Editorial

Contemporary issues in emerging financial markets

Many papers were submitted to the conference; after a refereeing process, eight papers were ultimately selected for this first issue of the International Journal of Accounting and Business Finance (IJABF). The rest of this editorial provides a brief overview of the eight papers. The themes addressed in the papers in this issue cover a broad spectrum of contemporary issues in accounting and financial markets, including: corporate governance; initial public offering (IPOs); the day-of-the-week (DoW) effects; capital asset pricing model (CAPM); influence of macro-economic factors on stock returns;and public sector accounting and financial systems reform.

Recently, corporate governance issues have attracted much research attention in emerging and transitional economies (Claessens and Yurtoglu, 2013).Corporate governance plays a central role in the direction and control of the corporations in order to ensure that the interests of shareholders and other stakeholders are met through efficient and effective use of resources. A central theme of corporate governance research revolves around the establishment of mechanisms aimed at attenuating the conflict of interest between shareholders and managers, as well as between majority shareholders and minority shareholders, thereby mitigating agency costs. To solve the agency problems, various governance mechanisms have been devised. In this issue, two papers focus on the effectiveness of two such governance mechanisms, namely debt financing and board structure, respectively. First, in a paper titled "Capital structure decisions, agency conflicts and corporate performance: Evidence from listed Sri Lankan manufacturing firms", Vijayakumaran examines potential non-linear effects of debt financing (measured by the ratio of total debt to total assets) on firm performance. The main finding of this study is that at the low levels of leverage, debt is inefficiently used in the firms and used by controlling shareholders to facilitate expropriation of minority shareholders. Yet, after a threshold level is reached, further increase in debt capital help to improve performance by constraining entrenchment behavior of controlling shareholders through the threat of liquidation and the close monitoring by the lenders. Second, in a paper entitled 'Board structure and firm performance: A study of listed commercial banks in Sri Lanka', Senthuran and Velnamby examine the impact of board structure on the performance of 10 listed banks. The authors use board size, gender, CEO and chairperson duality, education and average age of board of directors and proportion of independent directors and outside directors to represent the board structure, and return on assets (ROA) and return on equity (ROE) to measure performance. Consistent with findings of previous research focusing on other emerging economies and other sectors of listed Sri Lankan listed firms (see, for example, Velnamby, 2013; Dixion et al., 2015), the authors find that characteristics of boards of directors do not have any impact on the performance of their sample of banks. These two studies provide new insights into the efficacy of corporate governance mechanisms in place of Sri Lanka.

The paper 'Why do IPOs leave money on the table for investors on the first day of trading? A theoretical review' by Perera and Kulendran examines the underlying theories of the short-run underpricing. Although asymmetric information theories dominate to explain the rationale behind the

short-run underpricing, authors suggest that insufficient attention has been given to other theoretical perspectives, especially behavioral explanations. Therefore, drawing on various theoretical perspectives, the authors develop several testable hypotheses relating to the short-run market performance of IPOs. This study in fact provides a platform for future empirical research on IPOs.

In the paper titled 'The Day-of-the-Week Effect: Anomaly or Illusion? New Evidence from Sri Lanka', Jeyasreedharan compares the empirical cumulative distribution functions (ECDFs) of the close-to-close log-returns of a particular day-of-the-week to the remaining weekdays for stocks comprising the S&P Sri Lanka 20 Index to detect DoW effects. The sample period for the study is sub-divided into two periods: the civil war period (1st January 2006 to 18th May 2009) and the post-civil war period (19th May 2009 to 31st December 2012). A modified Kolmogorov-Smirnov statistic, called the DoW-statistic, is then used to define and measure the degree of DoW efficiency. The DoW-statistic for each stock is subsequently used to rank the S&P Sri Lanka 20 Index component stocks accordingly. The classical Kolmogorov-Smirnov test is then used to ascertain the statistical significance of these DoW statistics. With no adjustments for ARCH effects, the results indicate that DoW effects were weak during the war period but strong during the post-war period. However, when potential ARCH effects were taken into account, both periods showed evidence of strong DoW effects, indicating that for the sample period studied the Day-of-the-Week effect appears to be an anomaly rather than an illusion.

Following the seminal works of Nobel Prize Laureates in Economic Sciences (Markowitz, and Sharpe in 1990; Fama in 2013) and other scholars, theoretical and empirical research on the measurement of risks and the analysis of risk-return relationships (of individual assets and portfolio) have evolved and developed. In this issue of IJABF, two papers examine the applicability of capital assets pricing models (CAPM) to Sri Lankan financial markets. The paper 'Testing the conditional and unconditional CAPM for Sri Lankan stock market' by Sooriyakumar, Sivanathan and Kandeepan tests whether conditional and unconditional CAPM is a useful method for estimating the cost of equity capital and making rational decision to invest on Sri Lankan stock market. The authors use weekly closing prices from 1st week of 2010 to 5th week of 2015 from a sample of 13 stocks included in the S&P SL20 index from the Colombo Stock Exchange and consider the return on ASPI index as the proxy for the return on the market portfolio and the short term Treasury bill rate as the proxy for the risk free return. The authors find that there is a significant conditional relationship between beta and returns indicating that shares with higher beta have higher returns when the market excess return is positive and lower returns when the market excess return is negative. Thus, the authors conclude that CAPM is a useful methods for estimating the cost of equity capital and beta is a useful measure for investors and portfolio managers in making investment decision. The other paper titled 'Time varying estimate of beta (systematic risk): Evidence from Colombo stock exchange' Wijethunga and Dayaratne utilize the daily trading data of 26 stocks from the Bank, Finance & Insurance, Hotels & Travel and Manufacturing sectors over the period 2005-2013 to estimate time varying betas, by using Recursive regression and Rolling regression techniques. The authors estimate and analyze time varying betas of the 26 stocks for the full period and the three sub periods, namely 2005-2007, 2008-2010, and 2011-2013. The main finding is that there is evidence for time varying betas and increasing and decreasing beta trends. It is also found that beta values varied across the techniques used to estimate the betas.

Therefore, the authors conclude that betas are not stable and demonstrate the time varying pricing relationships in the CSE and thus the violation of assumption of beta constancy, casting doubt on the usefulness of CAPM in estimating the systematic risk in CSE. Although these two studies provide contrasting findings about the usefulness of CAPM, setting aside the methodological differences, the conflicting findings may be due to the differences in the sample of stocks, times periods and sampling frequency used in these studies.

In a paper titled 'Dynamic effects of macroeconomic variables on CNX bank using ARDL model', Baranidharan and Vanitha investigate dynamic effects of selected macroeconomic variables on CNX Bank's returns. The study use exchange rate, foreign exchange reserves, cash reserve ratio, repurchase rate, reverse repo rate, wholesale price index as independent variables and NSE CNX Bank' returns as dependent variable. The authors use data over the period from 1st June 2004 to 31st July 2014 to analyze the short and long run effects of selected macroeconomic variables on CNX Bank's returns, using Auto Regressive Distributed Lag (ARDL) model. The authors find that shocks in the macro-economic variables namely exchange rate, CRR, RRR, REPO and WPI affects CNX Bank's returns in the short-run and this effect disappears in the long run. The authors further confirm causal effects of these macroeconomic variables on CNX Bank's return using the Granger causality test.

Finally, in the paper 'Reforming public sector accounting and financial systems: A critique of Cameroon and Niger' AMBE Alfred analyzes accounting and financial management reforms in Cameroon and Nigeria and suggests that these countries should aim at improving accountability of governments by such means as accrual accounts, devolved budgets, performance measures, transparent costing and output and outcome based budgeting. The author also investigates the potential barriers against such reforms and discusses the ways and means to overcome such barriers in these countries.

This inaugural issue of IJABF, with contributions from scholars in accounting, banking, finance and economics, attempts to provide current findings and possible insights into theoretical and empirical research on accounting, and financial markets and systems in emerging economies.

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