

*The 1st Pan Pacific Business Research Conference
Program Schedule*

July 29, 2010

Panorama room, Lower Commons, California State University San
Bernardino, California, USA

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THE PERFORMANCE OF THE FAITH AND ETHICAL INVESTMENT PRODUCTS: AN EMPIRICAL INVESTIGATION OF THE LAST DECADE

Francisca M. Beer*, California State University San Bernardino
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ABSTRACT

In the classical financial theory of Markowitz (1952), the choice of an efficient portfolio of assets, is based on the maximization of the investor's utility function. Each investor is concerned exclusively on maximizing return and minimizing risk and disregards other rewards of a social nature. Since the publication of the pioneer article of Sen (1999), this simple model of assets selection has been challenged. Sen (1999) showed the significance of social, moral or ecological motives for the growth of market economics. These social, moral and ethical investments combine social return alongside the traditional financial return.

Sparkes and Cowton (2004) reported that the socially responsible investing and faith-based industry has grown and matured significantly since the early 2000. They showed that socially responsible investing and faith-based industries are now mainstream investments. Socially responsible investing and faith-based investing have changed from an activity carried out by a small number of specialty retail investment funds into an investment philosophy adopted by a growing proportion of some of the large investment institutions, such as large pension funds and insurance companies.

Empirical studies about socially responsible investing and faith-based investing are missing. As far as we know, with the exception of Sadeghi (2008) and Hakim and Rashidian (2002) very few studies have compared the performance of socially responsible funds with faith based funds. These previous studies, however, have different interests. Sadeghi (2008) focus is not on performance but rather on the impact of the introduction of Shariah-compliant Index on the Malaysian stock exchange. Hakim and Rashidian (2002) examines the stochastic properties of the Islamic index. The authors also investigate the relation between the Islamic index and the broad stock market represented by the Wilshire 5000 index.

Using data between 1998 and 2008, this study explores the risk and return characteristics of socially responsible investing and faith-based investing by comparing three indices, the Domini 400 Social Index, the KLD Catholic Values 400 Index, and the Dow Jones Islamic Market Index. This study also compares the performance of the socially responsible investing and faith-based indices with the S&P 500.

The traditional measures of performance of Sharpe, Treynor and Jensen are used to measure performance. However, because these measures are based on the assumptions that the portfolio returns can be totally characterized by the mean and variance of the return distribution (condition 1) and that investors care only about the mean and

variance of the return distribution (condition 2), the traditional performance measures are appropriate when returns are normally distributed. Reality, however, is complex and returns are rarely normally distributed. Returns distribution is often characterized by “fat tails” and “skewness” (Maheu and McCurdy, 2009).

To account for these features of the data we use the Lower Partial Moment as an alternative measure for risk (Baillie and DeGennaro (1990) and Nantell, Price K. and Price B. (2009)). We then calculate the Sortino measure of performance and modify the Treynor measure and the Jensen alpha by using the semi-standard deviation as the measure of risk. Findings show that all the performance measures generally yield similar inferences. Results also show that socially responsible investment and faith based funds provide above average profit opportunity.

Inter-temporal and Cross-sectional Variations in the Value Relevance of Earnings and Equity Book Value for Korean Firms

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ABSTRACT

The purpose of this paper is to examine the value relevance of accounting information for the firms in Korea. Using a sample of 142 firms listed in the Korean Stock Exchange during 20 years (1981-2000), we investigated the issues of whether the value relevance of book value and earnings shows any systematic trends over time, and what factors affect the value relevance of book value and earnings. The value relevance is measured by the explanatory powers (R square) in the regression of equity prices on earnings and equity book value. Our empirical results show that (1) the overall value relevance of both book value and earnings has increased over 20 years period, (2) the incremental explanatory power of book value has increased, while that of earnings has decreased, and (3) the value relevance of book value is higher for the smaller firms and those firms with negative earnings.

Institutions, Governance and Arbitrage Opportunities

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ABSTRACT

Herein we report that both the number of monitoring institutional owners and GIndex (the number of provisions limiting shareholders' rights, Gompers et al, 2003) of a takeover attempt's target tend to raise the information asymmetry of the target's synergy potential thereby reducing its idiosyncratic risk. As a result the likelihood that takeover attempts will be hostile and subject to offer revisions is enhanced. Such asymmetry tends to lessen the likelihood of merger completion and adversely impact risk arbitrage performance. Our findings should help risk arbitrageurs manage their portfolios.

Bidding Heterogeneity, Signaling Effect and Its Implications on House Seller's Pricing Strategy

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ABSTRACT

This paper examines individual seller's pricing strategy under two market conditions: first, sellers have reference-dependent utility; second, the housing market is less heterogeneous, such as multi-unit residential market. Acknowledging the fact that units in the same building serve as close substitutes for each other, we show that the recent transaction price on a unit in the same building may generate two signaling effects on subsequent potential buyers' willingness to pay for the other units in the same building. First, the average willingness to pay among buyers is positively correlated with the observed price signal, which we interpret as a spatio-temporal autocorrelation effect; second, after observing the prior price, the heterogeneity of potential buyer's willingness to pay decreases. Adopting a search framework, our model predicts that sellers' optimal asking price is increasing with their reference values, decreasing with the potential buyers' bidding heterogeneity and exogenous arrival rate. Using a geo-coded dataset on condominium transactions in Singapore from 1990 to 2001, we find significant evidence of the reference dependence effect. Meanwhile, we show that the spatio-temporal autocorrelation among the units in the same building is significantly higher than with the units in the neighboring buildings. Furthermore, after controlling for the autocorrelation effect using a spatial filtering model, we find that sellers tend to mark down their asking prices by at least 1.6% if a recent transaction has occurred within the same building, consistent with the prediction from decreasing bidding heterogeneity. We also propose a measure on potential

buyers' outside option and find consistent evidence that the realized transaction price decreases with the outside option. Finally, using a proxy measure on the exogenous arrival rate of potential buyers, we show evidence that sellers' asking prices tend to decrease with the arrival rate, as predicted by the model.

Association between Pre IPO Earnings Managements And Post IPO Institutional Ownership Drifts

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ABSTRACT

The purpose of this study is to investigate how earnings management before IPO affects institutional ownership changes after IPO. It is hypothesized that there is a negative association between the pre IPO earnings managements and post IPO institutional ownership drifts. Using a sample of 302 IPO's over six-year period (1997-2002), we find that the association between pre IPO earnings managements and post IPO institutional ownerships gets weaker over time so that the association becomes statistically insignificant by the end of the first year after IPO's. We also find that the association between pre IPO earnings managements and post IPO institutional ownership changes is significantly negative over the period between the IPO year and 2 years after that. Both results support the hypothesis. These results hold after controlling for other influencing factors such as market performance, initial offer price, underwriter reputation, and offer fraction. The results are robust across different measures of variables and testing methods.

Key words: Earnings managements, IPO, Institutional ownerships

Firm's Financial Leverage and Its Impact on Differential Roles of Earnings and Book Value for Equity Valuation

Kyung Joo Lee, University of Maryland-Eastern Shore, USA.

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ABSTRACT

The purpose of this study is to investigate whether the firm's financial leverage affects the value relevance of earnings and equity book value. In particular, we compare the valuation coefficients and explanatory powers of earnings and equity book value between high-leverage and low-leverage firms. Using a sample of 869 levered firms over twenty-year period (1989-2008), we find that equity book value (earnings) response coefficients are larger (smaller) for high-leverage firms vis-à-vis low-leverage firms. We also find that incremental explanatory power of equity book value is also larger for high-leverage firms than low-leverage firms. These results are robust across different model specifications and testing methods.

Can Design Thinking Be Used In Strategic Planning?

David Y. Choi*, Loyola Marymount University, USA
Steve Boyer, Otis College of Design
Maggie Hendrie, Otis College of Design

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ABSTRACT

In this highly explorative and unfinished paper, the authors (1 business and 2 design professors) ponder the potential use of design thinking in high level corporate strategic planning. First, the authors make the argument that that the conventional management practice (and training) allows for very little room for creative thinking. Then, they present a few fundamental concepts about design that suggest its potential applicability in business. The paper concludes with an examination of the differences between a design and conventional approach to corporate strategic planning.

Customer Perceived Values of Attributes of FFP Reward Services in Korea

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ABSTRACT

This paper focuses on frequent flyer programs (FFPs), which have long been used by most airlines as a powerful marketing tool. Since the preference for FFP reward services and the customer perceived values of mileage points differ among FFP members, airlines should design a customer-oriented reward service based on customer preference to motivate the use of mileage points. The intention for using mileage points is affected by various kinds of attributes such as reward items, consuming mileage points for rewards and time of usage. In this paper, we focus on evaluating customer perceived values of attributes of FFP reward services. A conjoint analysis model is applied to get the preference value of each attribute. Some empirical experiments are conducted in relation to Korean customers. From the empirical survey, the preference values of attributes are evaluated for different scenarios with respect to the number of mileage points. With the preference values of attributes, we can find several implications for airlines regarding the development of various FFP strategies.

SEC's Mandatory XBRL Filings and Timeliness of Quarterly Reporting

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ABSTRACT

The objective of this study is to examine how SEC's mandatory XBRL (eXtensible Business Reporting Language) filing requirements affect timeliness of firms' quarterly reporting. By using XBRL, firms that produce financial data and business reports can automate the processes of data collection and XBRL enables preparers to utilize software to tag all financial data in their financial reports to the elements within a taxonomy. Hence, XBRL is expected to increase the efficiency and timeliness of financial data reporting, as well as improving accuracy of the financial information. Using a sample of 1191 quarterly reports of public companies, we find gaps between firms' fiscal year ends and SEC reporting dates have been slightly shortened after mandating XBRL based reports compared to the period before after mandating XBRL, but the difference was not statically significant. We also find that about 40 percent of the sample firms used EDGAR software developed by SEC and remaining firms used other software developed by various XBRL software companies.

Key words: XBRL, Interactive Data, Timeliness

Analysis of Straddle Trading Strategy for Stock Index in Korea Option Market

Young-Hoon Ko, HyupSung University, Korea

ABSTRACT

The option market in South Korea began on 7 July 1997. Since then, the average daily deposit of put option has exceeded one trillion won in May 2010. Due to only six hour derivative trading per day, investors tend to focus on day trading liquidated within a day. The trading volume of stock index option rises before the noon and then decrease after the noon. Using this property, I propose two strategies: Straddle buy (BuythenSell) and Straddle sell (SellthenBuy). Under Straddle buy, a buy order is made at 9 o'clock and then the position is liquidated at 12 o'clock. Under Straddle sell, at 12 o'clock a sell order is made and the position is also liquidated at 14:40. During the period of 301-trading days (March 23, 2009 to May 31, 2010), the performance of two trading strategies is explored. Furthermore, transaction costs such as slippage and commission are considered. It is found that Straddle buy and Straddle sell strategies using ATM options can generate an average daily return of 0.47%.

Management Theories and ERP Post-Implementation Issues

Robert L. Hurt, California State Polytechnic University, Pomona

ABSTRACT

Successful enterprise resource planning projects are rare; many of them end in frustration and wasted time, money and energy. Thus, when a project has a successful outcome, it is important to learn from it as much as possible. This paper presents the case of a successful ERP implementation in a small US manufacturing company. Its primary addition to the literature lies in the way it relates the case study to several established management theories: the value chain, expectancy theory, change management principles, the capability maturity model and the systems development life cycle. The case also compares actual outcomes with a set of hypotheses developed by Muscatello and Parente regarding ERP post-implementation issues.

Reliable Modeling Techniques and Approaches for Chaotic Meteorological Behavior *

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John Jin, California State Univ. at San Bernardino, USA

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ABSTRACT

In this paper, we investigate how the seemingly chaotic behavior of weather could be well represented with the help of generalized feed forward network using back propagation technique. We analyzed temperature - high, average and low-, humidity, sea-level pressure, precipitation, wind, visibility, gust speed as input parameters and forecasted average temperature. This paper investigates the development of novel reliable and efficient technique to model the seemingly chaotic behavior of weather.

Key Words *Prediction, Forecasting, Meteorological predictions, & Intelligent system*

An Intelligent Lighting Control System Saving Energy by Using Infrared Sensor, Ambient Light Sensor, and Wireless Communication

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and Taikyeong Jeong*, Myongji University, Korea
Seunghwan Choi, Korea Electric Power Research Institute, Korea

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ABSTRACT

Reducing power consumption is one of the most demands of the world today. Lighting systems are essential for human life but they often waste a lot of power due to impropriety control of manual operators. In this paper, we propose an intelligent lighting control system that can automatically turn off unnecessary bulbs and sources. Proposed system includes a set of sensor nodes, a center controller, and a set of controllable switches communicating wirelessly.

Key Words *Energy Efficiency, Lighting Control, Ambient Sensor, Wireless Communication*

The Role of Trust and the Optimal Modes of Integration in Mergers & Acquisitions

Yongsun Paik, Loyola Marymount University, USA

ABSTRACT

While cultural compatibility is typically viewed as the most critical variable in ensuring the successful execution of mergers and acquisitions, it may only be a starting point for successful integration. Rather, underlying all M&A transactions, the level of trust is the most decisive factor. The purpose of this paper is to situate cultural differences within the broader context of how to successfully complete M&A. Based on findings from interviews with U.S. and European banks, the paper argues that the level of trust rather than cultural differences, established between the parties involved in the M&A, will determine the optimal levels of integration. Specifically, the paper hypothesizes the relationship between the levels of trust and the optimal modes of integrating the acquiring and the target company: separation, symbiotic, assimilation, and integration.

Estimating the Profit Potential of Risk Arbitrage Opportunities

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ABSTRACT

In this paper, we develop a model that is designed to estimate the ex-ante profitability potential of risk arbitrage opportunities. We use merger attempt announcements for the 1991 to 2001 period to construct a data set for both in and out-of-sample test. The following variables are found to have a measurable impact on the profit potential of risk arbitrage opportunities: 1. the initial spread between the offer price and market price for a target stock, 2. payment method, 3. merger types and 4. bid premium. Merger types and payment methods, in particular, are found to have strong impacts on risk arbitrage returns: 1. the probability of merger success, 2. losses incurred if merger attempts fail and 3. merger duration. Our findings support the proposition that information asymmetry plays a key role in determining the ex-ante profitability of risk arbitrage. Accordingly, we have developed a scoring model based upon the estimates for the unknown factors that shows promise as a mean of estimating the potential profit of risk arbitrage opportunities

Business Cycles, Accounting Information and Stock Prices: Evidence from Korean Firms

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Jin-Ah Kim*, Jeju National University, Korea
Hye Jung Jung, Chung-Ang University, Korea

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ABSTRACT

This study provides further evidence on the determinants of the value relevance of accounting information. Specifically, we examine whether the time-series variations in the value relevance of accounting information depend on the fluctuations in macroeconomic conditions, as measured by business cycles. Business cycles are classified into two stages: expansions and recessions. The value relevance of accounting information is measured by the earnings response coefficients (ERC) and the explanatory power (R^2) of both earnings and equity book value on stock prices. Using a sample of 142 firms listed in the Korean Stock Exchange during 20 years (1981-2000), we found the following results. First, while statistically insignificant, ERC is lower in expansions than in recessions. Second, explanatory power of accounting information is higher in recessions than in expansions. Third, value relevance of earnings is higher in expansions, while equity book value is more value relevant in recessions. Overall, these results show that business cycles have systematic impacts on the value relevance of accounting information for the Korean firms.

A Study on the Identification and Performance through Brand Community Interaction

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ABSTRACT

Management based on brands has been appeared as a core strategy of businesses. Along with market maturation, it has been difficult to make differentiation from competitive products. With the progress of the increase in the expectation level of consumers, it has been difficult to secure a continuous competitive advantage through product differentiation and to maintain the secured competitive advantage. This study examines more closely the outcomes and the process of deepening relationship in brand community on the basis of existing researches on consumer-brand relationship and interaction as well as brand community. At the same time it would suggest available marketing strategies to control a brand community which is appearing as the main point of brand management strategy in the world of businesses.

Analyzing Boutique Medical Practices: The Benefits for Physicians and Patients

Regina Rezex, California State University Los Angeles

ABSTRACT

This paper explores the concept of Boutique Medicine and the history behind its formation. Online and offline research supports both the advantages and disadvantages of this new method of practicing medicine, and discusses the characteristics of those individuals that are mostly inclined to pay for these services. The two basic models of Boutique Medicine are discussed and a detailed description of the amenities covered by these services is provided. The controversies of Boutique Care are weighed and examined, and the care standards that are given by the American Medical Association for Physicians that choose to convert to Boutique style practices are touched upon.