

**The Crisis and Emerging Markets:  
A Multidisciplinary Analysis**

**Edited by**

**Peter Koveos**

Athens Institute for Education & Research



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# Introduction to the Volume

*Peter Koveos*

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The contents of this volume are drawn from ATINER Conferences held in 2010 in Athens, Greece. At the time, the global economy was still suffering from the effects of the financial crisis. Many of the papers presented, then, reflect the interests and mood of the period and feature the crisis as the underlying theme. A second, and very timely, theme emphasized in some papers is the state of emerging markets. The authors explore various aspects of the economic and business environment: finance, economics, accounting, and management.

The book is divided into five Sections. Each section offers a different perspective of the crisis and the other topics addressed by our contributors. The end-product is a fascinating collage of scholarly studies that adds to our understanding of our global economy.

## **Section 1: The View From Finance**

In the first article of this section and the volume, Antonio de la Torre Gallegos and Edith Bellini were motivated by the recent crash of the international stock markets. In their work, *The Stock Market and the Global Financial Crisis*, they analyse the influence of crises over International stock markets. The authors differentiate between *stock market crash* and *stock market crisis*; the former is defined as a sudden and drastic drop in the market, whereas the latter is a temporary market downturn driven by macroeconomic factors. Empirically, a crisis is captured through three variables: the maximum drawdown percentage, the duration of the decline, and the recovery time. These variables are the main elements of the study and are tested using data obtained from the Spanish, USA, German, and British markets. The methodology employed involves calculating the degree of correlation between crises with the ultimate objective of forecasting.

Oana Resceanu examines *The impact of synergies on mergers & acquisitions: empirical analysis on the pharmaceutical sector on the European Stock Exchanges: 2004-2010*. Using the event study methodology, the author focuses on the impact of the announcement of the deal on the stock price evolution of the acquiring companies. The abnormal return was daily measured during the window event, which is composed of 20 days before the event, the date of the event, and 60 days after the event. The estimation period for the parameters of the regression model used to compute the normal return included 236 days before the event window. The results indicate positive market expectations, reflected in the stock appreciation, in the days around the

announcement as well as in the following few days. However, the expected positive impact begins to fade out resulting in negative expectations afterwards.

In their paper, *Techniques for estimating the generative multifactor model of returns on equities: Comparative study of the Principal Component Analysis, Factor Analysis, Independent Component Analysis and Neural Networks Principal Component Analysis*. Rogelio Ladrón de Guevara Cortés and Salvador Torra Porrás compare the dimension reduction and/or feature extraction computational techniques, e.g., Principal Component Analysis, Factor Analysis, Independent Component Analysis and Neural Networks Principal Component Analysis. These methodologies are used to extract the underlying factors of systematic risk - under the framework of the Arbitrage Pricing Theory - driving the returns on equities of the Mexican Stock Exchange. First, they evaluate these methods from a theoretical and matrix scope as well as the attributes of the systematic risk factors extracted by each method. Secondly, they carry on an empirical study in order to measure the level of accuracy in the reconstruction of the original variables, reproduced by the multifactor generative model of returns, when they employ the underlying systematic risk factors estimated by means of each extraction technique.

Rogelio Ladrón-de-Guevara Cortés and Salvador Torra Porrás add to their contribution to this volume through their *Comparative study of the underlying multi-factor structure of systematic risk estimated by feature extraction techniques*. In this second study, the authors conduct their research according to two additional different perspectives. First, in order to distinguish the similarities or differences among the pervasive factors of systematic risk and their corresponding sensitivities produced by each technique, they compare the descriptive statistics and morphology of the pervasive factors extracted, as well as those of the estimated betas. Second, they compare the results of an improved two-stage econometric contrast methodology of a statistical approach to the Arbitrage Pricing Theory, where the multifactor structure of the betas estimated in each case is tested.

*Financial Performance Analysis of Transportation & Storage Sector's Firms Trading in Istanbul Stock Exchange by using TOPSIS Method* presents a performance measurement model developed to rank the transportation & storage companies. Nuray Ergül, Veli Akel, Sezayi Dumanoglu and Halil Alpaslan obtain selected financial ratios, explain them, calculate them and discuss in detail. TOPSIS is then applied to combine different ratios to obtain a single performance score. The performance scores are used to rank the firms for the last four years in the year of 2006-2009.

The objective of the study by Ebrahim Abbasi and Mahmoud Reza Mostaghimi is to identify the factors determining the capital structure of industries in Tehran Stock Exchange. *The Determining Factors of the Industries Capital Structure in Tehran Stock Exchange* uses Panel Data Regression for 159 companies in six different industries level from 2001 to 2008. The factors considered included the profitability rate, growth profitability, asset structure, size and age of the firms on long and short term debts, is the same in different industries. The authors find that the impact of determining factors of capital structure varies from one industry to another.

In the last contribution to this section, Teresa da Cunha Pinto and Carlos Machado-Santos point to the importance of EVA\* and MVA\* when used individually or in combination in evaluating enterprise performance. *An analysis of the correlation between EVA<sup>®</sup> and VA<sup>®</sup>: The Case of a NYSE Euronext Lisbon listed Company* uses a case-study to explore the use of EVA<sup>®</sup> in a corporate group with significant presence in multiple activity sectors and listed in Lisbon's Euronext. The authors examine the incremental information of a set of performance measurements between 2005 and 2009. They measure performance associated with the creation of value for shareholders and analyse the performance of MVA<sup>®</sup>. The study concludes that the relationship between EVA<sup>®</sup> e MVA<sup>®</sup> is statistically significant.

## **Section 2: Challenges in the World of Accounting**

Thomas O'Connor and Clifford Koen start us off in the book's second section by presenting an analysis of the nature of and conflicts surrounding intellectual property rights. *Intellectual Property Rights: Their Development, Protection, and Orderly Transfer in the Twenty-First Century World (with Particular Emphasis on Emerging Nations)* review the various international Conventions and discuss the challenges associated with cross-border protection of intellectual property.

Transfer pricing has been one of the fundamental tools through which qualified companies reduce their global tax burden. Bülend Terzioglu and Adam Steen, however, suggest that the practice is also associated with intra-company conflict. *Sowing the seeds of transfer pricing conflict* provides the reader insight into the complexities inherent in conflict and the resolution methods that minimise strain on individuals affected. The study uses survey data as well as interviews and finds that the vast majority of organizations surveyed indeed experience frequent conflicts related to transfer pricing. The majority of conflicts are resolved through negotiation between the disputing parties, followed by a forced solution from top management. The results add further evidence that transfer pricing continues to contribute to significant interdivisional conflict with no resolution yet apparent.

Helena Sjögrén, Kaisu Puimalainen and Pasi Syrjä's work deals with an issue of importance to small firms: the value of accounting services they receive. *Does outsourcing of accounting affect management accounting practices in small firms?* Indicates that owner-managers either do not understand or simply do not generate much benefit from statutory financial accounts. The empirical data used in the study were drawn from a mail survey conducted in autumn 2008 by means of a structured questionnaire and financial statement data. The authors aim to contribute to the existing knowledge of management accounting practices in small firms by demonstrating that if accounting services are outsourced in small Finnish firms, owner-managers do not utilize the financial information and that the role of the auditor becomes more pronounced if accounting services are outsourced.

As the title implies, *Recognition of Goodwill Under IFRS 3* examines aspects of recognition of goodwill in mergers and acquisitions. International Financial Reporting Standard 3 (IFRS 3), “Business Combinations”, issued in 2004 and revised 2009, eliminated pooling-of-interest as a means of recognizing a business combination. The study by Lela Pumphrey, Cecilia Lambert, and Christopher Lambert offers insight into how IFRS 3 has affected the quality of information presented, provides examples of companies involved in international M&As and analyzes the information presented.

### **Section 3: Issues in Management**

Jia-Sheng Lee and Tai-Kun Yang investigate the integrative influence of transformational leadership and personal mastery on organizational learning and organizational innovation performance. In their study, *The Effect of Transformational Leadership and Personal Mastery on Organizational Learning and Organizational Innovation Performance*, they find, first, that both transformational leadership and personal mastery have significant positive impacts on organizational learning. Second, neither transformational leadership nor personal mastery has direct impacts on organizational innovation performance. Third, both transformational leadership and personal mastery have positive impacts on organizational innovation through organizational learning. They conclude that top management should play an important role as a transformational leader to build an environment promoting and sustaining organizational learning

Yasemin Bal, Esin Can and Yonca Gurol bring to our attention the importance of competitive advantage for organizations that want to survive in our increasingly competitive economy. In their paper, *The Core Competence Concept: A Way to Gain Competitive Advantage for Organizations*, the authors indicate that organizations adopt various strategies to gain sustainable competitive advantage. The authors focus on one of the strategic approaches for competitive advantage, the concept of “Core Competencies.”

In their contribution, John Chiu and Robert Paton propose the Strato—Operation Management Model as a way of helping small and medium sized enterprises deal with complex and uncertain times. *Facing an Uncertain Future with the Strato-Operation Management Model* integrates strategic, tactical and operational decision-making processes. The authors adopt a systems approach that nests together the three managerial decision-making levels. The paper also outlines a practical application of the model within the Everest & Blanc Corporation, a small property management firm in Toronto, Canada.

Vroom’s motivational theory features three elements: the expectancy that effort will lead to performance, the instrumentality that performance will lead to rewards and the value of the rewards. Based on Vroom’s theory, the study by Leonina-Emilia Baciú, Maria Mortan and Vincentiu Veres deals with work motivation in the Romanian Local Public Administration. *Debutant civil servants probation period – the influence on the Expectancy element of Vroom’s motivational theory* is based on administration of questionnaires to

public servants working in a City Hall or county in the country. The authors aim at identifying how pertinent regulations are related to the career and other aspects of the civil servants work as well as exploring how they influence the three elements of Vroom's model and by default work motivation.

#### **Section 4: Accounting, Economics and Finance**

*Tax Measures taken to fight the Crisis – Developed Countries Overview, Concrete Measures in the Czech Republic* describes the importance and rationale for adopting tax measures required to fight the crisis. Jiří Kostohryz compares various tax policy measures, with emphasis on the fiscal measures in the EU member states and OECD countries. The paper also offers specific details of the specific tax measures implemented in the Czech Republic. The Czech government's efforts were focused on lowering taxes, with full fiscal policy taking effect in 2010. In addition, Kostohryz discusses the controversial financial transactions tax and the concept of tax neutrality.

In his *The Financial and Public Policy of Greece as a Member of the Economic and Monetary Union*, Ioannis Kallianiotis provides an outline of the political economy of Greece (Hellas) during the modern times and up to the creation of the European Union (EU), the Economic and Monetary Union (EMU), and the latest debt crisis. Kallianiotis presents a socio-economic analysis by considering the country's interdependence with EU, her loss of public policies, and her absorbed sovereignty. His study emphasizes the severe changes that have taken place in this EU country-member after the 1957 Common Market idea. In general, the author is skeptical of the benefits brought on to smaller states of the EU as a result of the establishment and operation of the Union.

In his study, *Effects of Area Support Payments on the Economic Situation of Farms*, Sanita Klava analyses the proportion of rented farmland in the total land balance as well as the use of farmland in Latvia. According to this analysis, cereal crops in the country on average occupy more than 29% of the entire Under the Single Area Payment Scheme; Latvian farmers receive various support payments, including single area payments (SAPs) per hectare of utilized agricultural area (UAA). The study ascertains that SAPs account for a significant share in the profit of enterprises. Without the SAPs, the indicators of financial performance of enterprises would significantly worsen, with their profit decreasing on average by 30-40%. Among several size groups of farms and in some regions, agricultural enterprises would suffer losses and be put out of business without these support payments.

In his article, *The Latest "Planned" Financial Crisis, which Caused the First Depression of the 21<sup>st</sup> Century was a Moral and Political Crisis*, Ioannis Kallianiotis discusses the factors behind the recent crisis. The author describes the sequence of events related to the crisis and points to the importance of measuring the costs and benefits of globalization to society. The uncertainty prevailing within the global economy was accompanied by fiscal imbalances, currency market volatility and, eventually, the burst of the bubble. Financial

market deregulation enabled corruption, speculation and the breakdown of economic infrastructures. The moral and political crisis had finally taken its toll and culminated into the first depression of the century.

Līga Jankova's study investigates the distribution of EU funds available to Latvia and other Member States as it relates to their population, GDP as well as the amount of financing per 1km<sup>2</sup> territories of the Member States. In *The Impact of EU Structural Funds in Latvia and EU Member States*, the author points out the discrepancies in the EU Structural Funds amount received by the EU-15 versus that received by the EU-12 and in the impact the funds made to these two Member State groups during the 2000-2006 and 2007-2013 periods. More importantly, the distribution of funds over the 2014-2020 planning period has the potential of creating even greater regional discrepancies and thus missing the original goal of EU's regional policy.

## **Section 5: Corporate Governance and Social Responsibility**

Interest in Corporate Governance and Social Responsibility (CGSR) has crossed disciplinary lines. The papers in this section thus reveal the richness of theoretical frameworks upon which studies in CGSR have relied.

*The Effects of Internal Corporate Governance on Firm Performance: Evidence from Thailand* examines the relationship between internal corporate governance variables and firm performance of SET100 nonfinancial firms listed on the Stock Exchange of Thailand. Phassawan Suntraruk uses 2005-2007 data and finds the number of outside directors serving on a board to be positively related to firm performance, regardless of accounting or market measures. The author concludes that the domination of outside directors enhances the effectiveness of board of directors to monitor and discipline the management and further increase firm performance. Additional evidence is presented showing that institutional and concentrated ownership are positively related to both market and accounting performance measures.

Faizah Darus and Azlinda Mohamad investigate the impact of corporate governance reforms in Malaysia through the establishment of the Malaysian Code on Corporate Governance (MCCG) following the Asian Financial Crisis. *Corporate Governance and Corporate Failure in the Context of Agency Theory* examines the impact of corporate governance (board structure, ownership structure and internal control mechanisms) on the poor performance of companies in Malaysia within the context of agency theory. The authors find significant negative association between CEO duality and financial distress condition. They also draw implications of their findings for the theory of finance as well as its practice in emerging markets

The importance and relevance of Corporate Social Responsibility (CSR) has been elevated as firms came under pressure in the face of global competition. Nizar Saleh Alshowaiman, the relationship between CSR and financial performance, whether measured by accounting or market-based measures. Examining this relationship at its fullest has been hindered by the lack of satisfactory quantitative measures. *Developing Financial Accounting System to Reflect Corporate Social Responsibility in Saudi Arabia* provides a

more comprehensive aggregate measure of CSR by using a Data Envelopment Analysis (DEA) approach with financial performance indicators as inputs and CSR scores as outputs. The study recommends a CSR Index based on a DEA model to comply with CSR requirements in Saudi Arabia.

On behalf of ATINER, I would like to thank all authors for their valuable contributions and wish them the best in their future research endeavors.

