Business & Economics articles (April 2013)

1.
Title: International credit, financial integration and the euro
Author: Toporowski, Jan
Source: Cambridge Journal of Economics; 2013, Advance Access. First published online: April 9, 2013
Abstract: Prospects for the European Monetary Union are inevitably affected by the theoretical presuppositions of the observer. The most common approach, the theory of optimal currency areas, postulates that traded goods are produced by labour and the exchange rate between 'national' currencies is the ratio of commodity wages, expressed in monetary units, in different countries. In this analysis the exchange rate and wages are substitutes for obtaining international 'competitiveness'. Such a view is the basis for current reflections about the future of the euro and the reduction of its difficulties to relative wages rates in different countries of the eurozone. The theory has two important limitations. First, it takes no account of the import intensity of exports, which would require wage adjustments to reinforce exchange rate adjustments, so that wages and exchange rates are necessarily complementary parameters, rather than being substitutes for each other. Hence, exit from the eurozone as a means of closing trade deficits would require additional austerity. Even more importantly, it is a commodity money theory, in which imbalances are accommodated by accumulations of specie or fiat money. However, in a credit economy, banking systems absorb trade imbalances into their balance sheets. Moreover, financial integration means that banking systems throughout Europe are vulnerable to balance sheet risks from exchange rate depreciation in any country in Europe.
Database: *Oxford Journals Online*

2.

Title: Policy coordination, conflicting national interests and the European debt crisis
Authors: Panico, Carlo and Purificato, Francesco
Source: Cambridge Journal of Economics; 2013, Advance Access. First published online: April 9, 2013
Abstract: This paper tries to identify the causes of and solutions to the debt crisis, by moving from the content of a previous debate on policy coordination in the euro area and from the available evidence on the existence of conflicting national interests within the governing bodies of the European Central Bank (ECB). It argues that before 2007 the flaws in the institutional organisation of the process of coordination between monetary and fiscal policy affected the cyclical and growth operation of the economies. After then, they have contributed to intensifying the conflicts among national and European authorities. The conflicts have curbed policy reactions, held back the interventions of the ECB, as occurred to the Federal Reserve during the crisis of 1929, and favoured the speculative attacks. The conclusion is that the organisation of the area must be reformed to allow its institutions to effectively pursue the objectives for which they were created, i.e. to protect the citizens from the instability of the international financial markets. As has been done in monetary policy, the reforms must reduce the uncertainty on the actual conduct of national policies and transform the defensive attitudes of the different actors of the process into a positive search for the most effective policy for the whole area.
Database: *Oxford Journals Online*

3.
Title: MODELING OF FINANCIAL CRISES: A CRITICAL ANALYSIS OF MODELS LEADING TO THE GLOBAL FINANCIAL CRISIS.
Authors: Anand Tularam, Gurudeo and Subramanian, Bhuvaneswari
Source: Global Journal of Business Research (GJBR); 2013, Vol. 7 Issue 3, Pp.101-124

Abstract: The causes of financial crises are multiple but the models of financial crises revolve around four generational models. In this paper, the authors analyzed these models and highlighted the fact that each model was adapted to specific situations to explain the financial crises faced rather than being visionary or systematic in approach. These models suggest crises may develop without significant change in economic fundamentals, since policies usually respond to changes in economy and agents consider these when forming expectations. Therefore, any set of indicators together may not provide an over-all picture but interactions among indicators should be pursued. Common sense and guesswork is used but is not sufficient for representing real behavior. Modeling suggests that stressed or fraudulent companies should be removed to avoid further crises. While the new models handle a wider range of nonlinear behavior, little new work is in fact evident. Apart from a patchwork-like approach of the past, financial or currency crises modeling has not been dealt with systematically. A new way thinking is not emerging suggesting a visionary and dynamic robust mathematical modeling approach is needed with attention to the many possible risks. [ABSTRACT FROM AUTHOR]
Database: *Business Source Complete*

4.
Title: The ECB's separation principle: does it 'rule OK'? From policy rule to stop-and-go
Authors: Bordes, Christian and Clerc, Laurent
Source: Oxford Economic Papers; April 2013, Vol. 65, Special Issue: Monetary Policy Before, During and After the Crisis, Pp. i66-i91
Abstract: Prior to and during the first stage of the crisis, the ECB's conduct of monetary policy was consistent with the 'separation principle', which refers to the division between monetary and liquidity management policies. However, it became increasingly difficult to apply as interest rates approached their lower-bound. While it was supposed to guide the ECB's exit strategy, the ECB finally resorted to a 'stop-and-go policy'. The separation principle strongly depends upon the institutional setup in which the central bank operates. We show that the difficulties faced by the ECB are due to an important feature of the monetary union, which economic governance is essentially rule-based. The success of a monetary union crucially depends on the strict compliance to the rules. The breach of the rules forced the ECB to stabilize euro area sovereign debt markets, stretching its mandate and altering the efficacy of the separation principle.
Note: *Special Issue: Monetary Policy Before, During and After the Crisis*
Database: *Oxford Journals Online*

5.
Title: Discourses on corporate social ir/responsibility in the financial sector
Authors: Herzig, Christian and Moon, Jeremy
Source: Journal of Business Research, In Press, Corrected Proof, Available online 5 March 2013
Abstract: The financial crisis has brought about dramatic consequences for economies and societies. Questions emerge about responsibility for the crisis and, implicitly or explicitly irresponsibility; the obligations to take responsibility for the costs and other adverse effects of the recession; and the nature of responsibility for social welfare and business probity in future national and global governance. This paper explores how UK financial and ethical media construct i) the financial sector's social ir/responsibility in the context of the financial crisis and resultant recession, and ii) the motivation and means of the sector and other actors to respond to their adverse social impacts. Four discourses emerge from our analysis providing insights into distinct types of corporate social responsibility (CSR) and their relationship with corporate social irresponsibility (CSI), attitudinal change and expectations of the change required to ensure a more responsible financial sector. Findings reveal tension in the discourses concerning the sector's ability to "heal itself". Questions of accountability and of the capacity and reliability of CSR are common to all discourses. The discourses identified provide clear insights into distinctive diagnoses and prescriptions for ir/responsibility in the financial sector.
Database: *ScienceDirect*

6.

Title: SUCCESSFUL TURNAROUND STRATEGY: THAILAND EVIDENCE

Authors: Evans, Robert Thomas, Chitnomrath, Thanida and Christopher, Theo

Source: Journal of Accounting in Emerging Economies; 2013, Vol. 3, Issue 2. EarlyCite article.

Abstract: *Purpose* - This research seeks to determine the success of turnaround strategies adopted by corporations in Thailand following post-bankruptcy reorganization plans approved by the Thai Central Bankruptcy Court.

Design/methodology/approach - The study uses a sample of 101 companies whose reorganization plans have been confirmed by the Thai Central Bankruptcy Court in the period 1999 – 2002, with performance measures to 2005.

Findings - The results indicate that over a three year reorganization period successful companies were found to be most likely to adopt cost and expense reduction, company size reduction and disposal of non-core assets while operational strategies aimed at reconfiguring internal operations and systems were not likely to be associated with successful companies.

Practical implications - The data suggests, subject to limitations, the selection of restructuring methods may differ between those companies which successfully reform and those which do not. Companies pursuing successful turnaround strategies where found most likely to adopt cost and expense reduction, company size reduction and disposal of non-core assets as significant operational strategy.

Originality/value - Prior research in Thailand has not investigated turnaround strategy of successful and unsuccessful companies. The result of the study has practical significance as it provides information of use to regulators, management, lenders, creditors, practitioners, and investors. The prevailing economic conditions worldwide suggest the need for replication and continual refinement of research in this area not only in Thailand but elsewhere.

Database: *Emerald Management*

7.

Title: Credit availability and investment: Lessons from the “great recession”

Author: Gaiotti, Eugenio

Source: European Economic Review; April 2013, Volume 59, Pp. 212–227

Abstract: The paper argues that the traditional difficulty encountered in finding evidence on the effects of credit availability on economic activity depends on the fact that these effects are powerful but rare and vary with the cycle. The global financial crisis offers an opportunity to test this assumption. The paper exploits a unique dataset, including direct information on credit rationing for 1200 Italian firms over the last twenty years. We find that the elasticity of a firm’s investment to the availability of bank credit has been significant in periods of economic contraction, but not in other periods (the ability to tap alternative sources of finance may arguably explain this result) and that during the global crisis the impact of credit quantity constraints on Italian investment in manufacturing was significant.

Note: *Original research article*

Database: *ScienceDirect*

8.

Title: CEO BEHAVIOR AND SUBPRIME MORTGAGE CRISIS.

Authors: Chang, Guangdi and Chen, Fulwood

Source: International Journal of Business & Finance Research (IJBFR); 2013, Vol. 7 Issue 3, Pp.13-25

Abstract: The paper addresses the subprime mortgage crisis from the perspective of the CEO of a financial firm. We integrate agency theory with the asset-pricing model to explore factors affecting CEO risk aversion. Apart from wealth and effort, the two main factors in influencing the agent's risk preference, we also add a measure of CEO career concern to the model. Increasing

peer pressure, high-incentive compensation structure, and declining market power diminish CEOs' alertness to risk, resulting in a departure of CEO actions from firm value. For reining in CEOs' excessive risk taking and aligning both interests of firms and CEOs, we suggest that the emphasis of the pay schedule should be adjusted according to market conditions, the relative performance evaluation be embedded into executive compensation, and the time span for performance evaluation be lengthened. The role of the board of directors and the function of risk management units should also be intensified. [ABSTRACT FROM AUTHOR]
Database: *Business Source Complete*

9.
Title: Deal size, acquisition premia and shareholder gains
Authors: Alexandridis, George, Fuller , Kathleen P., Terhaar, Lars and Travlos, Nickolaos G.
Source: Journal of Corporate Finance; April 2013, Vol. 20, Pp. 1–13
Abstract: This study examines the contradictory predictions regarding the association between the premium paid in acquisitions and deal size. We document a robust negative relation between offer premia and target size, indicating that acquirers tend to pay less for large firms, not more. We also find that the overpayment potential is lower in acquisitions of large targets. Yet, they still destroy more value for acquirers around deal announcements, implying that target size may proxy, among others, for the unobserved complexity inherent in large deals. We provide evidence in favor of this interpretation.
Database: *ScienceDirect*

10.
Title: Mergers and Acquisitions in European banking higher productivity or better synergy among business lines?
Authors: Ayadi, Rym; Boussemart, Jean-philippe; Leleu, Hervé; and Saidane, Dhafer
Source: Journal of Productivity Analysis; April 2013, Vol. 39, Issue 2, Pp. 165-175
Abstract: This paper aims at assessing the extent to which M&As in European banking sector over the period 1996-2003 result in two simultaneous catching up and convergence processes of consolidating groups. First, do the M&As significantly contribute to the consolidating banks to catch-up with the productivity benchmark? Second, in terms of synergies or complementarities among business lines, is there a convergence process of output mixes among the individual banks of the M&A operations? Our sample is made up of 42 M&A transactions and 587 non-merging banks in Europe. The main conclusion is that M&A operations in the European banking industry appear to be essentially motivated by an objective of improving complementarities among lines of work from each component of M&As rather than increasing productivity at the merged banks. [PUBLICATION ABSTRACT]
Database: *ABI/INFORM Complete*

11.
Title: Product market advertising effects on the method of payment in M&A
Authors: Devos, Erik, Elliott, William B. and Karim, Mohammad A.
Source: Managerial Finance; 2013, Vol. 39, Issue 4, Pp.362 - 383
Abstract: *Purpose* – Prior literature suggests that managers have an incentive to increase stock prices prior to stock-based acquisitions. This article aims to examine if there is any relationship between product market advertising and method of payments in mergers.
Design/methodology/approach – To examine the hypotheses the paper uses ordinary least squares (OLS) regressions and regressions based on a propensity score matching approach, which controls for the possibility that differences in firm characteristics are driving the results.
Findings – The paper finds that managers of firms that use stock to finance bids increase advertising intensity in the pre-merger period and find that advertising is high prior to stock-based mergers, relative to that of cash-based acquirers. It also finds that managerial ownership in stock based acquiring firms is positively related to pre-merger advertising intensity.

Research limitations/implications – Although this paper examines whether stock-based acquirers increase their advertising intensity in the pre-merger period to gain economic benefit it does not discuss in detail through which mechanism advertising affects stock price.
Practical implications – The paper provides a new perspective on the relationship between product market advertising of the acquirer and the method of payment in mergers. The results shown in this paper may motivate investors of the target firms to re-evaluate the acquirers offer if the medium of payment is acquirers own stock.
Originality/value – To the authors' knowledge this paper is the first to document the link between advertising prior to a merger and the method of payment used in that merger.
Database: *Emerald Management*

12.
Title: The Determinants of Mutual Fund Performance: A Cross-Country Study
Authors: Ferreira, Miguel A.**,** Keswani, Aneel, Miguel, António F. and Ramos, Sofia B.
Source: Review of Finance; April 2013, Vol. 17 Issue 2, Pp. 483-525
Abstract: We use a new data set to study the determinants of the performance of open–end actively managed equity mutual funds in 27 countries. We find that mutual funds underperform the market overall. The results show important differences in the determinants of fund performance in the USA and elsewhere in the world. The US evidence of diminishing returns to scale is not a universal truth as the performance of funds located outside the USA and funds that invest overseas is not negatively affected by scale. Our findings suggest that the adverse scale effects in the USA are related to liquidity constraints faced by funds that, by virtue of their style, have to invest in small and domestic stocks. Country characteristics also explain fund performance. Funds located in countries with liquid stock markets and strong legal institutions display better performance.
Database: *Oxford Journals Online*

13.
Title: Financial development and the magnitude of business cycle fluctuations in OECD countries
Authors: Fidrmuc, Jarko and Scharler, Johann
Source: Applied Economics Letters; 2013, Volume 20, Issue 6, Pp. 530-533
Abstract: We study empirically how the development of financial systems influences the magnitude of output growth fluctuations in a sample of OECD countries between 1995 and 2005. While the development of banking sectors is not significantly related to the magnitude of macroeconomic fluctuations, countries characterized by developed stock markets experience less pronounced fluctuations.
Database: *Taylor & Francis Online*

14.
Title: Competition, Bonuses, and Risk-taking in the Banking Industry
Authors: Bannier, Christina E., Feess, Eberhard and Packham, Natalie
Source: Review of Finance; April 2013, Vol. 17, Issue 2, Pp. 653-690
Abstract: Remuneration systems in the banking industry, in particular bonus payments, have frequently been blamed for contributing to the buildup of risks leading to the recent financial crisis. In our model, banks compete for managerial talent that is private information. Competition for talent sets incentives to offer bonuses inducing risk-taking that is excessive not only from society's perspective but also from the viewpoint of the banks themselves. In fact, bonus payments and excessive risk-taking are increasing with competition. Thus, our model offers a rationale why bonuses are paid even when reducing the expected profits of banks.
Database: *Oxford Journals Online*

15.
Title: Reputation capital, financial capital, and entrepreneurship
Authors: Loss, Frédéric and Renucci, Antoine

Source: Oxford Economic Papers; April 2013, Vol. 65, Issue 2, Pp.352-371
Abstract: About 90% of entrepreneurs in the high-tech and professional service industries were previously employed in the same sector. In this paper, we provide a theory for how aspiring entrepreneurs choose an employer. We contrast 'transparent' employers (or firms) promoting personal accountability and employee empowerment with 'opaque' employers emphasizing team work and down-playing individual accomplishment. Markets use transparent firms' output to a larger extent to update employees' reputation since this output is more informative about individual talent. This has three effects. First, it harms employees who could become entrepreneurs if their reputation was maintained, but benefits the others. Second, it fosters effort, which raises wages, and thus the financial capital available to start a venture. Third, the perspective of entrepreneurship can induce employees to exert excessive effort, an effect that transparency exacerbates. We show that intermediate-reputation employees choose opaque firms, whereas higher- and lower-reputation employees choose transparent firms. Empirical implications follow.
Database: *Oxford Journals Online*

16.
Title: Firm Culture and Performance: Intensity's Effects and Limits
Authors: Murphy, Patrick J., Cooke, Robert A. and Lopez, Yvette
Source: Management Decision; 2013, Vol. 51, Issue 3. EarlyCite article
Abstract: *Purpose* - This paper clarifies distinct aspects of firm culture, delineates its effects on performance outcomes, and examines culture intensity on theoretic grounds with attention to its effects and limits.
Design/methodology/approach - The study analyzes a data set of 2,657 individual cases that are empirically aggregated into 302 organizational units. Its operationalization of culture intensity derives from distinct culture theory. Hypothesized relations are examined via structural equation modeling and hierarchical regression analysis.
Findings - Structural equation modeling results show culture relates positively to cooperation, coordination, and performance. Hierarchical regression analysis results show intensity influences cooperation and coordination directly and does not moderate culture's relations with those outcomes.
Research limitations/implications - The large scale empirical study of a broad diversity of firms has advantages over smaller and more targeted studies of lesser generalizability.
Practical implications - Firms with cultures of higher intensity can enhance performance indirectly by driving cooperation and coordination directly.
Originality/value - This study distinguishes culture from climate on conceptual grounds. Climate strength, an analog of culture intensity, is known to moderate climate's relations with outcomes. By contrast, this study shows that culture intensity has a main effect on outcomes, in line with culture's distinct theoretic bases.
Database: *Emerald Management*

17.
Title: The relative stability of national career patterns in European top management careers in the age of globalisation: A comparative study in France/Germany/Great Britain and Switzerland
Authors: Davoine, Eric and Ravasi, Claudio
Source: European Management Journal; April 2013, Volume 31, Issue 2, Pp. 152–163
Abstract: While top management career patterns are highly embedded in national institutional contexts, the phenomenon of globalization has recently called into question the future of these patterns. In this article we discuss the stability of certain features of national top management profiles as well as the emergence of a new globalized managerial elite characterized by new elements legitimating top management authority. We collected biographical and career related information from 916 top managers employed by 111 companies located in France, Germany, Great Britain and Switzerland. Our data shows a certain erosion of national models due to the

gradual arrival of non-national top managers, but this process occurs very slowly despite the strong international dimension of the companies studied.
Database: *ScienceDirect*

18.
Title: Emerging market multinationals' location choice: The role of firm resources and internationalization motivations
Authors: Jain, Naveen K., Lahiri, Somnath and Hausknecht, Douglas R.
Source: European Business Review; 2013, Vol. 25, Issue 3. EarlyCite article
Abstract: *Purpose* - Location choice made by emerging market multinationals (EMMs) constitutes an important yet somewhat neglected topic in business research. The purpose of this paper is to develop a research framework that elucidates the role of EMM-specific resources and internationalization motivations on the location choice of EMMs.
Design/methodology/approach - The literature pertaining to firm-specific resources and internationalization motivations as determinants of location choice is reviewed. This leads to the development of a research framework that takes into account various combinations of resources and motivations in explaining the location choice of EMMs. The paper offers research propositions by linking resources, motivations and appropriate choice of locations.
Findings - The paper illustrates that location choices of EMMs are determined by the interplay of various resources (relationship-based, home experiences-based and country created assets-based) and internationalization motivations (market-seeking, asset-seeking, and resource-seeking).
Originality/value - The paper investigates the simultaneous influence of two important determinants: firm-specific resources and internationalization motivations on the location choices of EMMs. Prior literature has extolled the importance of these factors in international business but not in the context of location choice of EMMs. Thus, this paper fills an important void in business scholarship.
Note: *Conceptual paper*
Database: *Emerald Management*

Selected by Ploenchan Akvanich, Research Support Services, Chulalongkorn University