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

Global Journal

of Management and Business Research: D

Accounting and Auditing

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VOLUME 13 ISSUE 5 VERSION 1.0

Global Journal of Management and Business Research : D
Accounting and Auditing

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Accounting and Auditing

Volume 13 Issue 5 (Ver. 1.0)

Open Association of Research Society

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

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Sponsors: Open Association of Research Society
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Publisher's Headquarters office

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

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

Offset Typesetting

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For Authors:

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

Yearly Subscription (Personal & Institutional):

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

Contents of the Volume

Global Journal of Management and Business Research
Accounting and Auditing
Volume 13 Issue 5 Version 1.0 Year 2013
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Duality Role of Chief Executive Officer (CEO) in Corporate Governance and Performance of Quoted Companies in the Nigerian Stock Exchange: An Appraisal of the Perception of Managers and Accountants

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GJMBR-D Classification : *JEL Code: M40*

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I. Introduction

The distinct characteristic of 'divorced management from ownership' of modern corporations, make stewardship accounting inevitable. It is therefore a basic element in company administration and management. Professional managers who (Wikipedia, 2007) are considered more competent than the owners of the corporations and are thus hired to run and manage the affairs of the companies are expected to guarantee transparency accountability and fairness in their duties (Howard, 2000). This is a basic tenet of corporate governance. It is guaranteed by ensuring that various mechanisms are put in place to ensure seamlessness in accommodating corporate goal (ownership goal) and management goal in an enterprise. Tricker (1984) had distinguished management and control in the bid to explain corporate governance by asserting that if management is about running business, then governance in the corporate world is about seeing that companies are run properly. Hence corporate governance is concerned with ways in which all parties interested in the well-being of the firm, in order words the stakeholders, attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interests of the stakeholders. Separation of duties usually depicted in an 'organigram', is not only a feature of good internal control but also an essential ingredient of good corporate governance.

The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the firm including spelling out the rules and procedures for making decisions. Hence Wolfenson (1999), Uche (2004) and Akinsulire (2006) all agree that corporate governance provides the structure through which the company's objectives are set and the strategies, the tactics and the means, of attaining those objectives and monitoring performance defined. Manne

Global Journal of Management and Business Research (D) Volume XIII Issue V Version I Year 2013

(1965) however, set the tone which was later made louder by Alchian and Demetz (1972) and Bonnier and Bruner (1989) to the effect that the Board of Directors (BOD) is the most important and possibly the greatest beneficiary of all good mechanisms of internal control including corporate governance. This is partly because the bulk stops on its table. But most importantly, the BOD is the primary means through which the shareholders exercise control over their investment. In the corporate governance chain, the BOD is answerable to the shareholders and all external markets for corporate governance- regulators, government authorities, labour unions *et cetera.* The Board of Directors is the Top Management unarguably headed by a Chairman who may double as a Chief Executive Officer (CEO) of the company. Within the jurisdictions of the Board, the Chairman, the CEO, other management staff including supervisors, the management vocabularies/functions such as administration, execution, planning, managing, directing, supervising and even controlling, are manifest. If everything goes well and no corporate governance issues are implicated in corporate failures, no 'eye brow' would be raised as to the strictness in apportioning these functions. But alas, companies have gone under at alarming rate in Nigeria in recent times and while external factors (economic infrastructure especially power, legal architecture, fiscal policies et cetera) may not have been exonerated, much blame is on absence of strong commitment to the tenets of corporate governance. Cadbury Plc, Nigerian Railway Corporation (NRC), National Electric Power Authority (NEPA), Kaduna Textile Industry, Asaba Textile Industry, Nigerian Telecommunications Limited (NITEL) Benue Cement Company Gboko, Niger Cement Company Nkalagu, Nigerian Coal Corporation (NCC), Leventis Plc, *et cetera* and several banks are some of the corporate failures in recent time in Nigeria for which strong questions have been raised on the failure of corporate governance.

Little wonder then that the Federal government of Nigeria in the bid to strengthen corporate governance and protect the investors from the unscrupulous management and directors of listed firms in Nigeria came up with a ''Code of Corporate Governance Best Practices' in 2003. Essentially the code prescribes that the business of a firm should be managed under the direction of a BOD who delegates to the CEO and other management staff, the day to day management of the affairs of the firm. In addition, the Board is expected to appoint a qualified person as the CEO as well as other management staff. In codifying best practices for good corporate governance in Nigeria through the 2003 Code, the CBN 2006 Code, and the Nigerian Securities and Exchange Commission revised Code of Corporate Governance 2009, the government is essentially trying to work in tandem with global best practices as codified by such world organizations like the United Nations (UN) and the Organization for Economic Corporation and Development (OECD).

In spite of all these codes, while many companies have converted to Non-Dual CEO leadership on the heels of the report of several high-profile cases of powerful dual CEOs who were found to have abused their tremendous power at the expenses of the company and shareholders, others still maintain the Dual CEO leadership. The pertinent question that arises therefore becomes, to what extent does CEO duality impede corporate performance in Nigeria through weakening of corporate governance? This paper thus sets out to appraise CEO-Duality, Corporate Governance and Performance and thereby ascertain the significance of CEO Duality on corporate performance of Non-Financial Companies in the Nigerian Stock Exchange by hypothesizing that there is a significant negative impact of CEO Duality on corporate performance through weakening of corporate governance. Part one of the paper introduces the work, part two contains the literature review, part three the methodology, while part four presents and discusses the findings and part five concludes.

II. Literature Review

a) Corporate Governance

Corporate governance is synonymous with the responsibility associated with large scale artificial persons that lack the capacity to manage themselves (Salomon v Salomon and CO ltd, 1897). By vesting the day to day running of the entity to a team of directors and senior managers who are distinct from their owners, ownership becomes divorced from management necessitating the guarantee for transparency, accountability and fairness in the management of the enterprise. Mayer, (2000) opines that corporate governance is about control and running of companies where concerns are raised as to who is in control, for how long and over what activities? Deakin and Hughes (1997) posit that corporate governance entails the connection between the internal control machinery of corporations and the general public's notion of the scope of corporate accountability. Hence, it is a set of rules applicable to the direction and control of companies where however, management is seen to connote running a business and governance becomes ensuring that it is run properly (Tricker, 1984). Specifically, corporate governance creates a framework of goals and policies to guide an organization's progress and forms a foundation for assessing Board and management performance (Adedotun, 2003). In a more elaborate tone, Oyediran (2003) stresses that corporate governance looks at the institutional and policy framework for management of corporation from the very beginnings, in entrepreneurship, through the government structures, company law, privatization, insolvency and to market exit. It not only depends on the legal, regulatory, institutional, environmental and societal interests of the communities in which it operates, but also has impact on the reputation and long-term success of a company. This long-term success can hardly be engendered by CEO-Duality given that the BOD could be plagued by the domineering influence of the Chairman who doubles as CEO in the affairs of the company especially in cases where the majority shareholder occupies these positions. The practice not only weakens he oversight ability but may also impair the independence judgment of the BOD on company strategies and decisions

b) Corporate Performance

The capacity and ability of a firm to use its assets to generate revenue from its primary mode of business depict its overall financial health. When this is measured periodically, it forms the basis for both horizontal and vertical analysis and comparison. According to Demsetz and Lehn (2004), financial performance involves measuring a firm's policies and operations in monetary terms which are depicted in the firm's return on investment, return on assets, value added, *et cetera.* That is, accounting profit ratios proxy corporate performance. Corporate governance has been found to correlate positively with corporate performance, (Attiye and Robina, 2007) both seen from these accounting ratios of the firm and the movement of its price in the stock market. While the accounting profit ratios are measured by the Accountant constrained only by the standards set by his profession, the performance as reflected by the movement of its price in the stock market is measured by the investors constrained by their acumen, information, optimism or pessimism and general psychology. In either case however, Young (2000) suggests that best governance practices exert a positive influence on firm performance since it prevents management and controlling investors from taking initiatives to expropriate minority investors. This, it is argued impacts positively on the firm's goodwill and ability to attract equity capital from prospective marginal investors. Hence in considering approaches to measurement of firm level financial performance, Sanda et al (2003), insist that this is found in social science research based on market prices, accounting ratios and total factor profitability where market prices are readily obtained from national stock exchanges for all listed firms. While profit is a flow concept, profit margin measures the flow of profits over some period compared with revenue and costs and thus there could be gross profit margin, operating profit margin, return on equity et cetera.

The relationship between corporate governance and firm's financial performance stems from the understanding that economic value is driven by governance mechanisms such as the legal protection of capital, the firm's competitive environment, its ownership structure, board composition and size, CEO-Duality (the focus of this paper), existence of Audit Committee and financial policy (Uadiele, 2010). In this light, Gompers et al (2003) find that stock returns are higher for firms with strong shareholder rights as compared to firms with weak shareholder rights. This suggests that firms with stronger or better corporate governance provisions outperform those with poor governance provisions in terms of profits, capital acquisition and sales growth. They also add that there is substantial evidence showing that weakly governed firms experience lower performance based on operating performance measures, lower sales growth and net profit margins. This has been corroborated by Khatab et al (2011) from a study of twenty listed firms in the Karachi Stock Exchange in Pakistan.

c) Assessment of Current Corporate Governance Issues and Corporate Performance in Nigeria.

The illicit activities and insider dealings of most Nigerian Bank Chief Executives as revealed by the Governor of the Central Bank of Nigeria in 2009 summarizes the level of decadence in corporate governance in Nigerian companies. Even at that, corporate governance is yet at a rudimentary stage in Nigeria with less than 40% of quoted companies including banks having recognized the codes of corporate governance, (CBN, 2006). But Nganga et el (2003) insist that corporate governance is a crucial ingredient in the process of encouraging domestic investment as well as inflow of foreign direct investment in Nigeria. They further lament that corporate governance practices in Nigeria reflect systemic governance problems including the inability to ensure effective capacity constraints by administrators and ineffective implementation of laws. This leads to limited economic growth (Suberu and Aremu, 2010). And in realization of the need to align with international best practices, the Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission (CAC), inaugurated a seventeen (17) member committee in June 2000 in Nigeria headed by Atedo Peterside, to review and identify weaknesses in the current corporate governance practices in Nigeria and make recommendations for improvement. According to Inyang (2009), the members of the committee were selected to cut across relevant sectors of the economy including members of professional organization, the private sector and regulatory agencies. The committee submitted a draft code, which was widely publicized throughout the country and reviewed in major financial centers of Lagos, Abuja and Port Harcourt to elicit stakeholders' input prior to finalization. The final report was approved in 2003 by the boards of SEC and CAC. The release of the 2003 code marked a watershed in the development of good corporate governance practices in Nigeria. Essentially, the Code stipulated among other things, the separation of the roles of Chief Executive Officer and Chairman of the Board. The subsequent Code of Corporate Governance for Banks and other Financial Institutions in Nigeria released by the Bankers' Committee never again bothered to address the CEO-Duality debacle instead it concentrated on the membership of the BOD in addition to recommending a formal assessment of the effectiveness of first the BOD and separate contributions of each director including the Chairman.

d) CEO-Duality

The works of Heath and Norman (2004), Mintz (2004), Sanda *et al* (2005), Hua and Zin (2007), Khanna and Ken (2008) and Abdullah and Valentine (2009) seem to provide a theoretical basis for corporate governance on the theories of agency, stakeholders, stewardship, resource-dependency, transaction cost and even complexity. Agency relationship creates a contract of a principal engaging an agent to perform some service on his behalf which involves delegating some decision making authority to the agent. In the corporate world, this brings about separation of ownership (shareholders) from control (board) with the introduction of external investors. Agency theory thus argues that in order to protect the interests of shareholders, the board of directors must assume an effective oversight function. This includes evaluating CEO performance based on mutually agreed objectives and company performance criteria. It also connotes the BOD having to not only approve the overall approach towards development and succession but also ultimately rewarding all stakeholders including the CEO accordingly (Burton, 2000). To effectively do this, and ensure good corporate governance, management which includes the CEO must be independent of the BOD.

As for the stewardship theory, Donaldson and Davis (1991) posit that managers act as stewards to the business and should be expected to have no self-interest other than the firm interest which would be the optimization of firm core objectives. This apparent lack of any other interest reduces the need for checking the excesses of neither the Board nor the CEO. Hence based on the stewardship theory, there could be Duality. The Chairman is the CEO. This is supported by the work of Coleman (2007) who argues that there should be no different roles for the Chairman and the CEO and Elsayed (2007) who equally argues that duality does not have a substantial impact on the performance of a company.

But this school of thought stands opposed by those who strongly argue in support of agency theory and maintain that a single officer holding both positions is bound to create a conflict of interest that could adversely affect the interests of the shareholders. To the later school of thought, the core argument is that CEO duality creates a CEO/Chairman who both directs BOD meetings (thus formulates policies and rules) and executes the same policies which may have him unrestrained from acting in his own self-interest in the absence of separation of powers. This automatically undermines the oversight power and functions of the BOD and endangers checks and balances which are essential ingredients of internal control and good corporate governance. In this regard, Rechner and Dalton (1991) and Timme (1993) maintain that a BOD controlled by the CEO is likely to lack independence, resulting to intensified agency friction and leading ultimately, to poor firm performance. To buttress this point, Donaldson and Davis (1991), argue that CEO duality establishes strong unambiguous leadership embodied in a unity of command and that firms with CEO duality may make better and faster decisions and consequently, may outperform those that split the two positions. Therefore, CEO Duality is anti corporate governance and non beneficial to the overall performance of the firm. This is the position of the agency theory.

But the stewardship theory, as pointed out earlier, supports CEO Duality as a core condition to establish a necessary and strong command chain at the top management of the firm. It maintains that whenever one person holds both positions, he is better able to act with precision, become more efficient and effective. Finkelstein and D'Aveni (2003) posit that CEO Duality improves the speed and effectiveness of decision making, reduces conflicts at the BOD level which may have positive impact on firm performance. According to Hundley (2011), the combination of the positions of Chairman and CEO provides a single focal point for company leadership while a powerful and effective CEO/Chairman creates an image of stability and instills a sense of well-being to its employees as well as its shareholders.

But even market practitioners and shareholder right activists have posited that the separation of CEO and Chairman can be a critical mechanism to eliminating managerial and shareholder conflicts of interest as well as to improving the governance of the BOD, Baysinger and Butler, (1985); Monks and Minow 2001 and OECD 2004). It could therefore be seen that the argument goes on and on in circles. There is no unanimous agreement yet as to the superiority of any of the two schools of thought. Empirical evidence based not only on the nature of industry but also on local peculiarities is needed to lay the argument to rest.

III. Methodology

In studying the perception of company administrators, managers and Accountants on the impact of CEO-Duality on corporate performance, the survey approach involving population, sample and sampling was adopted. The population of the study is made up of all the non-financial companies quoted in the Nigerian stock exchange within the period covered by the study. Using the Taro Yameni formula at 95 percent confidence level and error margin of 0.05, a sample size of 72 is selected. Through cluster random sampling, sample elements representing all the sections of the non-financial companies were picked from the sample frame. Three copies of the questionnaire were administered to each company selected. The Microsoft Special Package for Social Sciences (SPSS) was used to test the hypothesis that there is a no significant negative impact of CEO Duality on corporate performance. To enhance the robustness of the findings, an oral interview was conducted on the sampled firms. The questionnaire established the effect of CEO-Duality on the following: increased board monitoring, effectiveness of control, reduced financial scandal, investors' confidence, effective communication, information diffusion, fastness of decision making, and financial performance/profitability. Responses were reduced into a 5-point Linkert scale and analyzed.

IV. Presentation of Findings and Discussion

a) *Examination of Impact of CEO Duality on Corporate Governance and Performance*

From table 4.1 shown in Appendix 1, it is seen that the general perception of company administrators and managers is that CEO Duality is inimical to company performance. The mean value of 4.36 which is very close to the Agree value of 4 suggests strongly that Non CEO Duality enhances corporate performance. Specifically, apart from the second parameter that links CEO Duality with overall corporate governance which recorded a mean value of 4.53 showing very strong agreement from the respondents, all others recorded mean values closer to the Agree value of 4. For instance CEO Duality negatively affects firm performance 4.48; Non CEO Duality promotes increased BOD monitoring and efficient control 4.41; Non CEO Duality reduces corporate financial scandals and boosts investors' confidence 4.32; Non CEO Duality enhances information diffusion and quality decision making, 4.24; and Non CEO Duality reduces arbitrariness and budget indiscipline, 4.19. All these point to the fact that company administrators and managers are nearly unanimous that separation of the positions of Chairman of the BOD and the CEO is necessary to enhance corporate governance and performance.

b) *Test of Hypothesis*

Null hypothesis: CEO- Duality does not have any negative impact on the performance of non financial companies quoted on the Nigerian Stock Exchange.

Regression

Descriptive Statistics

	Mean	Std. Deviation	N
performance of quoted companies	3.2515	1.68271	648
CEO- Duality	1.2083	.50174	648

Correlations

		performance of quoted companies	CEO- Duality
Pearson Correlation	performance of quoted companies	1.000	-.220
	CEO- Duality	-.220	1.000
Sig. (1-tailed)	performance of quoted companies	.	.000
	CEO- Duality	.000	.
N	performance of quoted companies	648	648
	CEO- Duality	648	648

Model Summary(b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.220(a)	.048	.047	1.64291	.021

a Predictors: (Constant), CEO- Duality

b Dependent Variable: performance of quoted companies

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	88.350	1	88.350	32.733	.000(a)
	Residual	1743.648	646	2.699		
	Total	1831.998	647			

a Predictors: (Constant), CEO- Duality
b Dependent Variable: performance of quoted companies

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	4.141	.168		24.592	.000
	CEO- Duality	-.737	.129	-.220	-5.721	.000

a Dependent Variable: performance of quoted companies

Table 2 : Spss Result on the Effect of Ceod on Pqc

Particulars	R	R^2	Adj. R^2	DW	Standard Coefficients		F	Sig
					Beta	T- Value		
All Firms	0.220[(a)]	0.048	0.047	.021	0 -.220	-5.721	32.733	0.000

NOTE:

R = Correlation Coefficient or Beta
R^2 = Coefficient of Determination
Adj. R^2 = Adjusted Coefficient of Determination
DW = Durbin Watson (d) test statistic
T-value = Student t- test Statistic
F = F- test statistic

Interpretation on corporate performance :

The regression sum of squares (88.350) is less than the residual sum of squares (1743.648), which indicates that more of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.000) is less than 0.05, which means that the variation explained by the model is not due to chance.

R, the correlation coefficient which has a value of 0.220, indicates that there is negative relationship between the CEO-Duality and performance of quoted companies. R square, the coefficient of determination, shows that 04.8% of the variation in the performance of quoted companies is explained by the model.

With the linear regression model, the error of estimate is high, with a value of about 1.64291 The Durbin Watson statistics of .021, which is not up to 2 indicates that there is no autocorrelation.

The CEO-Duality and performance of quoted companies of 0.22 indicates a negative significance between CEO-Duality and performance of quoted companies , which is statistically negative significant (with t = -5.721). Therefore, the null hypothesis should be accepted and the alternative hypothesis accordingly rejected.

V. Conclusion

The positive relationship between Non CEO duality and corporate performance as found in this paper using secondary data sourced from the Annual Reports of the 72 sampled financial companies primary data from their administrators and managers, is in tandem with the finding of Kajola (2008) and suggests that when separate persons occupy the positions of Chairman of the Board and the CEO of a company, the overall corporate governance tone of the company improves, the investors' confidence improves and the various financial performance indicators of the company become positively affected. This too, agrees with the works of Yermack (1996), Brown *et al* (2004) and Bokpin (2006). Not surprisingly too, the correlation and chi-square tests results align themselves to the findings of Uma and Allen (1997), Amarjit and Neil (2011) and Cheng (2011) from studies carried out in other environments and using different populations. Essentially, CEO duality is positively associated with the market value of the firm which is also influenced by positive movement in its profit margin and return on equity. Non CEO Duality tends to engender greater transparency through appropriate corporate disclosure and attendant enhanced monitoring and efficient control. Independence of the BOD is a *sin qua non* for proper checks and balances and improved corporate governance. It is therefore strongly recommended here that the positions of the chairman and the CEO should be occupied by different persons only limited may be by the size or ownership structure of the company.

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Appendix

Table 3 : Perceived Impact of CEO Duality on Corporate Governance and Performance

	No of respondents	Strongly Agree (SA) 5	Agree (A) 4	No Idea (;INI) 3	Disagree (D) 2	Strongly Disagree (SDA) 1	TOTAL	MEAN
CEO Duality negatively affects firm performance	216	160 (800)	30 (120)	4(12)	14 (28)	8 (8)	968	4.48
Non CEO Duality enhances overall corporate governance	216	155(775)	40(160)	5(15)	12(24)	4(4)	978	4.53
Non CEO Duality promotes increased BOD monitoring	216	162(810)	20(80)	4(12)	20(40)	10(10)	952	4.41
Non CEO Duality leads to efficient control by the BOD	216	68(340)	86(344)	10(30)	43(86)	9(9)	809	3.75
Non CEO Duality reduces corporate financial scandals	216	150(750)	30(120)	4(12)	20(40)	12(12)	934	4.32
Non CEO Duality boosts investors' confidence	216	110(550)	65(260)	5(15)	28(56)	8(8)	889	4.12
Non CEO Duality enhances information diffusion and quality decision making	216	128(640)	50(200)	10(30)	20(40)	8(8)	918	4.25
Non CEO Duality reduces arbitrariness	216	125(625)	50(200)	8(24)	22(44)	11(11)	904	4.19
Non CEO Duality enhances budget indiscipline	216	60(300)	95(380)	8(24)	49(98)	12(12)	814	3.77
Average								4.20

Source; Field survey 2013.

Global Journal of Management and Business Research
Accounting and Auditing
Volume 13 Issue 5 Version 1.0 Year 2013
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Human Resource Factors and its Effect on Accountants in Jordanian Banks

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Keywords: corporate social responsibility, human resource management, accountant skills.

GJMBR-D Classification : JEL Code: M00, G21

HUMAN RESOURCEFACTORSANDITSEFFECTONACCOUNTANTSINJORDANIANBANKS

Strictly as per the compliance and regulations of:

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Abstract- The study aims to identify the relationship between accountant skills and how they practice their roles in the banking sector with human resource factors, and if demographic factors may affect such a relation. To achieve the goals of the study, data was collected from Jordanian banks through a questionnaire specially designed for that and handed out to a sample of accountants, 120 questionnaires were valid for analysis, about 87.5% of the distributed questionnaires. The results of the study showed that there was a relationship between accountant skills and how they practice their roles in the banking sector with human resource factors. Furthermore, results also revealed a positive relationship between gender, age, and education as demographic factors affecting the realization of how accountant skills and practice roles in the banking sector effect human resource factors.

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I. Introduction

Corporate Social Responsibility was known and dealt with from the past, but in new manners these days. For in The World Business Council for Sustainable Development (WBCSD) (2002) it was defined in general as the commitment of the company to contribute to the sustained economic development by working with employees, their families, the local community, and the entire society in order to improve life quality. And as in Albdour and Altarawneh, (2012) it refers to making business decision associated with ethical values, compliance with requirements, and respect for people, communities and environment.InBayat (2011) organizations have started to pay more attention to staff members, improvement of work methods and are encouraged to search for employees in recent years, which is due to the "valuable human capital" smart organization to rise.

Human Resource Management as part of Corporate Social Responsibility has become a very important issue for the banking sector and as in McWilliamset al., (2006) banks have begun to realize that a successful business is not only concerned with the economic aspects of organizational activity such as profitability and growth, but also, in the actions that appear to further some social good, beyond the interests of the firm and that which is required by law. As in Maier & Brunstein (2011) employees show high satisfaction when the firm supports them to achieve their career goals. Those who perceive high organizational support have more job performance than those who are not perceive organizational support (Bishop et al. 2000).

Tariq Khan et al. (2012) explained how human resource development in organizational perspective is focused in narrow sense by its function on learning, education, training and development to the human resources selected and recruited to identify, assure, and help to develop the key competencies that enable individuals to perform current or future jobs with planned individual learning accomplished through training, on-the-job learning, coaching or other means. Human resource development along with education and training also involves activities related to, empowerment, awareness raising, skills enhancement, team building, community mobilization and development, organization development, entrepreneurship development, sensitization and conscientisation, human resource planning and policies. While Karuppaiyan (2012) summarized that human resource department initiates and facilities are supposed to increase loyalty of all employees towards business improvement through quality culture, proponents of human resource management claim that total quality management can be implemented in any organization and it can result into improved products, financial performance and services, reduced costs and more satisfied customers and employees.

Human resources implement in organizational processes such as production, supply, marketing, and after-sale. Employees participate to solve quality problems in organizations through total quality management practices, and that employees should join the decision-making process, and participate to solve quality problems to obtain quality assurance and that awards given to employee involvement and process management in total quality management increases their level of loyalty towards the organization (Uysal, 2012). Dhamija (2012) argued that the only vital value for an enterprise is the experience, skills, innovativeness and insights of its people for human resources are the key components in every organization. It represents total knowledge, talent, and attitude, creative ability, aptitude

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and belief of an individual involved in affairs of an organization. Management of human resources is an integral part for every concern. It is associated with people at work and their relationships within and outside the enterprise. And because perceived organizational support means that organization support employees in their social and work life. Amount of organizational support generates an outcome of human resource practices, which is called organizational commitment (Allen et al., 2003).

II. Literature Review

Although there seems to be a lack of studies addressed to human resources (Wan Ismail& Al-Taee, 2012). Tariq Khan et al. (2012) described it as a relatively young academic discipline but an old and well-established field of practice.

Performance management and its relation with human resources was studies in different manners for Bayat (2011)investigated the performance management, evaluation of the performance management cycle, improve productivity, performance, benefits, performance management, performance management disadvantages, comparative study, which were outlined by the performance indicators and measurement model. Results showed that performance evaluation and feedback on the knowledge, strengths and weaknesses, performance and position in the organization will determine the environmental changes, and the major aim of the evaluation is to determine and define the gaps when performance standards are not defined.While Shaban (2012) aimed to evaluate the efficiency of human resources functions and to control quality check on human resource activities through human resource auditing, by focusing on human resource functions, managerial compliance, and human resource climate. Results showed that audit could be measured as a measure to evaluate the personnel activities, climate, and compliance of an organization's policies.

Job satisfaction and human resource practices are also related, for Wendong et al. (2008) investigated how job analysis (job skills) affect job satisfaction, commitment and job involvement, were data was obtained from 272 employees in different Chinese companies. And results revealed that job satisfaction, affective commitment, and job involvement were related to job analysis in the context of job skills. While Ali and Akhter(2009) studied the present level of job satisfaction among the faculty members of private universities in Bangladesh. By using a survey, results showed that faculty members are overall satisfied with their present condition, except the factors like training facilities, and some physical facilities and distribution of courses, and that there is no significant difference between male and female faculty members regarding job satisfaction.Jacob and Jolly (2012) determined that if individuals perceive certain practices in a positive light, then there's a very good chance that they will consider the rest of the human resources practices with the same positive outlook and vice versa by a adopting a cross sectional survey and quantitative survey methodology. Results showed a strong and positive relationship when it comes to the perceptions of the employees from different nationalities toward the human resource management policies, and a negative attitude was toward working conditions, labor welfare facilities, accidents and safety measures, grievance settlement procedures and multi-cultural environment, while there was a positive attitude towards recruitment and selection, training and development, promotion and transfer, salary structure, supervision, communication and workers participation in management.

It was also important to study how human resource practices may have an impact management and responsibility. As an example Abutayeh and Al-Qatawneh(2012) aimed to examine the effect of human resource practices on job involvement in Jordan through studying six major human resource practices divided to job analysis, selection, training, performance appraisal, compensation, and career management by distributing a survey to 15 companies, and results showed that all human resource practices have a positive effect whereas training had the lowest effect. In another way Albdour and Altarawneh(2012) investigated the impact of internal Corporate Social Responsibility (CSR) practices on Employees' Engagement, by examining five internal CSR practices that are: training and education, human rights, health and safety, work life balance and workplace diversity on the two dimensions of employees' engagement Job Engagement and Organizational Engagement. A proposed model was tested on frontline employees working in the banking sector. Results revealed that all the relationships were significant between internal CSR and employee engagement and that work life balance was the least adopted dimension of internal CSR, and results also showed that internal CSR practices on organizational engagement was greater compared with job engagement. While Wan Ismail & Al-Taee(2012) investigated the link between gender, leadership traits and transformational leadership as viewed from human resource management strategy by a conceptual model. Results demonstrated that there are gender differences in leadership, and there is a relationship between leadership traits and transformational leadership and human resource management strategy. And it also revealed that female leaders were more transformational than male leaders in their leadership styles.

III. Hypotheses

a) First main hypothesis

There is no significant relationship between accountant skills and how they practice their roles in the banking sector with human resource factors.

b) Second main hypothesis

There is no significant relationship between accountant skills on how they practice their roles in the banking sector and the demographic factors (gender, age, education, and experience).

IV. Research Methodology

a) Measuring Instrument

The research was carried out by primary data, collected by using a structured questionnaire,carried from Albuali (2011) study and the data was analyzed by using PASW statistics 18 software. The first part of the questionnaire contained the demographic factors which were gender, age, education, and experience. While the second part measured the relationship between accountant skills and how they practice their roles in the banking sector with human resource factors.

The scale of measuring was Likert type (five-point scale), and answers were ranged between highly agree, agree, somewhat agree, disagree, and highly disagree.

The reliability test was applied to examine the internal consistency of the research instrument. The Cronbachs' alpha coefficient was (.74) which confirms the reliability of the questionnaire.

b) Research Population and Sample

Accountants in different Jordanian Banks were the target population of the study, chosen randomly, for the questionnaire was administered to accountants, and 105 questionnaires were valid for analysis from120 questionnaires distributed, with a rate of return of 87.5%.

c) Methods of Data Analysis

The descriptive and analytical statistical techniques were applied in the analysis by using mean, standard deviation, percentage and frequency. Also t and F -tests were applied to test the study hypotheses.

V. Results of the Study and Hypotheses Testing

a) Demographical Characteristics Analysis of Respondents

Table 1 shows the distribution of the sample according to their gender, age, education, and experience.

The table illustrates that 57.1% of the respondents are male. As well as 40% of the respondents are 30 and below. As for the education 60% hold a bachelors' degree in accounting and 40% have a 5 year experience or even less. In general, the previous results suggest that respondents are able to absorb the questionnaire and provide reliable information.

Table 1 : Demographic Factors

Independent variable	Type of independent variable	Frequency	percent
gender	male	60	57.1%
	female	45	42.9%
	total	105	100%
age	30 and below	42	40%
	31-35	18	17.1%
	36-40	24	22.9%
	41-45	9	8.6%
	Above 45	12	11.4%
	total	105	100%
education	Diploma	15	14.3%
	Bachelors	63	60 %
	Masters	27	25.7%
	total	105	100%
experience	5 years and less	42	40%
	6-10	39	37.1%
	11-15	12	11.4%
	Above 15	12	11.4%
	total	105	100%

b) Descriptive Analysis

Descriptive Analysis was used to assess the results obtained from the questionnaire as in table (2).

Table 2 : Descriptive Statistics for different factors expected to affect human resource management as in accountant skills and how they practice their roles

Items	Mean	Standard Deviation
Functional carry out the duties according to the regulations and instructions	4.1429	0.83699
Functional secretariat and a sense of responsibility	4.3714	0.59254
Respect for presidents and career commitment ethics	4.2571	0.94083
Refrain from taking advantage of functional for personal purposes	3.9714	0.84872
Maintaining safety on public funds and property	4.2000	0.89227
Justice, impartiality and honesty with others	4.2000	0.85934
Treatment of subordinates threw litigations and appreciation	4.1714	0.81403
Respect work timeliness and ability to maintaintime	3.8571	1.02309
Ability to respect citizens and facilitate the completion of their transactions	4.2571	1.02871
Total	4.1587	0.48281

Table 2 shows the arithmetic means of the phrases related to different factors expected to affect human resource management in the accounting

Global Journal of Management and Business Research (D) Volume XIII Issue V Version I Year 2013

department in Jordanian banks. The overall mean of the respondents was (4.1587) and the standard deviation was (0.48281), all paragraphs were above the default mean (3), which confirm respondents' belief in the existence of awareness among accountants working in Jordanian banks on different factors expected to affect human resource management.

c) Hypotheses Testing

Table 3.1 : H1 Testing hypotheses based on the use of t-test.

Hypotheses	Mean	Calculated T	Sig.
H1	4.0571	5.031	0.000

*Note: * significant at a level of 0.01*

Table 3.2 : H2 Testing hypotheses based on the use of F-test.

H2	Type of variable	mean	F	Sig.
Gender	male	4.0722	4.652	0.033*
	female	4.2741		
Age	30 and below	4.1111	7.609	0.000*
	31-35	3.7593		
	36-40	4.3889		
	41-45	4.5556		
	Above 45	4.1667		
Education	Diploma	4.4222	3.749	0.027*
	Bachelors	4.0688		
	Masters	4.2222		
Experience	5 years and less	4.0952	2.020	0.116
	6-10	4.1368		
	11-15	4.4722		
	Above 15	4.1389		

*Note: * significant at a level of 0.05*

Table 3 (a.) illustrates that the value of calculated (t) for the first main hypothesis (H1) amounted to (5.031) with the significance level of (0.00), which washigher than the tabulated (t) value ($\alpha = 0.01$). So the first hypothesis is rejected, which states that "There is no significant relationship between accountant skills and how they practice their roles in the banking sector with human resource factors.

The second main hypothesis was tested by using One Way Anova including Post Hoc tests (Sheffe, and Dunett's C) to test the degree of homogeneity presented in table 3 (b). Results showed a positive significant relationship for the gender variable for F was (4.652) at a significant level of (0.033), and results showed that females were more realizable of the relationship between accountant skills and how they practice their roles in the banking sector with a mean of (4.2741). Also a positive significant relationship for the age variable,was (7.609) at a significant level of (0.000) were the highest mean for ages 41-45 was (4.5556). For education a positive significant relationship for education appeared were F was (3.749) at a significant level of (0.027) and the highest mean was for diploma educated respondents.While there was no significant relationship between respondents experience and accountant skills and how they practice their roles in the banking sector. So the second main hypothesis was accepted for the experience variable, and rejected for the remaining demographic variables.

VI. Conclusion

The objective of this study was to determine the relationship between accountant skills and how they practice their roles in the banking sector with human resource factors, and if demographic factors may affect such a relation.

Results of this study indicated that there was a relationship between accountant skills and how they practice their roles in the banking sector with human resource factors. Furthermore, results also revealed a positive relationship between gender, age, and education as demographic factors affecting the realization of how accountant skills and practice roles in the banking sector effects human resource factors.

The implications of this study emphasized on the importance of human resource factors that influence accountant skills and how they practice their roles. While the study took some factors, future research may take other variables into consideration.

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Global Journal of Management and Business Research
Accounting and Auditing
Volume 13 Issue 5 Version 1.0 Year 2013
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Towards a Competency Framework for SME Accountants - A South African perspective

By Danie Schutte
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Abstract- Globalization has brought major changes in the world economy, for example a significant increase in trade and investments, rapid technological changes in communications as well as an increasing trend towards deregulation of financial markets. Prospects of increased sales in the world-wide market did not necessarily pose the same benefits to all market participants. In contrast to large multi-national companies, the traditional focus of Small and Medium Enterprises (SMEs) did not include exporting and importing along with alliances, branches and joint ventures abroad. Despite the pivotal roles of small and medium businesses in many economies, the specific challenges resulting from the globalisation phenomenon cannot be denied.

Keywords: *competency framework;international federation of accountants; south africa institute of professional accountants;iaesb; ies.*

GJMBR-D Classification : *JEL Code: H83*

TOWARDSACOMPETENCYFRAMEWORKFORSMEACCOUNTANTSASOUTHAFRICANPERSPECTIVE

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Abstract- Globalization has brought major changes in the world economy, for example a significant increase in trade and investments, rapid technological changes in communications as well as an increasing trend towards deregulation of financial markets. Prospects of increased sales in the world-wide market did not necessarily pose the same benefits to all market participants. In contrast to large multi-national companies, the traditional focus of Small and Medium Enterprises (SMEs) did not include exporting and importing along with alliances, branches and joint ventures abroad. Despite the pivotal roles of small and medium businesses in many economies, the specific challenges resulting from the globalisation phenomenon cannot be denied.

Small and medium businesses are faced with challenges such as limited resources and funding, a lack of formal mechanisms and practices, a shortage of trained and experienced staff as well as different classifications of small and medium businesses worldwide. In particular, smaller businesses do not normally have a well-established and functional accounting department. In view of the apparent differences between the accounting function for larger and smaller businesses, the question is asked whether accountants in the small and medium business sector should demonstrate specific skills and competencies to address the distinctive challenges of this sector. The focus of the study is therefore on the recently announced IES2 Initial Professional Development – Technical Competence and its relevance in the South African environment.

Keywords: competency framework;international federation of accountants; south africa institute of professional accountants;iaesb; ies.

Jel Codes: M41-Accouing; M48 - Government Policy and Regulaion

I. Introduction

a) Background

The economy and business environment is constantly changing and the world continues to become more global (Retief, 2012:8). Denis, Morrow and Roger (2006:3) defined globalisation as an increasingly integrated world economy and a process underpinned by modifications of policies in various countries towards a more open, market based, system of economic governance. In the wake of the globalisation phenomenon a sustainable, global business environment depends on a strong financial architecture (IFAC, 2013a). From an accounting perspective, it inevitably brought with it moves to establish a single set of financial reporting standardsand other forms of standardisation across borders (Chan & White, 2007:605). As a result, international accounting standards have been in a steady state of change to support a viable financial architecture (Retief, 2012:8). The global profession can be strengthened, economic growth and stability can be achieved and the challenge of contribution can be addressed by focusing on the development of high-quality international accounting standards and encouragingunity amongst international participants (Ward, 2005). In addition, harmonisation of accounting practices would be a giant leap to strengthen the accounting profession and protect the public interest globally (Pendergast, Partner, Urbach &Werlin, 2006:16).

In order to address the importance of high-qualityaccounting standards and for the purpose of setting a benchmark amongst international participants the International Federation of Accountants (IFAC) was established to serve the public interest bycontributing to the development and facilitating the adoption and implementation of high-quality accounting standards(IFAC, 2013b). According to Horstmann (2005:98) IFAC's primary mission is to carry on strengthening the global profession and economies by establishing and promoting union international accounting standards. The challenges and opportunities facing this standard-setting body include meeting the increasingly different needs of global users, addressing concerns about complexity, clarity and relevance (Horstmann, 2005:98) and providing direction to financial architectures worldwide (IFAC, 2013a). Despite the fact that the development and implementation of high-qualityaccounting standards was not without any limitations, the need for a single set of international accounting standards was recognized(IFAC, 2007). In this regard it was argued that a single set of accounting standards gains the trust of the global audience in financial reporting and therefore increases investments (IFAC, 2007).

In addition to its role in ensuring uniform accounting practices the IFAC facilitates the structures and processes that support the operations of the International Accounting Education Standards Board (IAESB). The main objective of the IAESB is to serve the public interest by setting high-quality educational standards for professional accountants and by

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contributing to the promotion of national and international education standards (IAESB, 2012:2). The IAESB develops education standards and provides guidance and information on pre-qualification education, training of professional accountants, and professional education development and endurance (IAESB, 2012:2). In order to ensure the development and maintenance of competence required from professional accountants to perform various roles,the project of the IAESB is to improve the clarity of its standards (IAESB, 2012:5). In 2009 the IAESB completed its revision of the Framework for International Education Standards for Professional Accountants which sets out the fundamental concepts and principles for the International Education Standards (IES) (IAESB, 2012:5). The Framework for International Education Standards for Professional Accountants (2009) identifies general education, professional accounting education, practical experience and assessment as components of the learning and development of a professional accountant. In reaction to the ever-changing global environment the IAESB commenced to revise IES 1 to IES 8, with the goal of ensuring consistency with concepts of the revised framework and improving clarity (IAESB, 2012:5).

The extant version of IES 2, Content of Professional Accounting Education Programs,published in May 2004 and effective from January 2005, prescribes an IFAC member body's professional accounting education program content of knowledge required from a candidate to qualify as a professional accountant (IAESB, 2012:5).The title has been amended in the proposed IES 2 (Revised) to Initial Professional Development- Technical Competence, to reflect the IAESB's review that IES 2 is one of the six IESs covering Initial Professional Development (IPD) (IAESB, 2012:6). According to the proposed IES 2 (Revised), IPD is defined as the learning and development process of competence required to perform the various roles of a professional accountant (IAESB, 2012:6). In addition, technical competence is used to describe the ability to apply professional knowledge to perform a role to a defined standard (IAESB, 2012:6). The IAESB decided to adopt a learning outcomes approach in the proposed IES 2 (Revised) by specifying eleven competence areas: (i) financial accounting and reporting, (ii) management accounting, (iii) finance and financial management, (iv) taxation, (v) audit and assurance, (vi) governance, risk management and internal control, (vii) business laws and regulations, (viii) information technology, (ix) business and organizational environment, (x) economics and (xi) business management (IAESB, 2012:7). Furthermore, instead of prescribing knowledge, the IAESB identified fourproficiency levels, namely foundational, intermediate, advance and mastery levelsto demonstrate professional competence (IAESB, 2012:20-22). In addition the IAESB included two new requirements in the proposed IES 2 (Revised) for IFAC member bodies to regularly review and update professional accounting education programs that are designed to achieve the learning outcomes and to prescribe appropriate assessment activities to assess the development of technical competence in a rapidly changing and complex environment(IAESB, 2012:6). Thus, the IAESBrequires that aspiring professional accountants should be able to demonstratenot only technical competencebut also professional values, ethics, and attitudes(IAESB, 2012:6).

From the aforementioned an aspiring professional accountant is firstly described as an individual who has commenced a professional accounting education program as part of IPD. Secondly professional skills are describedas theintellectual, personal, interpersonal, communication and organizational skills that a professional integrates with technical competence and professional values, ethics and attitudes to demonstrate professional competence; and lastly professional accounting education programs are programs designed to support aspiring professional accountants to develop the appropriate professional competence by the end of IPD. They may consist of formal education delivered through degrees and courses offered by universities, other higher education providers, IFAC member bodies and employers, as well as workplace training (IAESB, 2012:9).

In order to fulfill the IAESB's desire for the proposed IES 2 (Revised) to be consistently drafted the IAESB is currently considering comments and feedback and the proposed IES 2 (Revised) is expected to be finalized in the third quarter of 2013 and effective for implementation for periods beginning on or after 1 July 2015 (IAESB, 2012:5-7). Comments on matters in the proposed IES 2 (Revised) was addressed in a structure of eight questions and released from October 2012.The results of the eight questions (1-8)from the submitted comment letterscould be briefly summarized as follows:

Question 1- The majority of the comments agreed that the eleven competence areas listed in Paragraph 7 of the proposed IES 2 (Revised) captures the breadth of technical competence areas required from aspiring professional accountants. It was however suggested that the sequence of the competence areas should be reviewed and restructured according to necessary educational steps.

Questions 2 and 3-A number of comments were made on the adequacy of learning outcomes capturing the minimum level of proficiency and the assistance of the Appendix in the interpretation of the learning outcomes.

Questions 4 to 8–The comments indicated that the objective to be achieved by a member body is appropriate. Commentators also agreed that the requirements of paragraphs 7, 8, and 9 of the proposed IES 2 (Revised) are suitable for achieving an appropriate level of technical competence.

b) Rationale for the Study

The competencies of professional accountants have been challenged by the ever-changing business environment. The skills, understanding and personal attributes to ensure a successful career in the global world are becoming increasingly more important (Knight & Yorke, 2004) Success in the working environment depends on the identification of specific skills and competencies required of employees.In this regard a competency framework is defined as a high level description of competencies (knowledge, skills and attributes) individuals should possess atthe entry point to a particular profession (SAICA, 2010:3). In other words,a competency framework provides thefoundation upon which professions are developedand therefore enables a clear understanding of the required competencies a prospective employee should demonstrate embarking a career (SAICA, 2010:3).

Agarwal and Gupta (2008) argue that a gap exists between the students' knowledge after graduation and the practical application thereof in the real-world business.They found that students need to reflect on knowledge before they can apply this knowledge.In an accounting context the theory and practice of a competency framework was primarily built upon the work of the American pragmatist philosopher, John Dewey, who argued that knowledge is gained by combining theory and practice (SAICA, 2010:8).Practicing accountant should have theoretical knowledge and the skill to apply this knowledge in practice (Rudman & Terblanche, 2012:60-61). According to KPMG (2009) and Price Waterhouse Coopers (2009) knowledge (theoretical aspects) can only be achieved through real-world clients and their specific circumstances. Up until now, researchers found that students can reflect on and apply their theoretical knowledge when applying this knowledge in a business environment (Rudman & Terblanche, 2012:57; Rudman & Terblanche, 2011:63). These studies investigated the question if theoretical knowledge in real-life situation helps students to better understand, conceptualise and contextualisetheoretical knowledge in practise.

In order to respond to recent studies on the existence of a gap between theory and knowledge the South African Institute of Professional Accountants (SAIPA) is developing a competency framework based on the IFAC model. The accountancy institute represents Professional Accountants (SA) practising mainly in the small and medium business sector in South Africa (SAIPA, 2013a:2). SAIPA qualifies as one of only two South African accounting bodies that are full members of IFAC(SAIPA, 2012) and have reciprocal agreements with national and international bodies (Pan African Federation of Accountants (PAFA); Practicing Professional Accountants (CPA) in Ireland; Institute of Public Accountants (IPA) in Australia; Institute of Commercial and Financial Accountants (CFA) in Namibia) (SAIPA, 2013a:2). SAIPA is recognised as a professional body as determined by the National Qualifications Framework (NQF) Act 67 of 2008 by the South African Qualifications Authority (SAQA) that acknowledged the critical role SAIPA plays in quality assurance and standards development within the National Qualifications Framework. (SAIPA, 2013b).In addition, two of NQF Act 67 of 2008 most important objectives is to generate a single integrated national framework for learning achievements and to enhance the quality of education and training (SAIPA, 2013b).Therefore, SAIPA must ensure quality experiential training (SAIPA, 2013b) to their learners by being a "truly global voice on issues of standard setting and compliance" (SAIPA, 2012:11).

Globalisation is the essence of IFAC and the IAESB's objective to serve the public interest and contribute to the development, implementation and convergence of high-quality international accounting standards. A competency framework in an accounting context should therefore address the challenges arising from the rapidly changing complex environmentto bridge the gap between theory and skillsand to enablestudents to reflect on and apply their theoretical knowledge when applying this knowledge in the business environment. In addition, a competency framework lends strong support to tertiary accounting programmes used to prepare students for the "real-world" working environment and consequently requires accounting courses to be taught using "real-world" scenarios (SAICA 2010:12). In other words, the on-going development of a competency framework for SAIPA promises lucrative results and service of the public interest by setting one set of uniform high-qualityaccounting standards, accepted and enforced on a consistent basis amongst international participants (Pendergast *et al.*, 2006:19).

II. Problem Statement and Research Objective

The central argument of this study is the existence of a gap between theory and skills and the importance of accounting bodies' requirements to ensure quality education programs in order to comply with the high-quality standards set amongst international participants.In contrast, the majority of SAIPA practices are operating in the small and medium business sector that do not necessarily have an international focus (Dixon, Thompson & McAllister, 2002:27).Therefore, the primary objective of the study is to investigate the foundation upon which SAIPA programs are developed and ask the question whether the on-goingdevelopment and implementation of a competency framework for Professional Accountants (SA) willbe sufficient to bridge the gap between theory and skills. This will also enable professional accounting educators to provide students with the ability to apply the theory they have been taught when they enter the real-world business after graduation.

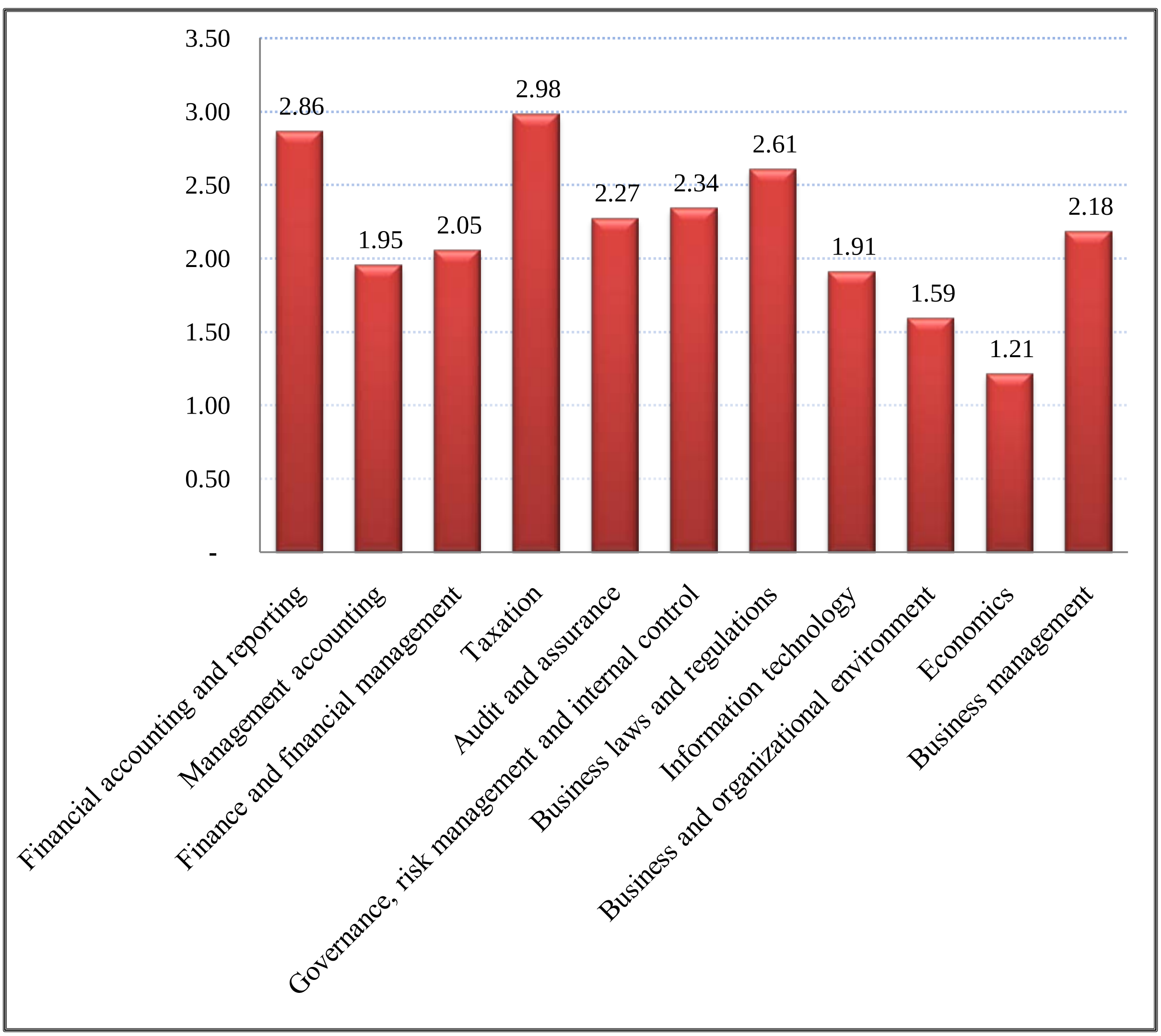
The contribution thereof is that the development and implementation of a competency frameworkaccording to high-qualityinternational accounting standardsfor the professional accountant will enable the professional accountant to respond to the fast-changing environment and be a life-long learner (SAICA, 2010:7). Despite the fact that the competency framework may require re-evaluation from time to time due to the fast-changing social, political and business environment (SAICA, 2010:9), it can enable a clear understanding of the required competencies a professional accountant should demonstrate embarking a career (SAICA, 2010:3).

III. Data and Methodology

The research encompassed both a literature and empirical study. The literature review provided the theoretical background of the competency objectives and requirements of IFAC and the IAESB. The literature review also identified a gap between theory and practice.

The literature study formed the foundation for the empirical study, which considered the relevance of the IAESB's competency framework in a South African context. Since IES 2 - Initial Professional Development-Technical Competence (Revised) was developed to identify the skills and competencies required to enter the accounting environment the population comprised accounting firms who attended the North West University career expo in 2013. The sample was narrowed down to accounting firms in the small and medium business sector. In this regard the technical competence learning outcomes according to Table A of the proposed IES 2 were sent to 23 accounting firms who were asked to rate the competency areas according to the IAESB's four proficiency levels. Fifteen accounting firms provided feedback (presented in Annexure A). The average rating of the 11 competency areas is presented in Figure 1.

Figure 1 : Average Rating of Learning Competence Areas



Global Journal of Management and Business Research (D) Volume XIII Issue V Version I Year 2013

The accounting firms rated Taxation (2.98) and FinancialAccounting (2.86) as the most important competence areas.Business Laws and Regulations (2.61) were considered the third most important competence area.Governance, Risk Management and Internal Control (2.34) as well as Audit and Assurance (2.27) were also considered important. In contrast, Economics (1.21) and the Business and Organizational Environment (1.59) were not highly rated by the accounting firms.In addition the results revealed that Information Technology (1.91), Management Accounting (1.95) as well as Finance and Financial Management (2.05) are not considered that important by the accounting firms included in the survey. In summary the 11 competency areas could be ranked in the following sequence:

Table 1 : Proficiency levels per competence area

Competence area	Rating	Proficiency level
Taxation	2.98	Advanced
Financial accounting and reporting	2.89	Advanced
Business laws and regulations	2.61	Intermediate to Advance
Governance, risk management and internal control	2.34	Intermediate to Advance
Audit and assurance	2.27	Intermediate to Advance
Business management	2.18	Intermediate
Finance and financial management	2.08	Intermediate
Management accounting	1.95	Intermediate
Information technology	1.91	Intermediate
Business and organizational environment	1.59	Foundation to Intermediate
Economics	1.21	Foundation

IV. Discussion and Conclusion

The evidence suggests that accounting students can expect to provide a combination of accounting and tax consulting services to small and medium businesses in the South African environment. The interpretation of specialized reports included under Financial Accounting was however not considered that important by the accounting firms included in the study. With regards to Taxation, international taxation and the involvement of a tax specialist obtained the lowest ratings. The relevant importance of the regulatory environment in which small and medium businesses operate was also confirmed. Business laws and regulation, Governance, risk management and internal control as well as Audit and assurance were considered to be intermediate to advanced areas.

In contrast, the accounting firms indicated that information technology was not considered that important. Moreover, the study revealed that only moderate levels of complexity arerequired for Management accounting as well as for Finance and financial management. The lower than expected rating for the aforementioned disciplines could be indicating that financial statements prepared in the small and medium business sector is conformity in nature and that accountants are not involved in the day-to-day management of clients, especially in view of the relatively low rating for Business management; Business and organizational management as well as Economics.

In summary the study identified the most important competence areas for accountants in the South African small and medium business sector. The results could be of value to academic institutions developing academic programs and preparing accounting students for the small and medium business sector. In view of the exploratory nature of the study further studies are encouraged, especially in an international context to compare the competency requirements across borders.

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Annexure A – Learning Outcomes for Technical Competence Area

	Mean	Min	Max	Variance	Standard deviation
(a) Financial accounting and reporting					
(i) Apply accounting principles to transactions and other events	3.36	3.00	4.00	0.23	0.48
(ii) Apply IFRS or other relevant standards to a range of transactions and other events	3.09	2.00	4.00	0.63	0.79
(iii) Classify financial data appropriately in financial statements	3.18	2.00	4.00	0.51	0.72
(iv) Prepare primary financial statements, including consolidated financial statements, in accordance with laws and regulations	2.91	1.00	4.00	0.81	0.90
(v) Evaluate the appropriateness of accounting policies used to prepare financial statements	3.00	2.00	4.00	0.73	0.85
(vi) Interpret specialized reports including sustainability reports and integrated reports	1.64	1.00	3.00	0.78	0.88
(b) Management accounting					
(i) Apply techniques such as product costing, variance analysis, inventory management, and budgeting and forecasting to improve the performance of an organization	1.91	1.00	3.00	0.45	0.67
(ii) Analyze and integrate financial and nonfinancial data to provide relevant information for managerial decision making	2.09	1.00	3.00	0.45	0.67
(iii) Prepare reports to support managerial decision making, including reports that focus on planning and budgeting, cost management, quality control, performance measurement, and benchmarking	2.09	1.00	3.00	0.45	0.67
(iv) Compare and evaluate the performance of products and business segments	1.73	1.00	3.00	0.38	0.62
(c) Finance and financial management					
(i) Compare the various sources of finance available to an organization, including banking finance, financial instruments, and different capital markets	2.09	1.00	3.00	0.63	0.79
(ii) Analyze an organization's cash flow and working capital requirements	2.27	1.00	3.00	0.38	0.62
(iii) Analyze the current and future financial position of an organization, using techniques such as ratio analysis, trend analysis, and cash flow analysis	2.18	1.00	3.00	0.51	0.72
(iv) Evaluate the appropriateness of the components used to calculate an organization's cost of capital	2.09	1.00	3.00	0.63	0.79
(v) Apply appropriate capital budgeting techniques to the evaluation of capital investment decisions	1.64	1.00	3.00	0.41	0.64
(d) Taxation					
(i) Explain domestic taxation compliance and filing requirements	3.27	2.00	4.00	0.56	0.75
(ii) Prepare tax calculations for direct and indirect taxes for individuals and organizations	3.27	2.00	4.00	0.38	0.62
(iii) Analyze the taxation issues associated with non-complex international transactions	2.45	1.00	4.00	0.61	0.78
(iv) Explain the difference between tax planning, tax avoidance, and tax evasion	3.45	2.00	4.00	0.43	0.66
(v) Identify when it is appropriate to refer matters to taxation specialists	2.45	1.00	3.00	0.43	0.66
(e) Audit and assurance					
(i) Analyze the risk profile of an entity to identify the components of audit risk	2.36	1.00	4.00	1.32	1.15
(ii) Describe the objectives of an audit of financial statements	2.45	1.00	4.00	1.16	1.08
(iii) Describe the activities involved in performing an audit of financial statements	2.27	1.00	4.00	1.47	1.21
(iv) Identify applicable auditing standards (e.g., ISAs), laws and regulations relevant to an audit engagement	2.09	1.00	4.00	1.72	1.31
(v) Understand the key elements of assurance service engagements	2.18	1.00	4.00	1.60	1.27
(f) Governance, risk management and internal control					
(i) Explain the principles of good governance, including the rights and responsibilities of owners, and the role of stakeholders in governance, disclosure, and transparency	2.55	1.00	4.00	0.98	0.99
(ii) Analyze the components of an organization's governance structure	2.27	1.00	4.00	1.11	1.05
(iii) Analyze an organization's risks and opportunities within a risk management framework	2.09	1.00	4.00	1.17	1.08
(iv) Analyze the components of internal control	2.45	1.00	4.00	1.16	1.08
(g) Business laws and regulations					
(i) Explain the laws and regulations that are relevant to the environment in which professional accountants operate	2.91	2.00	4.00	0.26	0.51
(ii) Explain different legal forms of businesses and the legislation and regulations that govern each form	2.55	1.00	4.00	0.79	0.89
(iii) Identify when it is appropriate to refer matters to legal specialists for help	2.36	1.00	3.00	0.60	0.77
(h) Information technology					
(i) Describe the basic hardware and software components of information systems	1.91	1.00	4.00	0.99	1.00
(ii) Identify general computer controls and application controls required for effective accounting information systems	2.18	1.00	3.00	0.51	0.72
(iii) Analyze the adequacy of controls for relevant application systems	1.91	1.00	3.00	0.45	0.67
(iv) Explain the components of an information systems continuity plan	1.64	1.00	3.00	0.41	0.64

Annexure A – Learning Outcomes for Technical Competence Area (continued)

	Mean	Min	Max	Variance	Standard deviation
(i) Business and organizational environment					
(i) Describe the environment in which an organization operates, including the main economic, legal, political, social, technical, international, and cultural forces and their influences and values	2.00	1.00	3.00	0.36	0.60
(ii) Analyze key features in the global environment that affect international trade and finance	1.45	1.00	2.00	0.25	0.50
(iii) Explain the impact of legal, political, cultural, and technological contexts on the processes of internationalization of an organization	1.55	1.00	3.00	0.43	0.66
(iv) Identify the characteristic features of globalization, including the role of multinationals, e-commerce and emerging markets	1.36	1.00	2.00	0.23	0.48
(j) Economics					
(i) Describe the fundamental principles of microeconomics and macroeconomics	1.09	1.00	2.00	0.08	0.29
(ii) Interpret the effect of movements in key indicators of microeconomic and macroeconomic activity	1.09	1.00	2.00	0.08	0.29
(iii) Explain the competitive environment facing organizations under different types of market structures, including competitive markets, monopoly, monopolistic competition, and oligopoly	1.45	1.00	3.00	0.43	0.66
(k) Business management					
(i) Explain the various ways that organizations may be designed and structured	2.27	1.00	3.00	0.56	0.75
(ii) Explain the purpose and importance of functional areas, such as human resource management, project management, procurement, technology management, and marketing	2.27	1.00	3.00	0.56	0.75
(iii) Explain the external and internal factors that may influence the formulation of an organization's strategy	2.27	1.00	4.00	1.29	1.14
(iv) Analyze relevant factors in the internal and external business environment that impact on managerial work and organizational performance	2.09	1.00	3.00	0.81	0.90
(v) Compare how various theories of organizational behavior may be used to enhance the performance of the individual, teams, and the organization	2.00	1.00	3.00	0.73	0.85

Legends:
1 = Foundation (define, explain, low levels of complexity)
2 = Intermediate (apply, analyze, moderate levels of complexity)
3 = Advanced (integrating theories and principles, act, advise, evaluate)
4 = Mastery (integrate technical competence, high levels of complexity)

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Global Journal of Management and Business Research
Accounting and Auditing
Volume 13 Issue 5 Version 1.0 Year 2013
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Le Rôle Instrumental Et Incitatif Du Reporting Sociétal Dans La Gestion Des Résultats

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Abstract- This article discusses the impact of the disclosure of social information on the accounting manipulations. We support the idea that earnings management damages the interests of stakeholders, therefore, officers who handle the results can not cope with the vigilance and activism of stakeholders as the use of social responsibility (CSR). In addition, CSR is a powerful tool that can be used to gain the support of stakeholders. Based on a sample of 682 U.S. companies listed , the Fortune 1000 for the period 1997-2008, we were interested to show that disclosure of social information justifying the strategic use of CSR by the officer who handles accounting figures. Our results show that the accounting practices of societal leaders strengthen the management of results and influence its direction and intensity.

Keywords: earnings management, social reporting, governance, stakeholder theory.

GJMBR-D Classification : JEL Code: M40, M42

LERLEINSTRUMENTALETINCITATIFDUREPORTINGSOCITALDANSLAGESTIONDESRSULTATS

Strictly as per the compliance and regulations of:

Le Rôle Instrumental Et Incitatif Du Reporting Sociétal Dans La Gestion Des Résultats

Dr. Toukabri Mohamed [α] & Pr. Jilani Faouzi [σ]

Abstract- This article discusses the impact of the disclosure of social information on the accounting manipulations. We support the idea that earnings management damages the interests of stakeholders, therefore, officers who handle the results can not cope with the vigilance and activism of stakeholders as the use of social responsibility (CSR). In addition, CSR is a powerful tool that can be used to gain the support of stakeholders. Based on a sample of 682 U.S. companies listed , the Fortune 1000 for the period 1997-2008, we were interested to show that disclosure of social information justifying the strategic use of CSR by the officer who handles accounting figures. Our results show that the accounting practices of societal leaders strengthen the management of results and influence its direction and intensity.

Keywords: earnings management, social reporting, governance, stakeholder theory.

Résumé- Cet article traite de l'impact de la divulgation de l'information sociétale sur les manipulations comptables. Nous soutenons l'idée que la gestion des résultats endommage les intérêts des parties prenantes, par conséquent, les dirigeants qui manipulent les résultats ne peuvent faire face à la vigilance et à l'activisme des parties prenantes que par le recours à la responsabilité sociale des entreprises (RSE). En outre, la RSE est un outil puissant qui peut être utilisé pour obtenir le soutien des parties prenantes. En nous basant sur un échantillon de 682 firmes américaines cotées, de la liste Fortune 1000, pour la période 1997-2008, nous nous sommes intéressés à montrer que la divulgation des informations sociétales justifient l'utilisation stratégique de la RSE par le dirigeant qui manipule les chiffres comptables. Nos résultats montrent que les pratiques comptables sociétales des dirigeants renforcent la gestion des résultats et influencent son sens et son intensité.

Mots-Clés: gestion des résultats, reporting sociétal, gouvernance, théorie des parties prenantes.

I. Introduction

Les parties prenantes sont des groupes qui ont des intérêts dans une entreprise, elles peuvent être considérées soit externes à l'organisation, ou interne. En effet, la déviation d'une concentration sur les actionnaires à une concentration sur les groupes des parties prenantes de l'entreprise représente un des facteurs motivant les pratiques des activités de responsabilité sociale.

Dans ce contexte, la communication des informations environnementales et sociales occupe une place importante dans les stratégies de divulgation extra-financière des entreprises. Ainsi, ces pratiques comptables sociétales constituent un moyen pour développer des relations d'éthique avec la Société. Selon Gray et al.(1995), la responsabilité sociale et la divulgation d'information environnementale sont considérées comme une contribution légitime et sociale opérée par l'organisation. Toutefois, en raison de l'audit social imparfait dans le monde des affaires, les dirigeants sont incités à prendre des mesures discrétionnaires sur les résultats comptables afin de maximiser leurs profits.

Dans la même lignée, les travaux de recherches antérieures se sont concentrés à l'examen de la relation entre la responsabilité sociale des entreprises et la performance financière. En effet, ces recherches affirment que la performance financière d'une entité est en relation positive avec sa responsabilité sociale (McGuire et al., 1988; Salama, 2005).

Cependant, l'association entre la gestion des résultats et la structure de gouvernance confirme l'idée que la fiabilité et la qualité des bénéfices comptables se sont renforcées lorsque le comportement opportuniste des dirigeants est contrôlé par une bonne structure de gouvernance (Wild, 1996; Dechow et al., 1996; Klein, 2002). En outre, la majorité des travaux de recherche n'ont pas examiner le lien direct entre la responsabilité sociale des entreprises, la gestion des résultats, et l'impact de la gouvernance d'entreprise sur l'association entre les deux phénomènes (Chih et al., 2008; et Prior et al., 2008).

Les conflits d'agence existent lorsque les dirigeants manipulent d'une manière opportuniste les résultats comptables en leur faveur, d'où la divulgation des informations sociétales constitue un moyen pour protéger leurs emplois. Ainsi, la divulgation volontaire est utilisée également pour détourner l'attention des actionnaires de la surveillance des activités de gestion des résultats. Dans ce contexte, il semble que les dirigeants impliqués dans la pratique de gestion des résultats soient motivés à se comporter d'une façon proactive, en cherchant à satisfaire les actionnaires et les divers groupes des parties prenantes qui prennent des mesures pour garantir une performance globale. En effet, la divulgation volontaire dans les rapports annuels telle que l'information sociétale est jugée nécessaire

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pour signaler aux différentes parties prenantes la responsabilité de l'entreprise et sa sensibilisation aux questions environnementales et sociales.

Notre objectif est d'examiner le comportement des dirigeants dans le phénomène de la gestion des résultats par les accruals discrétionnaires. Plus précisément, cet article analyse l'impact du problème d'agence sur les pratiques managériales éthique du dirigeant, tout en mettant l'accent sur l'effet de la responsabilité sociale des entreprises dans l'atténuation ou l'augmentation de la gestion des résultats. En effet, conformément à la théorie d'agence, nous suggérons que les managers agissent à leurs propres intérêts quand il y a un problème d'agence, en réservant une accumulation des dépenses discrétionnaires. En outre, en nous basons sur la théorie des parties prenantes sous sa dimension instrumentale nous tentons de répondre à la question suivante : dans quelle mesure l'engagement élevé par les entreprises en des activités de responsabilité sociale atténue le problème d'agence et influence la gestion des chiffres comptables ?

Pour répondre à notre question, nous retenons un échantillon composé de 682 firmes américaines cotées, de la liste fortune 1000, la période d'étude s'étale sur 12 ans (1997-2008).

Ce papier est structuré comme suit : dans un premier paragraphe, nous présentons une revue de la littérature relative à la relation entre la performance financière et performance sociale, puis nous étudions les contraintes de la divulgation sociétale. Dans un second, nous validons nos hypothèses théoriques sur un échantillon d'entreprises américaines.

II. Relation Entre Performance Financière Et Performance Sociale

Certains travaux de recherches ont examiné depuis les années 60 la responsabilité sociale associée aux ressources financières de l'entreprise et à la performance financière. Ces recherches théoriques se sont concentrées sur l'arbitrage entre la responsabilité sociale et la performance financière. Ainsi, Bowman et Haire (1975), Alexander et Buchholz (1978) constatent que les entreprises cherchent à soutenir une image positive aux groupes des parties prenantes par leur comportement socialement responsable. Selon la théorie des parties prenantes les activités de responsabilité sociale sont coûteuses, et les entreprises peuvent obtenir les réductions par d'autres coûts explicites.

L'étude d'Ullman (1985) distingue entre la communication sociale et la performance sociale, ce chercheur précise l'existence de trois types de relations. La relation entre la communication sociale et la performance sociale, la relation entre la communication sociale et performance financière, et la relation entre la performance sociale et performance financière. D'un côté, Ullman constate que la divulgation sociale ne peut pas être corrélée à la performance sociale, et d'un autre côté cette divulgation ne peut pas être substituée par la performance financière sans une vérification empirique préalable. Dans ce contexte, la littérature académique s'est intéressée à examiner la relation entre les trois variables suivantes: la performance sociale, la divulgation d'information sociale et la performance financière.

Selon une étude empirique testant la relation entre les pratiques de la divulgation sociétale d'une entreprise et son rendement financier, Margolis et Walsh (2003) précisent que l'alignement entre les objectifs économiques et objectifs sociaux constitue le point de départ d'analyse du comportement organisationnel. Ainsi, dans une revue de cent neuf études de cas où la responsabilité sociale a été traitée comme une variable indépendante, les auteurs indiquent que cinquante pour cent de ces études ont confirmé une relation positive entre la responsabilité sociale et la performance financière. Alors que, 6% des études ont trouvé une relation négative, et 28 études ont signalé une non-significativité des résultats, et d'un autre côté 17% des études ont préconisé des résultats mitigés. Cependant, dans 20% des études où la responsabilité sociale est considérée comme la variable dépendante, la majorité des résultats ont indiqué une relation positive entre la performance financière et le comportement socialement responsable. Toutefois, Margolis et Walsh (2003) soulignent que ces études souffrent des problèmes d'échantillonnages, des craintes concernant la fiabilité et la validité des mesures de la responsabilité sociale d'entreprise et du rendement financier. En conséquence, il est difficile de confirmer que la responsabilité sociale des entreprises privilégie les intérêts des actionnaires (Barnett, 2007; Mackey, 2007). Selon l'hypothèse de l'efficience des marchés financiers, un investisseur rationnel exige que le prix des actions doive intégrer d'une manière efficace toutes les informations disponibles. Néanmoins en raison d'asymétrie d'information entre les dirigeants et les différentes parties prenantes, les dirigeants agissent pour leurs propres intérêts par le choix des méthodes et des estimations comptables. En conséquence, les dirigeant peuvent dissimiler la valeur économique de l'entreprise.

Gray (2005) atteste que la divulgation de l'information environnementale est une technique de signalisation pour les investisseurs et les autres parties prenantes. Ainsi, une bonne performance financière contribue à une bonne réputation sur les marchés financiers. Alors que la gestion des résultats constitue un risque et une menace pour les perspectives futures de la firme. En effet, les investisseurs et les parties prenantes prennent des mesures disciplinaires contre le dirigeant si la gestion des résultats est sensiblement détectée. En conséquence, la divulgation de l'information environnementale constitue un moyen pour détourner l'attention des actionnaires aux questions pour lesquelles le dirigeant peut être sanctionné.

Dans la même lignée, Prior et al.(2008) suggèrent que les dirigeants choisissent l'utilisation des mesures discrétionnaires de gestion des résultats dans un but de transmettre une information favorable ou défavorable aux marchés de capitaux sur les perspectives futurs de l'entreprise. Cependant, la manipulation des bénéfices peut indiquer aux investisseurs la possibilité d'une amélioration des résultats et des flux de trésorerie futurs. En raison d'asymétrie d'information, les entreprises utilisent l'information financière pour signaler aux investisseurs qu'elles détiennent des renseignements favorables. Ainsi, les dirigeants sont incités à divulguer volontairement des informations comptables supplémentaires comme un signal pour attirer les investisseurs, et afin d'améliorer la réputation de l'entreprise surtout quand ils tentent de se lancer dans la gestion des résultats.

Par ailleurs, la relation entre la gestion des résultats, et le comportement discrétionnaire du dirigeant sera examinée au niveau de la section suivante.

III. Utilisation Stratégique De La Divulgation Sociétale Dans La Gestion Des Résultats

La théorie des parties prenantes explique la relation entre les divers groupes de la firme et les informations qu'ils reçoivent. Ainsi, les dirigeants sont considérés non seulement comme les agents qui défendent les intérêts des propriétaires, mais aussi ceux de l'ensemble des parties prenantes (Hill et Jones, 1992). En effet, les dirigeants pratiquent certaines actions de gestion des résultats dans un but d'obtenir des gains personnels au détriment des autres parties prenantes, néanmoins ces derniers contrôlent la performance financière de l'entreprise au cas où leurs propres intérêts sont endommagés par les pratiques de gestion des résultats. En outre, les dirigeants sont incités à présenter des rapports financiers de qualité afin de minimiser les menaces d'être rejetés.

En nous référant aux travaux d'Ullmann (1985), son article est le premier travail de recherche fondamental qui a traité la théorie de légitimité en relation avec la responsabilité sociale. Cet article a analysé les activités de RSE selon deux points de vue. D'une part, le chercheur a construit une image positive basée sur le soutien des intérêts des parties prenantes et la confiance de ces diverses parties. D'autre part, les activités sociales ont un impact positif sur la réputation des entreprises, et peuvent procurer des avantages économiques et stratégiques. En conséquence, les activités de RSE soutiennent les efforts d'amélioration des relations avec les actionnaires, les fournisseurs, les créanciers et les autres groupes des parties prenantes.

Conformément aux travaux de Gray et al. (1995), les informations sociétales divulguées aux parties prenantes sont considérées comme une contribution sociale et légitime des activités sociales pratiquées par l'organisation. En effet, les dirigeants engagés dans la gestion des résultats ont tendance à rendre compte de la divulgation volontaire d'information sociétale. Cette divulgation est utilisée pour maintenir la légitimité de l'organisation, en particulier avec les acteurs sociaux et politiques.

Les divulgations environnementales constituent des signaux pour informer les parties prenantes des intérêts éthiques de l'organisation et de sa responsabilité sociale. Cependant, la pratique de la légitimité sociale peut être considérée comme un moyen de communication des bonnes relations reliant l'organisation avec la Société. En conséquence, les dirigeants qui contrôlent le processus de prise des décisions sont incités à alimenter leurs stratégies par des actions sociales afin de satisfaire les attentes des parties prenantes. En effet, la divulgation d'information sociale et environnementale est souhaitable dans un but de détourner l'attention des parties prenantes de la détection de gestion des résultats.

Cependant, il semble que les dirigeants impliqués dans la gestion des résultats soient motivés à se comporter d'une manière positive afin de recueillir les perceptions des actionnaires et des autres parties prenantes qui cherchent une performance optimale. Ainsi, les organisations ayant un faible niveau de gestion des résultats sont moins susceptibles de soutenir des initiatives de divulgation sociétale.

D'un côté, les travaux de recherches dans le domaine social se sont concentrés à l'étude de l'association entre la responsabilité sociale des entreprises et la performance financière, ou à l'examen de la relation entre la gouvernance d'entreprise et la gestion des résultats. Cependant, la majorité des études ne parviennent pas à expliquer le lien indirect entre la RSE, la gestion des résultats et l'impact de gouvernance d'entreprise sur les deux phénomènes.

D'un autre côté, récemment, des études de Tche et al.(2008); Prior et al.(2008) ont tenté d'identifier le lien incontestable entre la RSE et la gestion des résultats. Ainsi, selon Chih et al.(2008), les rapports de responsabilité sociale aident à une meilleure présentation de l'information sociétale, et à la responsabilisation des différentes parties prenantes à tous les niveaux. En effet, ces constats sont conformes aux travaux de Prior et al. (2008), ces chercheurs constatent que les dirigeants qui manipulant les chiffres comptables peuvent compenser leurs pratiques opportunistes par l'engagement aux activités de RSE.

Étant donné l'existence d'asymétrie d'information entre les « insiders» (dirigeants et administrateurs) et les «outsiders » (les shareholders et les stakeholders), les accruals discrétionnaires menacent la fiabilité de la performance financière. Dans ce contexte, Chih et al. (2008) indiquent une relation négative entre la gestion des résultats et la RSE. Ces chercheurs précisent que les pratiques des firmes en matière de RSE ne se concentrent pas seulement à l'augmentation des résultats, mais elles constituent aussi une technique de dialogue avec les différentes parties prenantes. Ainsi, Tche et al. (2008) déclarent qu'à travers la gestion des résultats par le lissage du bénéfice, les entreprises peuvent opter à la pratique des activités de RSE afin de justifier ce lissage. En outre, Chih (2009) constate qu'une bonne qualité d'audit de l'information financière a un impact sur les divulgations environnementales et freine les manipulations comptables sociétales.

Cependant, Chih (2009) se base sur des hypothèses qui ont des objectifs multiples lorsque la gestion des résultats est pratiquée d'une manière agressive, ce chercheur constate l'existence d'une relation positive entre la gestion des résultats et la RSE. Ainsi, l'hypothèse classique qui stipule que la RSE n'est pas liée à la gestion des résultats est rejetée, même s'il y a des incitations non morales qui limitent les manipulations comptables telles que l'approbation des états financiers par un auditeur, et la croissance de l'équité basée sur la compensation et la rémunération.

Dans une autre étude, Prior et al. (2008) indiquent que la performance financière est considérée comme une variable de contrôle importante lors de l'examen de la relation entre la RSE et la gestion des résultats. En conséquence, ces chercheurs trouvent des résultats différents de ceux de Tche et al. (2008), et ils constatent que lorsque les dirigeants favorisent leurs propres intérêts par une gestion opportuniste des bénéfices, il y a plus de motifs afin de s'engager dans les activités de RSE. En outre, Prior et al.(2008) confirment que la RSE est un dispositif d'enracinement afin d'obtenir l'appui des parties prenantes dont les intérêts sont lésés par les pratiques de la gestion des résultats.

Par ailleurs, la RSE est pratiquée lorsque les entreprises en présentant leurs comptes, elles s'adressent à l'ensemble des parties prenantes. Ainsi, les entreprises divulguent volontairement des rapports de développement durable sur l'exécution de ses affaires éthiques. En effet, la divulgation d'information sociétale constitue une pratique faisant partie de la RSE et un signal visant à détourner l'attention des actionnaires de la surveillance des manipulations comptables à d'autres préoccupations.

Dans le même sens, pour les dirigeants qui se sont intéressés par la performance des entreprises à court terme, la divulgation d'information sociétale constitue une technique satisfaisante pour signaler la bonne réputation de l'entreprise et l'amélioration des relations avec les parties prenantes (McGuire et al., 1998). En conséquence, une augmentation des bénéfices sur les marchés financiers est attendue (Salama, 2005). D'un côté, l'engagement en activités de RSE permet l'évaluation d'une manière précise des risques par les investisseurs, ce qui facilite l'accès aux financements externes au plus bas coût du capital. Cependant, dans le but d'attirer les investisseurs et les actionnaires, la firme renforce la transparence de l'information financière et sociétale divulguée. D'un autre côté, les dirigeants qui sont impliqués dans des actions de manipulation des bénéfices divulguent des informations sociétales afin de poursuivre leurs propres intérêts.

La responsabilité sociale de l'entreprise est liée à ses pratiques d'éthique et à ses décisions concernant les questions morales. Ces questions traitent des sujets complexes comme la protection de l'environnement, la gestion des ressources humaines, la santé et sécurité du travail, la relation avec les communautés locales, la relation avec les fournisseurs et les clients (Castelo et Lima ,2006). En effet, l'engagement en activités socialement responsables améliore la satisfaction des parties prenantes, et affecte positivement la réputation des entreprises.

La divulgation des informations sur le comportement des entreprises et de leurs pratiques en responsabilité sociale aide à maintenir une image positive entre les parties prenantes (Orlitky et al., 2003). Cette image contribue à établir des liens avec la communauté, et constitue une capitale réputation. Ainsi, la divulgation sociétale améliore la capacité de la firme à négocier d'une façon attractive des contrats avec les fournisseurs et le gouvernement, de facturer des prix plus élevés pour ses biens et services, et aide à réduire le coût du capital (Fombrun et al., 2000). Par conséquent, en pratiquant la responsabilité sociale, l'entreprise est en mesure d'obtenir l'appui de ses parties prenantes; l'engagement des employés, la fidélité des clients et la collaboration avec les partenaires.

Par ailleurs, l'entreprise cherche à obtenir un traitement approprié de la part du gouvernement et une couverture favorable dans les médias (Castelo et Lima, 2006), afin d'éviter une mauvaise réaction gouvernementale. En effet, les activités de responsabilité sociale sont des outils pour obtenir le soutien des parties prenantes. Ainsi, les pratiques des activités sociales permettent de réduire la possibilité de fraudes des dirigeants en raison de la pression des actionnaires mécontents, et des parties prenantes dont les intérêts sont endommagés par la mise en œuvre de la gestion des résultats. En conséquence, comme un moyen de défense contre l'activisme vigilant des parties prenantes, les dirigeants sont incités à compenser les parties prenantes par la divulgation d'information sociétale et par leur activisme éthique.

Cependant, Donalson et Preston (1995), en se basant sur la théorie instrumentale des parties prenantes, ils soulignent que la bonne gestion soutienne le développement des relations positives avec les parties prenantes, et améliore la performance financière. Ainsi, selon cette théorie, la RSE est considérée comme un dispositif organisationnel qui conduit à une utilisation plus efficace des ressources (Orlitzky et al. ,2003), et elle affecte positivement la performance financière.

Dans le même contexte, Berman et al. (1999) constatent que les bonnes relations avec les parties prenantes améliorent la performance financière, c'est l'hypothèse de la bonne gestion. En effet, l'impact positif de la responsabilité sociale sur la performance financière a été contesté par divers arguments. D'abord, l'argument à court terme, selon lequel les dirigeants ont tendance à poursuivre des politiques à court terme qui se concentrent exclusivement sur les résultats comptables au détriment des questions sociales à long terme (Preston et O'Bannon, 1997). Ensuite, la gestion de relations avec des parties prenantes qui ont des objectifs contradictoires entraîne une organisation rigide qui consomme des ressources et endommage la performance financière (Aupperle et al., 1985). Enfin, les dirigeants peuvent se comporter d'une façon opportuniste au détriment des résultats comptables, et par des pratiques d'enracinement visant à satisfaire les intérêts des parties prenantes (Jones, 1995).

IV. Hypothèses De Recherche Et Étude Empirique

L'objectif fondamental de notre étude empirique consiste à détecter les déterminants qui peuvent sous-tendre la relation entre la divulgation sociétale et la gestion des résultats. Ainsi, pour cette raison, nous nous concentrons sur des déterminants importants à savoir: l'opportunisme managérial, la structure de gouvernance, les opportunités de croissance, la performance financière et les frées cash-flows. En effet, ces facteurs sont censés avoir un impact à la fois sur la gestion des résultats et la divulgation sociétale. Plus précisément, il s'agit de tester si les pratiques du reporting sociétal sont des actions opportunistes pour gérer les résultats par les dirigeants.

Nous présentons dans une première les hypothéses de notre étude et les variables retenues dans cadre d'analyse. Ensuite, nous présentons la démarche empirique adoptée. Finalement, nous interprétons nos resultants

a) Hypothèses De Recherche

La gestion des résultats est liée à la théorie d'agence car elle permet de créer des coûts d'agence. Toutefois, la gestion des résultats n'affecte pas seulement les propriétaires d'une entreprise, mais elle a des effets sur les parties prenantes. Ainsi, les parties prenantes sont considérées comme un groupe qui supporte une certaine forme de risque à la suite d'avoir investi en quelque forme du capital humain, financier, ou en quelque chose de valeur dans une entreprise (Clarkson, 1995). En effet, les pratiques managériales inappropriées comme la gestion des résultats abusent les parties prenantes quand à la valeur réelle des actifs de la firme, ou à la régularité de la situation financière. Ces pratiques ont de mauvaises conséquences sur les actionnaires, les créanciers, les employés et la Société en général (Zahra et al. ,2005).

En outre, le contrôle concentré entre les mains d'une seule partie prenante (les actionnaires) est préférable à celle entre les différentes parties prenantes. Ainsi, le déclenchement des initiatives d'enracinement constitue un deuxième argument qui justifie l'utilisation stratégique de la RSE par le dirigeant à la manipulation des résultats comptables. En conséquence, l'orientation vers des activistes sociaux et les groupes de pression est considérée comme une stratégie d'enracinement par les dirigeants contre la pression des actionnaires dont les intérêts sont endommagés à moyen terme par les pratiques de gestion des résultats.

Par conséquent, nous examinons si les incitations du dirigeant pour gérer les résultats comptables encouragent les pratiques d'activités de RSE, notamment dans les entreprises de grande visibilité politique, à savoir les secteurs réglementés. Par ailleurs, les entreprises ayant des faibles niveaux de gestion des résultats sont moins incitées à rechercher une exposition publique par les activités de RSE, ceci nous conduit à formuler l'hypothèse suivante:

H1: Il existe une relation positive entre la pratique de gestion des résultats et le niveau de divulgation d'information sociétale.

Puisque notre objectif consiste à examiner les intentions discrétionnaires de la pratique du reporting sociétal, nous soutenons l'idée que les entreprises améliorent leurs responsabilités sociales comme une conséquence des pratiques de la gestion des résultats. Ainsi, l'effet positif de la RSE sur la performance financière devrait être réduit d'une manière significative. De plus, ce discours s'appuie sur le fait que les dirigeants qui ont recours à la comptabilité d'engagement ont tendance à investir dans des activités qui améliorent la responsabilité sociale de l'entreprise comme une stratégie d'enracinement. En effet, les pratiques qui ressortent de cette stratégie sont improductifs parce qu'elles sont coûteuses et peuvent avoir un effet négatif sur la performance financière. Cependant, Rowley (1997) constate que le niveau élevé des activités de responsabilité sociale motive à développer de bonnes relations avec des parties prenantes ayant des objectifs contradictoires.

Nous examinons donc l'hypothèse que le dirigeant qui s'engage dans les pratiques de gestion des résultats coopère avec les parties prenantes afin de valider ses actions stratégique. En effet, ces actions conduisent à une réduction de la flexibilité de l'organisation et affectent négativement la performance financière.

La discussion précédente suggère que la gestion des résultats affecte négativement le lien entre la responsabilité sociale et la performance financière de l'entreprise. Ainsi, nous formulons l'hypothèse suivante:

H2 : La gestion des résultats affecte négativement la relation entre la responsabilité sociale et la performance financière.

b) Echantillon De L'étude

Les sites 'EDGARSCAN' et 'Securities and Exchanges Commission' sont nos sources fondamentales de collecte de données, couvrant la période 1997-2008. Comme Campa et Kedia (2002), nous nous sommes concentrés sur tous les secteurs, à l'exclusion du secteur financier car la nature d'activité de ces firmes nécessite un traitement spécifique de leur gestion des résultats et de leur divulgation sociétale. Ces bases de données contiennent les bilans, les comptes de résultats, l'état de flux de trésorerie.

Les rapports annuels de gestion et les rapports autonomes de RSE contiennent toutes les questions principales relatives aux parties prenantes comme la participation communautaire, l'impact sur l'environnement, la clientèle, l'emploi, les droits de l'homme, les relations avec les fournisseurs et la gouvernance de l'entreprise.

c) Variables De L'étude

Nous avons impliqué plusieurs variables afin de tester les interdépendances entre la divulgation de l'information sociétale, la performance financière et la gestion des résultats.

i. *La variable dépendante*

Les supports d'analyses de communications des informations sociétales des entreprises constituants notre échantillon d'étude empirique sont donc le rapport annuel, le rapport environnemental et le rapport autonome de développement durable. Puisque les firmes de notre échantillon sont des entreprises américaines faisant partie de périmètre de la SEC (Security and Exchange commission), nous analysons d'une part, les rapports 10-K, où sont communiqués les états financiers des firmes (état de situation financière, état de résultat, état des flux de trésorerie, état de mouvement des capitaux propres, et les notes aux états financiers) au niveau de chapitre 1. D'autre part, nous examinons les chapitres 3 et 7 où sont présentés et diffusés les informations environnementales et sociales et de développement durable Ainsi, nous comptons les informations qui constituent des informations sociétales ce qui nous facilite et nous aide à la répartition des firmes de notre échantillon en des groupes distincts en fonction de nombre des rapports communiqués chaque année, puis indiquons, dans un deuxième temps, les critères permettant de qualifier cette information. En conséquence, trois groupes de firmes sont examinés et testés par les tests de comparaison des moyennes, ce qui constitue la deuxième étape de notre démarche économétrique.

L'information sociétale (variable dépendante) est mesurée de la manière suivante:

- Le score « 3 » est accordé si l'information sociétale est décrite (présentée) d'une manière détaillée, claire et/ou elle est exprimée d'une manière monétaire et chiffrée dans le rapport annuel de gestion et le rapport autonome (Groupe3).
- Le score « 2 » est accordé si l'information sociétale est décrite d'une manière précise. (C'est à dire qu'elle est chiffrée mais pas détaillée et vice-versa) uniquement dans le rapport annuel de gestion (Groupe2).
- Le score « 1 » est accordé si l'information sociétale est décrite d'une manière générale uniquement dans le rapport annuel de gestion (Groupe1).

ii. *Les variables indépendantes*

Afin d'étudier s'il existe un motif d'enracinement qui justifie le lien entre la gestion des résultats et la divulgation d'information sociétale, nous intégrons dans certaines régressions une variable nominale pour l'enracinement. Ainsi, nous suivons les spécifications du modèle de Miguel et al. (2004) et nous utilisons une variable pour la mesure de la performance financière (le rendement des fonds propres). De plus, nous incorporons la taille, l'endettement, et nous considérons aussi que l'enracinement est une incitation à la gestion des résultats.

1. Gestion des résultats comptables
À l'instar de la majorité des recherches antérieures, nous nous appuyons sur les accruals discrétionnaires comme une mesure de la gestion des résultats (Bartov et al. 2000; Frankel et al. 2002; Klein 2002 et Reynolds et Francis, 2000). Le modèle que nous utilisons est celui avancé par Dechow et al. (2003), qui est une version amélioré de celui de Dechow et al. (1995). Nous choisissons ce modèle pour trois raisons:
2. Il a un grand pouvoir explicatif que celui de Jones modifié, estimé en coupe instantané. En effet, Thomas et Zhang (2000) confirment que les modèles de Jones et ses dérives ont un faible pouvoir de prévision des accruals discrétionnaires.
3. Il peut bien cerner les accruals anormaux, sujets de manipulation. En effet, Guay et al. (1996) et Youny (1999) suggèrent que le modèle de Jones et celui de Jones modifié estiment les accruals discrétionnaires avec une imprécision considérable.
4. Il répond largement aux principales critiques adressées aux modèles de Jones modifié (1995) dont notamment l'inversion et la mauvaise

spécification. En effet, plusieurs études ont indiqué que la performance est une variable capitale qui a été omise par ces modèles. C'est dans ce sens que Beneish (2001) affirme qu'il est fortement probable que la gestion des résultats dépend de la performance de la firme et qu'elle est probablement présente lorsque la performance de la firme est aussi bien bonne ou mauvaise. C'est ainsi que Barth et al. (2001) soulignent que les accruals doivent être spécifiés comme une fonction de la performance financière passée et réelle de la firme et par conséquent, les accruals discrétionnaires peuvent être facilement discernés.

Le modèle de Dechow et al. (2003) est le suivant:

$ACCTOTi,t = \alpha + \beta 1(\Delta CAi,t - (1\text{-}k)\ \Delta CRi,t\ ) + \beta 2\ IMMCORPi,t + \beta 3\ ACCTOTi,t\text{-}1 + \beta 4\ GCAi,t + \varepsilon\ t$

Les accruals totaux ou agrégés peuvent être déterminés selon deux méthodes. La première est la méthode directe ou de l'état des cash-flows, selon laquelle les accruals sont la différence entre le résultat net avant éléments extraordinaires et les cash-flows d'exploitation. La deuxième est une méthode indirecte ou du bilan selon laquelle les accruals sont définis par la variation de l'actif courant moins la variation des liquidités, la variation du passif courant et les dotations aux amortissements et aux provisions. Pour notre étude, les accruals totaux (ACCTOT) sont approximés, comme Bradshaw et al. (2001), Subramanyam (1996) et Gul et al. (2004), par la différence entre le bénéfice net avant éléments extraordinaires et les cash-flows d'exploitation.

Cependant, les accruals normaux dépendent de:

* IMMCORP: niveau des immobilisations corporelles brutes avec les dotations aux amortissements.
* ($\Delta CAi,t - (1\text{-}k)\ \Delta CRi,t$): la variation du chiffre d'affaires à crédit qui est égale à la différence entre la variation du chiffre d'affaires total (ΔCA) et la partie non discrétionnaire des ventes totales à crédit (ΔCR). Cette partie est captée par le coefficient 'k' qui représente le changement espéré dans les créances clients pour un changement donné dans les ventes. 'k' est déterminé à l'aide de la régression suivante:

$\Delta CRi,t = \alpha + k\ \Delta CAi,t + \varepsilon t$

* ACCTOTi,t-1: les accruals totaux retardés qui sont intégrés pour capturer l'inversion des accruals antérieurs. Cette variable a été utilisée aussi par Pae (2005) comme un indicateur d'inversion des accruals.
* GCAi,t: la croissance future des ventes car une firme qui croît et anticipe des ventes futures, tend à augmenter ses stocks. Les accruals donc qui conduisent les ventes futures ne sont pas discrétionnaires car ils apportent une information concernant les prospects futurs de la firme.

Il importe de préciser que toutes les variables sont standardisées par l'actif retardé (actif-1) et que tous les modèles, sont estimés par année et par secteur.

Les résidus de cette régression constituent les accruals discrétionnaires (ACCDISC), qui sont notre mesure de la gestion des résultats.

$ACCDISCi,t = ACCTOTi,t - [+(\Delta CAi,t - (1\text{-}k)\ \Delta CRi,t\ ) + IMMCORPi,t + ACCTOTi,t\text{-}1 + GCAi,t\ ]$

Il est à souligner que nous avons utilisé, à l'instar de Dechow et al. (2003), la méthode des moindres carrés ordinaires pour l'estimation.

Toutefois, afin de tester la robustesse de nos résultats dans certaines spécifications, nous avons utilisé une autre variable pour détecter la manipulation des revenus, nous étudions la gestion des résultats en mettant l'accent sur la pratique du lissage de résultat (Yeo et al., 2002; Fundenberg et Tirole, 1995). Cette variable est utilisée par les dirigeants afin de gérer le résultat d'une manière souple et intelligente dans le but de renforcer leurs positions et emplois à travers une stratégie d'enracinement. La principale caractéristique de manipulation comptable est la stabilité des flux de trésorerie afin de satisfaire les intérêts à court terme des actionnaires.

Afin de tester l'effet modérateur de la gestion des résultats (GR) sur la relation entre la RSE mesurée par la qualité de divulgation sociétale et la performance financière (hypothèse 2), nous incorporons la variable multiplicative αGR*DivSoci, où αGR est égal à 1 si la gestion des résultats est supérieure à la moyenne du secteur concerné.

La variable multiplicative αGR*DivSoci est utilisée pour tester la deuxième hypothèse, et comme une méthode pour examiner la robustesse de l'hypothèse 1. En effet, dans ce dernier cas nous voulons s'assurer que la pratique de gestion des résultats a une influence positive sur la RSE. Dans ce contexte, nous sommes particulièrement intéressés à analyser le lien entre la gestion des résultats et la RSE déduction faite de l'effet de la performance financière, puisque nous pouvons trouver un cas que la gestion des résultats détermine la performance financière, et celle-ci à son tour affecte la RSE. Ainsi, l'effet de la gestion des résultats sur la RSE disparait une fois que nous incorporons dans nos estimations une variable mesurant la performance financière. Selon le raisonnement susmentionné, la RSE est tout simplement une conséquence de l'augmentation de la performance financière en raison de la gestion des résultats.

❖ *Performance financière de l'entreprise*

A partir des études antérieures portant sur la divulgation d'information sociétale, nous distinguons l'utilisation de plusieurs mesures afin d'évaluer la performance économique de la firme. Ces mesures sont les suivantes : le résultat, la rentabilité des capitaux propres (ROE), et la rentabilité des actifs (ROA).

Ainsi, nous retenons parmi les indicateurs comptables utilisés dans les précédentes études pour mesurer la performance financière, le ROE median ou moyen, à l'instar de Bowman et Haire (1975) ; Abbott et Monsen, (1979) ; Freedman et Jaggi, (1982) ; Spicer, (1978). Nous proposons d'évaluer la performance économique à partir de l'indicateur comptable suivant :

ROE (Return on equity) = résultat net/capitaux propres

Nous utilisons le rendement des fonds propres (ROE), qui présente le ratio des bénéfices après impôts sur la valeur totale des capitaux propres. En effet, nous comptons sur les mesures comptables parce qu'ils sont plus sensibles aux manipulations des dirigeants que les mesures de marché. Ainsi, comme constate Orlitzky et al.(2003), les indicateurs tels que ROA, ROE reflètent l'efficacité de prise des décisions internes plutôt que les réponses aux actions extérieures du marché par la firme.

iii. *Les variables de contrôle*

Plusieurs proxys peuvent être utilisées afin de mesurer les déterminants de la diffusion d''information sociétale.

- *La taille*

Plusieurs mesures de la taille ont été adoptées dans la littérature : le chiffre d'affaire, le nombre d'employés, le total d'actif.

- Le chiffre d'affaire est utilisé par Trotman et Bradley (1981), Belkaoui et Karpick (1989), et Hackston et Miline (1996).
- Le total du bilan utilisé par Trotman et Bradley (1981), et Hackston et Miline (1996).

- *Le secteur d'activité*

Afin de mesurer l'effet secteur sur la divulgation sociétale, nous distinguons entre secteur à haute sensibilité environnementale et ceux à faible sensibilité environnementale. Ainsi, nous nous sommes basés sur la classification adoptée par les études antérieures. Dans ce contexte, Roberts (1992) considèrent que les secteurs de l'automobile, de l'aviation, du pétrole et des industries sont les secteurs à haute sensibilité environnementale. Cormier et al (2004) considèrent aussi que les secteurs d'activité : industrie, ressources, énergie, produits chimiques et médicaments sont à hante sensibilité environnementale.

Les entreprises de notre échantillon sont : consommation, construction / immobilier, commercial/ services, transports et communication, industries et secteurs réglementés.

En nous référons aux travaux de recherches antérieures, nous classons ces industries par ordre de sensibilité environnementale décroissante :

1. 'industries et secteurs réglementés'
2. 'transports et communication'
3. 'commercial et services'
4. 'construction et immobilier'
5. 'consommation'.

- *Les free cash-flow*

Selon les travaux de Dechow, Sloan et Sweeney (1996), les free cash flow constituent une autre mesure de l'endettement; des besoins de la firme en financement externe. Ainsi, Cormeir et Mognan (2003) affirment que plus l'entreprise se dirige au marché des capitaux, plus elle a besoin de communiquer de l'information non financière.

Toutefois, selon la théorie des free cash- flow, plus ces derniers sont élevés, moins celle-ci a besoin de financement externe, et donc moins elle a besoin de communiquer sur elle. La relation entre les free cash-flow et la divulgation sociétale est négative.

La littérature diverge sur la mesure des free cash-flows tel que conceptualisée par Jensen (1986). En effet, selon ce chercheur, les free cash-flows sont les bénéfices avant charges d'intérêt, impôts, amortissements et provisions moins les taxes (y compris la variation des taxes différées sur l'exercice) moins investissements bruts et investissement en survaleur. Cependant, dans la majorité des études antérieures, nous trouvons que les free cash-flows sont définis comme étant le revenu d'exploitation avant amortissements moins les charges d'intérêt, impôts et taxes et dividendes versés (Gul et Tsui, 1998 ; Jaggi et Gul, 1999 et Lehn et Poulsen, 1989). Ainsi, pour notre étude, vue la difficulté de calculer les free cash-flows comme Jensen, nous allons utiliser la mesure utilisée par les recherches empiriques. Nous retenons comme mesure des frées cash-flows (FCF), le ratio suivant 'résultat d'exploitation avant amortissement-dépenses d'intérêts-impôts-dividendes/Actifs totaux'

Selon la théorie d'agence, il existe ne relation positive entre la dilution du capital et la communication de l'information sociétale. Ainsi, la structure de l'actionnariat explique les conflits d'intérêts apparaissent entre les actionnaires et les dirigeants. La demande d'information de la part des actionnaires devrait être d'autant plus forte que le capital est dilué. Le pourcentage de capital détenu par des actionnaires étrangers est une des caractéristiques qui a été retenue pour traduire l'ouverture de l'entreprise à l'international. Les travaux de recherches antérieures ont confirmé l'hypothèse d'une relation entre ce dernier facteur et les pratiques de diffusion d'information sociétale des entreprises (Mtanios et Paquerot, 1999 ; Boujenoui, 2007 ; Ben Ayed-Koubaa, 2009). Dans ce contexte, Chau et Gray (2002) ; Labelle et Schatt, (2005) démontrent dans des contextes divers l'influence de la structure de propriété sur la transparence des entreprises.

- *La concentration de propriété*

Cette variable est approximée par diverses méthodes, d'une part, Cormier et Magnan (2003) et Aerts et al. (2007) mesurent la concentration de la propriété en se basant sur une variable dichotomique prenant la valeur 1 lorsque un actionnaire dit majoritaire ou a plus de 20% des actions à droit de vote et 0 sinon. D'une autre part, Roberts (1992), Keim (1978) et Ullmann (1985) trouvent une relation positive entre la dilution du capital des entreprises et leurs pratiques de communication sociétale. En effet, ils introduisent dans son modèle explicatif de la diffusion d'information sociétale la variable capital. Cette variable prend la forme du pourcentage du capital détenu par les dirigeants de l'entreprise et par les actionnaires détenant de façon individuelle plus de 5% du capital de l'entreprise. Le signe de la relation entre la valeur de cette variable représentative de la concentration du capital et la diffusion d'information sociétale est attendu négative. Nous retenons dans notre recherche cette dernière mesure pour analyser l'impact de la dilution du capital sur le reporting sociétal.

- *Les investisseurs institutionnels*

Outre les actionnaires majoritaires dans le capital de l'entreprise, nous nous intéressons dans cette recherche empirique aux investisseurs institutionnels afin d'étudier l'effet de cette catégorie d'actionnaires sur la pratique de la divulgation sociétale. Ainsi, en nous basant sur les travaux de recherches antérieurs, les investisseurs institutionnels sont les investisseurs, autres que des individus, qui gèrent des fonds de manière professionnelle au sein d'une institution ou pour le compte de leurs clients (Dardour, 2009). Alors que Amann et al. (2007) défissent ces derniers comme les investisseurs non individuels tels que les assureurs, les fonds de pension, les fonds d'investissements ou encore les banques.

Longstreth et Rosenbloom, (1973) suggèrent que la propriété institutionnelle affectent positivement la responsabilité sociétale, et que les actionnaires institutionnels réagissent aux préoccupations sociétales en intégrant des motivations sociales dans leurs choix de portefeuille d'investissement (Amann et al., 2007).

Tableau 1 : Variables De L'étude

Variables	Abréviations	Mesures
Divulgation sociétale	DivSoci	Score : 1, 2 ou 3 : en fonction de la description de l'information sociétale dans le rapport de gestion.
Gestion des résultats	GR	Accruals discrétionnaires mesurés selon le modèle de Dechow et al. (2003).
Performance financière	PF	Rendement des capitaux propres = Résultat après impôts / Total des capitaux propres
Taille	Ln(Actif)	Logarithme népérien du total actif
Secteur d'activité	Sect	L'indice de réputation du secteur d'activité.
Free-cash flow	FCF	(Revenu d'exploitation avant amortissement moins les dépenses d'intérêt moins les impôts moins les dividendes)/ actif total.
Concentration de propriété	Con-Prop	Proportion des actionnaires majoritaires ayant plus de 5% dans le capital par rapport au total des actionnaires.
Investisseurs institutionnels	Prop-Ins	Pourcentage des investisseurs institutionnels dans le capital.

d) Approche Économétrique

Nous testons nos hypothèses en nous référant à deux modèles, le premier modèle explique la divulgation sociétale et l'autre la performance financière. Les principales variables indépendantes dans les deux cas sont la gestion des résultats et la performance financière. Ainsi, dans les deux modèles nous considérons les mêmes variables de contrôle pour l'analyse de la performance financière et le reporting sociétal.

Nous utilisons un modèle de régression sur données de panel pour mettre en exergue les relations entre la variable dépendante de la divulgation sociétale, les variables indépendantes relatives à la gestion des résultats, la performance financière et d'autres variables de contrôle

L'équation de notre premier modèle empirique est la suivante :

Div(soci)it=a0+a1GRit+a2PFit+a3 Ln(Actifs)it+ a4Sectit+a5FCFit+a6Con-Proit+a7 Pro-Institit+ eit

Les indices i et t représentent respectivement les indicateurs relatifs aux individus et à l'indice temporel. Dans notre cas, l'indice individuel est relatif à un échantillon d'entreprises américaines cotées et l'indice temporel présente la période d'étude (1997-2008). eit présente le terme d'erreur de la régression.

e) Résultats descriptifs

L'examen des statistiques descriptives nous révèle qu'en moyenne les firmes de notre échantillon sont de tailles différentes (Ln (Actifs) est de 20.2645), la volatilité est assez élevée (3.2963), l'écart entre le maximum (27.4971) et le minimum (10.8159) est assez considérable, ce qui explique l'importance de la taille de la firme dans l'explication de la pratique de divulgation sociétale. Ainsi, nous constatons que le niveau de free cash-flows est de 11.81%. Ce résultat implique que les firmes de notre échantillon divulguant l'information sociétale ont des importants fonds excédentaires qui peuvent être exploités par les dirigeants pour leurs propres intérêts. En effet, ces flux peuvent engendrer des risques importants pour les actionnaires notamment un risque de manipulation comptable, et des prises des décisions d'investissement non pertinentes.

En outre, lorsqu'il y a un problème d'agence, le raisonnement moral influe sur la décision de poursuivre des projets qui échouent. Dans ce sens, Booth et Schulz (2004) constatent qu'il existe des variables autres que le niveau de raisonnement éthique du dirigeant qui peuvent être prises en considération en se référant à la théorie d'agence pour expliquer le comportement des managers. Ces chercheurs mettent en évidence un environnement d'éthique fort, qui est également efficace pour réduire la tendance des dirigeants pour continuer l'investissement en projets défaillants, peu importe, s'il y a un problème d'agence ou non. Par conséquent, la présence d'importantes opportunités de croissance, et l'existence des free cash-flows considérables peuvent encourager les potentialités de surinvestissement dans des projets sociaux (restriction des sites, les actifs environnementaux, les programmes de formation, les fonds sociaux, les passifs financiers…), ce qui renforce et motive la gestion des résultats.

D'un côté, dans un but d'attirer les investisseurs et les actionnaires potentiels, les firmes doivent divulguer le maximum d'informations utiles et de qualités. Autrement dit, les dirigeants qui sont impliqués dans des actions de manipulation des bénéfices peuvent divulguer des informations sociétales dans une tentative de poursuivre leurs propres intérêts (la moyenne du ratio ROE qui mesure en partie la performance financière est de 36.12%, alors que le minium de ce ratio est de -17.18%, ce qui reflète l'importance de la masse des bénéfices dans les bilans de notre échantillon).

Tableau 2 : Statistiques Descriptives Des Variables De L'étude

Variable	Moyenne	Ecart type	Minimum	Maximum
GR	-0.012	0.184	-1.743	0.591
PF	0.3612	0.2594	-0.1718	0.6783
Ln(Actifs)	20.264	2.296	10.181	27.497
Sect	3.5708	1.4553	1	5
FCF	0.118	0.200	0.001	0.437
Con-Prop	0.152	0.069	0.0313	0.346
Prop-Instit	0.257	0.610	0.000	0.896

f) Problème de multicolinéarité

Nous devons étudier les corrélations entre les variables indépendantes. Il s'agit de vérifier que les variables explicatives sont indépendantes les unes des autres. Ainsi, nous devons nous assurer que les variables explicatives ne sont pas fortement corrélées entre elles.

Le niveau des corrélations entre les variables est faible. Cependant, les stocks options, la concentration de propriété, l'ancienneté, la propriété institutionnelle, la taille, l'endettement, et la gestion des résultats sont fortement corrélées. Puisque notre modèle est logistique, nous ne pouvons pas utiliser les tests de VIF. C'est pour cette raison que nous utilisons le test de Farrar et Glauber. Il se fonde sur la matrice Ω des coefficients de corrélation linéaire des variables explicatives. Si les variables sont parfaitement corrélées, le déterminant de Ω est nul, si elles sont orthogonales, le déterminant est égal à un. Le test de Farrar et Glauber permet de tester si le déterminant de Ω est significativement différent de un. Nous n'incorporons pas au modèle les variables telle que l'hypothèse d'orthogonalité est rejetée au seuil de 10%. Soit Ω la matrice des coefficients de corrélation linéaire entre les variables explicatives. Le test de Farrar et Glauber se fonde sur le déterminant de Ω, ce déterminant égal à zéro s'il existe une corrélation parfaite entre au moins deux variables exogènes, et égal à un si toutes les variables exogènes sont orthogonales les unes aux autres.

L'hypothèse H0 est l'orthogonalité des variables: $|\Omega|=1$.

L'hypothèse H1 est la dépendance des variables: $|\Omega|<1$.

Tableau 3 : Corrélation Entre Les Variables Indépendantes De Modèle Selon Le Test De Farrar Et Glauber

Modèle	$\mathbf{Div(soci)_{it}=a_0+a_1GR_{it}+a_2PF_{it}+a_3\,Ln(Actifs)_{it}+\ a_4Sect_{it}+a_5FCF_{it}+a_6Con\text{-}Pro_{it}}$ $\mathbf{+a_7\ Pro\text{-}Instit_{it}+}\ \boldsymbol{e_{it}}$
Test de Farrar et Glauber	***15,87****
Conclusion	Absence de problème de multicolinéarité, modèle significatif au seuil statistique de 10%

Nous remarquons que les valeurs calculées de Khi-deux sont largement inférieurs à celles théoriques (ou tabulées), donc nous acceptons l'hypothèse H0 selon laquelle les variables sont indépendantes et par conséquent, il n'y a pas de problème de multicolinéarité. Toutefois, notre échantillon est structuré sous forme de donnés de panel, il est nécessaire d'examiner la spécification homogène ou hétérogène du processus générateur de données. En effet, nous effectuons le test d'Hausman, et nous constatons que la probabilité est inférieure à 10%. Le modèle à effets fixe est donc préférable.

g) Résultats de l'estimation de la divulgation sociétale

Les résultats de la régression de notre modèle montrent un bon ajustement de l'information puisque la valeur de pseudo R2 est égale à 0.682. Ce résultat implique que les variables considérées sont pertinentes dans l'explication des chances d'amélioration de la qualité de divulgation sociétale, et la stratégie d'appartenance de la firme à un groupe bien déterminé.

Les remarques importantes qui sont dégagées à partir de l'estimation de notre modèle et qui méritent d'être analysées sont les suivantes:

En premier lieu, dans un but d'attirer les investisseurs et les actionnaires potentiels, les firmes doivent renforcer la transparence d'information financière. Autrement dit, les dirigeants qui sont impliqués dans des actions de manipulation des résultats divulguent le maximum des informations sociétales dans une tentative de poursuivre leurs propres intérêts.

Le deuxième, il semble que les dirigeants impliqués dans la gestion des résultats sont motivés de se comporter d'une manière positive afin de capter les perceptions des actionnaires et les groupes de parties prenantes (p-value gestion des résultats par les accruals discrétionnaires dans une perspective opportuniste =9.4%). En conséquence, les firmes ayant un faible niveau de gestion des résultats sont moins susceptibles de promouvoir des initiatives de la divulgation des informations sociétales. Ainsi, ce dernier constat est en concordance avec les conclusions de plusieurs auteurs (Xie et al., 2003; Castelo et Lima ,2006; Patten et Trompeter, 2003), qui déclarent que la divulgation des informations sur les pratiques de la responsabilité sociale aide à construire une image positive entre les parties prenantes, et à travers cet axe les dirigeants renforcent leurs propres sécurités d'emploi par l'enracinement. Troisièmement, les dirigeants qui se sont orientés vers la poursuite de leurs bénéfices privés par le camouflage de la valeur réelle des actifs ou de la situation financière doivent demander l'accord des différentes parties prenantes afin de valider leurs pratiques. Ainsi, certaines parties prenantes peuvent être attirées par des offres qui répondent à leurs propres intérêts, et sont influencées par les politiques des dirigeants qui visent l'amélioration de la responsabilité sociale (p-value, relatif aux investisseurs institutionnels est de 1%).

La quatrième, la taille et les free cash flow influent positivement la divulgation sociétale. Le constat relatif à la taille n'est pas surprenant, puisque cette dernière mesure la visibilité politique de la firme, ce qui engendre une pression sociale et politique afin de se conformer aux différentes exigences réglementaires et gouvernementales. En effet, conformément à la théorie de légitimité, la relation positive attendue entre la taille et la divulgation sociétale dépend de l'attention que les grandes entreprises reçoivent de la part de la Société. Ainsi, ces entreprises sont soumises à une pression sociale élevée. (p-value, est de 6.1%).

Cinquièmement, les free cash-flows sont positivement corrélés avec la divulgation sociétale (coefficient=0.0045; p=0.000). Ainsi, les free cash-flows

Global Journal of Management and Business Research (D) Volume XIII Issue V Version I Year 2013

augmentent la probabilité d'amélioration de la qualité de divulgation sociétale, ce résultat n'est pas surprenant pour deux raisons. D'un côté, en nous basant sur les constats de Jensen, nous pouvons constater que les dirigeants des firmes à faibles opportunités de croissance, et ayant des free cash-flows élevés poursuivent des activités autres que leur activité principale. Ces nouvelles activités peuvent détruire la valeur, par une orientation de la firme vers des projets sociaux négatifs. D'un autre côté, les dirigeants de ces firmes vont essayer d'atténuer cette situation par la divulgation des informations sociétales afin de satisfaire les différentes parties prenantes, et camoufler la situation financière réelle. Par ailleurs, en nous référant à la théorie des free cash-flows, nous pouvons dire que l'existence d'importants free cash-flows (constatée à partir des tests de comparaisons des moyennes) peut motiver la divulgation sociétale et inciter des pratiques managériales orientées vers la satisfaction des attentes des différentes parties prenantes.

Tableau 4 : Résultats de l'estimation du modèle mesurant l'impact de la divulgation sociétale sur la gestion des résultats

Variables	Coefficient	Probabilité
GR	1.0264	0.094
PF	0.0015	0.0000
LN(Actifs)	0.3283	0.061
Sect	0.0027	0.0000
FCF	0.0045	0.0000
Con-Prop	0.9968	0.521
Prop-Instit	0.9433	0.010
Maximum de Vraisemblance	***-12.269***	
Pseudo R^2	***0.682***	

h) Résultats de l'estimation de la performance financière

Les résultats du modèle testant l'hypothèse 2, sont présentés dans le tableau 4. Ainsi, nous avons utilisé la variable αGR*RSE afin de valoriser le rôle important des accruals discrétionnaires pour expliquer la relation entre la divulgation sociétale et la performance financière. Ainsi, nous avons testé cette dernière variable multiplicative, et nous nous sommes concentrés à expliquer son rôle important lorsque le degré de gestion des résultats est élevé. En conséquence, nous avons remarqué que le coefficient de cette variable est négatif, ce qui explique que la divulgation sociétale motivée par une intention opportuniste par les manipulations comptables réduit l'effet positif de cette divulgation sur la performance financière.

Les résultats dans la colonne 3 du tableau 4 ont montré que le coefficient de la divulgation sociétale est positif ($p < 10\%$), tandis que ce coefficient en terme de dépendance et de causalité est négatif, et significatif ($p < 5\%$). D'un côté, les résultats susmentionnés fournissent un soutien pour l'hypothèse 2, concernant l'effet négatif des pratiques de la gestion des résultats comme un obstacle à la relation entre la divulgation sociétale et la performance financière. D'un autre côté, nous avons remarqué que l'effet direct de la gestion des résultats est positif dans l'explication du modèle (coef= 0.231, $p < 1\%$; d'après la colonne 1), étant donné que les pratiques de la gestion des résultats sont destinées à améliorer la performance financière.

Tableau 5 : Impact De La Gestion Des Résultats Sur La Divulgation Sociétale Et Sur La Performance Financière

Variable Dépendante

Variable dépendante	**PF**		**PF**	
	Coeff	**T-stat**	**Coeff**	**T-stat**
			0.031[b]	3.965
GR	0.231[a]	5.942		
αGR*DivSoci			-0.049[b]	-4.210
FCF	0.197	0.360	0.265[c]	1.260
Conc-Prop	-0.135	0.628	-0.009[a]	-0.039
Prop-Instit	-0.032[a]	-1.910	0.003	6.152
Taille	3.476[b]	3.987	0.286	2.190
Sect	1.420[c]	4.570	-0.043[c]	-0.705
R^2	0.625		0.511	
Test d'Hausman	197.140 (0.000)		193.320 (0.000)	

a: significatif à 10% ; b: significatif à 5% ; c: significatif à 1%

V. Conclusion

Les résultats empiriques ont confirmé l'existence d'une relation positive entre les deux variables mesurant la gestion des résultats et le reporting sociétal. Ainsi, nous avons remarqué que les entreprises qui gèrent leurs résultats montrent des niveaux élevés du reporting sociétal. En conséquence, nous avons expliqué ce résultat par le fait que les dirigeants qui s'engagent dans des pratiques de gestion des résultats ont deux raisons pour satisfaire les intérêts des parties prenantes. D'abord, les dirigeants prévoient que l'activisme des parties prenantes en cas de manipulation des bénéfices endommage leur position dans l'entreprise. Les dirigeants ont tendance à être en accord avec les autres parties prenantes comme une stratégie de couverture contre les initiatives disciplinaires des actionnaires dont les intérêts à long terme peuvent être endommagés par les pratiques de gestion des résultats.

Le deuxième constat que nous avons remarqué consiste à la robustesse du lien entre la gestion des résultats et la divulgation sociétale par l'inclusion d'une variable mesurant la performance financière. Ce résultat a suggéré que le lien entre la gestion des résultats et la divulgation sociétale n'est pas expliqué par les conséquences que les pratiques sociétales ont sur la performance financière d'une entreprise. Ainsi, la RSE peut augmenter non seulement par l'amélioration de la performance financière, mais aussi par l'ensemble des préventives et des initiatives d'enracinement visant à satisfaire les intérêts des parties prenantes. En outre, les résultats sont plus importants dans les secteurs politiquement sensibles (réglementés), où nous attendons que l'activisme des parties prenantes est plus prononcé. Enfin, nous avons constaté que le lien entre le reporting sociétal et la performance financière est plus faible dans un contexte où le niveau de gestion des résultats est élevé.

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Global Journal of Management and Business Research
Accounting and Auditing
Volume 13 Issue 5 Version 1.0 Year 2013
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Can Substitution and Signaling Theories Explain the Relationship between External Audit Fees and the Effectiveness of Internal Corporate Governance?

By Kamal Naser, Ahmad Al Kandari, Abdulla Al- Mutairi & Rana Nuseibeh

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Keywords: substitution theory, signaling theory, internal governance, audit fees.

GJMBR-D Classification : JEL Code: M42

CANSUBSTITUTIONANDSIGNALINGTHEORIESEXPLAINTHERELATIONSHIPBETWEENEXTERNAL AUDITFEESANDTHEEFFECTIVENESSOFINTERNAL CORPORATEGOVERNANCE

Can Substitution and Signaling Theories Explain the Relationship between External Audit Fees and the Effectiveness of Internal Corporate Governance? †

Kamal Naser [α], Ahmad Al Kandari [σ], Abdulla Al- Mutairi [ρ] & RanaNuseibeh[ω]

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I. Introduction

The economies of the Gulf Cooperation Council (GCC) countries aremainly dependent on oil exports. This exposes their economies to fluctuations in oil prices. To minimize the effect of this problem, GCC countries adopted a new strategy leads to diversifying their economies. In this context, Abu Dhabi witnessed similarities with countries like Norway, where both are small in size and have huge oil reserves. Yet, the economy of Norway is more diversified. Abu Dhabi Economic vision 2030 focuses on economic diversification in line with the Norway model. Hence, Abu Dhabi Authorities are developing the infrastructure of the country and creating environment that laid down the basis to become the financial center of the region. To assure investors, the authorities introduced in the last few years important measures to promote best corporate governance practices across industries. In 2009, the Securities and Commodities Authorities (SCA) introduced new *Corporate Governance Code* applied to all publicly-owned non-financial companies listed on Abu Dhabi Securities Exchange (ADX) with effect from 30 April 2010. The code is in line with the international corporate governance standards. As a result of this, non-financial companies listed on ADX started to publish governance reports that contain, among other information, audit fees in their 2011 annual reports. Hence, investigating the relationship between external audit fees and the effectiveness of internal corporate governance ofnon-financial companies listed on ADX will be animportant study since the listed companies never published governance reports before and corporate governance regulations vary across countries.In addition, limited number of companies are listed on ADX coincides with a number of local, regional and large international audit firms created imbalance in the supply and demand for external audit services. Furthermore, audit fees in the Arab Gulf region are influenced by personal relations. More importantly, even though an intensive research has been undertaken in the area of audit fees, research in exploring the relationship between external audit fees and corporate governance is still limited (Hay et al. 2006) and available research provides inconsistent evidence about the direction of the relationship.Hence, this study is expected to add a new dimension to the literature of the relationship between external audit fees and internal corporate governance.

The remainder of this paper is organized as follows. Previous related studies and hypotheses development are offered in the following section. Section three explains data collection and study methodology. While the findings are presented in the fourth section, the conclusion is summarized in the last section.

II. Previous Related Studies and Hypotheses Development

Corporate governance is generally laws, rules and standards that define the relationship between company's management and stakeholders. The basic principle of corporate governance is to identify the responsibilities of corporate management and protect the rights of shareholders through transparency and full disclosure.

In thelight of globalizationand the openness ofthe economies, corporate governance is becoming an importantelement in enhancing thesuccess of economic reformand developing regulatory framework of any

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country. In addition, since corporate governance principles andrules are adopted bypublic and private sectorsalike, it boosts confidencein the economy and protectsinvestors anddealers. It further gives indication about thelevelof commitment reached by management toprofessionalrules ofgood governance, transparency and accountability, and about existing measures to curbcorruption. Hence, corporate governance assists in increasing theattractivenessofthe economyforlocal and foreigninvestmentsand inensuring competitiveness.

The effectiveness of internal corporate governance is related to external audit since the latter is viewed as being an important element of corporate governance. Knechel and Willekens(2006) noticed that the demand for external audit is influenced by risks faced by corporate shareholders and mechanisms employed to minimize these risks.

Effective corporate governance aims at improving quality of corporate reporting and audit. It promotes transparency and reliability of corporate reporting and this would minimize external audit risk. Effective corporate governance is further expected to enhance external audit independence since the governance committee appoints external audit firm and negotiates its fees (Zaman et al., 2011). Effective internal governance reduces external auditor's risk. This requires less effort by external auditor and in turn lower fees. Consequently, corporate governance is expected to impact the quality of external audit as well as the paid fees.

Although numerous studies explored factors influencing external audit fees, attention has been recently paid to the relationship between audit fees and internal corporate governance[1]. As mentioned earlier, external audit is viewed as a sort of external governance and according to Fan and Wong (2005) it assists in mitigating agency conflict between shareholders and management and it reduces agency cost. Hence, management has incentive to appoint a well-established external auditor to assure shareholders, minimize agency cost and increase corporate value.

The relationship between internal corporate governance and audit fees can be explained by *substitution* and *signaling* theories (Wu, 2012). According to *substitution* theory, a significant part of external audit is substituted by the work of internal corporate governance that results in high transparency and produces reliable and high quality financial statements. This is expected to reduce external auditor's risk of providing inaccurate audit opinion (McElveen, 2002;Turley and Zaman, 2004, 2007; Beasley et al., 2009 and Krishnan and Visvanathan, 2009). Carcello et al. (2002)indicated that effective internal corporate governance is associated with low audit risk. This reduces external auditor's effort and cost. Thus, effective internal corporate governance is expected to reduce agency cost and minimizes external audit's risk. As a consequence, effective internal corporate governance results in less external audit fees. Hence, an inverse relationship exists between effective internal corporate governance and external audit fees.

Empirical evidence on the direction of the relationship between effective internal corporate governance and external audit fees is inconsistent. Gul et al. (1998) reported negative association between effective internal corporate governance represented by the number of independent board of directors and external audit fees. Carcello et al. (2002) found that effective internal corporate governance results in less external audit risk and less external audit fees.Li and Wang (2006) pointed to significant negative relationship between the board of director characteristics and audit fees. They found external audit fees to be related to the number of independent members of the board directors. They, however, found insignificant relationship between external audit fees and the effectiveness of internal corporate governance represented by frequent number of meeting of the board of directors and the existence of the audit committee. Researchers such as Gregory and Collier (1996) and O'Sullivan (1999) found no relation between the effectiveness of internal corporate governance and external audit fees. On the other hand, Stewart and Munro (2007) found in a sample of Australian companies that effective internal corporate governance, symbolized by audit committees with frequent meetings and more use of internal audit, tend to pay high external audit fees. It is therefore hypothesized that:

Hypothesis 1: External Audit Fees are Inversely Related to Effective Internal Corporate Governance

Under *signaling* theory, management of companies with agency problems have incentive to signal to the market that they have effective internal corporate governance and attempt to reduce agency costs and increase the value of the company by appointing a high profile external auditor who goes through strict and intensive external audit to assure the stakeholders that management works to their interest (Wang and Zhou, 2006; Wang, 2009).Empirical research showed that audit committees impact the scope of external auditor (Carcello et al., 2002; Hay et al., 2008;

[1]Examples of recent studies looked into various factors influencing external audit fees: Joshi and Al-Bastaki, 2000; Peel and Clatworthy, 2001; Haniffa and Cooke, 2002; Glaum and Street, 2003; Carson et al., 2004; Cameran, 2005; Clatworthy and Peel, 2006; Gonthier-Besacier and Schatt, 2007; Huang et al., 2007; Naser and Nuseibeh, 2008; Thinggaard and Kiertzner, 2008; Tagesson, et al, 2009; Vermeer et al., 2009; Choi et al., 2010; Ellis and Booker, 2011; Verbruggen et al., 2011; Wang et al.,2011; El-Gammal, 2012). Examples of studies explored the relationship between external audit fees and corporate governance: Peel and Clatworthy, 2001; Larcker and Richardson, 2004; Fan and Wong, 2005; Li and Wang, 2006; Liu and Hu, 2006; El'Fred andDivesh, 2008; Gao and Gao, 2008; Hay et al., 2008; Lifschutz, 2010; Zaman, et al., 2011; Abdul Wahab et al., 2011; Wu, 2012; Hassan and Naser, 2013.

Turley and Zaman, 2007; and Beasley et al., 2009). They attempt to improve the quality of the external audit by extending the scope the external auditor's work and this in turn increase audit fees (Collier and Gregory, 1996; Abbott et al., 2003; and Turley and Zaman, 2004).In this respect, Zaman et al. (2011) contended that firms with effectiveinternal governance devote more time to monitor external audit more effectively than firms with low quality internal governance to minimize potential risk litigation and maintain their reputation. This would increase the scope of external audit to ensure its quality. As a consequence, external audit fees will be high. In other words, external audit fees are positively related to the level of internal corporate governance. This move by management results in more trust in the company andallows the company easy access to various sources of fund at a lower cost.

The results of the empirical testing of *signaling* theory is not clear. In this respect, Gul et al. (1998) investigated the relationship between agency costs and external audit fees and reported a positive association between the two variables. Carcello et al. (2002) investigate the association between board of director characteristics and external audit fees using Fortune 1000 data. Theyreported a significant positive relationship between audit fees and board independence, expertise and diligence.Similarly, Goodwin-Stewart and Kent (2006) examined the effect of the existence of audit committee and audit committee effectiveness on audit fees in a sample of Australian companies and found that the existence of an audit committee, more frequent committee meetings and increased use of internal audits to be associated with high audit fees. Knechel and Willekens (2006) found companies with audit committees and larger proportion of independent board members tend to pay high audit fees. On the other hand, O'Sullivan (1999) found no significant association between external audit fees and the board of directors and the characteristics of audit committee. It is therefore hypothesized that:

Hypothesis 2: External Audit Fees are Directly Related to Good Internal Corporate Governance

In addition to the main independent variable the effectiveness of internal corporate governance, three explanatory variables were used in the current study as a control factors: corporate size measured by natural logarithm of total assets (***LnAssets***), level of leverage measured by long-term liabilities to total assets (***Leverage***) and the percentage of shares owned by institutional investors (***PSOII***).

Quality and quantity of audit required by small companies are different than that demanded by large companies due to the degree of complexity of their operations and transactions. More audit services and time are needed to audit larger companies and they are expected to pay higher fees than small ones (Palmrose, 1986; Carson, et al., 2004).

The second control variable used in the current study is leverage as a proxy of corporate risk. Level of corporate risk is considered as one of the main determinants of audit fees. External auditors make extra efforts with risky companies since such companies are subjected to close monitoring from shareholders as well as lenders. External auditors also devote extra effort when auditing highly leveraged companies to avoid lawsuits against them. This reality will be reflected in external audit fees.

The third control variable adopted in the current study is the percentage of shares owned by institutional investors. Existence of institutional ownership enhances the monitoring mechanism employed to scrutinize management behavior since they usually acquire the required qualifications and expertise to assess and observe management decisions. Hence, in addition to effective corporate governance, ownership structure plays an important role reducing agency cost. Large institutional shareholders might have a strong incentive than small investors to benefit from monitoring management (Aljifri and Moustafa, 2007; Ping and Wing, 2011). Companies with high percentage of shares held by institutional shareholders are more likely to perform well to assure those investors and meet their expectations, and thus, reduce agency costs (Barako et al., 2006; Naser et al., 2006).They also have stronger incentive to monitor management behavior more than board members who may have little or no investment in the firm (Shleifer and Vishny, 1986).Hence, institutional ownership is expected to impact audit fees.

III. Data Collection and Study Methodology

As mentioned earlier, non-financial companies listed on ADX are covered in this study. The number of Emirati companies listed on the exchange at the end of 2012 was 67. Out of this number, 32 companies were classified as being non-financial[2]. In line with previous studies in this area of research, the focus will be on non-financial companies since the nature of these companies together with their external audit fees structure are different than that of the financial companies (Simunic, 1980; Basioudis and Fifi, 2004; Cameran, 2005). Thus, the 2012 annual reports together with the governance reports for all non-financial companies listed on ADX are used in this study.

After deciding on the target group of companies to be covered in the current study, it is important to define the effectiveness of internal corporate governance. It is not easy to define effectiveness in terms of corporate governance. In the literature, different proxies have been employed to measure the

[2] 2 of these companies were non-Emirati companies and excluded from the sample employed in this study.

effectiveness of corporate governance. Zaman et al. (2011) used four features of the audit committee to proxy effectiveness: audit committee size, audit committee independence, frequency of audit committee meetings and audit committee financial expertise. Dichotomous score was assigned for each of the four features of the audit committee as summarized below.

Audit committee size (*ACS*)	0 score if the number of audit committee members is $\leq$ 3; 1 score if the number is > 3.
Audit committee independence (*ACI*)	0 score if at least one of the committee's members is not independent; 1 score if all members are independent.
Audit committee frequency of meetings (*ACFM*)	0 score if the audit committee held $\leq$ 5 meeting; 1 score if the audit committee held >5 meetings
Audit committee financial expertise (*ACFE*)	0 score if one or more of the audit committee members does not have financial expertise; 1 score if > 1 of the audit committee have financial expertise.

Internal governance effectiveness index (*IGEI*) was then developed by adding the score of the four features of the audit committee for all nonfinancial companies listed on ADX and covered in the current study.

$IGEI = ACS + ACI + ACFM + ACFE$

The dependent and independent variables put together in two regression models. While, in the first model the four features of the audit committee that represent corporate effectiveness were entered individually, in the second model the four individual features of governance effectiveness were replaced by *IGEI*. The two regression models are presented below.

$$LnAF = \beta_0 + \beta_1 LnAssets + \beta_2 Leverage + \beta_3 PSOII + \beta_4 ACFM + \beta_5 ACFE + \beta_6 ACI + \beta_7 ACS + \varepsilon \ldots (1)$$

$$LnAF = \beta_0 + \beta_1 LnAssets + \beta_2 Leverage + \beta_3 PSOII + \beta_4 ACFM + \beta_5 IGEI + \varepsilon \ldots (2)$$

Where:

LnAF	=	*Natural Logarithm of Audit fees*
LnAssets	=	*Natural Logarithm of total assets.*
Leverage	=	*Leverage measured by long-term liabilities/ total assets*
PSOII	=	*Percentage of shares owned by institutional investors*
β_0	=	*Intercept*
β_1 - β_5	=	*Parameters of the model*
E	=	*Standard error*

IV. Findings

a) Descriptive Statistics

Descriptive statistics concerning dependent and independent variables used in the regression models are summarized in table 1. It is evident from the table that Emirati nonfinancial companies listed on ADX vary in their characteristics. Audit fees paid by the companies range from 11.16 to 14.97in logarithms with a mean of 12.48. Companies' sizes measured by the natural logarithm of the company's total assets also varied from 18.62 to 25.11 in logarithm terms, with a mean of AED 21.29. Furthermore, the level of leverage measured by long-term total liabilities to total assets ranged from zero to 0.75 with a mean of 0.16. This indicates that the Emirati companies do not rely on long-term borrowings to finance their activities and reflects the Islamic culture of the country that prohibits dealing with *riba* (paying or receiving interest). Another important feature of the Emeritinonfinancial companies listed on ADX and appeared in table 1 is that significant proportion of companies shares are owned by institutional investors as reflected by the mean. The highly reported standard deviation of the percentage of shares owned by institutional investors points to a significant variations among the companies.

Table 1: Descriptive Statistics of Variables Employed in the Study

	Mean	Median	Std. Deviation	Minimum	Maximum
Lnaudit	12.4774	12.509	0.85972	11.16	14.97
Lnassets	21.2855	21.1444	1.38473	18.62	25.11
Leverage	.1592	.1038	.17751	.00	0.75
PSOII	43.1123	42.74	27.84393	0	97.78
IGEI	1.9667	2	0.80872	1	4
ACFM	0.4667	0	0.50742	0	1
ACFE	0.6333	1	0.49013	0	1
ACI	0.5667	1	0.50401	0	1
ACS	0.3	0	0.46609	0	1

b) *Correlation*

Pearson correlation has been utilized to identify the extent of association between the variables used in the regression model. The results are shown in Table 2. The Table pointsto a number of significant correlations among the variables. Significant and positive associations detected between external audit fees and each of corporate size and the frequency of audit committee meetings. Significant and positive association has been also detected between corporate size and the frequency of audit committee meetings, between the effectiveness of the internal governance index and each of the audit committee and frequency of the audit committee's meetings. On the other hand, table 2 showed negative and significant association between the size of the audit committee and financial experience of the audit committee members.

The largest reported correlation value among the variables as appeared in Table 2 was between the size of the audit committee and the financial expertise of the audit committee members (-0.709). This value is, however, lower than the critical valueof 0.80 (Judge et al., 1988; Bryman and Cramer, 2005). This gives indication that multicollinearity does not seems to be a serious problem. In addition, the Variance Inflation Factors (VIFs) reported in Tables 3 and 4 were all well below the critical value of 10 used to assess the strength of collinearity. Neter et al. (1989) believe that collineairty is considered a serious problem in regression only when the VIF ≥ 10.

Talbe 2 : Correlations Between Variables Employed in the Study

	Lnaudit	*Lnassets*	*Leverage*	*PSOII*	*IGEI*	*ACS*	*ACI*	*ACFM*	*ACS*
Lnaudit	1.000								
Lnassets	.703**	1.000							
	.000								
Leverage	.281	-.136	1.000						
	.132	.474							
PSOII	.163	-.171	.214	1.000					
	.389	.367	.256						
IGEI	.168	.206	.206	.103	1.000				
	.375	.275	.275	.588					
ACS	.339	.362*	.047	.001	.302	1.000			
	.067	.049	.805	.994	.105				
ACI	-.300	-.208	.044	.057	.556**	-.308	1.000		
	.107	.269	.817	.765	.001	.097			
ACFM	.575**	.486**	.422*	.113	.627**	0.554**	-.126	1.000	
	.001	.006	.020	.553	.000	.001	.508		
ACFE	-.332	-.294	.045	-.007	.142	-.709**	.312	-.397*	1.000
	.073	.115	.813	.973	.454	0.000	0.094	.030	

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

c) Regression Analysis

Two regression models areestimated. In the first one, the four features of audit committee that represent effectiveness entered separately as independent variables. In the second model, all four features were combined together in an effectiveness index(*IGEI*)as one independent variable. The results of the two regressions are summarized in tables 3 and 4.

Table 3: Results of Regression Analysis by Employing Four Internal Effectiveness Variables Separately

Variables	R^2 = 0.665	Adj. R^2= 0.559	F = 6.249	Sig. F = 0.000
	Beta	*T*	*Sig.*	*VIF*
(*Constant)*		1.844	.079	
Lnassets	.629	4.117	.000	1.532
Leverage	.161	.852	.403	2.357
PSOII	.247	1.917	.068	1.091
ACS	-.117-	-.578-	.569	2.685
ACI	-.121-	-.838-	.411	1.380
ACFM	.394	.144	.617	1.380
ACFE	-.169-	-.874-	.392	2.460

Table 4 : Results of Regression Analysis by Employing Internal Governance Effectiveness Index

Variables	R^2 = 0.708	Adj. R^2= 0.661	F = 15.153	Sig. F = 0.000
	Beta	*T*	*Sig.*	*VIF*
(Constant)		.797	.433	
Lnassets	.832	7.242	.000	1.130
Leverage	.402	3.355	.003	1.227
PSOII	.237	2.110	.045	1.077
IGEI	-.167-	-1.392-	.176	1.235

It is obvious from tables3 and 4 that the two regression models are powerful as reflected by the reported*F-values*. However, in the second model, where the effectiveness index replaced individual features of the effectiveness of the audit committee, *F-value* came higher than the first model. This indicates that the second model is more significant than the first model. An additional important point to notice in Tables 3 and 4 is that adjusted $R^2$for the second model (0.661) is higher than that related to the first model (0.559). This means that the explanatory variables used in the second model explain 66% of the variations in the dependent variable, whereas explanatory variables employed in the first model only explain 56% of the variations in dependent variable. In the two regression models corporate size measured by the total assets and the percentage of shares owned institutional investors appeared to be positively and significantly associated with external audit fees of the nonfinancial companies listed on ADX. While positive relationship appeared in the two tables between external audit fees and level of corporate leverage, the relationship was statistically significant only in the second model. As for the four effectiveness features of the audit committee reported in table 3, negative association reported between all of them with the external audit fees except for the frequency of the meetings of the audit committee where the sign of the relation was positive. On the other hand, table 4 pointed to a negative association between external audit fees and governance effectiveness measured by the index. The relationship is, however, marginally significant.

Negative relationship between the effectiveness of internal governance measured by four features of the audit committee individually and external audit fees except for the frequency of audit committee's meeting is in line with previous research (Gul et al., 1998; Carcello et al., 2002; Li and Wang, 2006). Positive association between the effectiveness of corporate internal governance represented by the frequency of the audit committee meetings and external audit fees is also found by (Goodwin-Stewart and Kent, 2006; Stewart and Munro, 2007). This result may reflect the nature of the Arab culture. It's very likely that the members of the committees in the Arab Gulf region are paid for attending the meetings. In addition, expenses incurred by committee members are covered by the company. Auditing committee members' remunerations together with their expenses may require extra work by the external auditor. On the other hand, when the internal governance effectiveness index (*IGEI*) was used to explain variations in audit fees, negative relation emerged between it and external audit fees. The fact that the resulted negative relation was marginally significant is due to the fact that corporate governance is recently adopted by Emirati nonfinancial companies listed on ADX and companies have limited experience in this field. The effectiveness of internal corporate governance is expected to improve by time. It is, therefore, worthwhile to conduct the same study in 3 years times to identify possible improvement in the level of internal corporate governance in the UAE and relate the resulted level with external audit fees.

V. Conclusion

This study is set out to investigate the relationship between external audit fees and the effectiveness of internal corporate governance of non-financial companies listed on Abu Dhabi Securities Exchange (ADX) by testing substitution and signaling theories. According to substitution theory, effective internal corporate governance, represented by the audit committee, substitutes external auditor's work. This reduces external auditor's risk and hence reduces its fees. On the other hand, signaling theory is related to agency theory in suggesting that management would use internal audit effectiveness to recruit external auditor who subjects corporate management to rigorous and intensive audit to signal to the stakeholders that management works to their interest. To reach this aim, data were collected from the annual reports of all non-financial companies listed on the exchange for the year 2012. The result of the analysis showed partial support to substitution theory. Effective internal audit employed by nonfinancial Emirati companies listed on ADX appeared to be negatively related to external audit fees. The relations is, however, marginally significant.

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Global Journal of Management and Business Research
Accounting and Auditing
Volume 13 Issue 5 Version 1.0 Year 2013
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Efficiency and Profitability: A Case Study of Banking Sector in Sri Lanka

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Abstract- Organizational efficiency is still important to planning because it enables plans that are possible to achieve profitability. Efficiency measure of how well or how productively resources are used to achieve a goal. Banking sector is important factor for economic development. The study is also aimed at finding the effect of changes in efficiency levels on profitability of banking in Sri Lanka. The study covered banking sector in Sri Lanka over a period of past 5 years from 2008 to 2012. Correlation and regression analysis were used in the analysis and findings suggest that there is a significant relationship exists between efficiency and profitability. However, the findings of this paper are based on a study conducted on the banking sector in Sri Lanka. Results of this study found that the Sales to Total Asset (SA/TA) is significantly correlated with Operating Profit Margin (OPM) and Return on Equity (ROE). At the same time SA/TA and Operating Expenses to Total Assets (OPE/TA) and Loan to Total Assets (LO/TA) are significantly correlated with Net profit Margin (NPM).

Keywords : *efficiency, profitability, banking sectors.*

GJMBR-D Classification : *JEL Code: E50, M00*

EFFICIENCYANDPROFITABILITY ACASESTUDYOFBANKINGSECTORINSRILANKA

Strictly as per the compliance and regulations of:

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Priya, K [α] & Velnampy, T [σ]

Abstract- Organizational efficiency is still important to planning because it enables plans that are possible to achieve profitability. Efficiency measure of how well or how productively resources are used to achieve a goal. Banking sector is important factor for economic development. The study is also aimed at finding the effect of changes in efficiency levels on profitability of banking in Sri Lanka. The study covered banking sector in Sri Lanka over a period of past 5 years from 2008 to 2012. Correlation and regression analysis were used in the analysis and findings suggest that there is a significant relationship exists between efficiency and profitability. However, the findings of this paper are based on a study conducted on the banking sector in Sri Lanka. Results of this study found that the Sales to Total Asset (SA/TA) is significantly correlated with Operating Profit Margin (OPM) and Return on Equity (ROE). At the same time SA/TA and Operating Expenses to Total Assets (OPE/TA) and Loan to Total Assets (LO/TA) are significantly correlated with Net profit Margin (NPM). Then indicated that LO/TA is significantly correlated with OPM and ROE 5 percent level of significance. At the same time OPE/TA also is significantly correlated with ROE at 5 percent level of significance. The other rest of variables are not correlated.

Keywords: efficiency, profitability, banking sectors.

I. Introduction

Efficiency in general, describes the extent to which time, effort or cost is well used for the intended task or purpose. It is often used with the specific purpose of relaying the capability of a specific application of effort to produce a specific outcome effectively with a minimum amount or quantity of waste, expense, or unnecessary effort. "Efficiency" has widely varying meanings in different disciplines.

The term "efficient" is very much confused and misused with the term "effective". In general, efficiency is a measurable concept, quantitatively determined by the ratio of output to input. In several of these cases, efficiency can be expressed as a result as percentage of what ideally could be expected, hence with 100% as ideal case. This does not always apply, not even in all cases where efficiency can be assigned a numerical value.

A simple way of distinguishing between efficiency is the saying, "Efficiency is doing things right". This is based on the premise that selection of objectives of a process is just as important as the quality of that process. High efficiency is good for economy and the environment. High efficiency is in line with core business electricity industry. The efficiency of Power Plants has been improved and will be improved continuously.

Organizational efficiency is the organization's ability to implement its plans using the smallest possible expenditure of resources. It is an important factor in the firm's organizational effectiveness, this being the ease and degree of success with which the organization is able to accomplish its aims. Organizational efficiency is the organization's degree of success in using the least possible inputs in order to produce the highest possible outputs. Factors that influence the efficiency of the organization's use of its resources can be both internal and external to the organization.

The recording of profitability for the past period or projecting profitability for the coming period, measuring profitability is the most important measure of the success of the business. A business that is not profitable cannot survive. Conversely, a business that is highly profitable has the ability to reward its owners with a large return on their investment. Increasing profitability is one of the most important tasks of the business managers. Managers constantly look for ways to change the business to improve profitability.

Banking is now an essential part of our economic system. Although banks create no new wealth but their borrowing, lending and related activities facilitate the process of production, distribution, exchange and consumption of wealth. In this way they become very effective partners in the process of economic development. Today modern banks are very useful for the utilization of the resources of the country. Efficiency is defined as "achieving a goal with as little time, effort and energy as possible." This is a simple definition with significant meaning. Efficiency means, greatest human satisfaction from scarce resources. The efficiency of markets has proven a powerful force in altering historical perspectives on effective ways humans can interact.

Allocative efficiency resources are dedicated to the combination of goods and services that best satisfy consumer wants. Production Efficiency goods and services are produced using the least cost combination of resources and technology. Dynamic Efficiency how

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the economy over time promotes allocate and productive efficiency

The efficiency of markets has proven a powerful force in altering historical perspectives on effective ways humans can interact. The revolutionary idea that the pursuit of self-interest, tempered by competition, promotes social interest is the basis for the tremendous economic growth.

Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important. At the same time bankers play very important role in the economic life of the nation. The health of the economy is closely related to the soundness of its banking system.

II. Research Questions

Specifically, this study is undertaken to explore the answers to the following research questions (RQ):
RQ1: Is there any association between efficiency and Profitability?
RQ2: Does Efficiency have any impact on Profitability?
RQ3: What are the constraints faced by banking sectors in the study area?

III. Objectives

The main objective of the study is to find out the impact of efficiency and profitability of banking sector in Sri Lanka.
The following sub objectives are considered for the above purpose.

- To identify the factors which are significantly contribute to the efficiency and profitability
- To find out the relationship between efficiency and profitability.
- To suggest some measures to enhance the profitability of banking sector in Sri Lanka.

IV. Literature Review and Hypotheses Development

Velnampy (2013) revealed that corporate governance and firm performance. The samples of 28 manufacturing companies using the data representing the periods of 2007 – 2011 found that determinants of corporate governance are not correlated to the performance measures of the organization. Regression model showed that corporate governance don't affect companies' ROE and ROA. Finally that corporate governance measures are not correlated with performance measures. Another study of Velnampy and Pratheepkanth(2013) indicates that the impact of corporate structure on ROE and ROA is higher than the board structure while the impact of board structure on net profit is higher than the corporate reporting. Further the study found a positive relationship between the variables of corporate governance and firm's performance.

Chisti Khalid Ashraf (2012) pointed out working capital management has its effect on liquidity as well on profitability of the firm. In this paper a sample of the 16 Indian firms, listed on BSE including firms from different sectors of economy for a period of 2006 to 2011 has been taken. An attempt has been made to examine the effect of different variables of working capital management including the Debt ratio, Average collection period, Inventory turnover in days, Average payment period, Cash conversion cycle and Current ratio on the Net operating profitability of sample firms. Descriptive and Regression are used for analysis. The results show that there is a strong negative relationship between variables of the working capital management and profitability of the firm except the sales (Size of the company). Then found that there is a positive relationship between size of the firm and its profitability. There is also a significant negative relationship between debt used by the firm and its profitability.

Nor Hayati Ahmad, Mohamad Akbar Noor Mohamad Noor (2011) the paper investigated the efficiency of the 78 Islamic banks in 25 countries for the period of 1992-2009. Islamic banks products are compliance with the Islamic laws (syaria') that forbids the giving or receiving of riba'1.The efficiency estimates of individual banks are evaluated using the non-parametric Data Envelopment Analysis (DEA) method. The empirical findings seem to suggest that the World Islamic banks have exhibited high pure technical efficiency. A multivariate analysis based on the Tobit model reinforces these findings and significantly associated with operating expenses against asset, size, equity, NPL, Asia Financial Crisis and national income level (GDP). We also find positive correlation between bank profitability and technical efficiency levels, indicating that the more efficient banks tend to be more profitable with strong result at Asian Islamic banks. The Fixed Effect Model (FEM) that been used to analyze profitability proposed that profit efficiency is positive and statistically significant with operating expenses against asset, equity, high income countries and non performing loans against total loans. Interestingly, the empirical results show that more profitable banks are those that have higher operating expenses against asset, more equity against asset and concentrated at high income countries demonstrating close relationship between monetary factors in determining Islamic banks profitability.

Velnampy and Nimalathasan (2009) investigated the association between organizational growth and profitability of Commercial bank ltd in Sri Lanka over the period of 10 years from 1997 to 2006. The researchers found, sales are positively associated with profitability ratios except operating profit, return on equity and number of depositors are negatively correlated to the profitability ratios except operating profit and return on equity. At the same time, number of advances is also negatively correlated to the return on average shareholders' funds.

Ben Naceur and Omran (2008) examined the influence of bank regulations, concentration, financial and institutional development on Middle East and North Africa (MENA) countries commercial banks' margin and profitability during the period 1989–2005. Find that bank-specific characteristics, in particular bank capitalization and credit risk, have positive and significant impact on banks' net interest margin, cost efficiency and profitability. On the other hand, macroeconomic and financial development indicators have no significant impact on bank performance. More recently, Sufian and Habibullah (2009) examined the determinants of the profitability of the Chinese banking sector during the post-reform period of 2000–2005. The empirical findings suggest that all the determinant variables have statistically significant impact on China banks profitability.

Sufian, Noor, and Abdul,(2008) examined the efficiency of the Malaysian Islamic banking sector during the period 2001-2006 by using the non-parametric Data Envelopment Analysis (DEA) method. Pure technical inefficiency outweighs scale inefficiency in the Islamic banking sector implying that the Islamic banks have been managerially inefficient in exploiting their resources to the fullest extent. The empirical findings seem to suggest that the MENA Islamic banks have exhibited higher technical efficiency compared to their Asian Islamic banks counterparts. During the period of study he fined that pure technical inefficiency has greater influence in determining the total technical inefficiency of the MENA and the Asian Islamic banking sectors.

Osman Furkan Abbasǒglu and Ahmet Faruk Aysan and Ali Gunes (2007) analyzed that after 2001 crisis, the macroeconomic environment led to important changes in Turkish banking sector which has experienced a process of concentration by involving in merger and acquisition activities and liquidation of some insolvent banks. Using the data from the detailed balance sheets of the banks that operated in the years from 2001 to 2005, examine the degree of concentration and degree of competition in the market by applying Panzar and Rosse's approach. Explore the existence of relationship between efficiency and profitability of the banks taking into account the internationalization of banking. The results do not suggest the existence of relationship between concentration and competition. There is also no healthy relationship between efficiency and profitability.

Velnampy (2006) examined the financial position of the companies and the relationship between financial position and profitability with the sample of 25 public quoted companies in Sri Lanka by using the Altman Original Bankruptcy Forecasting Model. Finding suggests that, out of 25 companies only 4 companies are in the condition of going to bankrupt in the near future. Additionally, earning/total assets ratio, market value of total equity/book value of debt ratio and sales/total assets in times are the most significant ratios in determining the financial position of that quoted companies.

Velnampy (2005) in his study of investment appraisal and profitability of toddy bottling project in Sri Lanka found that, the management of the project failed to achieve the budgetary results. Even though, the Net Present Value (NPV), Internal Rate of Return (IRR) and benefit cost ratio shows the project as worthwhile.

Turati (2003) revealed that computes simple correlation coefficients between efficiency scores and different measures of bank profitability. According to this study, correlation coefficients between ROE and efficiency scores and between ROA and efficiency scores are substantially close to zero for all the three models. These findings suggest that there is no linear relationship between profitability and efficiency. There also observed that for some European countries there is a negative correlation between efficiency and profitability. Here interpreted this as a surprising result since the more inefficient banks were also the more profitable ones. Berger and Hannan (1998) stated that monopolists earned higher profits and given the absence of competitive pressures, were also characterized by a higher level of inefficiency.

Friedrich Schneider Werner Lenzelbauer (1993), pointed the relationships between profitability and firm size, and efficiency and firm size, based on firms in Upper Austria. Considerable evidence suggesting that the average profitability of small enterprises exceeds that of large firms, however, productivity tends to be positively related to firm size.

Friedrich Schneider (1993), in this paper revealed that the performance of Upper- Austrian firms by size class. Considering the six derived hypotheses, on average the gross residual quota (profitability measures) of small firms is higher than the one of medium-sized and large firms. However, a similar result could not be found for the productivity development. The result is obtained indicating the larger the firm, the higher is the productivity. The smaller the firm the lower the labor cost per employee.

From the literature review the following hypotheses are developed for the study purpose.

H1: There is an impact of efficiency on Profitability

H2: There is a significance relationship between Efficiency and Profitability

V. Conceptual Frame Work

Based on the literatures, the following conceptual frame work is formulated.

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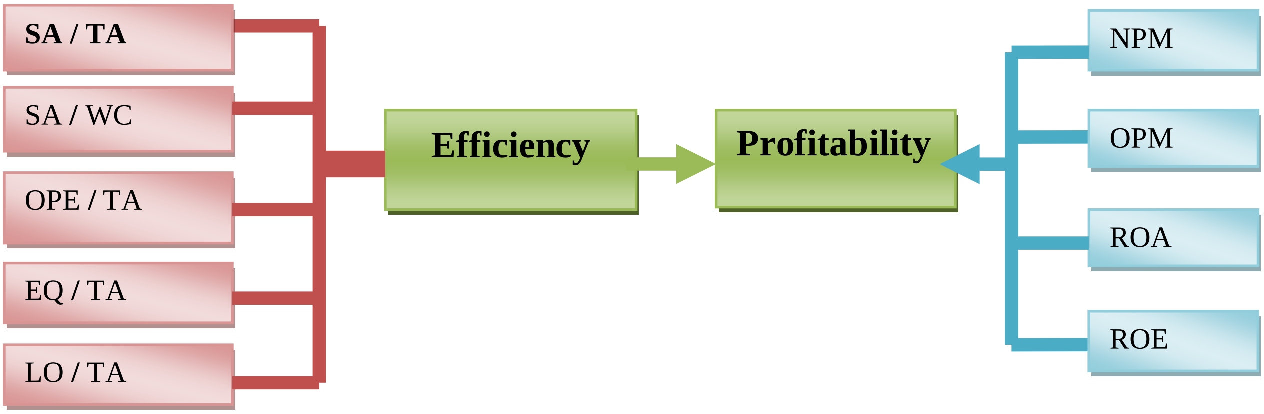

Figure 1: Conceptual Framework

Where:

SA / TA : Sales to Total Assets
SA / WC : Sales to Working Capital
OPE / TA : Operating Expenses to Total Assets
EQ / TA : Equity to Total Assets
LO / TA : Loans to Total Assets
NPM : Net profit Margin
OPM : Operating profit Margin
ROA : Return on Assets
ROE : Return on Equity

VI. Methodology

It describes research design, sampling design, data sources, reliability and validity of data and mode of analysis.

VII. Research Design

This research will be an explanatory studies. The emphasis here is on studying a situation or a problem in order to explain the relationship between variables (i.e., Efficiency and Profitability)

VIII. Sampling Design

The sample of this study composed of banking sector in Sri Lanka for the period of 2008-2012. The scope of the study is Banking Sector in Sri Lanka.

Efficiency Ratios and Its Calculations
Sales to Total Assets Sales / Total Assets $\times$100
Sales to Working Capital Sales / Working capital X 100
Operating Expenses to Total Assets Operating Expenses / Total Assets les X 100
Equity to Total Assets Equity / Total Assets X100
Loans to Total Assets Loans / Total Assets X100
Profitability Ratios and Its Calculations
Net Profit Margin

IX. Operating Profit Margin

Return on Asset Profit after interest & tax /Total assets X 100
Return on Equity Profit after interest & tax / Equity capital X 100

X. Data Sources

The research is totally based on secondary data, from the annual reports of sample companies. In some cases, some data and information have been collected from the websites of the sampled firms, different articles and papers.

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XI. Variables in the Study

Table 1 : Calculations of Efficiency and Profitability Ratios

Efficiency Ratios and Its Calculations	
Sales to Total Assets	Sales / Total Assets ×100
Sales to Working Capital	Sales / Working capital X 100
Operating Expenses to Total Assets	Operating Expenses / Total Assets les X 100
Equity to Total Assets	Equity / Total Assets X100
Loans to Total Assets	Loans / Total Assets X100
Profitability Ratios and Its Calculations	
Net Profit Margin	$\frac{\text{Net profit}}{\text{Sales}} * 100$
Operating Profit Margin	$\frac{\text{Netprofit beforeinterest and tax}}{\text{Sales}} * 100$
Return on Asset	Profit after interest & tax /Total assets X 100
Return on Equity	Profit after interest & tax / Equity capital X 100

XII. Reliability and Validity of the Data

Reliability will be established with an overall Cronbach's alpha and other techniques. It will be compared our reliability value with the standard value alpha of 0.7 advocated by Cronbach (1951), a more accurate recommendation (Nunnally& Bernstein's, 1994) or with the standard value of 0.6 as recommended by Bagozzi& Yi's (1988). Secondary data for the study were drawn from audit accounts (i.e., income statement and balance sheet) of the concerned companies; therefore, these data may be considered reliable for the purpose of the study. Necessary checking and cross checking were done while scanning information and data from the secondary sources. All these efforts were made in order to generate validity data for the present study. Hence researcher satisfied content validity.

XIII. Mode of Analysis

Correlation analysis and multiple regression analysis were performed to investigate the relationship between efficiency and profitability and the impact of efficiency on profitability respectively.

XIV. Research Model

It is important to note that the financial profitability (NPM, OPM, ROA and ROE) depend upon Sales to Total Assets (SA/TA), Sales to Working Capital (SA/WC), Operating Expenses to Total Assets (OPE/TA), Equity to Total Assets (EQ/TA), and Loans to Total Assets (LO/TA).

The following four models are formulated and presented here:

NPM= β0+ β1 SA/TA + β2 SA/WC + β3 OPE/TA + β4 OPE/TA + β5 LO/TA + ε.............. (1)

OPM= β0+ β1 SA/TA + β2 SA/WC + β3 OPE/TA + β4 OPE/TA + β5 LO/TA + ε.............. (2)

ROA= β0+ β1 SA/TA + β2 SA/WC + β3 OPE/TA + β4 OPE/TA + β5 LO/TA + ε............... (3)

ROE= β0+ β1 SA/TA + β2 SA/WC + β3 OPE/TA + β4 OPE/TA + β5 LO/TA + ε................ (4)

Where, α , is constant, β1, β2, β3 β4 and β5 are coefficients of variables, $\in$, is error term.

XV. Data Analysis and Discussion

a) *Multi-Co linearity*

Two major methods were used in order to determine the presence of multi-co linearity among independent variables in this study. These methodologies involved calculation of a Tolerance test and variance inflation factor (VIF) (Ahsan, Abdullah, Gunfie, & Alam,2009).The results of theses analysis are presented in table 2. Test of Co linearity.

Table 2 : Test of Co linearity

Variable	Tolerance	VIF
Sales to Total Assets	.854	9.457
Sales to Working Capital	.624	5.156
Operating Expenses to Total Assets	.125	3.568
Equity to Total Assets	.278	7.658
Loans to Total Assets	.568	4.369

According to the table-2. Test of Co linearity, none of the tolerance level is < or equal to 1; and also VIF values are perfectly below 10.Thus the measures selected for assessing independent variable in this study do not reach levels indicate of multi-co linearity.

Table 3 : Correlation Metrics

Variables	SA/TA	SA/WC	OPE/TA	EQ/TA	LO/TA	NPM	OPM	ROA	ROE
SA/TA	1								
SA/WC	.048 (.928)	1							
OPE/TA	.749 (.086)	.551 (.257)	1						
EQ/TA	-.534 (.275)	.000 (1.000)	-.061 (.908)	1					
LO/TA	.960** (.002)	.012 (.982)	.711 (.113)	-.444 (.377)	1				
NPM	.889* (.018)	.338 (.512)	.808* (.052)	-.597 (.211)	.795* (.059)	1			
OPM	-.931** (.007)	.042 (.937)	-.738 (.094)	.278 (.594)	-.883* (.020)	-.723 (.105)	1		
ROA	.348 .499	.876* (.022)	.700 (.122)	-.059 (.912)	.341 (.508)	.435 .388	-.335 .516	1	
ROE	.921** (.009)	.391 (.444)	.877* (.022)	-.490 (.324)	.825* (.043)	.939** (.005)	-.853* (.031)	.608 (.200)	1

It is found that from table-3 describes the correlation between efficiency and profitability. Which indicates that SA/TA is significantly correlated with OPM and ROE 1 percent level of significance. At the same time SA/TA and OPE/TA and LO/TA are significantly correlated with NPM at 5 percent level of significance.

Then indicates that LO/TA is significantly correlated with OPM and ROE 5 percent level of significance. At the same time OPE/TA also is significantly correlated with ROE at 5 percent level of significance.

Finally the rest of other variables are not correlated. Then a multiple regression analysis was performed to identify the predictors of profitability variables as conceptualized in the models. A enter variable selection was used in the regression analysis and Table-4 provides the summary measure of the models.

Table 4 : Predictor of Profitability

Details	NPM	OPM	ROA	ROE
SA/TA	1.125 (.463)	-8.218 (.077)	-.080 (.949)	7.947 (.080)
SA/WC	.594 (.659)	5.962 (.106)	1.565 (.362)	3.938 (.158)
OPE/TA	-.023 (.985)	-1.096 (.471)	-.028 (.982)	1.203 (.442)
EQ/TA	-.024 (.985	.104 (.934)	-.332 (.796)	-3.331 (.186)
LO/TA	-.502 (.704)	7.619 (.083)	.341 (.791)	-3.933 (.158)
P Value	(.230)	(.052)	(.226)	(.042)
R	.991	1.000	.991	1.000
R^2	.981	.999	.982	.999
Adjusted R^2	.887	.994	.892	.996
Standard Error	.44405	.18342	.68731	.11242
F Value	10.460	211.711	10.919	329.333

From the table-4; it is seen that the specification of the five predictor variables (SA/TA, SA/WC, OPE/TA, EQ/TA and LO/TA) in the above model reveals that the ability to predict the profitability. (R2 = .981, .999, .982 and .999 respectively).

R2value of .981 which is in the model 1 denotes that 98.1 % of observed variability in NPM can be explained by the differences in the independent variables. Remaining 2.9 % variance in the net profit margin is attributed to other variables.

In this model 2, R2 value of 0.999 which is denotes 99.9 % of observed variability in operating profit margin can be explained by the differences in the independent variables. Remaining 0.1% variance in the OPM is attributed to other variables.

In this model 3, R2 value of 0.982 which is denotes 98.2 % of observed variability in ROA can be explained by the differences in the independent variables. Remaining 1.8% variance in the return on assets is attributed to other variables.

In this model 4, R2 value of 0.999 which is denotes 99.9 % of observed variability in ROE can be explained by the differences in the independent variables. Remaining 0.1% variance in the return on equity is attributed to other variables.

In this models summary, the value of an adjusted R2 887, .994, .892 and .996, slightly less than the value of adjusted R2.

An examination of the model summary in conjunction with ANOVA (F–value) indicates that the model explains the most possible combination of predictor variables that could contribute to the relationship with the dependent variables.

XVI. Hypothesis Testing

Serial No	Hypothesis	Tools	Accepted/Rejected
H_1	There is an impact of efficiency on Profitability	Regression	Partially Accepted
H_2	There is a significance relationship between Efficiency and Profitability	Correlation	Partially Accepted

XVII. Conclusion

The researcher identified that efficiency and profitability are significantly correlated. At the same time sales, loans, operating expenses are directly linked with net profit and operating profit. Efficiency Planning and Management guide focuses on reducing costs. Efficiency measures on improving the competitiveness of the organizations. The strengthening of internal efficiency management should be the first goal of promotion in industry. Improving efficiency can be a highly creative and satisfying process. Efficiency of the breeding group is in large part driven by management. The promotion of sustainable efficiency development and profitability use is likely to become an increasingly important policy issue as policy and lawmakers from industrialized and developing countries address and incorporate environmental concerns into their decision making. Basic efficiency management laws should adopt policies and create the principal legal foundation for government intervention aimed at efficiency strength of economic activity. Efficiency conservation legislation should ideally result from a participatory decision making process, necessary for development.

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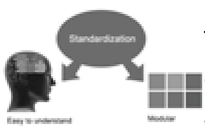

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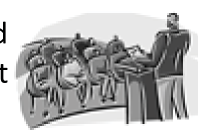

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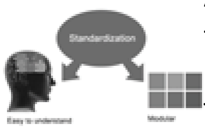

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"

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1. General,

2. Ethical Guidelines,

3. Submission of Manuscripts,

4. Manuscript’s Category,

5. Structure and Format of Manuscript,

6. After Acceptance.

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Introduction:

The **Introduction** should "introduce" the manuscript. The reviewer should be presented with sufficient background information to be capable to comprehend and calculate the purpose of your study without having to submit to other works. The basis for the study should be offered. Give most important references but shun difficult to make a comprehensive appraisal of the topic. In the introduction, describe the problem visibly. If the problem is not acknowledged in a logical, reasonable way, the reviewer will have no attention in your result. Speak in common terms about techniques used to explain the problem, if needed, but do not present any particulars about the protocols here. Following approach can create a valuable beginning:

- Explain the value (significance) of the study
- Shield the model - why did you employ this particular system or method? What is its compensation? You strength remark on its appropriateness from a abstract point of vision as well as point out sensible reasons for using it.
- Present a justification. Status your particular theory (es) or aim(s), and describe the logic that led you to choose them.
- Very for a short time explain the tentative propose and how it skilled the declared objectives.

Approach:

- Use past tense except for when referring to recognized facts. After all, the manuscript will be submitted after the entire job is done.
- Sort out your thoughts; manufacture one key point with every section. If you make the four points listed above, you will need a least of four paragraphs.

- Present surroundings information only as desirable in order hold up a situation. The reviewer does not desire to read the whole thing you know about a topic.
- Shape the theory/purpose specifically - do not take a broad view.
- As always, give awareness to spelling, simplicity and correctness of sentences and phrases.

Procedures (Methods and Materials):

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

Materials:

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

Methods:

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

Approach:

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

What to keep away from

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

Results:

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

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

Content

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

What to stay away from

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

Approach

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

Figures and tables

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

Discussion:

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

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

Approach:

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

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

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ISSN 9755853