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AUSTRALIAN ACADEMY OF BUSINESS RESEARCH

The Dynamic Effects of Trade and Financial Reforms on Growth

Reina Kawai Eskimez
World Bank, USA

Abstract

The impact of trade and financial reforms on growth has long been debated, yet the dynamics of growth in relation to other variables remain unexplored. This paper analyses whether reforms' short- to medium-run impacts on cumulative GDP growth change depend on indebtedness, the exchange rate regime, and whether the economy is in a financial crisis. A state-dependent local projection model was employed for 90 countries from 1973 to 2014. It finds that trade liberalizations have a small but positive impact on growth. Positive GDP growth effects of financial reform are moderated, however, by debt and crises. Similarly, excessive debt lowers GDP growth effect of trade liberalizations. Countries with fixed exchange rate regimes experience weaker GDP growth on average under both trade and financial reforms. Finally, trade and financial liberalizations implemented during the financial crisis were not shown to be detrimental to growth.

Military Veterans on Corporate Boards and FCPA Violation

Olukemi Fasipe

Northern Alberta Institute of Technology (NAIT), Canada

Abstract

Bribery is regarded as the cost of doing business in some quarters. That is, firms pay or offer to pay bribes to government officials to secure contracts with new or old clients. The practice is widespread in many countries around the world as evidenced by the Corruption Perception Index which ranks countries based on how corrupt people perceive them to be. The Foreign Corrupt Practices Act was enacted in 1977 to make it illegal for US companies and certain foreign companies who have shares listed in the US to bribe foreign officials to obtain or retain business. The US Securities and Exchange Commission has ramped up enforcement actions against firms that violated the Act over the years. Although some studies have examined the characteristics of firms which violated the Act including their corporate governance, however, no study has examined whether firms with military-connected boards are more or less likely to engage in the illegal act. This study intends to fill the gap in the literature by investigating the likelihood of bribe-paying firms having directors with military expertise on their board of directors.

Keywords: Military Veterans, FCPA, US, Corporate Governance

Do firm-level corporate governance factors change the fate of financially distressed private firms?

Asif M Huq and ABM Fazle Rahi
University of Gävle, Sweden

Abstract

This paper examines how firm-level governance factors influence the fate of financially distressed private firms. In other words, it explores why some firms recover from financial distress while others go bankrupt. Our analysis is based on 152 740 private limited firms for the years 2002-2022 comprising of 994 870 firm-years observation. We construct the financial distress measure following Bruynseels et al. (2011) strategy. During the sample period, 134 107 firms were in financial distress in t and 14 521 filed for bankruptcy in t+2, 85 296 firms' turnaround for two consecutive years (i.e., t+1 & t+2), 34 290 firms continued to be in financial distress, and 18 633 firms were never in financial distress. We use logistic regression to estimate the likelihood of factors to capture firms' turnaround. After controlling for firm-level time invariant factors, industry cycles, time-trends, profitability, and leverage, we find that a change in CEO and Chair increases the probability of firm to turnaround by 16% and 54% respectively. Duality reduces the probability of turnaround by 7%. Additional analysis shows that a change in the gender of the CEO do not affect the chances of turnaround. On the other hand, a change of female to male Chair increases the probability of turnaround by 18%. When considering age, a change to younger CEO increases the probability of turnaround by 9% while the effect of change in the age of the Chair do not significantly affect the outcome variable. The results have practical implications for financially distressed private firms and indicate that changing the CEO and chairperson appears to be the most effective strategy to turn around from the distress situation. This might be because new leadership often brings fresh perspectives, which can facilitate the implementation of restructuring measures.

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Corporate Reputation Mediates the Effect of ESG on Operating Performance

Lai Li-wen

National Taipei University, Taiwan

Abstract

This study investigated the influence of environmental, social, and governance (ESG) practices on company performance considering corporate reputation as a mediating factor. Utilising data a decade (2013–2022) from Taiwanese companies featured in the 2022 Dow Jones Index and TEJ , the analysis reveals a significant positive correlation between robust ESG practices and company performance. Integrating ESG strategies into daily operations, coupled with rigorous evaluation and tracking, has benefits for business performance. The study further examines how major environmental events can influence the role of corporate reputation as an intermediary factor in the ESG context. It specifically examines the external costs from notable incidents, exemplified by the discharge of treated water from Japan's Fukushima Nuclear Power Plant starting August 24, 2023. The findings provide actionable insights for companies and governmental agencies, emphasising the importance of developing and refining ESG strategies and assessments that align with evolving sustainability challenges and opportunities.

Keywords: ESG, Operating performance, Panel data, mediation effect

How Strategic Deviance Affects Earnings and Their Persistence: An Empirical Study Based on Topic Modelling

Zhenjin Li and Xiaomei Guo
Xiamen University, China

Abstract

Earnings, especially the persistent earnings, are crucial for companies ' survival and development. Of the various factors affecting earnings. The most important one is strategic choice. To gain more competitive advantages, many companies choose to deviate from the industry norms, and the degree of deviation is defined by some scholars as strategic deviance. The paper discusses how strategic deviance affects earnings and their persistence, which is helpful for all stakeholders to understand the companies' actions and the policy choices ,leading to better decisions. However, literatures show that, there has been debates on those impacts of strategic deviance on earnings. Moreover, in previous studies, the measures used for the variable of strategic deviance are mostly financial, which have inherent limitations. In this paper, the authors employ Topic Modelling natural language processing method to construct the strategic deviance index based on MA&A texts disclosed in the annual reports of listed companies in the Chinese capital market. And then a regression was run to test the relationship between the strategic deviance, corporate life cycle, earnings and their persistence. The study finds that larger degree of strategic deviance helps to improve earnings yet reduces earnings persistence. The relationship varies a little at different stages of corporate life cycle. At the growing, mature and decline stages, earnings are improved with increasing level of strategic deviance .While at the decline stage, earnings persistence is reduced with increasing level of strategic deviance. The findings of this paper design a kind of measure of Strategic deviance , and the findings help to shed some light on the strategy choice in practice.

Keywords: Strategic deviance; earnings persistence; Life Cycle; Topic Modelling

Artificial Intelligence Investments and Efficiency Enhancement of Firms

Jason S. C. Miao and Andy C. L. Yeung

The Hong Kong Polytechnic University, China

Abstract

The past decade has seen the rapid development of artificial intelligence (AI) along with related technologies such as machine learning, natural language processing, deep learning, and computer vision. AI becomes more powerful to directly impact the creation and development of a wide range of products and services, thereby transforming the entire economy and society. Particularly, AI has revolutionized the development of new manufacturing technologies and products that can be applied in a wide range of fields. Although the application of AI has been frequently studied, it is unclear whether and when AI investments lead to true improvement of operational efficiency, which is a key factor in operations management. Specifically, we apply stochastic frontier analysis and GMM techniques to examine this impact and relevant moderators. By using machine-generated AI investments data from Lightcast, we show the positive impact of AI investments, and this impact is stronger for firms with higher R&D intensity or in complex environments. Moreover, we illustrate the spillover effect of AI investments in supply chain networks. Drawing on the social network perspective, we show this relationship is continuous and stronger for more concentrated and complex networks. These findings highlight strategies that make AI capability a more crucial asset in the supply chain network.

Keywords: Artificial intelligence, operational efficiency, operational complexity, industry dynamism, spillover effect, dynamic panel data.

Conforming and Non-Conforming Tax Avoidance: Measures and Applications

Tao Zeng
Wilfrid Laurier University, Canada

Abstract

In the tax avoidance literature, many of the tax avoidance proxies only measure non-conforming tax avoidance (i.e., tax avoidance that reduces taxable income but does not affect accounting income). However, conforming tax avoidance (i.e., tax avoidance that reduces both taxable income and accounting income) plays a key role in tax planning strategies. This paper provides a method to measure conforming tax avoidance. It then applies this measure in examining two research questions. First, it examines whether there is a linear or non-linear relationship between firm characteristics and tax avoidance. Second, it examines whether the COVID-19 pandemic affects tax avoidance. Using Canadian listed firms over the period from 2012 to 2022, this paper finds that (1) firm characteristics including firm size and profitability and non-conforming tax avoidance have a non-linear relationship; (2) firm characteristics including leverage and profitability and conforming tax avoidance have a non-linear relationship; and (3) during the COVID-19 pandemic, firms in certain industries (mining, services, sales, and transportation) engaged in a higher level of non-conforming tax avoidance but not conforming one. The findings in this study suggest that the literature benefits from a deeper analysis by separating conforming tax avoidance from non-conforming tax avoidance.

Keywords: conforming tax avoidance, non-conforming tax avoidance, firm characteristics, non-linear relationship

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