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Contents of the Issue

i. Copyright Notice
ii. Editorial Board Members
iii. Chief Author and Dean
iv. Contents of the Issue

1. Investigation on the Presence of Income Smoothing–A Study on the Companies Listed in NSE. *1-12*
2. Practices of Competitor Accounting and its Influence on the Competitive Advantages: An Empirical Study in Jordanian Manufacturing Companies. *13-23*
3. Accounting and Fiscal Aspects Related to Certification Expenditure in Compliance with the Iso. *25-26*
4. The Effects of Expected Stock Returns and Stock Prices Volatility on Corporate Operational Risk (Tehran Stock Exchange). *27-32*
5. Lobbying in Accounting Standards Setting. *33-36*

v. Fellows and Auxiliary Memberships
vi. Process of Submission of Research Paper
vii. Preferred Author Guidelines
viii. Index

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Investigation on the Presence of Income Smoothing-A Study on the Companies Listed in NSE

By Miss Jutimala Bora & Prof. Ashit Saha

J.D.S.G. College, India

Abstract - In today's world information and economic systems, given to the development of information technology, transmission and accurate reporting of related financial information reliable on decision making has particular important. However, shareholders, who give their savings in the form of investment to companies, have not any tools except the annual financial statements, reports and notes of companies for knowing how to manage their assets and ensure the accuracy of performance, efficiency and productivity of managers. Government also due to different reasons like ensuring the accuracy of funds and sources consumption income analysis through tax and so on requires an accurate, reliable financial reporting. Government also due to different reasons like ensuring the accuracy of funds and sources consumption income analysis through tax and so on requires an accurate, reliable financial reporting.

Keywords: income smoothing, nse, earning management, financial reporting.

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Investigation on the Presence of Income Smoothing–A Study on the Companies Listed in NSE

Miss Jutimala Bora [α] & Prof. Ashit Saha [σ]

Abstract- In today's world information and economic systems, given to the development of information technology, transmission and accurate reporting of related financial information reliable on decision making has particular important. However, shareholders, who give their savings in the form of investment to companies, have not any tools except the annual financial statements, reports and notes of companies for knowing how to manage their assets and ensure the accuracy of performance, efficiency and productivity of managers. Government also due to different reasons like ensuring the accuracy of funds and sources consumption income analysis through tax and so on requires an accurate, reliable financial reporting. On the other hand the accurate information from the results of various economic activities and certitude in the performance of accounting principles and standards and establishment of appropriate systems of information transmission in the form of financial reporting is considered effective factor in realizing prospects and economic programs of the country.

This study investigates income smoothing as one of earnings management techniques. The topic of Income Smoothing has been studied with reference to the companies listed in the National Stock Exchange of India. Apart from studying the existence of Income Smoothing practice among the NSE listed companies, effort has also been made to study the factors that may affect the income smoothing.

Keywords: income smoothing, nse, earning management, financial reporting.

I. Prologue

In today's world information and economic systems, given to the development of information technology, transmission and accurate reporting of related financial information reliable on decision making has particular important. However, shareholders, who give their savings in the form of investment to companies, have not any tools except the annual financial statements, reports and notes of companies for knowing how to manage their assets and ensure the accuracy of performance, efficiency and productivity of managers. Government also due to different reasons like ensuring the accuracy of funds and sources consumption income analysis through tax and so on requires an accurate, reliable financial reporting. On the other hand the accurate information from the results of various economic activities and certitude in the performance of accounting principles and standards and establishment of appropriate systems of information transmission in the form of financial reporting is considered effective factor in realizing prospects and economic programs of the country.

This study investigates income smoothing as one of earnings management techniques. Income smoothing is the utilization of accounting discretion to reduce income stream variability (Fudenberg and Tirole, 1995)[1]. Smoothing moderates year-to-year fluctuations in income by shifting earnings from peak years to less successful ones, making earnings fluctuations less volatile (Copeland,1968)[2]. As a simple definition, income Smoothing is a kind of intentional act committed by managers using special tools in accountancy for lowering profit fluctuations. Low profit fluctuations create a more favorable image in investors for investing in companies. Management of some companies deliberately manipulates items of financial statements in order to attract attention of investors aimed at pretending that their profitability is stabilized.

II. Smoothing: Motivation and Effects

Income smoothing, which Arthur Levitt labeled ''cookie jar'' accounting in his 1998 speech, is not a new issue. Gordon (1964) predicts that as long as managers have discretion over accounting choices, they smooth reported income. His prediction was tested in several studies. By the late 1970s, evidence for income smoothing was plentiful (Beidleman 1973; Ronen and Sadan 1981). In a recent study, Graham et al. (2005) report, ''an overwhelming 96.9% of the survey respondents indicate they prefer a smooth earnings path. Managers may smooth reported income to meet the bonus target (Healy 1985) or to protect their job (Fudenberg and Tirole 1995; Arya et al. 1998)[3].

Gordon et al., (1966)[4] suggested four hypotheses for income smoothing

1. Managers' measure for selecting among different accounting methods is maximizing desirability or managers' welfare.
2. Managers' welfare or desirability is a function of job security, growth level and rate of bonus and

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management salary and growth level and rate of firm size.

3. Desirability or welfare of management depends on stockholders' satisfaction of firm performance. So, if other things are equal, as stockholders become more satisfied, job security, position, earning, and managers' bonus are higher.
4. Satisfaction of stockholders depends on stability of growth rate of earning.

III. Review of Literatures

Michelson *et al, (*2000) used risk-adjusted returns for the firms in the S& P 500 to test whether the stock market response to accounting performance measures is related to the smoothness of companies reported earnings. The conclusion of the study revealed that companies that report smooth income have significantly higher cumulative average abnormal returns than firms that do not. When size is considered, market returns are higher for small companies than for large companies. There is also significant relationship between type of industry and income-smoothing[5]

Jennifer W. Tucker, *et al,* (2006) examined whether income smoothing garbles earnings informs or improves the informativeness of past and current earnings about future earnings and cash-flows. The result revealed that the change in the current stock price of higher – smoothing firms contains more information about their future earnings than does the change in the stock-price of lower-smoothing firms.[6]

Andersson *et al, (2002*) examined the income-smoothing behavior of small Swedish firms by studying the impact of financial and contextual variables on income-smoothing in terms of how they appropriate funds to Accumulated Excess Depreciation Reserve (AEDR). Their results indicated that it is more probable for firms to appropriate to the AEDR if a firm is small and medium sized firm compared to singles and micro firms, profitable and capital intensive, the firm is newly established and its is operating in industries like manufacturing, wholesale and retail trade industry. They also found that firms which appropriate or have appropriated to Tax Allocation Reserve (TAR) are much more probable also to appropriate to AEDR.[7]

Shamsul *et al*,(2002) examined on whether Extra ordinary item(EI) disclosure were associated with income-smoothing behavior and the extent to which disclosure of Extra-ordinary item was related to political cost, gearing and management interest. The study found that the incidence EI was very high. However, the results showed no evidence of management using EI as a tool to smooth income. Further EI disclosures were not explained by political cost, gearing and management interest.[8]

Khairul *et al* examined the relationship between income-smoothing practices and firms value in Malaysia. This research also studied the effect of firm size on the tendency to smooth income. The result of the study indicated that income smoothing was present although its percentage is low. It also found that smaller firms have greater tendency to smooth income rather than larger firms.[9]

Apart from the above mentioned studies, previous studies have also investigated income smoothing instruments such as dividend incomes, changes in accounting polices, pension cost, investment tax credit, depreciation and fixed charges, discretionary accounting decision and many other possible income-smoothing tools.

Gordon *et al*, (1966) examined the relationship between the method of accounting for investment tax credits (income-smoothing instrument) and the growth rates of earnings per share and the returns on the stockholders' equity (income smoothing objective). The results of the study indicated a significant relationship between the two, suggesting the existence of income-smoothing practices.[10]

Archibald (1967) studied on depreciation methods and Cushing (1969) on accounting changes. Dascher, *et al, (*1970), Barnea *et al*,(1975) and Ronen, *et al*, (1975) studied on extra ordinary items also reported income smoothing behavior among sample companies. Beidleman (1973) provided evidence to show that incentive compensation, pension and retirement expenses, research and development cost, sales and advertising expenses were also used by companies to smooth income. Ma (1988) concluded that banks used loan loss provisions and charge offs to smooth income. White (1970) studied the discretionary accounting decisions and could not detect any income smoothing behaviour among the sample companies.[11]

Several researchers have come out with different argument on determining the income-smoothing objective. Copeland (1986) suggested that net income as the ultimate aim of income smoothing. Imhoff (1981) suggested that possible measures of income – smoothing include fully diluted EPS, net income, net income before extra-ordinary items, operating income and gross margin. Beattie *et al,* (1994) claimed that profit before tax as the income-smoothing objective. In a more recent study conducted by Michelson, *et al* (2000), they assumed operating income after depreciation, pretax income, income before extra-ordinary items and net income as smoothing objective.[12]

Several studies have also looked at the possible determinants of income – smoothing such as company size, industrial sector, bonus scheme, barrier to entry and ownership. For example Smith (1976) and Kamin, *et al*, (1978) pointed out that compared to owner controlled companies, the manager-controlled ones tended to smooth income significantly more frequently. Ronen, *et al*,

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(1981) concluded that companies in different industries smoothed their income in varying degrees. High degree of smoothing was found in the oil and gas and drug industries. Belkaoui and Picur (1984) found that companies in peripheral industrial sectors showed a greater incidence of income-smoothing behavior than companies in the core-industrial sectors. Moses (1987) found that income-smoothing was associated with company size, the divergence of actual earnings from expectations and the existence of bonus compensation plans. Ashari *et al,* (1994) found that income-smoothing is greater in less profitable companies and the income-smoothing is associated with the company size, the industry and the nationality of the companies.[13]

IV. Research gap and Rationale of the Study

From the preceding section it transpires that study relating to Income Smoothing has not been extensively undertaken in the companies listed in the Indian Stock Exchanges. Moreover in the above studies factors influencing income/profit smoothing have not been studied. Taking these as research gap, effort has been made in this study to fill in the research gap and to add to the existing stock of knowledge. The topic of Income Smoothing has been studied with reference to the companies listed in the National Stock Exchange of India. Apart from studying the existence of Income Smoothing practice among the NSE listed companies, effort has also been made to study the factors that may affect the income smoothing.

V. Objective of the Study

The present study has been undertaken taking into mind the following broad objectives-

i. To determine the presence of Income Smoothing.
ii. To determine the factors affecting Income Smoothing among the companies selected for the study

Hypotheses: The following null hypotheses have been framed for the present study:

H01: Smoothing practice is not prevalent among the listed companies in India.

H02: Extent and direction of smoothing do not depend on size of company.

H03 : Income smoothing is independent of nationality of the company.

H04 : Income smoothing is independent of private and public sector.

*H05:*Income smoothing is independent of manufacturing and service sector.

H06: Income smoothing is independent of family based and professionally managed companies.

VI. Research Methodology

Size of the Population: During the tenure of the research study, the number of listed companies in the NSE as on 28th February 2013 has been 1627.The finance sector companies have been excluded from the study because of its unique characteristics of financial reporting practice. The number of listed companies in NSE after excluding finance sector companies stands at 1471. This has been taken as the population for the present study.

Size of the Sample: It has been decided on the basis of Cochran's model of sample determination. The sample has been fixed at 230 on the basis Cochran's sample determination table.

The sample data has been collected proportionately on the following company characteristics:

- Size of the Company-
- Manufacturing Companies
- Service Companies
- Nationality
- Public Sector Companies
- Private Sector Companies
- Family Based Companies
- Professionally Managed Companies

Sampling Technique: The present study requires the grouping of the population into sub groups for studying the factors affecting the income smoothing practice. Therefore, the stratified sampling technique has been used. The population has been divided into homogeneous subgroups. The sample has been 15.6 % (230) of the population (1471).The number of companies to be included in each category of sample has been decided on the basis of total sample proportion to the total population of the study i.e.15.6%.

VII. Measuring Income Smoothing

To fulfill the objectives of the study and to test the hypotheses of the study, measurement of the income smoothing is required. According to Bao and Bao (2004) research on the use of income smoothing has been successful because researchers have been able to identify which companies use income smoothing and which companies do not use income smoothing. This implies that methods exists that successfully measure the use of income smoothing. According to Copeland (1968), three methods exits. First, researchers can inquire management, second researchers can contact third parties such as auditors, and third researchers can perform studies on ex post data. The majority of the academic research has chosen the third option; performed studies based on ex post data

In this research study, the procedure employed to determine the presence of Income Smoothing is the coefficient of variation method developed by Eckel

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(1981). Eckel's method measures smoothing by aggregating the effects of potential smoothing variables and considering over time (Ashari et al 1994).This aggregation of variables is important, as Zmijeaski and Hangerman (1981) suggest that companies select accounting procedures, not independently, but based upon their overall expected effects on income.[14]

If, as is generally assumed, changes in income are the result of smoothing, then the coefficient of variation can be used as a measure of the variability of sales and other measures of income e.g. operating income (Imhoff 1977, 1981; Eckel 1981; Moses 1987). Several recent studies (Albrecht *et al* 1990; Ashari, *et al*; Wong 1994; Booth, *et al,* 1995; Michelson, *et al,* 1995) have used the coefficient of variation model to determine the presence of income smoothing. As per the model, a firm is not classified as an income smoother if [15]

$$CV_{\Delta I} \geq CV_{\Delta S}$$

where ΔI=One period change in income

ΔS=One period change in sales

CV=Coefficient of variation

$$CV = \frac{\text{Standard Deviation}}{\text{Mean}}\left(\frac{\sigma}{a}\right)$$

The basic logic behind this Eckel's model is that if the variation of the change in sales is greater than the variation in change in income, the firm is considered to smooth income.

The actual objectives of income-smoothing with respect to the income statement have been interpreted in various ways. Some studies (e.g. Copeland 1968) suggest net income as the ultimate aim of smoothing. Ronen and Sadan (1975, 1981) propose that the object of smoothing is ordinary income. Imhoff's (1981) possible measures of income-smoothing include net income, operating income.[16] In the present study, the objective of income-smoothing is taken as Profit Before Tax (PBT)

The present study modified the original Eckel's model and assumes a company as non-smoother if

$$CV_{\Delta I} = CV_{\Delta S}$$

The logic behind this assumption is that if the income figure and sales figure of a company are taken over a period of time, then, the Coefficient of Variation of income i.e. the variation of change in income and the Coefficient of Variation of sales i.e. the variation of change in sales should be same. So the company where the $CV_{\Delta I} > CV_{\Delta S}$ or $CV_{\Delta I} < CV_{\Delta S}$, it will be considered as a smoother company.

In the present study, a company is considered as a non-smoother even if-

$$CV_{\Delta I} \approx CV_{\Delta S} \text{ i.e. } \frac{CV_{\Delta I}}{CV_{\Delta S}} \approx 1$$

In the study, the ratio of CV of PBT to CV of sales is used as Eckel's Index (Income-Smoothing Detector) to identify the sample of the company's as smoother and non-smoother.

VIII. Findings

a) *Descriptive Statistics*

Eckel's Index has been calculated as an indicator of income smoothing practice using ratio of Profit before Tax and sales. Out of the total 230 sample companies only 62(27%) companies are found to be non-smoother as in case of these 62(27%) companies, the Eckel's Index is approximately equal to 1. At the same time, out of the 230 companies, 168(73%) are found to be smoother as Eckel's Index for these companies are either greater than 1 or less than 1.

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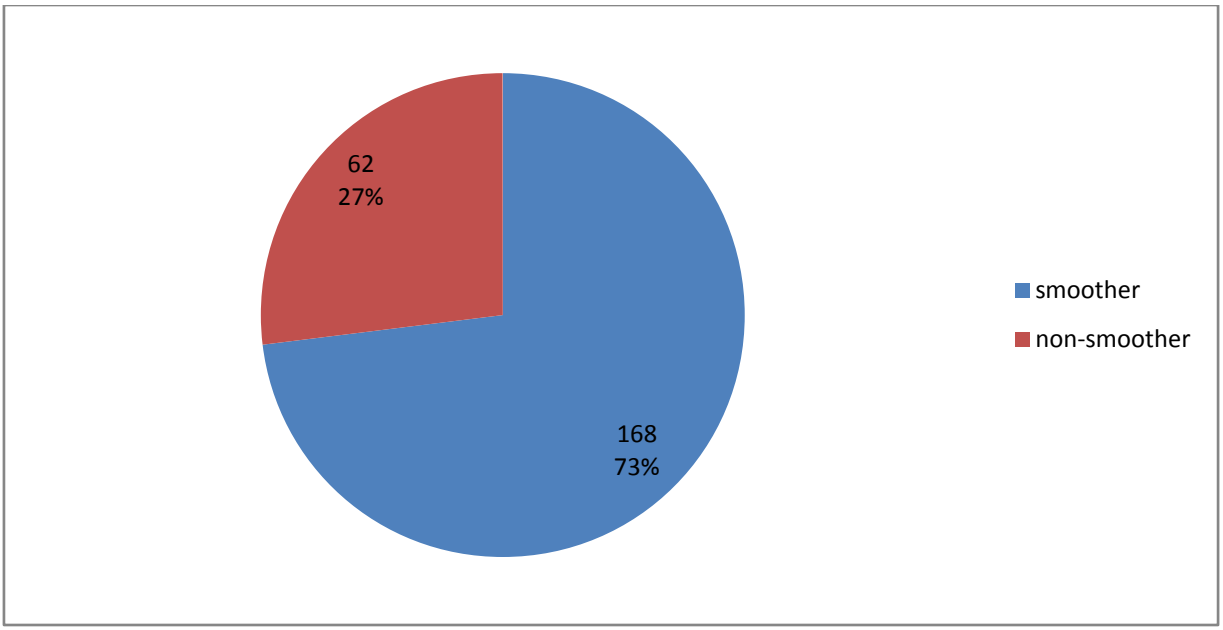


Figure 1 : Smoothing Status Classification on PBT

Figure 1 shows the presence of income smoothing activities in India. The findings also show that the number of smoothing companies has been higher compared to non-smoothing companies. These findings on the presence of income smoothing practices in India are consistent with Ashari et.al (1994) findings.

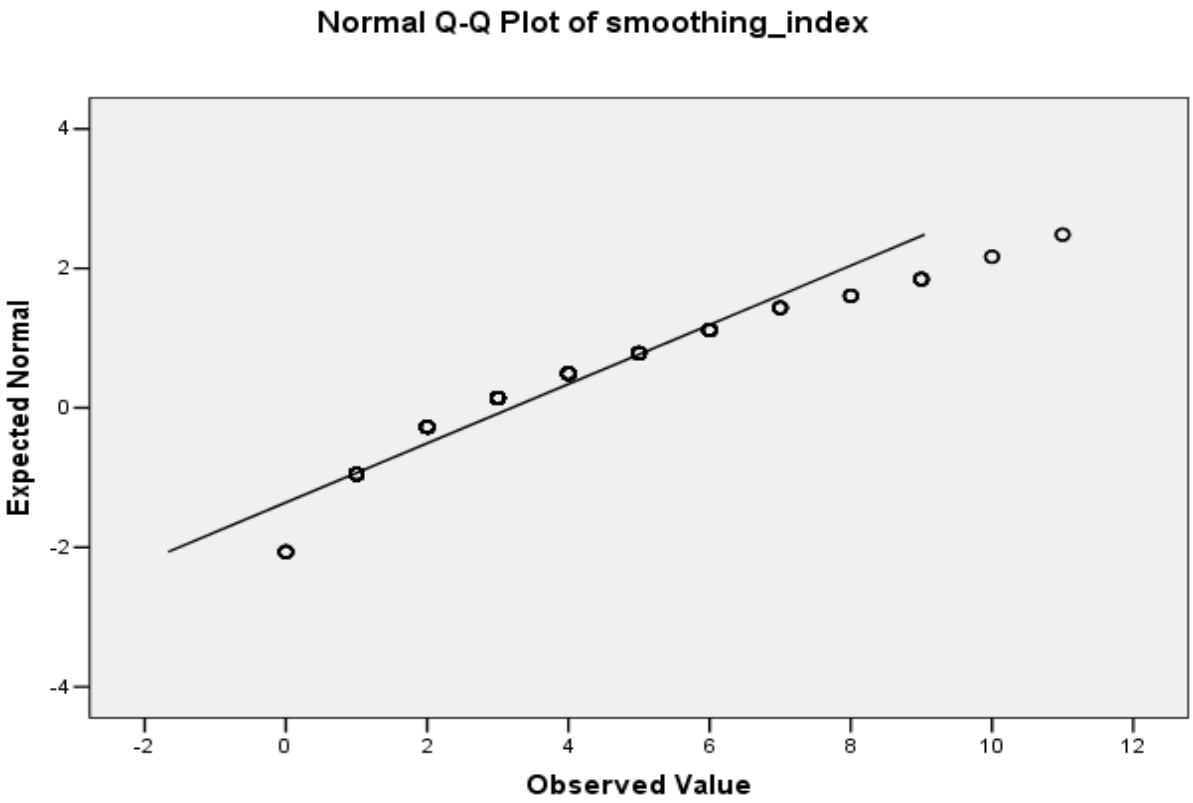
Inferential statistics: Inferential statistics is concerned with making predictions or inferences about a population from observations and analyses of a sample. That is, one can take the results of an analysis using a sample and can generalize it to the larger population that the sample represents. In order to do this, however, it is imperative that the sample is representative of the group to which it is being generalized. However, before using any statistical test, it is necessary to test for normality of the data set. The normality test of the data set has been done using Kolmogorov Smirnov test for normality. The results of the test are given below:

Table 1: Tests of Normality

	Kolmogorov-Smirnov(a)		
	Statistic	df	Sig.
Smoothing Index	.172	230	.000

From the above Table 1, it can be seen that the data set of smoothing index has p value or Asymp. Sig (2 - tailed) less than .05 which means that the data set is not normally distributed. This can be illustrated through the following diagram:

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The sample data of 230 companies have been classified into smoother and non smoother on the basis of Ecke's index and this smoother and non smoother category has been considered as the status of the companies. In order to test the hypotheses, chi-square test has been used to see whether there is any association between the status of the company as smoother and non smoother and factors like size, nationality, sector, management. The results of the test are given below for each of the factors:

Table 2 : Results of Chi-Square Test

FACTORS			STATUS		p-value
			NON SMOOTHER	SMOOTHER	
SIZE	LARGE	NUMBER	11(55%)	9(45%)	.005<.05
	MEDIUM	NUMBER	9(36%)	16 (64%)	
	SMALL	NUMBER	42 (22.7%)	143(77.3%)	
	TOTAL	NUMBER	62(27%)	168 (73%)	
NATIONALITY	MNC	NUMBER	6(46.2%)	7(53.8%)	.108>.05
	INDIAN	NUMBER	56(25.8%)	161(74.2%)	
	TOTAL	NUMBER	62(27%)	168(73%)	
SECTOR (PRIVATE & PUBLIC)	PUBLIC	NUMBER	3(50%)	3(50%)	

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	PRIVATE	NUMBER	59(26.3%)	165(73.7%)	.197>.05
	TOTAL	NUMBER	62(27%)	168(73%)	
SECTOR (MANUFACTURING & SERVICE)	SERVICE	NUMBER	7(25. 9%)	20(74.1%)	.898>.05
	MANUFACTURING	NUMBER	55(27.1%)	148(72. 9%)	
	TOTAL	NUMBER	62(27%)	168(73%)	
MANAGEMENT	FAMILY	NUMBER	8(24.2%)	25(75.8%)	.704>.05
	PRFESSIONALLY MANAGED	NUMBER	54(27.4%)	143(72.6%)	
	TOTAL	NUMBER	62(27%)	168(73%)	

From the above Table 2, it can be seen that the Chi-square test has been done to test each of the hypotheses under study at 5% level of significance. The results of the test revealed that there is a significant relationship between the size of the company and income smoothing as the p value here is .005 which is less than .05.The results revealed that smaller companies have greater tendency towards smoothing as the percentage of smoother company is more in case of small sized companies . The results of the test showed that the Indian companies are more involved in smoothing of income as compared to MNC but there is no significant relationship between the nationality of the company and income smoothing as the p value here is .108 which is higher than .05.The results of the test also revealed that Income smoothing is independent of private and public sector company as the p value here is .197 which is higher than .05 although the percentage of smoothing is more in case of private sector companies. Similar results have been found for the companies falling under manufacturing and service sector and family based and professionally managed companies as the p values in both of the cases (.898 and .704) are much higher than .05 and it can be said that Income smoothing is independent of manufacturing and service sector and family and professional management.

The data set used for the Chi-square test is categorical in nature as the classification of the companies as smoother and non smoother has been used as the status of the company. This status of the company is used as dependent variable for the study. But to see the association between income smoothing index and factors taken for the study, another statistical test needs to be used. Since the data set is not normally distributed as proved by the Kolmogorov-Smirnov normality test, the Mann-Whitney test has been used. Again Mann-Whitney Test is applicable in case there are only two independent sets of data sample but in case of factor size, there are 3 independent data sample viz large, medium and small and therefore for that data set instead of Mann-Whitney test, Kruskal-Wallis Test has been used. The results of the two tests are tabulated below:

Table 3 : Results of the Mann- Whitney Test

Factors	N	Rank Average	Sum of Ranks	U	Z	p
MNC	13	87.65	1139.5	1048.500	-1.578	.114
Indian	217	117.17	25425.5			
Public	6	62.08	372.5	351.500	-2.024	.043
Private	224	116.93	26192.5			
Service	27	118.2	3191.5	2667.500	-.228	.819
Manufacturing	203	115.14	23373.5			
Family Managed	33	122.03	4027.0	3035.000	-.619	.536
Professionally Managed	197	114.41	22538.0			

The first hypothesis of the Table 3 deals with the problem: Is there a significant difference between the income smoothing indexes of companies in the two groups, companies' falling under the category of MNC and companies' falling under the category Indian. In order to resolve this problem, the income smoothing index of the two groups of companies MNC and Indian

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have been compared using Mann-Whitney U test, a non-parametric statistical technique.

An examination of the findings in Table 3 reveals the results of Mann Whitney U test that the Income Smoothing index of the companies in the two groups did not show any statistical difference ($p=.114>.05$). The rank average of the income smoothing index of the MNC group of company was 87.65, while the companies in the Indian group had an income smoothing index rank average of 117.17. The examination of the rank averages demonstrates that the companies in the Indian group had higher income smoothing index than those in the MNC group.

The second hypothesis of the Table 3 deals with the problem: Is there a significant difference between the income smoothing index of companies in the two groups, companies' falling under the category of public and companies' falling under the category of private. An examination of the findings in Table 3 shows that the Income Smoothing index of the companies in the two groups revealed a statistically significant difference at the level of $p<.05$ ($p=.043<.05$). The rank average of the income smoothing index of the public sector group of company was 62.08, while the companies in the private sector group had an income smoothing index rank average of 116. 93. The analysis of the rank averages reveals that the companies in the private sector group had higher income smoothing index than those in the public sector group.

The third and fourth hypothesis of the Table 3 deals with the problem: Is there a significant difference between the income smoothing index of companies in the two groups, companies' falling under the category of service sector and companies' falling under the category of manufacturing sector and Is there a significant difference between the income smoothing index of companies in the two groups, companies' falling under the category of family based and companies' falling under the category of professionally managed respectively.

An examination of the findings in Table 3 reveals the results of Mann Whitney U test that the Income Smoothing index of the companies in the two groups (in case of both third and fourth hypotheses) did not show any statistical difference ($p=.819>.05$ and $p=.536>.05$). The rank average of the income smoothing index of the service sector group of company was 118.2, while the companies in the manufacturing sector group had an income smoothing index rank average of 115.14. The close rank averages of the groups' income smoothing index indicate that both the groups had somewhat equal income smoothing index levels. Again, the rank average of the income smoothing index of the family based group of company was 122.03, while professionally managed group of companies had an income smoothing index rank average of 114.41.

Table 4 : Results of the Kruskal-Wallis Test

Factors	N	Rank Average	Chi-Square	p
Large Size	20	73.33	17.421	.000
Medium Size	25	84.02		
Small Size	185	124.31		

The hypothesis of the Table 4 deals with the problem: Is there a significant difference between the income smoothing index of companies in the three groups of companies' falling under the category of large, medium and small. In order to resolve this problem, the income smoothing indexes of the three groups of companies have been compared using Kruskal-Wallis Test, a non-parametric statistical technique.

An analysis of the results in Table 4 shows that the Income Smoothing index of the companies in the three groups revealed a highly significant statistical difference at the level of $p<.000$ ($p=.000<.05$). The rank averages of the income smoothing index of the large sized and medium sized companies were 73.33 and 84.02 respectively, while the small sized companies had an income smoothing index rank average of 124. 31. The analysis of the rank averages reveals that the small sized companies had higher income smoothing index than those in the public sector group. This result indicates that the small sized companies have higher incidence of income smoothing as compared to large sized and medium sized companies.

Logistic Regression Model: The binary logistic regression model is used to analyze the income smoothing of companies. The analysis is done on the basis of independent variables viz size, nationality, sector, management where income smoothing status has been assumed to be dependent variable .This paper deals with presentation and analysis of Income smoothing status of the companies. It is assumed that Income smoothing status of the companies is affected by the parameters viz. (i) size (large, medium and small), (ii) Nationality (MNC and India) (iii) Sector (Public and Private) (iv) Sector (Service and Manufacturing) and (v) Management (Family based and Professional Management). The logistic regression approach has been adopted to study the Income smoothing status under the variables mentioned above. Income smoothing status is partitioned into two sets viz. Smoothers and Non Smoothers. Both univariate and multiple regression models have been used. In case of univariate binary logistic regression model, it is assumed that the income smoothing status is affected only by one variable but in case of multiple binary regression model, it is assumed that the income smoothing status is affected by various factors under study.

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Table 5 : Results of Univariate Binary Logistic Regression Model for the Factor Size

		Wald Statistic	Sig.	Odds Ratio
Step 1(a)	Size	9.794	0.007	
	Size(Medium)	1.603	0.205	2.173
	Size(Small)	8.732	0.003	4.161
	Constant	0.199	0.655	0.818

From the above Table 5, it can be seen that size as a whole is a significant factor with p value (.007) less than .05.The odds ratio reveals that the smoothing is approximately 3 times higher in case of medium sized companies and approximately 4 times higher in case of small sized companies.

Table 6 : Results of Univariate Binary Logistic Regression Model for the Factor Nationality

		Wald Statistic	Sig.	Odds Ratio
Step 1(a)	Nationality(Indian)	2.438	0.118	2.464
	Constant	0.077	0.782	1.167

From the above Table 6, it can be seen that the smoothing is approximately 3 times higher in case of Indian companies as compared to multinational companies which is proved by the odds ratio. But this factor nationality is not significant as far as smoothing of income is concerned as the p value (.118) is higher than.05.

Table 7 : Results of Univariate Binary Logistic Regression Model for the Factor Sector (Private and Public)

		Wald Statistic	Sig.	Odds Ratio
Step 1(a)	Sector(Private)	1.534	0.216	2.797
	Constant	0	1	1

From the above Table 7, it can be seen that the incidence of smoothing is more in case private sector companies' i.e 3 times higher than the public sector companies but this factor should not be considered as a significant factor affecting the smoothing of income as the p value (.216) is higher than .05.

Table 8 : Results of Univariate Binary Logistic Regression Model for the Factor Sector (Service and Manufacturing)

		Wald Statistic	Sig.	Odds Ratio
Step 1(a)	Sector(Manufacturing)	0.016	0.898	1.062
	Constant	39.291	0	2.691

The Table 8 above shows that the manufacturing sector companies are more inclined towards income smoothing as the odds ratio here is about 2 times higher than the service sector companies but this factor is not a significant factor affecting income smoothing as the p value (.898) is very much higher than .05.

Table 9 : Results of Univariate Binary Logistic Regression Model for the Factor Management

		Wald Statistic	Sig.	Odds Ratio
Step 1(a)	Management(Professional)	0.144	0.704	1.18
	Constant	37.176	0	2.648

From the above Table 9, it can be seen that the incidence of smoothing is slightly higher in case of professionally managed companies as compared to family managed companies as revealed by the odds ratio. But this factor is not at all significant factor affecting income smoothing as the p value (.704) here is much higher than .05.

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Table 10 : Results of Multiple Binary Logistic Regression Model

		Wald Statistic	Sig.	Odds Ratio
Step 1(a)	Size	7.325	0.026	
	Size(Medium)	1.827	0.177	2.672
	Size(Small)	6.344	0.012	5.045
	Nationality(Indian)	0.38	0.537	1.491
	Sector(Private)	0.158	0.691	0.661
	Sector(Manufacturing)	0.039	0.843	0.91
	Management(Professional)	0.838	0.36	1.583
	Constant	0.147	0.701	0.671

The Wald statistic and the corresponding significance level test in the model are shown in the above Table 10. If the Wald statistic is significant (i.e., less than 0.05) then the parameter is significant in the model. Of the independent variables, nationality, sector (private or public), sector (manufacturing or service), management are insignificant, whereas size of the companies have significantly affected the smoothing of the companies.

Overall Research Findings: This research study has been done with the objective of investigating regarding the presence of income smoothing in Indian listed companies and also to see the factors affecting the income smoothing activity .The study has been undertaken with 6 hypotheses to be tested for its validity.

H_{01}: Smoothing practice is not prevalent among the listed companies in India.

The first hypothesis of the study deals with the question of whether income smoothing is prevalent among the listed companies in India. However, from the descriptive statistics, it has been found that 168 (73%) companies are involved in income smoothing activity whereas only 62 (27%) companies are proved to be non smoothers. Many previous studies proved the presence of income smoothing among the companies. But for this paper, the study undertaken by Khairul Anuar Bin Kamarudin et al among the companies listed in the Kuala Lumpur Stock Exchange has been used as benchmark for comparison. The findings of the study showed that the number of smoothing firms was smaller compared to non-smoothing firms where 81(71%) firms are classified as non-smoother and 33(29%) firms as smoother. These findings on the presence of income smoothing practices in Malaysia are consistent with Ashari et. al (1994) findings. The study concluded that smoothing is present among the companies but at a lower level. Since the percentage of smoother companies in the present study has been very high as compared to the study undertaken by Khairul Anuar Bin Kamarudin et al among the companies listed in the Kuala Lumpur Stock Exchange, it can be concluded that smoothing is prevalent among the listed companies in India and at a high level. Therefore, the null hypothesis can be rejected.

H_{02}: Extent and direction of smoothing do not depend on size of company.

The second hypothesis deals with the question of whether income smoothing is associated with size of the company. Previous studies found that company size had an effect on income smoothing practices. However, the findings are inconsistent on this matter. It has been suggested by Moses (1987) that larger firms may have greater incentive to smooth income rather than smaller firms. Ronen and Sadan (1981) posited that this is because larger firms are subject to greater scrutiny from the government as well as the public. On the other hand, Albrecht and Richardson (1990) argued that since larger firms receive more analyst scrutiny, they may have a lower tendency to smooth income. However, a study conducted by Ashari *et. al* (1994), has failed to detect any significant association between the smoothing practices and the size of company . More recent findings by Michelson, Jordan-Wagner and Wootton (2000) found that smoother firms are larger in size than non smoothing firms. In this study, to test the above hypothesis, the Chi-Square Test, Kruskal-Wallis Test and Binary Logistic Regression Model has been performed to investigate any significant systematic differences between companies that smooth their income and companies that do not. Result is very much clear and can be said that the size significantly affect the smoothing of the companies .From the multiple binary logistic regression model, it can be said that the small sized companies are more significant in affecting the smoothing of the companies. Therefore the null hypothesis can be rejected and the alternate hypothesis can be accepted.

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H_{03} : Income smoothing is independent of nationality of the company.

The third hypothesis deals with the question of whether income smoothing is associated with nationality of the company. Ashari *et. al* (1994) found that income smoothing is associated with the nationality of the companies. The present study did not find any significant association between the income smoothing and nationality of the companies and therefore the null hypothesis can be accepted.

H_{04} : Income smoothing is independent of private and public sector.

The fourth hypothesis of the study deals with the question of whether income smoothing is associated with sector (public and private). The result of the study has not been very clear as it differs in case of various statistical tools used in the study. In case of Chi-Square Test, it has been found that there is no significant association between the income smoothing and sector (public and private) with the ($p=.197>.05$). Similar result has been found in case of Binary Logistic Regression Model. But the result differs in case of Mann-Whitney test. As per this test, there is a significant association between the income smoothing and sector (public and private) with the ($p=.043<.05$).However, this difference is due to the fact that in case of Mann-Whitney test, income smoothing index has been used as a dependent variable as against the status of the companies (smothers and non smoothers) applied in case of Chi-Square Test and Binary Logistic Regression Model.

H_{05} : Income smoothing is independent of manufacturing and service sector.

The fifth hypothesis of the study deals with the question of whether income smoothing is associated with sector (service and manufacturing).Several studies have also looked at possible determinant of income smoothing as industrial sector. Ronen and Sadan (1981) concluded that companies in different industries smoothed their income in varying degrees. In particular, a high degree of smoothing was found in the oil and gas, and drug industries, both of which were very much under public scrutiny. Belkaoui and Picur (1984) also reached a similar conclusion. They found that companies in peripheral industrial sectors showed a greater incidence of income smoothing behaviour than companies in the core industrial sectors. This study has concluded that there is no significant association between the sector (service and manufacturing) and income smoothing and therefore the null hypothesis can be accepted.

H_{06} : Income smoothing is independent of family based and professionally managed companies

The last hypothesis of the study deals with the question of whether income smoothing is associated with management. Smith (1976) and Kamin and Ronen (1978) pointed out that, compared to owner-controlled companies, the manager-controlled ones tended to smooth income significantly more frequently. However the present study has not found any significant association between the income smoothing and management of the company and therefore the null hypothesis can be accepted.

Epilogue: The study was undertaken with a broad objective of determining the presence of income-smoothing practice among the sample companies. The result of the study gives an idea regarding the presence of income smoothing practice among majority of sample companies. In the present study, five factors have been selected to determine their association with income smoothing practices. The factors selected for the study are size (large, medium and small), Nationality (MNC and India), Sector (Public and Private), (Sector (Service and Manufacturing) and Management (Family based and Professional Management). The purpose of the study has been fulfilled as income smoothing practice has been found in the sample companies and association has also been found in between income smoothing practice and size of the company (large, medium and small). Income smoothing is a highly unethical practice which has been found to be exercised by majority of the corporate houses. The accounting system recognized in India and abroad has not allowed such practice while finalizing financial statements of a business enterprise. But in spite of that some business houses are inclining to adopt income smoothing practices to a certain degree. It is observed that a very small degree of income smoothing may not be harmful for investors and at the same time the image of the enterprise keeps in high position. But, high degree of income smoothing is betrayal to the investors and the customers.

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Practices of Competitor Accounting and its Influence on the Competitive Advantages: An Empirical Study in Jordanian Manufacturing Companies

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Abstract - This study aims to investigate the usage of competitor accounting within the field of strategic management accounting (SMA) in the Jordanian manufacturing companies. It also aims to determine the extent to which competitor accounting influences competitive advantage of these companies. A survey on Jordanian manufacturing companies was conducted for data collection. A total of 88 questionnaires were distributed to these companies. Out of this number 62 were returned. The response rate was about 70.5%. Descriptive statistics showed that Jordanian manufacturing companies have good positions of competitive advantages compared to the competitors. One-sample t-test showed that all of competitors accounting techniques were used by Jordanian manufacturing companies. The results of multiple regressions showed that these techniques contribute significantly and explain a high percentage of variation in the competitive advantages of Jordanian manufacturing companies.

Keywords: *strategic management accounting, competitor accounting, competitive advantage.*

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Practices of Competitor Accounting and its Influence on the Competitive Advantages: An Empirical Study in Jordanian Manufacturing Companies

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Abstract- This study aims to investigate the usage of competitor accounting within the field of strategic management accounting (SMA) in the Jordanian manufacturing companies. It also aims to determine the extent to which competitor accounting influences competitive advantage of these companies. A survey on Jordanian manufacturing companies was conducted for data collection. A total of 88 questionnaires were distributed to these companies. Out of this number 62 were returned. The response rate was about 70.5%. Descriptive statistics showed that Jordanian manufacturing companies have good positions of competitive advantages compared to the competitors. One-sample t-test showed that all of competitors accounting techniques were used by Jordanian manufacturing companies. The results of multiple regressions showed that these techniques contribute significantly and explain a high percentage of variation in the competitive advantages of Jordanian manufacturing companies. Two of explanatory variables were competitive position monitoring, and competitor appraisal based on published financial statements have a statistically significant positive effect on all indicators of competitive advantages of Jordanian manufacturing companies which are financial performance, products, customers, general performance, and the overall indicators of competitive advantage. Competitor cost assessment has not a statistically significant positive effect on two of indicators of competitive advantages of Jordanian manufacturing companies which are products and customers. Despite all items of competitor accounting found having an influence on general competitive advantages of Jordanian manufacturing companies, this study suggested that these companies should pay more attention to competitor cost assessment to enhance their competitive advantages. In context of cost-benefit approach, this study also recommends Jordanian manufacturing companies to continue adopting all of SMA techniques in the future.

Keywords: strategic management accounting, competitor accounting, competitive advantage.

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I. Introduction

Many important changes have been occurred in the business environment in the last half century such as rabidly advances in the markets, constant changes in customer preferences, and the intense global competition. These changes have placed industrial companies today under diverse types of pressure requiring them to increasingly improve their competitive priorities including cost reduction, quality, delivery and rapid response to customer demand, flexibility, productivity and innovation to produce new products (Alsoboa and Alduhiate, 2013). Competitive advantage is experienced by a firm when its actions in an industry or market create economic value and when few competing firms are engaging in similar actions (Barney, 2002). In order to gain and maintain competitive advantages, firms need to manage resources effectively and efficiently. This, in turn, requires all the use of all available information.

The notion of strategic management accounting is linked with business strategy and maintaining or increasing competitive advantage (CIMA, 2008). In modern organizations, knowledge management is the fundamental basis of competition (Baporikar, 2014; Aghamirian et al., 2015). Therefore, SMA may be considered part of the resources required to sustain a competitive advantage by providing information related to important aspects in the organization including planning, control, performance measurement, strategic decision making, strategic costing, customer accounting and competitor accounting.

The objective of a company's competitive advantage is to gain superior performance over the competitors. knowledge and information are crucial matters to sustain this advantage. As a potential part of the internal capabilities of the firm, the competitor accounting, which is one of the major themes in SMA, could provides such an opportunity.

Jordan has made many trade contracts with countries with advanced economies especially USA and EU countries. Therefore, Jordan is one of most developing countries that influenced by economic global

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changes. To survive in this competitive environment, Jordanian manufacturing companies should have a strong competitive position. This position has forced Jordanian companies to adopt the appropriate financial information systems including SMA.

This study contributes to current trends in SMA research in two ways. First, it explores the extent to which the competitor accounting within the area of SMA was used by the Jordanian manufacturing companies. Second, it aims to examine the influence of competitor accounting on the competitive advantage of these companies. To the best knowledge of researcher, this study is one of the few studies in this field.

II. Literature Review

The role that SMA could play in the competitive environment has been discussed earlier at the beginning of nineties of the last century. The study conducted by Rick wood et al. (1990) considers management accounting's role in a company's response to the threat to its market position posed by a competitor's action. The study also illustrated a management accounting approach which adopts a strategic perspective. Okoye and Akenbor (2008) found that the SMA is superior to the traditional management accounting in the provision of information that meet environmental demand, particularly in the area of competition. Ndwiga (2011) outline the importance of management accounting practices in providing strategies that lead to the creation of a competitive advantage in an organization. Hesford (2008) revealed that monitoring the competitors' financial statement has a positive effect on return on investment, economic value-added, innovation, market share, service quality, efficiency and customer satisfaction. Akenbor and Okoye (2012) revealed that SMA enhances competitive advantage although several factors bedevil its adoption in Nigerian manufacturing firms.

Concerning the application of SMA techniques, competitor accounting has an important practices in this context. In inquiring about the incidence, use and perceived utility of strategic management accounting, Cravens and Guilding (2001) found that competitor accounting is regarded as the prevalent topic and the most heavily used method of SMA. Hesford (2001) suggested that accountants within the firm should extend their work beyond traditional, internally focused activities to contribute to the firm's competitive intelligence effort, providing assistance with competitor cost assessment and financial statement analysis. Nik Hassan et al. (2011) found that Malaysian manager did practice SMA in their organization focusing on the information pertaining to competitor's position, competitor's cost and competitor's financial condition but not competitor's appraisal. Alsoboa et al. (2015) found that 12 out of 19 SMA techniques were adopted by JPIC including competitor cost assessment and competitor position monitoring. The study conducted by Chiekezie et al. (2014) revealed that the mean financial performance of full adopters of competitor focused accounting (CFA) was greater than that of partial adopters and non-adopters. Chiekezie et al. (2014) suggested that Manufacturing firms should give priority to SMA and it sub-divisions especially CFA to enhance its competitive edge over competitors.

Competitive advantage has been studied for a long time. It has also been linked to different aspects at the different organizations. Narasimhan and Schoenherr (2012) suggested supply management practices and environmental management practices as key strategic drivers aiding in the further differentiation of firms. Forsman (2013) demonstrated how the competitive advantage was enhanced along the successful environmental innovation process. Breznik and Lahovnik (2014) pointed out that firms with a stronger commitment to deploying dynamic capabilities are more successful and hold the potential for a sustained competitive advantage. Ashrafi and Mueller (2015) suggested that while tangible IT resources offer little competitive advantage, intangible IT resources are positively associated with IT capabilities that ultimately lead to IT competitive advantage and the improved financial performance of the organization. Woodruff (1997) argued that the next major source for competitive advantage likely will come from more outward orientation toward customers, as indicated by the many calls for organizations to compete on superior customer value delivery. Kumar et al. (2011) pointed out that the sustained advantage in business performance from having a market orientation is greater for the firms that are early to develop a market orientation. Qun and Sousa (2015) revealed that competitive advantage has an important mediating role in the relationship between marketing capabilities and export performance. In addition, prior studies have addressed many indicators which considered sources of achieving and sustaining competitive advantage such as organizational culture (Barney, 1986); knowledge (Buchnowska, 2011); customer knowledge (Aghamirian et al., 2015); organizational knowledge (Popovski & Nikolic, 2014); human capital (Coff, 1997); employee mobility constraints (Campbell et al., 2012).

III. Strategic Management Accounting

SMA has been defined as "the provision and analysis of financial information on the firm's product markets and competitors' costs and cost structures and the monitoring of the enterprise's strategies and those of its competitors in these markets over a number of periods" (Bromwich, 1990; 28). It has an important role to play in providing information about the major sources of competitive advantage of an enterprise. In

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increasingly dynamic environment the provision of strategically relevant information is of paramount importance for the formulation and execution of business strategies (Dunković et al., 2009).

SMA is an externally oriented approach that entails the collection of data on costs, processes, sales volumes, market shares, cash flows and resource utilization for both a business and its competitors (Akenbor and Okoye, 2012). According to Roslender and Hart's (2003) definition of SMA, the new techniques often relate to external factors such as customers, markets and competitors, as well as to non-financial and internally generated information, and attempt to integrate insights from disciplines such as marketing management and management accounting within a strategic management framework. Based on the previous definitions of SMA, we can say the competitor accounting is an important aspect of this new discipline.

IV. Competitor Accounting

According to Lord (1996), the SMA consists of three elements. The first one of these elements is the information on competitors which include competitor's price, costs and sales volume. Competitor accounting comprises the analysis of information from accounting relating to competitors. It is thereby supposed to gain detailed insight into their present cost and finance situation, to determine one's own competitive position and to predict the future strategic behavior of the competitors (Heinen and Hoffjan, 2005). The competitor's autonomous policies and reactions to market developments have a big influence on each organization's freedom of action and ultimately on its profitability. Hence, a sound knowledge of competitors and understanding their competitive position may ensure that an organization's existence and profitability are maintained in order to create a sustainable competitive advantage (BPP, 2005). On the basis of factor analysis of the application frequency of twelve instruments within strategic management accounting, Guilding et al. (2000) attributed the following three methods to competitor accounting:

a) Competitor cost assessment

Management accounting provides important and useful techniques in analyzing how the cost structure of competitors influences an organization's options and in modeling the impact of different strategies (BPP, 2005). Competitor cost assessment includes a regularly updated forecast of competitors' costs per item (Guilding, 1999). All easy accessible sources like direct observation, mutual suppliers, mutual customers, former employees and published accounting data should be used to analyze competitor's costs (Heinen and Hoffjan, 2005).

b) Competitive position monitoring

Competitor analysis is the identification and quantification of relative strengths and weaknesses (compared with competitors or potential competitors) which could be of significance in the development of a successful competitive strategy. Organizations should analyze their competitors and build models of how they might react based on their future goals, assumptions, capability and their current situation (BPP, 2005). Monitoring the competitive position entails extensive analysis of the competition which, beside market share, also includes turnover, return on sales, volume and cost per item, price per item and cash flow, capacity utilization, liquidity and availability of resources for essential competitors (Simmonds, 1986)

c) Competitor appraisal based on published financial statements

The competitor appraisal based on published financial statements is the numerical analysis of published financial information as a part of the assessment of sources of competitive advantages of competitors (Guilding, 1999).The organizations have to evaluate the degree of their success in implementation of their strategies based on the analysis of trends and ratios derived from financial statements, and the implications of this evaluation for customers, competitors and suppliers.

V. Competitive Advantage

A firm is said to have a competitive advantage when it enjoys greater success than current or potential competitors in its industry, suggesting that superior firm performance serves as a key indicator of competitive advantage (Ghemawat and Rivkin, 1999). Though there isn't one clear definition of competitive advantage, the creation of value is the milestone of any definition of the concept (Pilinkiene, et al., 2013). Competitive advantage is experienced by a firm when its actions in an industry or market create economic value and when few competing firms are engaging in similar actions (Barney, 2002). Different theoretical approaches addressed the value creation in competitive advantage, beginning with industrial structural analysis which developed in 1960's by Boston Consulting Group. This approach linked the growth of a market to the firm's relative market share focusing on the external environment of the corporation (Sorensen, 2006).

Another important approach developed by Porter (1980), where he suggested that competitive advantage may be regarded as the function of the industry attractiveness and company's competitive position in the market. In Porter's approach, five forces were identified, forming firm's competitive advantage: threat of new entrants, threat of substitutes, bargaining power of suppliers, bargaining power of buyers and competition between competitors. Later on, Porter

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(1998) developed his approach to so called value chain model, dividing firm's operation into series of activities including designing, producing, marketing, delivering, and supporting product. According to this approach, Porter (1998) placed competitive advantage at the heart of a firm's performance in competitive markets, where he identified two types of competitive advantage; cost advantage and differentiation.

Resource based view approach is another important approach addressed the value creation. This approach emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. It focuses on the internal environment of the corporation, i.e. resources and capabilities. Barney (1991) derives sustained competitive advantage from the resources and capabilities that must have four attributes: valuable, rare, imperfectly imitable and not substitutable. Avella et al. (2001) consider that the emphasis on certain manufacturing competitive priorities or capabilities and decisions or practices on the key decision areas and their internal coherence can be the base for achieving sustainable or lasting advantage over competitors, thus producing superior business performance. However, it argued that competitive advantages cannot be sustained in dynamic, rapidly changing markets (Eisenhardt and Martin, 2000; Fiol, 2001).

VI. Methodology

This study aims to explore the extent to which the competitor accounting within the area of SMA was used by the Jordanian manufacturing companies. It also aims to examine the influence of competitor accounting on the competitive advantage of these companies. A total of 88 questionnaires were distributed to company managers or financial managers in these companies. Out of this number, 62 were returned and used. The response rate was about 70.5%, which is considered high. The questionnaire consisted of two main parts. The first part contained 17 items aimed at examining the extent of usage of competitor accounting techniques implemented by Jordanian manufacturing companies over the past five years. The Likert scale was used to measure the usage of variables, ranging from minimum of 1="not used at all" to the maximum of 5= "greatly used".

In the second part of questionnaire, competitive advantage was measured through manager's perceptions of the company's success in comparison to major competitors. Multi-items scale adopted from (Li, et al., 2006; Talaja, 2012; Anatan, 2014; and Schilke, 2014) was used to measure competitive advantage through four dimensions, namely, financial performance dimension, product dimension, customer dimension, and general performance dimension. The respondents were asked to rate the status they see their company is better than the competitors in these dimensions ranking from "much worse =1" to "much better =5".

The methods of analysis employed in the study were descriptive statistics, test of homogeneity of variance, the variance inflation factor test (VIF), one sample t-test, and multiple regressions. In addition, Cronbach's alpha test of internal consistency of competitor accounting techniques was used to test reliability of instrument and the variables related to it.

VII. Reliability of the Study Instrument

Cronbach's alpha was used to test stability of the measuring instrument. The values, as in Table 1, exceeded the level of 70%, which is an acceptable ratio (Hair et al., 2015).

Table 1 : Cronbach's alpha reliability coefficients for variables

Variables	dimensions	alpha
The instrument	**17**	**.89**
Competitor cost assessment.	5	.77
Competitive position monitoring.	6	.74
Competitor appraisal based on published financial statements.	6	.79
Competitive advantage	**20**	**.97**
Financial performance.	7	.95
Products.	6	.89
Customers.	3	.91
General performance.	4	.86

VIII. Competitive Advantage for Jordanian Manufacturing Companies

The respondents were requested to rate where they see their company is better than the competitor on twenty items listed in Table 2 by using the 5-point Likert score. Competitive advantages were analyzed as financial performance (7 items), products (6 items), customers (3 items), and general performance (4 items), In general, good positions of competitive advantages were evidenced in all twenty items. At the level of financial performance, the top mean scores are (mean scores = 4.08) and (mean scores = 4.06) for both ROS and "overall superior financial performance" respectively.

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Other financial performance items achieved very approximate scores; (ranking from mean scores 3.94-3.98). At the level of products, the top mean score is (mean scores = 4.08) for "the production cost of product", followed by (mean scores = 3.89) for "product quality and image" and (mean scores = 3.85) for "time to market". Price of product achieve mean (mean scores = 3.74), whereas the lowest mean score are (mean scores = 3.68) (mean scores = 3.66) for both "Delivery speed of product" and" Product innovation" respectively. Concerning the customers dimension, the top mean score is (mean scores = 4.02) for "customer satisfaction with product", followed by (mean scores = 3.94) for "Customer loyalty" and (mean scores = 3.90) for "strong reputation for customer service". Regarding the general performance, the top mean score is (mean scores = 4.00) for "sustainability of acquired advantage", followed by (mean scores = 3.95) for "market share". Price of product achieve mean (mean scores = 3.74), whereas the lowest mean score are (mean scores = 3.68) (mean scores = 3.66) for both "Delivery speed of product" and" Product innovation" respectively. Overall successful achieved (mean scores = 3.87), whereas strategic advantages achieved (mean scores = 3.77).

Table 2 : Descriptive statistics for competitive advantage indicators of Jordanian manufacturing companies comparing to the competitors

Competitive advantage indicators		Mean	SD
Financial performance		**4.00**	**1.04**
1-	Return on Investment (ROI).	3.98	1.17
2-	Improvement in earnings per share.	3.97	1.24
3-	Return on assets (ROS).	4.08	1.19
4-	General profitability of the firm.	3.97	1.21
5-	Return on sales (profit/total sales).	3.97	1.14
6-	Earnings before interest and taxes.	3.94	1.17
7-	Overall superior financial performance.	4.06	1.28
Products		**3.79**	**.95**
8-	The product quality and image.	3.89	1.13
9-	Price of product.	3.74	1.20
10-	The production cost of product.	3.94	1.11
11-	Delivery speed of product.	3.68	1.32
12-	Product innovation.	3.66	1.10
13-	Time to market.	3.85	1.21
Customers		**3.95**	**1.05**
14-	Customer satisfaction with product.	4.02	1.11
15-	Customer loyalty.	3.94	1.11
16-	A strong reputation for customer service.	3.90	1.21
General performance		**3.90**	**.98**
17-	Strategic advantages.	3.77	1.22
18-	Market share.	3.95	1.15
19-	Sustainability of acquired advantage.	4.00	1.13
20-	Overall successful.	3.87	1.14

Competitive advantages status: 1= much worse; 2= worse; 3 = Neither better nor worse; 4 = better; 5 = much better.

IX. Hypotheses Testing

One-sample t-test In this study was conducted for testing hypothesis *H01* to find out whether competitor accounting techniques were used by Jordanian manufacturing companies or not. Multiple regression analysis was conducted for testing hypotheses *H02- H06* to find out whether the competitor accounting techniques have an influence on the competitive advantage of these companies. The basic assumptions of regression tests for all five hypotheses have been met. For normality test, the scatter plot scheme showed that 95% of the errors (standardized residuals) fall within the range (2, -2), indicating that these errors are distributed normally (Anderson et al., 2008). Variance Inflation Factor (VIF) test was used to test multicollinearity between independent variables. VIF for all variables were less than 10, which indicates no real problem in this study (Kohler, 2000).

H01: The competitor accounting techniques are not used by Jordanian manufacturing companies.

In Table 3, one-sample t-test show that all of competitor accounting techniques were used by Jordanian manufacturing companies; where the values for these variables were as follow: competitor cost assessment $t(61)=8.01$, $P<0.001$; competitive position monitoring $t(61)= 7.45$, $P<0.001$; and competitor appraisal based on published financial statements $t(61)=10.44$, $P<0.001$. Taking together as a group all these techniques show that there is a significant usage of competitor accounting techniques, $t\ (61)=9.77$, $p<0.001$. In addition, as it appears in Table 3, the

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descriptive statistics support one-sample t-test results. The statistics show that using competitor accounting techniques achieved a mean score of more than the general mean in this study, which is moderately used (mean=3). Using of competitor appraisal based on published financial statements (mean score=3.91) achieved the highest mean score, followed by competitor cost assessment (mean score=3.82), whereas competitive position monitoring technique achieved the lowest mean score (mean score=3.76). Overall, these results indicate that the usage of competitor accounting techniques was evident in all three variables.

Table 3 : Descriptive statistics and one-sample t-test for usage of competitor accounting techniques

Variables	*Descriptive statistics*		*One-sample t-test*	
	Mean	*SD*	*t*	*Sig.*
Competitor cost assessment.	3.82	.81	8.01	.000
Competitive position monitoring.	3.76	.80	7.45	.000
Competitor appraisal based on published financial statements.	3.91	.69	10.44	.000
The group	3.83	.67	9.77	.000

Extent of use competitor accounting techniques: 1=not used at all; 2=slightly used; 3=moderately used; 4=frequently used; 5=greatly used.

H02: The competitor accounting does not influence competitive advantages of financial performance of Jordanian manufacturing companies.

The results of regression analysis in Table 4 show that all of competitors accounting techniques contribute significantly (F (3, 58) =31.30; P<.001) and explain (R^2= .62) of the variation in the competitive advantages of financial performance of Jordanian manufacturing companies. The results in Table 4 also show that all three explanatory variables which are competitor cost assessment, competitive position monitoring, and competitor appraisal based on published financial statements have a statistically significant positive effect on competitive advantages of financial performance of Jordanian manufacturing companies, where P-value for these variables .024, .011, P=.018 respectively. Accordingly, the null hypothesis was rejected with regard to these variables.

Table 4 : Regression results for the influence of competitor accounting on competitive advantages of financial performance

Independent variables	*Coefficients*[a]			
	B	*t*	*P*	*VIF*
Competitor cost assessment.	.384	2.32	.024	2.50
Competitive position monitoring.	.517	2.62	.011	2.57
Competitor appraisal based on published financial statements.	.331	2.44	.018	1.67

R^2=.62; F=31.30, P<.001

a. Dependent variable: competitive advantage of financial performance

H03: The competitor accounting does not influence competitive advantages of products of Jordanian manufacturing companies.

In Table 5, the results of regression analysis show that all of competitors accounting techniques contribute significantly (F (3, 58) =18.58; P<.001) and explain (R^2= .49) of the variation in the competitive advantages of products of Jordanian manufacturing companies. The regression results in Table 5 show that two explanatory variables which are competitive position monitoring, and competitor appraisal based on published financial statements have a statistically significant positive effect on competitive advantages of products of Jordanian manufacturing companies, where P-value for these two variables .024 and P=.012 respectively. Accordingly, the null hypothesis was rejected with regard to these variables. The third explanatory variable, which is competitor cost assessment, does not has a statistically significant effect on competitive advantages of products of Jordanian manufacturing companies, where P-value for this variable (P=.376). Therefore, the null hypothesis was accepted with regard to this variable.

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Table 5 : Regression results for the influence of competitor accounting on competitive advantages of products

Independent variables	Coefficients[a]			
	B	*t*	*P*	*VIF*
Competitor cost assessment	.155	.89	.376	2.50
Competitive position monitoring	.479	2.32	.024	2.57
Competitor appraisal based on published financial statements	.371	2.61	.012	1.67

R^2=.49; F=18.58, P<.001

a. Dependent variable: competitive advantage of products.

H04: The competitor accounting does not influence competitive advantages of customers of Jordanian manufacturing companies.

In Table 6, the results of regression analysis show that all of competitors accounting techniques contribute significantly (F (3, 58) =25.98; P<.001) and explain (R^2= .57) of the variation in the competitive advantages of customers of Jordanian manufacturing companies. In Table 6, Regression analysis has shown the same results as in the *H03* hypothesis. The variables competitive position monitoring and competitor appraisal based on published financial statements have a statistically significant positive effect on competitive advantages of customers of Jordanian manufacturing companies, where P-value for these two variables .008 and P=.019 respectively. Consequently, the null hypothesis was rejected with regard to these variables. The third variable; competitor cost assessment, does not has a statistically significant effect on competitive advantages of customers of Jordanian manufacturing companies, where P-value for this variable (P=.117). Therefore, the null hypothesis was accepted with regard to this variable.

Table 6 : Regression results for the influence of competitor accounting on competitive advantages of customers

Independent variables	Coefficients[a]			
	B	*t*	*P*	*VIF*
Competitor cost assessment	.281	1.59	.117	2.50
Competitive position monitoring	.578	2.74	.008	2.57
Competitor appraisal based on published financial statements	.350	2.41	.019	1.67

R^2=.57; F=25.98, P<.001

a. Dependent variable: competitive advantage of customers.

H05: The competitor accounting does not influence competitive advantages of general performance of Jordanian manufacturing companies.

The results of regression analysis, in Table 7, show that all of competitors accounting techniques contribute significantly (F (3, 58) =32.28; P<.001) and explain (R^2= .62) of the variation in the competitive advantages of general performance of Jordanian manufacturing companies. The results in Table 7 also show that all three explanatory variables which are competitor cost assessment, competitive position monitoring, and competitor appraisal based on published financial statements have a statistically significant positive effect on competitive advantages of general performance of Jordanian manufacturing companies, where P-value for these variables .011, .020, P=.016 respectively. Accordingly, the null hypothesis was rejected with regard to these variables.

Table 7 : Regression results for the influence of competitor accounting on competitive advantages of general performance

Independent variables	Coefficients[a]			
	B	*t*	*P*	*VIF*
Competitor cost assessment	.401	2.61	.011	2.50
Competitive position monitoring	.440	2.40	.020	2.57
Competitor appraisal based on published financial statements	.315	2.49	.016	1.67

R^2=.62; F=32.28, P<.001

a. Dependent variable: competitive advantage of general performance.

H06: The competitor accounting does not influence overall competitive advantages of Jordanian manufacturing companies.

Taking all indicators of the competitive advantage of Jordanian manufacturing companies as dependent variable, The results of regression analysis, in Table 8, show that all of competitors accounting techniques contribute significantly (F (3, 58) =35.01; P<.001) and explain (R2= .64) of the variation in the competitive advantages of Jordanian manufacturing

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companies. The results in Table 8 also show that all three explanatory variables which are competitor cost assessment, competitive position monitoring, and competitor appraisal based on published financial statements have a statistically significant positive effect on competitive advantages of general performance of Jordanian manufacturing companies, where P-value for these variables .040, .005, P=.006 respectively. Consequently, the null hypothesis was rejected with regard to these variables.

Table 8 : Regression results for the influence of competitor accounting on overall competitive advantages of Jordanian manufacturing companies

Independent variables	*Coefficients*[a]			
	B	*t*	*P*	*VIF*
Competitor cost assessment	.305	2.10	.040	2.50
Competitive position monitoring	.504	2.91	.005	2.57
Competitor appraisal based on published financial statements	.342	2.86	.006	1.67
R^2=.64; F=35.01, P<.001				
a. Dependent variable: overall competitive advantages				

X. Findings

Based on the descriptive statistics for competitive advantage' indicators of Jordanian manufacturing companies presented in Table 2, it is clear that these companies have a good positions of the competitive advantages compared to their competitors. In this study, competitor accounting techniques represent the independent variables which are competitor cost assessment, competitive position monitoring, and competitor appraisal based on published financial statements. The results presented in Table 3 show that the usage of all these techniques by Jordanian manufacturing companies was evident. The overall descriptive results in Table 3 show that using of competitor appraisal based on published financial statements achieved the highest mean score, followed by competitor cost assessment, while competitive position monitoring achieved the lowest mean score. These findings are consistent with study by Cravens and Guilding (2001) found that competitor accounting is the most heavily used method of SMA, it also consistent partially with study by Nik Hassan et al. (2011), where they found that the competitors position and competitor's cost are practiced by Malaysian managers. Alsoboa et al. (2015) also found that competitor cost assessment and competitor position monitoring among other 19 SMA techniques are adopted by JPIC.

The results in Tables 4-8 have shown that competitor accounting techniques contribute significantly and explain high levels of variation in the indicators of competitive advantage of Jordanian manufacturing companies, whether it was financial performance, products, customers, general performance, or overall indicators of competitive advantage. Furthermore, all three explanatory variables which are competitor cost assessment, competitive position monitoring, and competitor appraisal based on published financial statements have a statistically significant positive effect on competitive advantages of financial performance of Jordanian manufacturing companies. These results are consistent with study by Chiekezie et al. (2014) revealed that the mean financial performance of full adopters of CFA was greater than that of partial adopters and non-adopters.

Concerning the impact of competitor accounting techniques on the competitive advantages of products of Jordanian manufacturing companies, Table 5 has shown that two explanatory variables which are competitive position monitoring, and competitor appraisal based on published financial statements have a statistically significant positive effect on competitive advantages of products of Jordanian manufacturing companies, where competitor cost assessment, does not have a statistically significant effect on competitive advantages of products of Jordanian manufacturing companies. Reviewing literatures about the impact of competitor accounting techniques on the competitive advantages of products have shown no such studies.

With respect to the competitive advantages of customers of Jordanian manufacturing companies, Table 6 has shown to be similar to the impact of explanatory variables on competitive advantages of products, where competitive position monitoring, and competitor appraisal based on published financial statements have a statistically significant positive effect on competitive advantages of customers of Jordanian manufacturing companies. Competitor cost assessment has no statistically significant effect on competitive advantages of customers of Jordanian manufacturing companies. The study conducted by Woodruff (1997) maybe consistent with this result, where he argued that the next major source for competitive advantage likely will come from more outward orientation toward customers.

Regarding the competitive advantage of general performance, as in Table 7, all three explanatory variables which are competitor cost assessment, competitive position monitoring, and competitor appraisal based on published financial statements have

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a statistically significant positive effect on competitive advantage of general performance Jordanian manufacturing companies. Kumar et al. (2011) referred that the sustained advantage in business performance from having a market orientation is greater for the firms that are early to develop a market orientation. This result is consistent with this study, since the general performance contains indicators such as strategic advantages, market share, and sustainability of acquired advantage

Finally, taken together all indicators of the competitive advantages of Jordanian manufacturing companies as dependent variable, the results presented in tables 8 reveal that all of explanatory variables have a statistically significant positive effect on competitive advantages of general performance of Jordanian manufacturing companies. Consistent with this result, Chiekezie et al. (2014) suggested that manufacturing firms should give priority to SMA and it sub-divisions especially CFA to enhance its competitive edge over competitors.

XI. Conclusion

This study aimed to explore the extent to which the competitor accounting within the area of SMA was used by the Jordanian manufacturing companies. It also aimed at examining the influence of competitor accounting on the competitive advantage of these companies. The study revealed that the Jordanian manufacturing companies have good positions of competitive advantages compared to the competitors. It is also found that competitor accounting techniques were used by the Jordanian manufacturing companies. The results also reveal that competitor accounting techniques contribute significantly and explain a high percentage of variation of competitive advantages of Jordanian manufacturing companies.

The findings show that two of explanatory variables which are competitive position monitoring, and competitor appraisal based on published financial statements have a statistically significant positive effect on all indicators of competitive advantages of the Jordanian manufacturing companies, whether it was financial performance, products, customers, general performance, or the combination of all these four variables. It also found that the third explanatory variable, which is competitor cost assessment, does not has a statistically significant effect on competitive advantages of product and customers in Jordanian manufacturing companies.

However, some prior studies revealed that competitor accounting techniques have positive effect on competitive advantages, but no one study found the relationship between competitor accounting techniques as group and competitive advantages. This was regardless of whether it was competitive advantage of financial performance, products, customers, general performance or overall competitive advantages. Despite that all items of competitor accounting found having an influence on general competitive advantages of Jordanian manufacturing companies, this study suggested that these companies should pay more attention to competitor cost assessment to enhance their competitive advantages. In context of cost-benefit approach, this study also recommends Jordanian manufacturing companies to continue adopting all of strategic management accounting techniques in the future.

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Accounting and Fiscal Aspects Related to Certification Expenditure in Compliance with the ISO

By Nicolai Jieri

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Introduction- With the globalization phenomenon and with the accelerated pace of development of the modern economy from the last decades it becomes increasingly important not only the volume of the products and services from the world market, but a special focus is placed on the quality. To ensure comparability on the global economic space in 1947, ISO- (International Organization for Standardization) was founded - a network of institutions in more than 150 countries with the headquarter in Geneva, which implemented from its establishing over 15,000 standards for agriculture, trade, construction, technical and medical equipment.

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Accounting and Fiscal Aspects Related to Certification Expenditure in Compliance with the ISO

Nicolai Jieri

I. Introduction

With the globalization phenomenon and with the accelerated pace of development of the modern economy from the last decades it becomes increasingly important not only the volume of the products and services from the world market, but a special focus is placed on the quality. To ensure comparability on the global economic space in 1947, ISO- (International Organization for Standardization) was founded - a network of institutions in more than 150 countries with the headquarter in Geneva, which implemented from its establishing over 15,000 standards for agriculture, trade, construction, technical and medical equipment. **"Why is the ISO certification important?"**, This is the first question that companies ask themselves, the answer is clear and of great interest in the existing state of affairs of development of the current economy: *keeping market position and conquering new market niches; improving the quality of the products and services delivered to customers; economic benefits generated by decreasing the share of defective products, lowering customers migration to other companies; fulfillment of the conditions for participation in the auction.*

Therefore in accounting often some difficulties can occur at the recognition, measurement and recording of these expenditures. In this context, we further propose some methods which reflect these expenditures related **to ISO certification** based on some examples:

E.g. 1 On 03(day)/07(month)/2014 the entity "Omega" LLC has entered into a contract with the "Consulting" LLC, empowered to carry out implementation of quality management ISO 9001: 2008. Cost of services is 84000 MDL, VAT is included, the whole package of services (training of staff, preparation of documents, internal audit) within 5 months. So entity will reflect:

Table 1

No.	The content of economic operation	Sum, MDL	The correspondence of accounts	
			Debit	Credit
1.	Reflecting the service cost excluding VAT	70000	713	521
2.	Reflecting VAT on services	14000	534.4	521
3.	Payment of the debt related to provided services	74000	521	242

We note that the entity "Omega" recognized these expenses during the current reporting period, but if we include the condition: the entity's accounting policies stated that these preliminary expenditures for certification which exceed the significance threshold, which is 35000 MDL, will be recognized as a prepaid expenditure, knowing the information that these types of certificates are usually issued for a period of three years, it is needed to spread the costs in accordance with the straight-line method throughout the period of usage, so for the No.2 operation we reflect:

- **Dt 171 Ct 521- 68055,56 MDL (70000- 1944,44);**
- **Dt 261 Ct 171- 23333,33 MDL (70000: 3 years), reflecting rate for the year 2015;**
- **Dt 713 Ct 261- 1944,44 MDL (23333,33 : 12 months), current expenditures .**

According to the first method of reflecting the expenses recognized only in a reporting period, if the sum of the revenue is not significant there will be some fiscal losses which must be carried forward in the future according to art. 32 of the Fiscal Code. In the second case we have a more complicated reflection but also a more accurate one, both in terms of accounting and fiscality.

After we have carried out the registration of the preliminary certification expenditures we will analyze the

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records and recognition of the quality certificates according to ISO, once they are issued for a period of three years the entity may recognize:

* Long-term anticipated expenses with their shift to current spending related to the reporting period;
* Intangible assets, reflecting amortization;

In either case, both the basis for apportionment for costs and amortization will be the period of validity of the certificate.

E.g. 2 Entity "Alfa" has implemented quality management and has entered into a contract to conduct the external audit with the international organization of accreditation "Gama". The cost of services is 3000 euro, at the official rate 19.3684MDL. The certificate was received for a period of 3 years.

Table 2

No.	The content of economic operation	Sum, MDL	The correspondence of accounts	
			Debit	Credit
1.	Reflecting the cost of services (3000e * 19,3684)	58105,20	171	521
2.	Payment of the debt related to provided services	58105,20	521	243

In this example we will find a correct registration from the perspective of accounting but some fiscal issues may occur, these services will not be with VAT since they are intended for certification. Another important point here is withholding payment from the income for a nonresident in accordance with art. 91-92 of FC (Fiscal Code) in the amount of 12% from the paid sum and the presentation by the end of the month in which the payment was made with INR-14 form to the tax body.

In accounting practice many entities choose to recognize the quality certificates as intangible assets, which does not contradict the new NSC(National Standard of Accounting) "Tangible and intangible assets"

In the example 1 and 2 we will assign the costs for certification to the creation of an intangible asset:

Table 3

No.	The content of economic operation	Sum, MDL	The correspondence of accounts	
			Debit	Credit
1.	Reflecting preliminary certification service cost	70000	111	521.1
2.	Reflecting the cost of external audit services	58105,20	111	521.2
3.	Commissioning the intangible asset	128105,2	112	111
4.	The calculation of the amortization (128105.2 MDL: 3 years : 12 months)	3558,48	713	113

The process of obtaining a certificate in accordance with ISO is not a simple one, it must comply with certain requirements set out by these standards, the economic entity can receive also a refusal to the request of obtaining a certificate, in such a situation the entity shall reflect:

* **Dt 713 Ct – 171, 261 or 111** the amount of the total expenditures incurred by the economic entity.

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The Effects of Expected Stock Returns and Stock Prices Volatility on Corporate Operational Risk (Tehran Stock Exchange)

By Khalil Vaziri & Abbas Adham

Islamic Azad University ,Iran

Abstract - The investors tend to investing in companies which have low risk and high expected efficiency and upstream shares price turbulence and in this regard the operational risk is a factor which results in the decrease of above criteria and confronts the company with the risk of bankruptcy, hence the investors have less motive for investing and the company has no choice but to use the financial leverages optimally in order to provide financially and in this situation the company's shares price is without fluctuation and stays in the lowest price. In this study the researcher has used the correlation approach-post events in the range of 1392-1388- to investigate the effects of operational risk (bankruptcy risk) on the turbulence of shares price, the expected efficiency of the shares and since the operational risk variable is not normally distributed, the data attribute is changed from gradation to order and finally the Logistic Regression Test is used for testing the hypotheses of the research.

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The Effects of Expected Stock Returns and Stock Prices Volatility on Corporate Operational Risk (Tehran Stock Exchange)

Khalil Vaziri [α] & Abbas Adham [σ]

Abstract- The investors tend to investing in companies which have low risk and high expected efficiency and upstream shares price turbulence and in this regard the operational risk is a factor which results in the decrease of above criteria and confronts the company with the risk of bankruptcy, hence the investors have less motive for investing and the company has no choice but to use the financial leverages optimally in order to provide financially and in this situation the company's shares price is without fluctuation and stays in the lowest price. In this study the researcher has used the correlation approach-post events in the range of 1392-1388- to investigate the effects of operational risk (bankruptcy risk) on the turbulence of shares price, the expected efficiency of the shares and since the operational risk variable is not normally distributed, the data attribute is changed from gradation to order and finally the Logistic Regression Test is used for testing the hypotheses of the research. The results of this study indicates the effects of operational risk on the expected efficiency of the shares and the turbulence of shares price so that with the increase of operational risk, the expected efficiency of shares has decreased and the turbulence of shares price has decreased.

I. Introduction

Investment plays a decisive role in economic growth. One of the main objectives of countries is to achieve economic growth and sustainable development. Investment in the economics literature is considered as a vessel of life for an economic system and establishing it as the most important determinant of economic growth and development has been emphasized.

Given the importance of the stock exchange in the financial market, its performance and analysis of key factors on investments in securities, theoretically and in practice can be a significant important issue for investors and capital market analysts. On the other hand, given that the most important determinant factors on investment include venture capital and investment returns and knowing the factors affecting them.

The introduction to the concepts of risk and return, and their relationship to each other, helps us to identify the most important sources of investment risk, measures of risk and knowledge of pricing and pricing mechanisms (evaluation) of assets, which can have a significant impact on the consciousness of investors and analysts and capital market participants. In this regard, this article addressed this issue and provides a comprehensive analysis of the role of investment and the stock exchange and risk and return assets, to investigate the relationship between accounting data and financial ratios and risk and return(Tehrani and Chitsazan (2004) p.27-37).

II. Statement of Problem

Due to the increasing development of our economy and economic growth, the need to invest more in different parts of the business has been increased and governments try to gain greater domestic and foreign investment in its economy. Therefore, one of the indicators of progress and development is the investment growth. Here, investing in the Stock Exchangehas a special place for investors who are interested in investing in small and large scale are expected to improve efficiency (Izadi Nia et al., 2007, p. 2).

The role of accounting information in forecasting stock returns in financial management is accepted as a hypothesis and one of the purposes of accounting information is to help users to predict future cash flows input to business units and consequently the expected return on investment. Some of the variables affecting the efficiency of the Company's shares on the stock market are related financial information made through the calculation network. This information effect is very complex and to some extent unknown. Economic environment includes all the factors affecting accounting network usage and capital markets. In this environment all the components interact with each other in communication and interaction (Galileans, 2010, p. 2).

Managers, analysts, and investors turned their attention to the largest companies' reported earnings. Managers benefit from maintaining the growing trend of interest because their bonus depends on the amount of corporate profits. Financial analysts engaged in business of processing and interpretation of data and understanding the information content of earnings as an essential part of this process. Accounting is useful for

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investors to estimate the expected value and risk and return portfolio (Raei and Saeedi, 2004).

III. Definition of key Terms

a) Return on investment (ROI)

It is the benefit and profit from an investment. Invest in real assets such as property following the allocation of resources and equipment and financial assets such as securities that the rate of return commensurate with the expected risk.

b) Total efficiency

Efficiency is the ratio of total income (losses) from investments in a given period to the total investment employed for the acquisition of the earnings in the same period. Investment income will be earned in two ways:

1. Change in value and the price of spended capital such as shares purchased.
2. Dividends accrued as a result of investment to the capital as stock dividends.

c) Expected stock returns

In this study, the Expected stock return is calculated by the formula:

Systematic method is based on the assumption that investors take measures to invest with analysis of economic conditions, industry conditions and the state investment company. (Website of management of investment culture development, Tehran Stock Exchange)

d) Operational Risk

In the diagram, the investment future is determined through the study of past behavior, and portfolio theory. First, efficient capital markets and market information are available to all people, and secondly, the return on investment with the same risk, are same.

IV. Past Returns

a) Future Returns

Past performance is measured by the ratio of return on investment and the better use of the group's adjusted ROA. (ROA) This ratio is calculated as follows:

To test the relationship between operational risk and stock return rate, we are looking for works of intense risk use. We assess the severity of operational risk using the model same as the model of Chernoby which uses the Pucin model for assessing the severity of the predicted value of the company's financial operational risk events in a month.They discovered that the macro-economic variables are significant determinants of operational risk. However, with an emphasis on by examining operational risk for financial companies and non-financial companies we extend the existed literature.

V. The Standard Capital Asset Pricing Model (CAPM)

The investments have risks primarily due to the volatility of the return on their investment. Financial economists presented different models to measure the risk. Capital market theory with the expansion of portfolio theory extracts amodel for pricing risky assets.

The final output of portfolio theory is a model for pricing risky assets. The final output of this theory is called the capital asset pricing model and makes it possible to determine the rate of risky assets. The main factor leading to the development of capital market theory is the concept of a risk-free asset.

Such assets have zero correlation with other risky assets and its return ratio are risk-free (Brown and Railey, 2000) and generally it can be said that pricing model of capital markets was developed based on the theory of capital asset.

In fact, general equilibrium theories as the capital market theory (CMT) with models of the capital market line (CML), securities output line (SML) and capital asset pricing model (CAPM) were used to assist us in understanding market behavior (Raie and Talangoru, 2004). Capital Asset Pricing Model (CAMP) and capital market theory (CMT) as equilibrium models have practical benefits in providing a measure of systemic risk and valuation of securities and are standard for performance measurement. (Farrell, 1997)

VI. Research Method

In this study, the relationship between operational risks with a variable yield, stock price volatility were explored and debated in the field of investment.

a) Research Hypotheses

1. There is no significant relationship between the stocks expected return and corporate operational risk.
2. There is no significant relationship between the the stock price volatility and the operational risk of the companies.

b) Results and Finding

The descriptive data were analyzed by SPSS software. The statistical indicators were examined in terms of mean and variance and standard deviation, as shown in Table 1.

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Table 1: Descriptive statistics of variables five years

Type of variable	Variable	N	Max	Min	Mean	SD	Variance
Independent variable	Stock expected return	130	-53.24	699.21	47.12	94.31	8895.14
	prices volatility	115	-3.81	6.55	3.28	1.62	2.62
Intermediary variables	(MVM)Natural log of stock rpice	130	9.97	14.24	11.92	1.02	1.05
	(BM) Book to market value	126	-29.91	2.51	-1.75	6.42	41.27
	(ROE) Percent return on investment	130	-1040.82	2829.31	45.23	270.19	73004.60
	Company's age	130	73.00	468.00	187.81	95.73	9163.33
	Financial leverage	130	0.19	3.64	0.89	0.75	0.56
Dependent variable	Opertoinal risk (cardinal)	130	-185.29	326.70	-1.94	118.17	13965.26
	Operational risk (ordinal)	130	1.00	2.00	1.32	0.47	0.22

Stock expected return variables had the lowest and highest ratio of -53.24 and 699.21, the mean of 47.12 with a standard deviation of 94.31.

Stock price volatility had the lowest and highest ratio of -3.81 and 6.55, with a mean of 3.28 and standard deviation of 1.62.

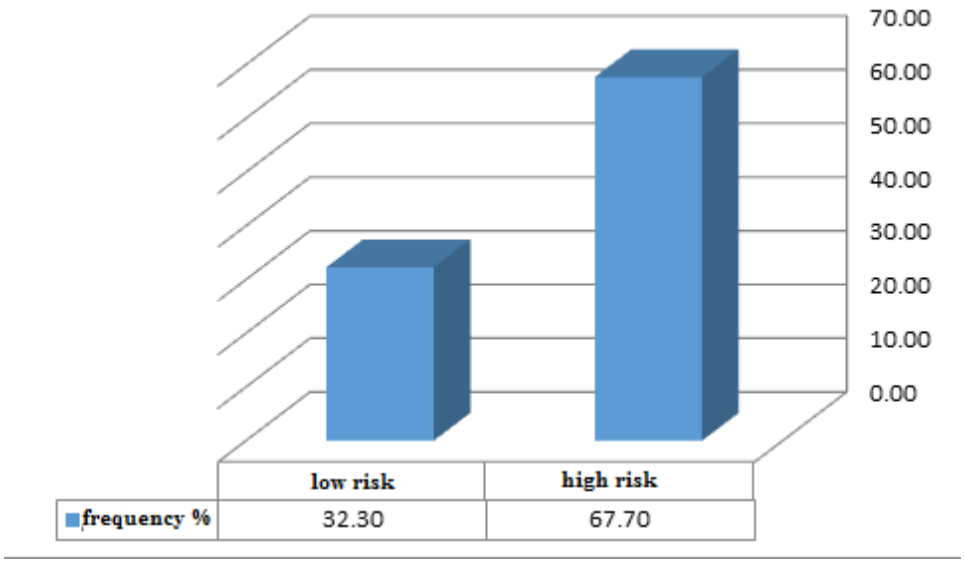
Operational risk and the dependent variable (according to ratings) had the lowest and highest ratio of of -185.29 and 326.70, the mean of -1.94 and the standard deviation of 118.17.

According to the result in Table 1, the dependent variable of operational risk based is explained on corporate default risk using Zimiskji model. In this model, if the score of operational risk is less than 0.5, the default risk is high and if it is more than 0.5, the default risk is low. Therefore, based on these data, the model range has become the order of ranking.

The results of the descriptive analysis of the results of operational risk variables based on descriptive data are shown in Table 2.

Table 2 : Descriptive analysis of operational risk

Operational risk	frequency	Frequency percent
high	88	67.7
low	42	32.3



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c) Results of testing the hypotheses

i. *The first hypothesis*

Hypothesis 1: there is a significant relationship between the stock expected return and operational risk the companies.

Since the dependent variable is ordinal and has a value of 0 and 1, therefore the logistic regression was used. The results are shown in Tables 4.

Table 4 : variable frequency values

The value of the variable	N
High Risk (0)	88
Low risk (1)	42

As can be seen in the table above, 88 companies were high-risk and 42 were low risk companies.

Table 5 : reviews the risk probability.

Table 5 : low risk probability

Statistics	Beta	SD	Wald statistics	df	p-value	percent
Results	0.729-	0.190	14.702	1	0.000	0.482

As can be seen in Table 5, the probability of lower risk is 48 percent.

Table 6 : shows the Chi-square test results to assess the model fitness.

Table 6 : the Chi-square test (the model fitness)

	Chi-square	df	Sig.
Step	104.986	6	0.000
Block	104.986	6	0.000
Model	104.986	6	0.000

As can be seen in the table above, the significance level of less than 0.05 indicates the impact of the independent variables on the dependent variable (operational risk) and represents a good fitness for the model.

Nagelkerke R Square coefficient is shown in Table 7 and is equal to the linear regression coefficient of 78.9 percent. That is, 82.9% of the changes in the dependent variable (operational risk) are determined by the independent variables.

Table 7 : Logestic Regression

Stage	Log likelihood 2-	Cox & Snell R Square	Nagelkerke R Square
first	53.994	0.565	0.789

According to the results of Table 7, the first hypothesis is accepted and it can be said that there is a significant relationship between operational risk and stock expected return.

Table 8 : shows the independent variables in the model and parent test results.

Table 8 : the results of the impact of the independent variables

Variable- statistics	B	SD	Wald	df	Sig
stock expected return	-.005	.004	1.289	1	.256
Natural log of stock price	-2.876	.976	8.678	1	.003
Book to market value	-.178	.521	.116	1	.733
(ROE)	.001	.001	1.075	1	.300
Companies age	.001	.003	.038	1	.845
Financial leverage	5.145	1.660	9.600	1	.002
Intercept	28.461	10.921	6.792	1	.009

According to the parent statistics and significance level, the natural logarithm of the stock price and financial leverage had the greatest impact on operational risk at the level 5 percent,

The coefficients of the independent variables, the negative coefficient of stock expected return, the natural logarithm of the stock price, the book value to the equity suggested that firms with higher operational

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risk had lower stocks expected return, the natural logarithm of stock prices and the ratio of book value to market value of equity. Howevere, they have higher financial leverage and return on investment.

Hypothesis 2: there is a significant relationship between the price fluctuations and operational risk the companies.

Since the dependent variable is ordinal and has a value of 0 and 1, therefore the logistic regression was used. The results are shown in Tables 14.

d) The Second hypothesis

Table 14 : variable frequency values	
The value of the variable	**N**
High Risk (0)	88
Low risk (1)	42

As can be seen in the table above, 88 companies were high-risk and 42 were low risk companies.

Table 15 : reviews the risk probability.

Table 15 : low risk probability						
Statistics	**Beta**	**SD**	**Wald statistics**	**df**	**p-value**	**percent**
Results	0.729-	0.190	14.702	1	0.000	0.482

As can be seen in Table 10, the probability of lower risk is 48.2 percent.

Table 16 : shows the Chi-square test results to assess the model fitness.

Table 16 : the Chi-square test (the model fitness)			
	Chi-square	**df**	**Sig.**
Step	70.665	6	0.000
Block	70.665	6	0.000
Model	70.665	6	0.000

As can be seen in the table above, the significance level of less than 0.05 indicates the impact of the independent variables on the dependent variable (operational risk) and represents a good fitness for the model.

Nagelkerke R Square coefficient is shown in Table 17 and is equal to the linear regression coefficient of 78.9 percent. That is, 70.3% of the changes in the dependent variable (operational risk) are determined by the independent variables.

Table 17 : Logestic Regression			
Stage	**Log likelihood** 2-	**Cox & Snell R Square**	**Nagelkerke R Square**
First	52.499	0.471	0.703

According to the results of Table 17, the first hypothesis is accepted and it can be said that there is a significant relationship between operational risk and cash assets.

Table 18 : shows the independent variables in the model and parent test results.

Table 18 : the results of the impact of the independent variables					
Variable- statistics	**B**	**SD**	**Wald**	**df**	**Sig**
stock expected return	-.005	.004	1.289	1	.256
Natural log of stock price	-2.876	.976	8.678	1	.003
Book to market value	-.178	.521	.116	1	.733
(ROE)	.001	.001	1.075	1	.300
Companies age	.001	.003	.038	1	.845
Financial leverage	5.145	1.660	9.600	1	.002
Intercept	28.461	10.921	6.792	1	.009

According to the parent statistics and significance level, the natural logarithm of the stock price and financial leverage had the greatest impact on operational risk at the level 5 percent,

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The coefficients of the independent variables, the negative coefficient of stock expected return, the natural logarithm of the stock price, the book value to the equity suggested that firms with higher operational risk had lower stocks expected return, the natural logarithm of stock prices and the ratio of book value to market value of equity. Howevere, they have higher financial leverage and return on investment.

VII. Conclusion

In this part of the research findings are discussed compared to the findings of similar studies. The first hypothesis: One of the basic criteria to decide on the capital market is return on equity. The return on equity is itself has infromational content and most investors use it in financial analysis and predictions. The expected return on equity is a measure of investor sentiment toinvest in the capital market and the effect of this variable is important on operational risk and the default risk of the company.

The results indicated the relationship between the expected return on equity and operational risk based on the default risk. Therefore, the companies with high operational risk have low stock expected returns. In fact, we can say that investors expected low return from these companies. Default risk reflects the company's lack of liquidity. In similar studies, such as the research by Basu (1975), have shown that the P / E ratio and stock returns are positively correlated and companies with higher P / E ratios work more efficiently. Kinny and Mian in their study (1995) showed that the low quality of earnings increases information asymmetry and thus reduces the liquidity of shares. Bahrami (2010) showed that changes in the capital structure had a significant negative correlation with changes in the liquidity of shares. The overall result of this hypothesis with the results of similar studies suggested that companies with high default risk had low earnings quality and liquidity which contributes to a reduction in the expected return on the stock of these companies.

The Second hypothesis

One of the most important factors that determine the price of each option is the stock price volatility. With regard to other constant factors, the greater the probability of the stock price volatility, the prices option will be higher. Conversely, if the stock price volatility is lower, the price option will be lower and the price will be closer to the market line price (Price option).

The results reflected the fact that companies with high operational risk have low stock prices volatility which is because of the lack of incentive for investors to invest in shares of the Company. And so this leads to the low incentive for buying and selling shares in the capital market which is an important sign of a company's stock trading halt. The study by Doust Ashena (2005) showed that turnover of stock and stock return volatility is increased by applying a trading halt and the price discovery process after the trading halt happens on the stock exchange.

Kim et al (2008) studied the limit of the temporary halt in trading compared to the stock prices of Spanish Exchange and cocnluded that the temporary suspension of trading reduces the sales price gap and increases the orders at limit price. Generally, based on the result of the testing this hypothesis, it can be stated that companies with high operational risk and consequently high default risk could reach lower volatility by creating a trade-off in stock market shares which is close to the real price.

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Lobbying in Accounting Standards Setting

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Lobbying in Accounting Standards Setting

Afzal Ahmad

Abstract- The paper explores the effects of lobbying on accounting standards. The study investigates the determinants of lobbying and compares the lobbying activity with application to the FASB Statement of Financial Accounting Standards No. 158 and the IASB Statement of Intent issued in 1990. The research concludes that the major determinants of lobbying in the field of accounting standards are the size of lobbying corporations and the perceived effects of the regulations on the economic well-being of the enterprises. The analysis of the specific cases indicates that both firm-level, industry-level and country-level factors contribute to lobbying decisions across firms.

I. Introduction

Standard-setters, including the International Accounting Standards Board (IASB), formerly the International Accounting Standards Committee (IASC) and the US Financial Accounting Standards Board (FASB), are committed to protect the interests of investors rather than the interests of corporations and auditors. However, political lobbying can take place due to the self-interest of preparers or governments. Thereby, standard-setters may have incentives to modify their positions and dilute or abandon the principles of the standards (Nobes and Parker, 2008). At the same time, lobbying on behalf of corporations may take place, as suggested by different theories (Nobes and Parker, 2008. Nevertheless, the factors that contribute to lobbying are not univocally identified in literature (Georgiou and Roberts, 2004; Koh, 2011.

The aim of the current paper is to explore the possible determinants of lobbying and its effects on standard setting in accounting. The objectives of the study are to compare the lobbying cases against the IASB and FASB statements and to identify what factors drove the decisions of different parties to lobby in these cases. The paper includes the literature review and the analysis of the lobbying activities with reference to both IASB and FASB cases. Besides, the study explores particular statements of the FASB and IASB and analyses how the specifics of these statements determined the decisions of different parties to lobby for or against the proposed acts.

II. Literature Review

Accounting lobbying can be explained by a number of economic and managerial theories, including the agency theory and stakeholder theory (Hoffman and Zulch, 2014). The agency theory suggests that regulatory agencies that introduce standards include those who are regulated. This implies a conflict of interests between the parties (Mathur et al., 2013). In contrast, the public interest model argues that regulators represent the interests of the society, while the conflict of interest still may take place in the relationships between the regulators and the public (Hoskisson et al., 2011). The stakeholder approach takes into consideration the environment of the firm, including customers, suppliers, and employees. These parties are the stakeholders of the enterprise and lobbying decisions of these parties are determined by the stakeholders who possess power, urgency and legitimacy (Freeman et al., 2010).

The harmonisation efforts of accounting standards that had been undertaken by the IASC faced different barriers, including cultural, economic, political and other factors (Garrido et al,. 2002). In the meanwhile, Larson and Brown (2001) explored the relationships between the harmonisation efforts and accounting standards lobbying. Particularly, the study analysed the effects of the countries' financial accounting standards and the countries' tax rules on lobbyists' position. The research focused on long-term construction contacts and confirmed that lobbying position was associated with the mentioned variables. Every factor could prevent the harmonisation process. However, the research by Koh (2011) analysed the drivers of companies' decisions to lobby and found the factors that contributed to lobbying. The factors included to managers' option compensation and companies' closeness to debt constraints. Besides, smaller companies in a sector with peers who had lobbied, the firms that had board relationships with such firms, and the enterprises that had higher degree of board independence were more likely to lobby.

The research by Georgiou and Roberts (2004) also explored the determinants of lobbying through a logistic regression and concluded that size and previous lobbying experience were the most significant determinants of the decisions to lobby. Furthermore, the firms that lobbied against the proposals had debt covenants in contrast to the companies that lobbied in favour of the proposals. Nevertheless, debt covenants were not able to explain the differences between non-lobbying behaviour and lobbying against. Incentive compensation effects were inherent to the companies that lobbied in favour. It is suggested that the decision to lobby is determined by the economic effects of a particular rule for the company (Deakin, 1989). However, these effects imply managerial perceptions rather than

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actual outcomes. The analysis of the lobbying program by oil and gas enterprises demonstrated that the decision to lobby was associated with the possible effects of accounting methods on the economic well-being of the company and its managers.

The observations about the significance of the effects of regulations on the economic well-being of the firm for lobbying decisions were obtained by the research of Hill et al. (2013). However, the authors performed a cross-industry analysis and found that the variation in lobbying activity across different sectors was large. In addition, companies used multiple channels of possible political influence to affect regulatory and policy outcomes. The potential payoffs from favourable policy and regulations were found to be the most significant determinants of lobbying. At the same time, the research showed that managerial-shareholder agency problems were not associated with the lobbying activities of the politically active enterprise. Some studies explored the lobbying practices under different regulatory regimes, such as the FASB and the IASB (Hodler et al., 2013; Dye and Sunder, 2001). The research by Johnston and Jones (2006) explored not only lobbying in different industries, but also lobbying practices under different accounting standards, including the FASB and the SEC (u meant that FASB and SEC also work as a lobbyist). The authors showed that companies' lobbying expenditures were related to the incentives to lobby on the problems associated with accounting. Specifically, lobbying expenditures were positively related to a company's exposure to amendments in the accounting standards. Nevertheless, this relationship was captured only to occasional lobbyers. Furthermore, the firms that did not have a lobbying department and made income-increasing accounting choices were characterised by higher expenditures on lobbying.

III. IASB and FASB Lobbying

The analysis covers the investigation of lobbying cases on both IASB and FASB. The exploration of corporate lobbying under the accounting standards set by the IASB shows that company size is associated with lobbying. Empirical findings showed that large corporations were more likely to write comment letters to IASB, as these enterprises were a part of the Forbes Foreign 500, while 23 out of 27 US lobbying companies were comparably large (Larson, 1997). However, the findings also demonstrated that the rate of large enterprises' decisions to lobby was different across countries. The highest percentage of lobbying companies was observed in Australia, Hong Kong and Switzerland. By contrast, such countries as Italy, Spain and Korea had no companies that lobbied, despite having large enterprises listed on the Foreign 500 (Larson, 1997). However, there are some factors that may prevent lobbying, and these factors are not associated with the consent of the IASB. An empirical analysis of UK investment management companies showed that the major factor that inhibited lobbying by the companies was the cost of lobbying. At the same time, the questionnaire survey demonstrated that the participation of the companies in lobbying activities was not low (Georgiou, 2010).

The analysis of the effects of political and lobbying forces on accounting standards in the US with application to the FASB demonstrated that there is no clear conclusion about the opportunities of such forces (Gipper et al., 2013). Particularly, while oil and gas accounting was substantially affected by lobbying in the 1970s, the importance of political forces in general was not captured by the analysis of different empirical studies of lobbying. Nevertheless, in line with lobbying in Europe, company size was positively associated with lobbying activities. This fact could be explained by larger potential costs in the regulatory processes for such enterprises. On the other hand, the size directly influenced a company's influence and the probability of success (Gipper et al., 2013). Nevertheless, the resistance to FASB accounting standards can be determined by different factors beyond the corporate level. Specifically, the empirical study concluded that lobbying determinants could be attributed to the standard, the corporation, and the industry levels (Elbannan and McKinley, 2006). The analysis of these three levels showed that lobbying was associated with the perceived uncertainty introduced by a FASB standard, the information-processing requirements of a standard, the requirements to deviate from institutionalised financial reporting practice, a company's ability to acquire scarce resources, the dependence of the corporation on external stakeholders and the power of the firm over stakeholders, thus confirming the stakeholder theory.

An analysis of the lobbying behaviour in response to a particular act showed the significance of company-level factors. The Statement of Financial Accounting Standards (SFAS) No. 158 was titled "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" and was introduced by the FASB in 2006 (Houmes et al., 2012). The exploration of the enterprises that lobbied in regards to this statement showed that the decision to lobby was associated with the underfunded plans of the companies and the possible effects of the SFAS No. 158 on the adjustments to the balance sheet. Thereby, the differences between recognition and disclosure from the managerial perspective were captured, as lobbying was related to the perception of managers of the relocation of disclosed information in the financial statements and the recognition of the information on the balance sheet (Fried, 2012).

An analysis of IASC/IASB statements also demonstrates the attempts of lobbying. For example,

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the IASC Statement of Intent issued in 1990 suggested that last-in-first-out principle should not be applied by the companies. However, the principle could be used for income tax purposes in such countries as Italy, Germany, Japan, and South Korea, as the countries had intertwined tax and financial reporting (Whittington, 2007). The delegations from these countries voted against the elimination of the principle. This case confirmed the agency theory, as it demonstrated the presence of the conflict of interest. Besides, the case showed the significance of country-level factors that could determine lobbying decisions in the international settings (Nobes and Parker, 2008).

IV. Conclusion

The paper investigated the determinants of lobbying in the field of accounting standards setting and found that the factor that was most often mentioned in literature and observed in the case studies was the size of the lobbying company. Furthermore, the decision to lobby was determined by the possible effects of the act or statement on the financial performance of the enterprise, according to the perceptions of the managers of this firm. The comparison of the IASB and FASB acts showed that the determinants of lobbying could be related both to the company-specific and country-specific factors. In addition, the literature review indicated the importance of the industry level in terms of the propensity of companies to lobby and the effects of lobbying on standard setting in accounting. The research confirmed both the agency theory and the stakeholder theory. From the agency theory view, lobbying in accounting standards setting takes place when the conflict of interest between the society and the standard setters or companies is observed. From the stakeholder theory perspective, enterprises care about the most powerful and legitimate stakeholders when undertaking lobbying efforts.

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- Try to present substitute explanations if sensible alternatives be present.
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References	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring

Index

B

Bankruptcy · 37
Beidleman · 2, 4
Belkaoui · 6, 14

C

Chitsazan · 37, 43
Copeland · 2, 4, 6, 7, 14

E

Eisenhardt · 21, 32
Epilogue · 14

F

Fudenberg · 2

G

Galileans · 37

H

Hesford · 18, 32

I

Imobilizări · 36

K

Kamarudin · 13, 16
Kruskal · 10, 11, 13

M

Michelson · 4, 7, 13, 14, 16

N

Nagelkerke · 41, 42
Nikolic, · 19, 33

P

Pilinkiene · 20, 33
Portfolio · 39
Pretax · 4





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