables

- If you put figures and tables at the end of the details, make certain that they are visibly distinguished from any attach appendix materials, such as raw facts
- Despite of position, each figure must be numbered one after the other and complete with subtitle
- In spite of position, each table must be titled, numbered one after the other and complete with heading
- All figure and table must be adequately complete that it could situate on its own, divide from text

Discussion:

The Discussion is expected the trickiest segment to write and describe. A lot of papers submitted for journal are discarded based on problems with the Discussion. There is no head of state for how long a argument should be. Position your understanding of the outcome visibly to lead the reviewer through your conclusions, and then finish the paper with a summing up of the implication of the study. The purpose here is to offer an understanding of your results and hold up for all of your conclusions, using facts from your research and generally accepted information, if suitable. The implication of result should be visibly described. Infer your data in the conversation in suitable depth. This means that when you clarify an observable fact you must explain mechanisms that may account for the observation. If your results vary from your prospect, make clear why that may have happened. If your results agree, then explain the theory that the proof supported. It is never suitable to just state that the data approved with prospect, and let it drop at that.

- Make a decision if each premise is supported, discarded, or if you cannot make a conclusion with assurance. Do not just dismiss a study or part of a study as "uncertain."
- Research papers are not acknowledged if the work is imperfect. Draw what conclusions you can based upon the results that you have, and take care of the study as a finished work
- You may propose future guidelines, such as how the experiment might be personalized to accomplish a new idea.
- Give details all of your remarks as much as possible, focus on mechanisms.
- Make a decision if the tentative design sufficiently addressed the theory, and whether or not it was correctly restricted.
- Try to present substitute explanations if sensible alternatives be present.
- One research will not counter an overall question, so maintain the large picture in mind, where do you go next? The best studies unlock new avenues of study. What questions remain?
- Recommendations for detailed papers will offer supplementary suggestions.

Approach:

- When you refer to information, differentiate data generated by your own studies from available information
- Submit to work done by specific persons (including you) in past tense.
- Submit to generally acknowledged facts and main beliefs in present tense.

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Introduction	Containing all background details with clear goal and appropriate details, flow specification, no grammar and spelling mistake, well organized sentence and paragraph, reference cited	Unclear and confusing data, appropriate format, grammar and spelling errors with unorganized matter	Out of place depth and content, hazy format
Methods and Procedures	Clear and to the point with well arranged paragraph, precision and accuracy of facts and figures, well organized subheads	Difficult to comprehend with embarrassed text, too much explanation but completed	Incorrect and unorganized structure with hazy meaning
Result	Well organized, Clear and specific, Correct units with precision, correct data, well structuring of paragraph, no grammar and spelling mistake	Complete and embarrassed text, difficult to comprehend	Irregular format with wrong facts and figures
Discussion	Well organized, meaningful specification, sound conclusion, logical and concise explanation, highly structured paragraph reference cited	Wordy, unclear conclusion, spurious	Conclusion is not cited, unorganized, difficult to comprehend
References	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring

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ISSN 9755853