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# From entrepreneurial state to state of entrepreneurs: Ownership implications of the transformation in Mexican governance since 1982

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■ JOSÉ G. VARGAS-HERNANDEZ, M.B.A.;PH.D.\*

This paper has the aim to analyze the ownership implications of the transformation in Mexican governance since 1982. The turning point of the implementation of a new model of development was prompted by the Mexican State financial crisis of 1982, after a period of steady economic growth. The entrepreneurial State since then has been under the attack of new business elite, who are the direct beneficiaries of the massive transfer of public assets and change in ownership from public property to private property. The Mexican State is now captive under the interests of entrepreneurs rule and governance. This paper brings some specific cases related with the change in ownership in the land property, the banking and financial system, the telecom company TELMEX, airlines, etc. The effects of this change in ownership are evident. A weak system of regulatory agencies and mismanagement of privatization programs has ended in private monopolies, low economic growth, uneven social development, political instability, alarming increment of insecurity, social unrest, etc.

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## 1. Introduction: Ownership of the Mexican entrepreneurial, presidential state

Mexican economic nationalism emerged as a result of promoting public and private Mexican capital to avoid foreign investment, mainly by the United States. The Mexican State was characterized by an historical distrust of capitalism and a belief in the ability of the government to intervene and regulate economic affairs through its explicit constitutional mandate (Grier and Grier, 2000: p. 245). However, from the 1930s and until the 1970s a model of import substitution industrialization (ISI) favored private Mexican investments and was also believed to benefit the people. The Mexican public sector enlarged the number of publicly owned corporations. In 1982 state owned enterprises produced 14 percent of gross national product (GNP), received net transfers and equal subsidies of 12.7 percent of GNP and represented 38 percent of investment in fixed capital.

The crash of the Mexican economy in 1982, left the country defaulted on foreign-debt payments, investors fled Mexico, and companies traded for cents on the peso. Hundred of thousands of micro, small and medium sized firms went bankrupt in the 1980s because of stagnant domestic demand, rising inflation, greater foreign competition, and higher credit costs (Davis, 1992, Vega, 1991). The entrepreneurs founded the Consejo Coordinador Empresarial (Entrepreneurial Coordinating Council) (ECC) to defend their interests from State intervention. Mexican businesses that served foreign markets were more financially healthy than the domestically-oriented ones in the 1980s. In 1982 in the middle of a general economic crisis caused by a fall in oil prices, President López Portillo (1982-88) nationalized the banking system, devalued the peso, and increased interest rates. The country defaulted on practically all payments causing a fracture in the pact between the State and the ECC. The crisis of 1982 was also meaningful as the “crisis of hegemony” which was present in the old alliance between the State and ECC who represented national capital and were the direct beneficiaries of economic policies based on the import substitution model.

## 2. Ownership transition of the Mexican State: Presidentialist neoliberal restructuring

After the 1982 crisis, Mexico entered into a painful, distressful, and controversial period of state restructuring. Beginning in the 1982, and led by President Miguel de la Madrid (1982-88), Mexico began to withdraw the state from direct involvement in economic affairs adopting economic policies of privatization of state assets and reduction in state provisions for social security. Under the influence of the Institutional Revolutionary Party (PRI), the Mexican State initiated economic modernization and participation in the globalization processes, as a response to the trends of the economic globalization of markets, and the technological revolution that began during the last two decades of the past century.

The reinvention of the new Mexican State was initiated under the impulse of an intervening state with a strong neoliberal technocrat orientation, to the benefit the owners of capital. The process was based on neocorporatist negotiation between entrepreneurs and government, and built on mutual interests and compromise. The changes included: economic reorganization; national market openness; elimination of commercial barriers; elimination of price controls and subsidies; privatization of public enterprises and state property; reduction of social policy expenses; free money exchange, and also wide political reforms and administrative modernization. It abandoned the import substitution model and called economic intervention in the state into question.

Under the pretext of cleaning up the economy, the Mexican State privatized strategic enterprises of the public sector, most of which were acquired by foreign investors, who had already penetrated all economic sectors. The high concentration of capital in a few corporations through the privatization process of public enterprises unleashed the phenomena of political privatization. The privatization process marked a new turn in the relationships of co-operation and conflict between the State/government/Institutional Revolutionary Party (PRI) –business in Mexico. Mexico has aggressively implemented privatization as the economic policy central to its market reforms. Relationships between the state and firms have taken a new turn since the 1980s, as a result of an aggressive privatization pro-

gram of several economic sectors such as the banking and financial sector, telecommunications, airlines, etc. The Mexican government's overall package of stabilization and structural adjustment reforms transformed the inter governmental relationships and the relationships between firms, communities, New Social movements and the three levels of government.

Under the new economic policies of this structural adjustment reform, one important that changed ownership was the privatization of state-owned enterprises and banks. Mexico's privatization program began with the divestiture of state-owned companies, starting with small and medium sized and later turning to companies that required internal reorganization before being offered to the public. State-owned enterprises were sold to private investors, who expanded and upgraded services (Savitsky and Burki, 1999). The state-owned firms had been purchased by the larger domestic and foreign business conglomerates. The economic liberalization in Mexico in 1987-94 attracted a great deal of foreign capital precipitating a massive private lending boom. In the 1990s, while the role of the Mexican state was scaled back through the privatization and liberalization processes that eased the fiscal pressures, the private sector was playing a larger role in driving the capital markets. Privatization in Mexico attracted large inflows of foreign direct investment in expansion of the economy, although the flow of FDI into Mexico by sale of public assets, sale of private assets and new assets, showed that a growing share of FDI flows to Mexico was invested in new assets.

It is possible to establish with certainty to what extent political considerations drove the government's approach to privatization in Mexico. The change in ownership of large-scale public enterprises was commenced after internal evaluations and under the management of commercial banks acting as the government's agents. Even the World Bank Mexico (2007) documented pernicious presence of special interests is visible in the economic arena as well. Even the World Bank Mexico (2007) documented pernicious presence of special interests is visible in the economic arena as well. Many Mexicans hoped privatization would create competition and drive prices down drastically, but it hasn't happened.

The main thrust of the reforms encouraged in Mexico was the development of a competitive, broad-based export sector of nontraditional goods. Mexico joined

the General Agreement on Trade and Tariffs (GATT) in 1986 and became an exporter of manufactured goods. The strategies adopted for the design of the Mexican State, as it was for other states, was reduction of state structures and facilities, privatization of state owned enterprises, and economic deregulation. Private ownership, as opposed to public ownership, is more conducive to improving the scope for competition, although the privatization of public assets does not necessarily increase efficiency and innovation.

With the introduction of these reforms the Mexican State began to loose its capacity to function as a nation, although the State maintained that there are high indicators showing that the reforms benefited the owners of capital. These reforms to the structure of the Mexican State's apparatus make sense out of its transition and change from the welfare state model toward a neoliberal state model. This transition and change are understood as forms of behavior, loss of centrality in politics, loss in the ability to build a sense citizenship, transformation of politics into one electoral technique, and an increase in market problems. Also, a loss of ethics and principles in the work of politicians and political institutions evidently appeared in Mexico during the government of Miguel de la Madrid (1982-88), continued with Salinas de Gortari (1988-94), and also with Zedillo (1994-2000), later with Fox (2000-2006) and will continue with Calderón (2006-2012). See table 1.

**Table 1. Presidents of México, supporting political party and presidential terms.**

President	Political party	Presidential terms
José López Portillo	Revolutionary Institutional Party (PRI)	1976-1988
Miguel de la Madrid Hurtado	Revolutionary Institutional Party (PRI)	1982-1988
Carlos Salinas de Gortari	Revolutionary Institutional Party (PRI)	1988-1994
Ernesto Zedillo Ponce de León	Revolutionary Institutional Party (PRI)	1994-2000
Vicente Fox Quezada	National Action Party (PAN)	2000-2006
Felipe Calderón Hinojosa	National Action Party (PAN)	2006-2012

The new business elites which represent a new generation of private sector leadership took an active part in

the auctioning off of the many state-owned enterprises during the Salinas de Gortari administration. The principal strategy of Salinas de Gortari was privatization which he accelerated to implement.

The PRI response to the allegations of electoral fraud in 1988 by moving toward a very limited form of shared power with the PAN and accentuating the dependence on private investment in the domestic economy by promoting the export-oriented interests and attracting coalition partners. Salinas deepened neoliberal reforms and most of the public enterprises were liquidated, economic openness was accelerated, and several free commerce agreements were signed. Under the North America Free Trade Agreement (NAFTA), the Mexican government adopted the philosophy that foreign ownership brings economic growth and social development.

The factors that shifted the internal structure of the private sector in México against protectionists and free trade interests were the international context, the domestic economy, and government policy. The North American Free Trade Agreement represents the incorporation of big business and private sector interests into the trade policy making apparatus through the Coordinating Council of Foreign Trade Business Organizations (COECE). The Mexican government was extremely concerned with attracting the large firms' mobile investment resources (Arriola 1994, Blanco 1994) and many had been involved to increase the private sector's participation through organizations eager to play more active roles in trade policy making (Thacker, 1998). The activism of the Mexican State during Salinas' mandate allowed the transfer of public enterprise to financial groups which were determined to maintain links of political complicity. Most of the economic reforms under the Salinas administration happened in the second half of the sexenio.

In 1982, 934 state-owned companies of a total of 1,155 were divested, leaving only 221 managed by the Mexican State. Between 1983 and 1993, The Mexican state divested itself of some 942 state-owned entities, 215 state-owned enterprises were sold off, and another 594 were closed, merged or transferred by the state (Bazdresch and Elizondo 1993, 51). Since 1989, and until 1994, the private development of public infrastructure, as a variation of privatization, has launched thirty-two build-operate-transfer projects with 28 more on the drawing boards, in areas such as highways,

ports, power generation, airports and water projects, as it was reported by Randolph (1994).

Mexico ranked second in privatization in Latin America during the decade of the nineties when the government transferred to private corporations assets that amounted to 31,458 million dollars, which represented 20.4 percent of the total sales of state owned enterprises in Latin America. Privatization reached 3,160 million dollars in 1990, increased to 11,289 million in 1991, and totaled 6,924 million dollars in 1992. By June of 1992, the Mexican government had privatized 361 out of approximately 1,200 enterprises owned by the state. By 1993 only 213 remained in state hands (Garrido 1993, 36). Privatization during 1993 represented 2,131 million dollars.

In 1993 legislation was enacted authorizing the private management of ports. Concessions granted for construction of toll roads through private resources covered 2,400 miles of roadway (Corona, 1993). Randolph (1994) reported privatization sales until the year 1994 have netted the government \$20.9 billion. In 1996, public and private investments in Mexico were kept under the levels of the seventies and eighties. In 1996 it increased to 1,526 million dollars, in 1997 to 4,496 million, and in 1998 decreased to 999 million dollars. A report from the World Bank states that between 1990 and 1998 privatization of public enterprises reached a total amount of 154,225 million dollars, an amount only less than the balance of the total external debt of Mexico which in 1998 was of 159,959 million dollars. The year in which the state recorded most privatization was 1991 with a total of 11,289 million dollars, while in 1998 Mexico the lowest was 999 million dollars.

### **3. The transition of the régime of the Mexican State: From the entrepreneurial State to a state of entrepreneurs**

The change of political party in power within the same régime represented a rupture in the old Mexican political system and continuity of the processes of development according to the neoliberal pattern imposed by the interests of transnational capital. This way, the change became significant because it represented a final balance between a presidential régime and its neoliberal economic model. Salinas (1988-94) and Zedillo (1994-2000) truly represented the two big local groups of officials and entrepreneurs politically. The

two technocratic presidents had as common governing characteristics a personal focus on social and power relationships. Both fostered the emergence of complicity between the technocrats and entrepreneurs enlarging the capital-politics relationship to the men that held economic power, without respecting the rules of the system or the correlation between social forces and politics.

The strategy they used to implement the neoliberal model consisted of maintaining a reduced group of technocrat economists in a network of alliances in collusion with capitalist groups. The institutional configuration of the Mexican state is reflected on the power of the presidency that cedes greater autonomy to policy makers augmenting the effect of government policies to forge winning political alliances with members of the private sector. These capitalist groups, those whom Ortiz Pinchetti (2000) named the *nomenklatura*, had insatiable financial interests and were the main beneficiaries of the model. In Salinas' strategy, through the support of PAN, political leverage was given to the group of entrepreneurs and financiers.

#### **4. Change of the party in power: The Mexican State of entrepreneurs in the new PAN – presidentialist period**

In Mexico the XXI century began with the new paradigm of the entrepreneur and manager government. PAN's charismatic leader, Vicente Fox, won the election for the Presidency in the year 2000. More than continuity, the pattern of neoliberalism increased with the Fox's rise to the presidency of Mexico. He represents a third movement of the neoliberal economy begun by Salinas. Nevertheless, the technocrats were hit politically by the entrepreneurs and managers. The new political class, which mainly emerged from the local organizations of small and medium entrepreneurs in the North, wanted to liberate the country from the corruption and clientelism of the State party. The Entrepreneurial State was dismantled in the rise to power of the technocratic economists. With a manager-like President in Mexico, the Mexican State has become a State of Entrepreneurs and Managers that treat democracy like good business, called the Coca-colaification of Mexico in reference to the managerial antecedents of Fox's transnational government. Fox the governing

of Mexico was not the same thing as managing Coca Cola, but his managerial experience could help him to make decisions. Fox's rise to power, coincides with the consolidation of a concentration process, an economic oligopolitization, and political centralization of decision-making (Fazio, 2000a). Fox's ascendancy to the Presidency of Mexico, according to Krauze (mentioned by Fazio, 2000b) resulted in "a direct, immediate switch to managerial power. Wines of new marketing in old wine-skins of caudillism ... a caudillism plebiscitary with messianic edges, very dangerous in a country like ours that finds the separation between the church and the State difficult". Fox is the first manager president to arise out of the local elite from the center of the country. He represents the "electoralist stream" of the entrepreneurial and managerial elite in PAN and especially the stream dominated by the faction from the northern states or "Monterrey Group". The large outward-oriented, northern business groups housed in Monterrey have adapted a new corporate culture. The emerging new business elite are characterized by a corporate business culture and hierarchical structure, oriented toward external markets, and multinationally-linked through alliances and joint ventures. The Monterrey Group has loose connections and is supported by the ideology of the new, Mexican right, as expressed in current pragmatism or neopanism, and is opposed to traditional orthodoxy.

The arrival of the entrepreneurs and managers to the Mexican State meant the displacement of politicians with formal power. In other words, what changed was formal power, because the real power remains unalterable. The Mexican Council of Businessmen stopped being a pressure group in the face of the power of the State and became instead the representatives of the entrepreneurs in the federal government who determine national economic and political decisions. That is to say, the political power taken by the conservative groups that held hegemonic, economic power and the national neooligarchy was subordinated to the interests of transnational capitalism exercising a new governance strategy. This strategy allowed them to dominate and directly control the means for achieving their maximum benefit (efficiency), without necessarily appealing to the mediation of a political class that was highly paid for the mediation of the arrangements for production factors. This is the case between capital and work, for example. However, in humanity's history, the achievement of efficiency has not brought social justice.

The State's entrepreneurs focus considers citizens as clients whom it must satisfy with services of absolute quality. The president exchanged the word client for that of citizen, with a vision on the one hand, for example, that it is inappropriate to promote the policy of indigenous community development. Disrespectfully, Fox has called the indigenous people "vocho, changarro and tele" in response to their centuries of rebellions against the capitalist system for the injustices perpetrated against them. To neoliberalism centered in the forces of the market, the indigenous peoples are not consumers. Therefore, they are disposable and, in the best case scenario, a population to be integrated or assimilated into the lowest ranks of the work force without rights and subordinate to capital, as exemplified by the proposal made during Fox's campaign to train them to be "the foreigners' gardeners". Political analysts agree that his proposals have been contradictory, sometimes retrograde, sometimes hopeful, but always lacking a coherence that would make the program complete.

The new State of entrepreneurs administers the existing order efficiently to guarantee transnational global capital that the best conditions for investments exist in Mexico. The general coordinator of economic affairs in the transition team guaranteed "zero discrimination" for Mexican entrepreneurs. On the other hand, the leader of one of the most powerful organizations of entrepreneurs warned that Fox's government would be friendlier to the production sector. Fox has a clear vision of the needs of a company, so he can create wealth and more work sources (Becerril, 2000). On the other hand, the entrepreneurs have declared (Becerril, 2000) they were convinced that the new government would be "friendlier".

## 5. Changes in ownership: from State owned enterprises to private monopolies

Under the Salinas administration, the economic reforms were more aggressive although not always resulted in a more competitive economic sectors structure or in a more equitable distribution of economic benefits. The privatization program was conceived originally to balance the fiscal budget by generating income and reducing subsidies but soon was evident the necessity to improve economic competitiveness. The change in leadership created high expectancies for privatization of more state owned industries in Mexico. However,

privatization as an economic policy in Mexico meant a mere change of ownership from public monopolies into private ones, without an effective regulatory framework in place and strong regulatory agencies capable of enforcing more competitive conditions (World Bank Mexico, 2007).

State-owned companies that had changed in ownership under the privatization program covered all the financial and banking system, the main two airlines (Aeromexico and Mexicana), the telephone company (Telmex), steel, insurance, hotels, mines, shipbuilding, gas stations, movie studios, manufacturing, airports, railways, etc. The new government of Mexico plans to privatize the energy sector, oil and electrical industries.

### A. Change in ownership in the telecommunications sector

The privatization of the telecommunications sector merely replaced public monopolies with private monopolies, such as the case of Telmex, the Telephone Company, and Televisión Azteca, one of the two larger television broadcasters. Mexico's telecommunications company was a state-owned monopoly which under unclear procedure was sold off to Carlos Slim who bought 20 percent of Telmex's stock and 51 percent of its voting options (Bazdresch and Elizondo 1993, 59).

Clouding the deal was the fact that Slim was a huge contributor to Carlos Salinas de Gortari's PRI party. When the government put the state-owned telephone company, Teléfonos de México, up for sale, Slim partnered with AT&T and France Télécom to buy 20% of the company in late 1990 for about \$2 billion. The newly privatized telephone company got seven-year guarantee of monopoly status. When Slim purchased the telephone company, he was in an extremely close and advantageous relationship with the Salinas government.

Telmex privatization shows the political dimension of Salinas' privatization strategy. Salinas favored inclusion of the Mexican control clause in the concession of Telmex because of his interest in developing strong Mexican business groups (Muriillo, 2001). To accommodate labor interests in favor of friendly unions and following a classic corporatist style of "back door" negotiations, the government agreed to give away some ownership concessions to the labor union Sindicato de Telefonistas

de la República Mexicana (STRM). Government and the management promised not to dismiss any existing employee due to privatization among other benefits (World Bank Mexico, 2007).

The economic effects of the “liberalization” of the telecommunications sector and more specifically, privatization of the state-owned Telmex, have created legal barriers to entry in the concession title and “retained the company as a vertically integrated monopoly, in the place of the former public monopoly (World Bank Mexico, 2007). In 1995, the government introduced the Federal Telecommunications Law that created a regulatory agency the Commission Federal de Telecomunicaciones (COFETEL), the Telecommunications Federal Commission, and restricted foreign ownership to 49% and applied to all operators except IUSACELL sold to a Canadian investor.

Nowadays, Slim’s Teléfonos de México controls 92% of the country’s phone lines, and his América Móvil wireless service has a 70% market share. Rates for monthly service and residential phone hookups are among the highest in the developing world. It has been already said that Slim is richest man of the World. With nearly US\$60b, Mexican telecoms tycoon Carlos Slim is heading the Forbes list of world’s wealthiest overtaking Microsoft founder Bill Gates for the title of the world’s richest person, as it has been reported by Fortune magazine. His family’s holdings represent more than 5% of Mexico’s 2006 gross domestic product.

George W. Grayson, coined the term “Slimlandia” to describe the entrenchment of the Slim family’s companies in the daily life of Mexicans. Slim-controlled companies make up one-third of the \$422 billion Mexican Bolsa, or stock exchange (Mehta, 2007). Family ownership tends to be even more prevalent in other large business groups in México, where the interests of the owners and the firm are indistinguishable, financial accounts are frequently intermingled and there is not any need to be accountable to outsider shareholders.

The stock restrictions of Mexican companies keep the ownership with those that are directly involved in the success of the business. To protect against dilution and decreasing the ownership percentage of stockholders when the company issues stock, investors require the company to give them

structural anti-dilution protection, and preemptive rights. To maintain control over the company’s ownership, it is necessary to keep the mechanism of a preemptive right (*derecho de preferencia*) that the Mexican law grants to all stockholders of a company to purchase their pro rata portion of any new stock issues. This mechanism is designed to protect stockholders from having their ownership percentage in the company diluted or decreased.

### ***B. Change in ownership of the banking sector***

The banking sector illustrates well the symbiotic development between the government and the economic elite of Mexico. Nationalization of the banking system was the main event that provoked the rupture between the political and entrepreneurial hegemonic blocks and their representatives, the politicians and government officials from the party of the State and the factions that controlled capital. Nationalization of the banks in 1982 temporarily restricted national capital markets (Maxfield, 1990). With nationalization of the banking system Mexican capitalists, who felt betrayed, broke their alliance with the political bureaucracy and designed a strategy for their own re-constitution.

The banking policies implemented by de la Madrid (1982-1988), Salinas de Gortari (1988-94) and Zedillo (1994-2000) led and strengthened re-privatization of nationalized banks purchased by the emerging group of business elites owners of business conglomerates financially-linked to foreign investors, owners of the largest business groups tied to private financial institutions who had made fortunes on the parallel financial markets and more amenable to free trade. As it is said by Fazio (2000a), they were living in one tortuous lover relationship of subterranean blurred tides, intense shady deals, and complicity networking.

The old owners of the banks were indemnified by 1986. One third of the bank stocks were sold to the private sector, non bank financial operations such as stock brokerages, insurance, guarantee and mortgage companies were re-privatized (Hernández Rodríguez, 1986). The banking policy of limited competition allowed the banks to engage in non competitive behavior, erected entry barriers, holding portfolios composed of stocks and loans to other firms owned by their own directors. Private

financial operations grew rapidly in an environment of volatile market and credit only accessible to the largest corporations on the Mexican stock exchange (Maxfield, 1989).

In 1991, when bank privatization began, four banks controlled 70 percent of total bank assets (Haber, 2005). The re-privatization of bank strengthened private capital markets and placed control of the largest banks into the hands of a small group of owners who made their fortunes in the parallel markets of the 1980s (Elizondo, 1993). After the 1991-92 privatization banks were allowed to “disguise some of the poorly performing loans cultivated the ground for the eventual collapse in December 1994, when the peso devalued massively (World Bank Mexico, 2007). The liberalization and privatization of the financial sector the late 1980s in México triggered a lending boom. The bank credit to the private sector soared up to 40% of GDP in 1994 from less than 10% five years earlier (Savitsky and Burki, 1999).

The net interest margin as an indicator of banking efficiency in Mexico did not decrease after the bank privatization in 1992, meaning that a higher margin indicates lower efficiency because a higher spread on deposit and lending (González Anaya and Marrufo, 2001). The acquisition of banks was set up specifically for the privatization undertaken mostly by groups led by new entrepreneurs who arose from the securities business (World Bank Mexico, 2007).

Economic liberalization led to privatize national and state banks, including the largest banks –Banamex, Bancomer, and Serfin– which were bought by Mexican investors. Two years after the privatization of its banking system, in December 1994, Mexico was forced to devalue its peso which set off a macroeconomic crisis characterized by increased exchange rate volatility, further devaluation of the peso and was followed by a financial sector crisis and bailout. In the wake of financial liberalization in Mexico and with insufficient regulatory agencies occurred the tequila crisis, which prompted unsustainable lending booms driven largely by the private sector. The financial crisis of December 1994 had hammered the Mexican banks pushing them to accept foreign investments to bolster their equity position.

The meltdown of the Mexican stock exchanges resulted in the loss of half of the stocks value and share prices, for major Mexican companies quoted on Wall Street, dropped 75 percent within a few months. However, after this situation was resolved a deeper crisis in financial markets came in the form of the devaluation of the peso and the sovereign-default crises. The majority of the governmental crises, without a degree of investment (as is the case of Mexico), were caused by characteristic weakness in governance. If local people and foreign investors fear the Mexican peso will be devalued, they may convert pesos into dollars.

The new structure of State debt, during the Mexican crisis of 1994-95, has been studied widely in order to understand the way in which financial markets, governments, and multilateral institutions respond to the new questions of governance. The Mexican crisis raised the problem of sustaining fixed exchange rates in an environment of high mobility of international capital. Mexico did not recover because its weak financial system was strengthened through the intervention of the International Monetary Fund (IMF). The pack of credits given to Mexico in 1995 by the IMF was a reward for banking with more risk. Better prudential control of domestic banks may be prone to inefficient rents demanded by powerful local constituencies (Agénor 2001). While more governments of other countries lend to Mexico, their banks have more security to cover their loans.

In reality, the privatization of the banking system into financial groups emerged from the “steam” and complicity among investors and politicians who took advantage of international organizational finances channeled to rescue Mexico from the debt crisis. However, their differences in crisis management took them into highly indebted economies, which had the opportunity of transferring charges to society. The Mexican government supported the weak banks taking over the bad loans in 1997 which were sold off in October 1999. Lamentable as it is foreseeable the present administration will leave an inheritance to the next government of a greatly compromised public finance and an even greater inability to respond to the reasonable demands of the people. Zedillo’s inheritance amounts to more than two billion dollars (million, million dollars) in

public debt, including the wasted debt of the Institute for the Protection of Bank Savings or Instituto para la Protección del Ahorro Bancario (IPAB).

Implementation of economic policies aimed to ensure the increasingly liberalized financial system, required the introduction of neoliberal measures since December 1998 when the Mexican Congress approved the financial reform. The liberalization of the foreign investment rules is a clear indication of the ongoing investment environment with a very favorable attitude that the government has taken towards foreign investment. By December 1998 the three largest Mexican banks merged to larger foreign financial institutions or large portions of stock were acquired by foreign banks. In May 2000, Serfin was sold to Santander and Bancomer was bought by Banco Bilbao Vizcaya (BBV) in June 2000. In July 2001, Citigroup took over Banamex in July 2001 and four months later, in November 2001, it announced layoffs of 7800 workers.

One of the items stood out as the single most important measure of financial liberalization to ease further constitutional barriers to foreign ownership in the Mexican financial system to allow foreign investors, commercial banks and financial holding companies to own up to 100% of common stock. Foreign ownership of Mexican companies was limited to 49 percent. Mexico enacted new regulations aimed to relax the restrictions on foreign investment. Today, under these new regulations, foreign investor's can own up to 100 percent of any kind of enterprises and business, without prior authorization from the Foreign Investment commission, without requirements to engage a Mexican investment partner.

Following the arguments of Dymski (2002) and Crystal, Dages, and Goldberg (2002), on the basis of comparisons of foreign and domestic banking firms, the authors argue that acquisitions of Mexican domestic banks by megabanks provide another path to better governance, since implicitly megabanks are more efficient, more market-oriented, and regulated by more experienced national banking authorities. So providing maximum scope for the global expansion of first-world megabanks could, in this view, ensure universally higher welfare levels. Foreign banks accounted for 78 percent of all banking assets in 1999, 79.8 percent in 2000

and had reached almost 90% in 2007, leaving space only for one large bank Banorte and several small local banks. However, this argument has not been the case of Mexican situation where 90 percent of the local banks had been under process of acquisition. In fact, the opposite is the real case, banking services are quite expensive, decreasing the interests for deposits and credit is scarce with higher interest rates than before. The effects of financial crises and economic liberalization supported by Mexican government paved the way for foreign penetrations into Mexican banking and financial market, one of the most profitable for foreign banks operating because the expensive price for customer services.

### C. Change in land ownership

An "ejido" (collective landholding) is a community with a unique system of land-ownership, land jointly owned by its members, the ejidatarios. Ownership and administration of an ejido, formed as the basic unit of agrarian reform policies as a response to the demand of land ownership during the Mexican Revolution (1910-1917) and had been entrenched to protect peasants' rights following the 1910-17 Revolution. After the Mexican Revolution, government broke up the large land holdings called "haciendas" held by the wealthy and powerful and the ejido system was created by a government decree.

Land ownership reform was fully implemented during the thirties under the regimen of a socialist president, Lázaro Cárdenas, in order to recover the land ownership which originally was owned by aboriginal people and later concentrated by the rich hacendados. The land was re-assigned in small parcels to indigenous communities in an ejido system. The ejido was legally vested in the communities of townships adapted from the Indian tradition of communal farming and were responsible for allocating cropland to individual ejido members the ejidatarios. Indigenous lands were held either in the form of *ejidos* or as communal property, but vulnerable to land grabs by rural bosses and large landowners, called Caciques, who obtained protection from powerful political figures or agrarian officials (Americas Watch, 1993). Ejidos had occupied half of Mexico's arable land which had shrinking plot size and suffered from a lack of credit.

The economic and legal reforms enacted as part of Mexico's 'Reform of the Countryside', began in the late 1980s. Under the policy of modernization aimed to integrate rural Mexico into the global economy, legal, economic, and institutional reforms set the framework for changes and modifications to the Foreign Investment Laws. These changes allowed up to 100% of foreign ownership of industries in Mexico and changes in the ejido land-reform program has led to the transfer of both ownership and management of lands throughout the region from ejido back to the private sector (Lewis 2002, Luers 2003).

Institutional reforms promulgated in the 1980s and 1990s by the Mexican government and the consequent economic policy changes during the 1990s had driven rapidly changes in the use and management of lands. One important result has been the transfer of lands from the ejido to private sector. Foreigners were able to acquire land ownership through the title held by a Mexican nominee. This was once true, but it is not longer so. After 1990, a group of government officials established the new conditions for land ownership in Mexico, which led to the modification of Article 27, of the Mexican Constitution, and various other laws corresponding to this matter. In late 1991, Salinas began the reform of Mexico's land ownership system of 28,000 "ejidos", or communal farms, in another move that challenged entrenched constituencies.

The main argument for freeing up land sales was that economic and commercial "modernization" of agriculture was necessary if Mexican producers were to compete with cheap food imports, especially of U.S. corn and beans, entering under the North American Free Trade Agreement (NAFTA). However, modernization and liberalization economic policies on energy and land ownership had provoked opposition to NAFTA which establish free trade in agricultural products, including the staples corn and beans. The battle cry of Zapata, "Land and liberty", tierra y libertad was the backdrop to the 1994 "Zapatista" army's denunciation of NAFTA as locking in a policy of agricultural commercialization only favorable and benefiting the large agricultural producers and not the smaller land owners producers.

Article 27 of the constitution was revised and a new Agrarian Law passed. Article 27 of the Mexican Constitution grants Mexican ownership of the land and water within its territory and stipulates that Mexico shall oversee the transfer of ownership rights to individuals, by creating private property. Amendment to Article 27 of Mexico's Constitution legalized the rental and sale of previously inalienable ejido land. The change in land ownership under the reforms allowed ejidatarios and communal farmers to sell and rent farm land to both domestic and foreign investors. A process was enacted whereby certain tracts of ejido land were regularized and held up for sale for foreigners, who were able to acquire land ownership. It also created programs and institutions to officially certify ejido members' land rights. However, at the same time, members of ejidos (ejidatarios) and communal lands had to cope with reduced subsidies to agriculture and low prices in harvested products.

Amendments to Constitutional Article 27 formally adopted in March 1992 allowed privatized the *ejido* system of land distribution and investments in the Mexican countryside. The 1992 Agrarian Law allows for the owner of property rights within the Ejido to sell or lease the property rights to a non-Ejido member. All foreigners holding land property own their land under the fideicomiso system, a trust agreement between the purchasers of land with a bank, the Mexican equivalent of clear title land. The foreign purchaser enters into an agreement to give in trust the title land to a chartered bank whereby he becomes the beneficiary of that trust set for fifty years whence there are renewable.

These reforms supported new economic policies which meant the end of the Mexican state support agricultural activities. In rural areas of Mexico, neoliberal macroeconomic reforms fully implemented eliminated subsidies for agricultural inputs and most food, credit and technical assistances for agriculture, price support for basic grains and eliminated the land reform.

The neoliberal economic policies and land reforms implemented under the Salinas administration removed constitutional restrictions of the ejido land to be kept in community ownership allowing the land of the ejido to be leased and sold to private owners, reversing the trend to reach land

concentration by new land-owners. Also, the Mexican Foreign Investment Law, ratified on December 28, 1993, allows a foreigner or foreign corporation to obtain the rights of land ownership through a fiduciary trust or beneficiary trust (Fideicomiso). A Mexican corporation which, under certain conditions, can be 100% foreign-owned can purchase non-residential property. Foreign investment is a major part of the Mexican economy, because land ownership in Mexico is very stable.

Change of land ownership, from ejidal and communal to private land ownership is now being concentrated by the new land-owners who generally grant the sharecropper use to peasants in return of one-half of the harvest (Crummet, 2001). Changes in Article 27 that allowed ejido land to be rented and sold resulted in significant alteration of ownership patterns and out migration. The change in ownership of the ejido land raised landlessness and rural inequalities becoming much worse, as millions of farmers and peasants were forced off the land when were unable to compete after import licenses were removed and all tariffs and import quotas are being gradually phased out the North American Free Trade Agreement (NAFTA) (Schulz and Wager, 1995).

On a daily basis, thousands of hectares of land are being removed from the Ejidos, and its property is being removed from federal control by the National Agrarian Registry and added to the public land registry in order to facilitate it to be sold or leased. Foreigners had been leasing properties from landowners in Mexico for many years, but with the recent change in ownership rules, a higher percentage of foreigners are buying real estate. Since 1917, article 27 of the Mexican Constitution prohibited direct ownership of real estate by foreigners in what had come to be known as the 'restricted zone' which encompassed all land located within 100 kilometers (about 62 miles) of any Mexican border, and 50 kilometers (about 31 miles) of any Mexican coastline.

Originally the 'restricted zone' was created to protect Mexico from foreign invasion. The real estate market in Mexico has taken huge strides during the last 10 years, under new real estate ownership tools that provide a high level of confidence for out of country buyers, and thus, offering thousands of

miles of coastline for the development of beach-front properties. President Fox worked to make affordable financing available as a tool for foreign. The result is clear: What is emerging is a dual agricultural economy. Poor peasants do not own the land and have to sharecrop with the land-owners, and owners of small plots of land who work their land, both live at the level of self consumption.

However, the owners of large parcels of land can find the way to produce more export oriented crops. The concentration of land ownership in irrigation districts and most productive dry land agricultural regions in the hands of large agro-industrial groups is contributing to the impoverishment of peasantry. In other words, this dual agricultural economy is creating more poverty in the countryside while the owners of large land plots are becoming wealthier. The land tenure law changes lead to changes in ownership increases the vulnerability of the ejido population. The "inefficient" subsistence farmers became "surplus" faster, and were forced off the land to immigrate to United States, to enter into illegal activities related to drug production and distribution or to swell the ranks of the poor in already overcrowded and polluted large cities.

Lewis (2002) analyses reactions and responses to the 1992 amendment to Article 27 of Mexico's Constitution, using the findings of a 1999 case study of ejidos in the Yaqui Valley, Sonora, a prominent agricultural region of northwest Mexico. Lewis (2002:401) concludes that "the complex of economic and legal reforms – combined with the specificities of Sonoran agriculture – has generated a visible change in ejidos with respect to land operation, setting the stage for an accelerated shift towards the privatization of agricultural land in northern Mexico." The resulting insecurity and confusion in the countryside of Mexico after the ejido land reform have fueled discontent throughout rural Mexico, providing the Zapatistas with a base of support from which to launch their rebellion (Schulz and Wager, 1995).

#### ***D. Change in ownership in other important economic sectors***

Aeroméxico was declared bankrupt by the government in October 1988 and acquired by Aerovías de México. Also in 1988 Mexicana was privatized but

government kept 40% of the capital. After privatization and deregulation of the airline industry, in 1993 Aeroméxico's acquisition of a 55 percent ownership stake in Mexicana, the two larger carriers merged escaping antitrust enforcement and consolidated taking control of more than two thirds of the domestic market for air travel and agreed to coordinate fares, and share ground services and crews. Finally, until 1995 the privatization process of Mexicana was completed.

### *E. Change of ownership of the two jewels of the crown*

Business groups were privileged by the Fox presidency obtaining more political influence in the policy making process. They requested options for participation in the investing in the energy sector (electricity and secondary petrochemical). Fox continued implementing the reforms expecting to attract private and foreign investors to the energy sector. It was clear that Fox governed the Mexican State with a focus on the New Public Management, as if Mexico was a corporation: Mexico, CORP. which gives the petrochemical and electric sectors to transnational global capital.

PRI legislators refused to support the privatization process of PEMEX, the state-owned Mexican Oil Company when they agreed to eliminate the proposal to restructure the board by placing independent experts "free of conflicts of interest". A recalcitrant oppositional congress to change of ownership of the energy sector was a factor that contributed to Fox's failure to advance needed legislative reforms associated with electricity, natural gas and other energy issues, and it seems that Calderón (2006-2012), the President successor of Fox (2000-2006) will run the same luck than he had when he was the Minister of Energy. However, the Fox administration became embroiled in an ideological debate between privatization advocates and proponents of Mexican state control over the energy sector, Pemex and state electrical companies (Shields, 2005). Lopez Obrador, the political candidate to the Presidency of Mexico by the leftist PRD, who was defeated by Calderón under serious allegations of fraud in the 2006 elections, had promised if he became President, to pledge to modernize Mexico's energy sector by boosting

spending on Pemex, the state oil company, and reducing Mexico's dependency of technological assistance from foreigners. Mexican voters' were unsure whether privatization of the energy sector was good for the patrimony of Mexico. The reforms to politically win passage in congress they needed to comply with demands for continued sovereign ownership and control over crude oil and gas.

Denationalization and privatization of the Mexican Oil Company, *Petróleos Mexicanos* (PEMEX) and the Federal Electricity Commission (*Comisión Federal de Electricidad* or CFE) is happening rapidly with the support of administrative procedures, although they are the most sensitive because they are considered as strategic industries for development and protected by Mexico's Constitution. Mexican government agreed in 1989 to open "secondary" petrochemicals to private sector investments under a cooperative program with PEMEX increasing its privatization de facto. However, nowadays, Mexican oil officials are awarding more "integral service contracts," over almost every aspect of a project to a contractor except ownership of the underlying resources, although laws against foreign ownership of oil and gas resources are still enforced. These actions explain the deregulation and privatization programs in the strategic energy sector.

## **6. Re-assessing change of ownership in México**

The benefits of privatization have not yet been evident to the Mexican people even though defenders try to demonstrate the opposite. According to data provided by the former President of Mexico, advocator and implementer of the privatization program, Salinas de Gortari (1988-94), privatization reduced budget expenditures to finance social programs thus preventing a fiscal deficit. However, the effects have not been satisfactory over all. Programs of privatization in Mexico have reduced employment by half, while production has increased 54.3 percent with a significant reduction in investment. A study by Galal et al. (1992) analyzed the after-privatization performance of twelve companies in different countries, including Mexico, and documented an increase of 26 percent in profits in eleven cases but

an increase of benefits to workers in only three of the cases.

When the economic pattern that has been followed up to this point in Mexico is able to generate growth it will be accompanied by a growing concentration of income and an increase in poverty among the poorest strata. In a period in which the Mexican economy reached a peak over 18 consecutive trimesters of growth, the benefits went to a very reduced group of people: "only the crumbs fall down" states (González Amador and Castellanos, 2000). This resulted in a society with big contrasts in income distribution, where 20 million Mexicans (20 percent of the total population) live under conditions of extreme poverty, and more than 40 millions (40 percent of the total population) live below the line of poverty.

More than half of Mexicans old enough to work were employed in the informal sector of the economy. World Bank figures show that 42 million Mexicans have salary levels below twenty pesos daily, the equivalent of less than 2 dollars a day. With data from the United Nations organization, 64.5 percent of the population received insufficient wages to sustain minimum nutritional requirements; 40 percent of Mexican women live in homes with low income compared to 20 percent of Mexican men (Jiménez, 2000). During the period 1964-1981, the gross internal product per inhabitant rose to 7,776 dollars a year, with an average annual growth of 3.4 percent. However, after 1982 with the implementation of the Neoliberal State model in Mexico, the growth of the gross internal product fell. For the period of the Neoliberal State, which lasted from 1982 to 2007, the gross internal product per inhabitant only grew on the average of 0.3 percent yearly.

The National Survey of Income-Expense in the Households, carried out by the National Institute of Statistic, Geography and Informatics (INEGI) in the year 2000, reports that the generation of wealth increased in the last six years, but the distribution of the wealth became more inequitable, with alarming levels of deterioration. In Mexico 38.11 percent of national income is concentrated in 10 percent of the homes. At the other end, 10 percent of the poorest hardly receive 1.50 percent of the total, when in 1996 it was 1.79 percent. The income available monthly to 10 percent of the poorest homes was 26 percent less than in 1994, while for ten percent of the homes the reduction was 20 percent (González Amador and Castellanos, 2000). The

coefficient of GINI for the monetary income in 1992 was 0.5086, in 1994 it was 0.5137, and in 2000 it was 0.4889, which indicates a tendency in the concentration of the national wealth to decrease, though those with more however continues being high.

Quick economic growth has not resulted in an improvement in the levels of the population's standard of living, due to the inequitable distribution of income that impedes the transfer of macroeconomic benefits. The higher rates of growth that reached four percent, on the average, of the gross internal product between 1996 and 2000 have not contributed to improvements in the well-being and standard of living of the family, because they contribute 2.4 real percent of the product per layer. According to an analysis of *El Financiero* (2000), for each peso (Mexican currency) that was generated in the economy in the first trimester of the year, 0.07 cents corresponded the population with scarce resources (38.11 percent), while the population with high levels of revenue (10 percent) obtained 50 cents.

The political transition came harnessed to economic reform but there was not social advance. Cutting social expenditure in education and public health reduced the weight of bureaucracy gradually by transferring these functions from the State to the private sector. The governments' years in power leave behind "open wounds in the national conscience" from the indigenous conflicts of Chiapas. Social conflicts were sharply on the rise. The result being: increasing levels of poverty, the growth of the informal economy, increase in violence and public insecurity, corruption with impunity, the precarious conditions of micro, small and large enterprises and the deterioration of the countryside and farming sector. In sum, the current problem in Mexico is good macroeconomics but bad microeconomics.

Mexican government still has direct ownership over large state owned companies, some of which are monopolies, although it has little influence over the big business and industrial groups. The existing stockholders' ownership interest in a company is not diluted if the company sells debt to raise money in such a way that the investor will not become a co-owner. However, if the company sells equity allows the fund to become a co-owner thereby diluting (or decreasing) the existing stockholders' ownership interest in the company. A disadvantage of a debt investment is that the investor lacks interest on ownership and cannot have gains from an equity investment.

Many of the top firms belong to one of Mexico's business conglomerates or "groups". Garrido (1992:57) uses the term "big business" to refer to those people in positions of ownership and/or control over two or more conglomerates or groups. Business groups in México link together under a "single system of ownership a number of different enterprises, either within a single sector or across various sectors of the economy" (Thacker, 1998:7). Garrido (1992) reports that 99 in Mexico in 1989 counted almost 70 percent of the top 500 firms among their membership in that same year.

Many of these business conglomerates have separated ownership and management by placing control over management in a director general who is not an owner or shareholder in the company (Salas-Porras 1992). Neoliberal governments have shown their inability to reduce the pain of the integration processes through more favorable negotiations that would allow comparative and competitive advantages for Mexico. The results of the globalization processes confirmed that it had gone in only one direction: the entrance of transnational and multinational enterprises, now called global enterprises or contemporary business, which in essence are foreign, have taken legal ownership of the natural resources, land, etc., and returned few benefits.

Private sector and business community challenged the legitimacy of the system itself and secured a permanent role in the political system in order to protect and promote their interests in the future. Private and public sectors differ in nature and specialization in their core competencies. A public sector investing its scarce resources in "loss-making, customer-unfriendly monopolies" is poorly equipped to perform the assigned functions and tasks (Savitsky and Burki, 1999). It has been argued that private or State monopoly creates a deadweight loss to the economy. The ultimate goal of the private sector was to play an active role in government sharing power as it was said by a prominent business leader: "we want to participate in the process of making decisions over the long-term" (Hernández Rodríguez 1986, 262). Under the "alliance for profits", business bargained and agreed to forsake a direct role in politics in exchange for the maintenance of a stable investment climate (Mizrahi 1992).

In this way, the factions integrated into the directing elite were recomposed of managers to guarantee the continuity of the economic model, the dimensioning of a functional democracy that matches the disci-

pline of the market, and the structural reinvention of the system. The degree of market concentration in the main economic sectors and the existence of public and private monopolies is a feature that limits the competitiveness of Mexico's economic structure. The World Bank Mexico (2007) has argued that "in several key moments when government policies could have turned the structures of these sectors more open and thus competitive, the government's choice has tended to be to favor market concentration."

This allows a bigger reproduction of capital and deepening of the dominant instruments to markedly increase differences and social injustices. But this democracy favored by a authoritarian free market system is a hegemonic ideology of the elite of transnational globalized capitalism that imposes decisions to its own benefit. However the real power remains under the control of transnational capitalists.

The growing presence of "big business" leaders shows the existence of a small national nucleus of economic control across multiple sectors of the economy. The new business elite control the important business groups, by means of a system of interlocking management and boards of directors. Large business have separated ownership and management by placing control under a director general who is not an owner or shareholder in the company (Salas-Porras 1992). Garrido (1992, 57) refers the big business to those people in positions of ownership and/or control over two or more conglomerates or groups. The actual number of people who control the top firms in Mexico is smaller due to overlapping networks of ties between the management of different groups spanning across several sectors of the economy.

The new government of Calderón's (2006-2012) main challenge will be to build new institutional structures to solve the problems of the new reality that faces the entrepreneurial and managerial group in power. For example, those institutions that impede the practice of monopoly and that sustain governance of the Mexican society. The proposed democratic capitalist model for market economy needs to be revised so that the function of the results is expressed in increments of poverty. Some of the main challenges for the rest of Calderón's administration are to recover the government's credibility and genuineness in such a way as to reduce the high index of poverty by creating one million two hundred thousand new jobs per year, and to maintain eco-

conomic growth and development. Correction of social inequalities is required starting with the reorientation of economic policies. One inevitable topic is how to draft public policies that will combat inequality in education, health, infrastructure, and housing.

It is necessary that the State must govern and act to rectify inequality, create a social economy that is a humane economy, and humanistic policies in the economic sense with a high emphasis on combating inequality. Economic policies should be drafted to generate good conditions of human life and not only change the bias that gives the market an indisputable hegemony and to guide certain production bases, but to make the State responsible for combating inequality. Economic policies have to become unified to reduce poverty through such measures as the establishment of Social Banking to support families and associated companies, as well as to create a government salary pact between employer and worker, that allows workers to recover their purchasing power.

A political system is required that will produce a public administration that is accountable to the people in such a way that rulers are brought closer to those they govern and which will permit social participation in the design and implementation of public policy. However, the conservative panista speech manages only to recognize the social participation of private philanthropic non-governmental organizations. Nevertheless this joint alteration of party power, the civil society that had always maintained a relationship in conflict with a government that sought corporate control, now has the opportunity to participate in the design of the country in a new relationship with government.

## 8. Discussion

Economic reforms of structural adjustment introduced in Mexico in the last two decades years have led to a mere ownership change of monopolies but did little to modify the regulatory framework. The economic reforms introduced are leading to increased market concentration and have failed in strengthening the regulatory framework in the case of natural monopolies, in providing more opportunities to introduce competition and in enhancing the competitiveness of the economy as a whole. Market oriented reforms have yielded fewer results in terms of making Mexico more competitive (World Bank Mexico, 2007).

Transfers of asset ownership in key economic sectors such as land, airlines and telecom have lasting effects on the economic efficiency and on the distribution of political influence among economic actors. In this sense, privatization entails winners and losers. Privatizations in Mexico have favored new emerging large business. The newly rising class of entrepreneurs and enterprises emerged from the deals of the privatization program and the government protection that the deals themselves offered after the acquisition of the assets (Hoshino, 1996).

In the case of the privatization program in México, the winners are the small number of entrepreneurs who belong to the Mexican economic elite. Some economic elites gained advantageous positions during the decades of privileged access to Mexican State's power and government protection. A strong orientation toward the privatization program and regulatory framework attract flows of foreign direct forms of investment. The implementation of the privatization program in México has been very pragmatic: State-owned companies merged, closed outright, or were sold at token prices.

Privatization of public enterprises in México has been limited because of the restrictions on foreign investment in acquisition and participation, although the privatization program has been open to foreign investment which has purchased important assets. Despite the adoption of Washington consensus-type economic reforms, the results are not positive in terms of economic growth, social development and democratic governance. Privatization has failed to meet the objectives of achieving an economy with more efficient use of resources mainly because the lack of a set of incentives and regulatory frameworks to prevent the establishment of a private monopolies of what have been public monopolies.

The World Bank Mexico (2007) argues that "the Mexican elite has benefited from restrictions on foreign entry into privatized sector", but while in a number of Latin American countries, privatization has been associated with the entry of foreign capital, by contrast "only five privatizations were carried out with the participation of foreign investors. The majority of subscribed capital across the privatization program was therefore provided by Mexican investors".

The losers are the immense urban poor people, peasants, landless rural and small proprietors of land, workers, general consumers, owners of micro, small and

medium size firms that have to absorb higher prices and higher input costs. Privatization has failed to meet the objectives of achieving an economy with more efficient use of resources mainly because the lack of a set of incentives and regulatory frameworks to prevent the establishment of a private monopolies of what have been public monopolies. Nowadays, Mexican economy is dominated by a network of private monopolies with a governance linked through cross-shareholdings.

The way that the privatization and trade liberalization reforms were conducted in Mexico, according to the World Bank Mexico (2007:68) suggests “that strong business influence on politics continues, albeit with some changes in the identities of the elites involved and the form of the interactions between the state and businesses. The clear tendency of wealth concentration and unequal distribution of economic benefits (and of the corresponding political influence) has created a highly unequal political playing field where a small number of well-endowed and well-connected business elites manage to obtain preferential concessions from the government (typically in the form of market protection)”.

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# The investigation of systematic risk as a means to explain how the Financial Crisis of 2008 affected the Greek Stock Exchange

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The aim of this article is to investigate the way that the financial crisis of 2008 influenced risk and returns in the Greek Stock Exchange. Using the Single Index Model (S.I.M.) Theory and a 3 -year-database of the daily closing prices of each index of the Athens Stock Exchange, we computed a number of tests for the daily returns, the beta coefficients and the total variances of the indices, as well as for the variances of the residuals that came out of the SIM. The results of our research are in accordance with previous research that suggests a rise in systematic risk of the markets whenever a crisis occurs.

**JEL Classification codes:** G01, G10

**Keywords:** Systematic Risk, Non Systematic risk, Financial Crisis, Beta, Athens Stock Exchange

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## 1. Introduction

Since 2008, the Greek Stock Exchange seems unable to come out of the international financial crisis. Nearly all industrial sectors have been seriously affected. As a result, the stock returns of the firms that form these indices have been affected, too.

The aim of this article is to investigate the reaction of the returns of the stocks during the crisis period and the systematic or non-systematic character of their total risk.

The paper comprises of five parts. The first part is introductory. The second part refers to financial crises and their characteristics. The third part is devoted to systematic risk and how it is related to crises. The fourth part is the statistical analysis for Athens Stock Exchange. Finally, the fifth part analyzes the conclusions of the empirical investigation and gives proposals for further examination of the topic.

## 2. Financial crisis

### 2.1 Defining crises

There are several definitions of a financial crisis. Each one views the crisis from a different point of view. According to Corsetti, Pesenti and Roubini (1998) a financial crisis can be defined as the situation in which the outstanding stock of liabilities is larger than the capital stock and financial markets allow no private borrowing in excess of the capital stock.

Sharpe (1963) refers to crisis as a period of time wherein there is a large downward movement of the market.

Chan-Law and Chen (1998) suggests that a crisis should be perceived as a large reduction in the amount of loans intermediated by the financial system, i.e., a large capital outflow, even when the economic fundamentals change only slightly. The moral of their paper is the fact that a financial crisis, in the form of a sudden and large reversal of private debt inflow, can be a direct result of inefficiencies in the financial sector.

Schwartz (1995) suggests that "financial crisis" should be defined as an event which is "precipitated by desperate actions of the public in a flight to currency that suddenly squeezes the reserves of the banking system. In a futile attempt to restore reserves, the banks may call loans, refuse to roll-over existing loans, or resort to selling assets".

Full understanding of a financial or currency crisis requires the analysis by using a model. There is no consensus within the literature on the correct model of a crisis. First-generation models, such as Krugman (1979) and Flood and Garber (1984), emphasise the role of fundamentals in a crisis, such as a country's level of foreign currency reserves. On the other hand, second-generation models, such as Obstfeld (1994), highlight the important role of investor's beliefs. Pessimistic expectations can become both self-generating and self-fulfilling.

The majority of the existing theoretical models of financial crisis falls into four categories: fundamentals-based models, expectations-based models, multiple equilibria models, and moral hazard models (Corsetti, Pesenti and Roubini (1998)). Fundamentals-based models use changes in fundamentals to derive financial crisis (Kaminski, 1998). Expectations-based models include models with expectations of future values, as in models of bubbles (Allen and Gale, 1998), models of self-fulfilling expectations (Obstfeld, 1996), and models with expectations of other market participants' actions. Multiple equilibria models (Masson, 1998) can explain the discrete change in financial flows during a crisis as a switch between two equilibria. Moral hazard models have been extensively used by Krugman (1998) in the context of the Asian crisis.

Mishkin (1992) provides an asymmetric information framework for understanding the nature of financial crises. According to him, a financial crisis is a disruption to financial markets in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities. As a result the crisis can drive the economy away from equilibrium. Corsetti, Pesenti and Roubini (1998) developed a model of financial and currency crises led by moral hazard, with special reference to the recent Asian events of 1997/98. Moral hazard is a common source of overinvestment, excessive external borrowing and current account deficits in a poorly supervised and regulated economy.

### 2.2 Characteristics of the financial crisis

The classic explanation of financial crises is that they are caused by monetary excesses which lead to a boom and an inevitable bust (Taylor, 2009). In the recent crisis, we had a housing boom and bust, which in turn led to

financial turmoil in the United States and other countries. Some argue that the low interest rates in 2002–04 were caused by global factors beyond the control of the monetary authorities. A sharp boom and bust in the housing markets would be expected to have had impacts on the financial markets as falling house prices led to delinquencies and foreclosures. These effects were amplified by several complicating factors, including the use of subprime mortgages, which led to excessive risk taking. The US housing market presented all the classic signs of a “boom” by 2006, with dramatic increases in prices over the previous years (Tudor, 2009). In the United States, this was encouraged by government programs designed to promote home ownership. A significant amplification of these problems occurred because the subprime and other mortgages were packed into mortgage-backed securities of great complexity. The risk was underestimated by the rating agencies because of either a lack of competition and poor accountability or, most likely, an inherent difficulty in assessing risk owing to the complexity.

A characteristic of the financial crisis of 2008 is the fact that information problems were observed. Information and incentive problems played important roles in the financial market scandals of the late 90s (exemplified by Enron) and in the financial crisis of 2007/2008 (Stiglitz, 2008).

Crashes are also characterized by unusual intraday price volatility (Lauterbach et al., 1993). Furthermore, during a crash, trading volumes are affected as well. Ben-Zion, Gutman, Egbe, and Brahams (1990) study the relative trading volumes of S & P 500 stocks during the October 1987 crash. Trading volumes increased especially for smaller-capitalization stocks, higher-risk stocks, and stocks that had gained the most from January through September of 1987.

The current crisis is also related to new financial entities and liberalization. The majority of historical crises are preceded by financial liberalization, as documented in Kaminsky and Reinhart (1999). New unregulated, or lightly regulated, financial entities have come to play a much larger role in the financial system, undoubtedly enhancing stability against some kinds of shocks, but possibly increasing vulnerabilities against others.

So, there are two basic aspects that make this crisis different from its predecessors: First, the preceding boom had its origin in the development of new financial products that opened up new investment possibili-

ties (while most previous crises were the consequence of overinvestment in new physical investment possibilities). Second, the global dimension of the current crisis is due to the increased connectivity of our already highly interconnected financial system.

As refers to the way the crisis affected the real economies, there are many ways in which problems in credit markets might potentially affect the macroeconomy (Bernanke, 1983). Reinhart and Rogoff's paper (2009) examines the depth and duration of the slump that invariably follows severe financial crises. First, asset market collapses are deep and prolonged. Real housing price declines average 35 percent stretched out over six years, while equity price collapses average 55 percent over a downturn of about three and a half years. Second, the aftermath of banking crises is associated with profound declines in output and employment. Third, the real value of government debt tends to explode.

The goal of Ivashina and Scharfstein's (2008) paper is to understand a key mechanism through which financial crises can affect the real economy, namely the supply of credit to the corporate sector. A reduction in lending does not, by itself, show a decline in the supply of credit. It is possible that the recession and general economic uncertainty reduced the demand for credit by corporate borrowers. The current financial crisis is still evolving so it is difficult to estimate its consequences. We can only observe that the Greek economy is influenced in a great degree by the 2008 crisis, and faces very serious problems.

### 3. Systematic risk

#### 3.1 Definition of systematic risk

Bartholomew and Wharden (1995) regard systematic risk as the likelihood of a sudden, unexpected collapse of confidence. Systematic risk is often related to the spreading of financial crisis from one country to another (Freixas et al., 2000).

Systematic risk has gained renewed prominence in the literature in recent years. To date, empirical studies aimed at assessing the quantitative importance of systematic risk have analyzed the outcomes of historical banking crises. The literature on systematic risk comprises of theoretical models that analyze specific aspects of systematic risk, on the one hand, and empirical analyses of historical events considered to be a financial crisis, on the other hand.

Sheldon and Maurer's paper attempts to assess the level of systematic risk currently in a banking system on the basis of interbank loan structures. Their results suggest that the systematic risk associated with the interbank loan structure existing among Swiss banks in 1987-95 posed little threat to the stability of the Swiss banking system. At the same time, the paper focuses on the potential threat of the so-called domino effect. It assesses the probability that a single bank failure could spread through a bank system via existing interbank lending and borrowing relationships.

In the current crisis, new financial instruments have been accused of increasing systematic risk. Credit Default Swaps are one of these instruments. In their analysis of the risk management implications of CDOs, Krahen and Wilde (2006) mention the possibility of an increase of systematic risk. Perhaps certain groups of participants may have the appetite for risky bets, but should these bets fail, the entire financial system bears the consequences. Freixas et al. (2000) establishes that systematic crises may arise for fundamental reasons, like in Allen and Gale (1998).

Credit Default Swaps have exacerbated the current financial crisis in the following ways: (1) they may have indirectly promoted the subprime asset bubble that is widely considered responsible for the current financial crisis; and (2) improperly priced Credit Default Swaps transactions directly led to the government's purchase of a control-stake in AIG. Other than AIG, Credit Default Swaps have not yet directly caused the failure of any large institution. However, Dickinson (2008) predicts that if Credit Default Swaps prices rise to such a degree that participants in an illiquid market cannot offset their positions, it follows that more institutions will fail as counter-parties demand collateral.

### 3.2 Previous research on systematic risk during crises

Previous research has been done on risk and return in times of crises. Maroney et al (2004) explore risk and return relations in six Asian equity markets affected by the 1997 Asian financial crisis. After the start of the crisis, national equity betas increased and average returns fell substantially. Beta increases due to leverage linked to exchange rates. The increase in expected return needed to accompany this rise in beta is made possible through the creation of capital losses that lower average

returns. It is observed that the average national equity market beta increases after the start of the crisis.

Tests show significant shifts in risk and return after the official start of a crisis. Consistent with economic news, statistical break point estimates identify a crisis date five or more months after the official date; at the depth of the crisis. Emmons and Schmid (2000) investigate changes in risk and return in six Asian markets before and after the 1997 Asian financial crisis. Using a six-country sample of weekly equity market returns from October 1990 to June 1998, Emmons and Schmid (2000) examine how the Asian financial crisis affected the sensitivity of large U.S. firms to U.S. stock-market risk—that is, whether the economic situation in Asia is related to changes in firms' "betas." Another mitigating effect in the stock market is the decrease in the weights of firms with increasing market betas. Even if the firm's expected earnings do not decrease, the firm's stock price must drop initially to generate the higher future returns investors demand due to the increase in the firm's beta. A reduction in the share price reduces the firm's market capitalization, and therefore, its weight in the market index.

Mathur et al., (2002) show that the Chilean stock market reacted significantly to the important news events associated with the Peso crisis. Multiple regression models designed to estimate shifts in the regression parameters show that the systematic risk increased substantially during both the event and the post-event periods.

As a conclusion, in most papers, we see that systematic risk and "beta" increase during crises. Furthermore, returns tend to fall, while trading volumes tend to rise.

## 4. Empirical Research

### 4.1 Introduction

During 2008, the Greek Stock Exchange Market crashed because of the international financial crisis of 2007/2008. The aim of the empirical research of this article is dual:

- ✓ The examination of the reaction of the returns of the stocks during the crisis period;
- ✓ The examination of the reaction of the risk (both systemic and non-systemic) of the returns of the stocks during the crisis period;

Through the results of the above examinations we intend to explain how the financial crisis affected the Greek Stock Exchange.

## 4.2. Data

Aiming at the reaction of the whole Greek Stock Exchange Market, we examined the Indices of the market, each of whom represents a branch of Greek Economy. There are seventeen such indices. Table 1 presents these indices.

**Table 1 Indices of the Greek Stock Exchange Market**

English Symbol	Name of Index
GD	General Index (Market)
DAS	Index of Assurances
DBP	Index of Industrial Products and Services
DEM	Index of Commerce
DKY	Index of Construction
DKO	Index of Firms of Social Benefit
DME	Index of Media
DPA	Index of Oil and Gas
DPO	Index of Household Commodities
DPY	Index of Raw Materials
DTA	Index of Travelling
DTL	Index of Communicating
DTP	Index of Food and Drinks
DTR	Index of Banks
DTX	Index of Technology
DYG	Index of Health
DXM	Index of Chemistry
DXY	Index of Financial Services

Moreover, we used data comprised of the prices of these indices for a three-year period, starting on the 1<sup>st</sup> January 2007 and ending on 31<sup>st</sup> December 2009. The computation of the daily returns was accomplished as below:

$$R_{I,t} = \frac{P_{I,t} - P_{I,t-1}}{P_{I,t-1}}$$

where  $I$  = the examined index  
 $t$  = Time

## 4.3 Methodology

The first objective of the article is to define the periods that are supposed to be compared to each other. The

one period would reflect the period during the financial crisis and the other would reflect a period before it. Both of them should be common for every index and last the same number of months. Therefore, we computed the period of the crisis for every index assuming that the first month of the crisis is the first month that gives a statistical significant negative mean of returns and the last month of the crisis is the month that the minimum price of the index is observed. Only a two-month period was common for all indices. This period is September/October 2008. For the two periods to be directly comparable, we regarded as the period before crisis the same months of the previous year. So the period before the crisis is September/October 2007.

Secondly, the examination of the reaction of the real returns of the indices during the crisis was executed through a t-test, investigating the equality of the means of the returns of every index between the two periods.

Finally, using the Single Index Model theory, we examined the equality of the variances of the total real returns, of the estimated through the model returns and of the relevant residuals, in order to estimate the character of the risk in the two examined periods. The Single Index Model for each Index was calculated for the whole four-month period.

Table 2 presents the average return and the standard deviation of the returns for the two examined periods.

**Table 2 Descriptive Statistics of the Returns for the whole examined period**

Index	Month	Mean	Std. Deviation
DAS	during crisis	-0,0091	0,0403
	before crisis	0,0015	0,0191
DBP	during crisis	-0,0116	0,0389
	before crisis	0,0019	0,0116
DEM	during crisis	-0,0129	0,0290
	before crisis	0,0026	0,0141
DKY	during crisis	-0,0137	0,0398
	before crisis	0,0003	0,0098
DKO	during crisis	-0,0104	0,0467
	before crisis	0,0072	0,0236
DME	during crisis	-0,0088	0,0334
	before crisis	-0,0013	0,0106
DPA	during crisis	-0,0068	0,0356
	before crisis	0,0001	0,0097

Index	Month	Mean	Std. Deviation
DPO	during crisis	-0,0136	0,0338
	before crisis	0,0023	0,0085
DPY	during crisis	-0,0108	0,0463
	before crisis	0,0014	0,0118
DTA	during crisis	-0,0080	0,0211
	before crisis	0,0014	0,0106
DTL	during crisis	-0,0053	0,0430
	before crisis	0,0012	0,0152
DTP	during crisis	-0,0089	0,0528
	before crisis	0,0039	0,0165
DTR	during crisis	-0,0110	0,0527
	before crisis	0,0020	0,0094
DTX	during crisis	-0,0128	0,0404
	before crisis	-0,0005	0,0102
DYG	during crisis	-0,0096	0,0295
	before crisis	0,0023	0,0115
DXM	during crisis	-0,0069	0,0289
	before crisis	0,0010	0,0083
DXY	during crisis	-0,0044	0,0496
	before crisis	0,0022	0,0121

From the table above, we may observe that:

The average return of the indices during the crisis period is much smaller than the one before the crisis period

✓ The standard deviation of the returns of the indices increases during the crisis period.

In the sections below, the statistical significance of the above observations is examined.

#### 4.4 Analysis of the Real Returns of the Indices

We examine the behavior of the returns of the indices through a T-test. Specifically, we examine the equality of the average return between the two periods, as it is shown in the below hypothesis:

$$H_0 : \bar{R}_{Before\ Crisis} - \bar{R}_{During\ Crisis} = 0$$

where  $\bar{R}_i$  = The average return of the indices for the i period

i = The period

Table 3 presents the results of the above test:

**Table 3 T-Test of equality for Returns**

Index	t	p-value
DAS	-1,58	0,12
DBP	-2,23	0,03**
DEM	-3,20	0,00***
DKY	-2,29	0,03**
DKO	-2,25	0,03**
DME	-1,43	0,16
DPA	-1,25	0,22
DPO	-3,06	0,00***
DPY	-1,72	0,09*
DTA	-2,64	0,01**
DTL	-0,96	0,34
DTP	-1,56	0,13
DTR	-1,63	0,11
DTX	-1,98	0,05*
DYG	-2,50	0,02**
DXM	-1,74	0,09*
DXY	-0,87	0,39

\* Level of Significance 10%

\*\* Level of Significance 5%

\*\*\* Level of Significance 1%

From the table above, a general trend for decrease of the returns may be exacted, as we accept the hypothesis that ten out of seventeen indices give returns lower than the ones they gave during the period before the crisis.

#### 4.5 Analysis of the Variances of Returns of the Indices

The Analysis of the Variances is accomplished by the examination of equality of the variances of the real returns and the residuals of the indices between the two periods. Moreover, the percentage of the variance of the residuals to the variance of the real returns between the two periods is computed and discussed. All of them are presented in Table 4.

Through the F-Test the following hypothesis is tested:

$$H_0 : \frac{S^2_{Before\ Crisis}}{S^2_{During\ Crisis}} = 1,$$

Table 4 Analysis of Variance

Index	During crisis		Before crisis		Real Returns		Residuals		Percentage of the Variance of the Residuals to the total Variance	
	Real Returns	Residuals	Real Returns	Residuals	F-Test	p-Value	F-Test	p-Value	During Crisis	Before Crisis
DAS	0,0016	0,0010	0,0004	0,0004	4,45	0,00	2,80	0,00	36,95%	96,65%
DBP	0,0015	0,0004	0,0001	0,0001	11,33	0,00	4,49	0,00	23,18%	62,86%
DEM	0,0008	0,0003	0,0002	0,0002	4,21	0,00	1,83	0,02	20,39%	84,23%
DKY	0,0016	0,0004	0,0001	0,0001	16,30	0,00	6,20	0,00	46,50%	65,05%
DKO	0,0022	0,0010	0,0006	0,0005	3,91	0,00	1,98	0,01	61,21%	87,91%
DME	0,0011	0,0004	0,0001	0,0001	10,00	0,00	5,93	0,00	20,14%	66,42%
DPA	0,0013	0,0005	0,0001	0,0001	13,48	0,00	7,54	0,00	45,65%	71,92%
DPO	0,0011	0,0003	0,0001	0,0001	15,66	0,00	5,64	0,00	27,61%	85,10%
DPY	0,0021	0,0004	0,0001	0,0001	15,36	0,00	3,26	0,00	31,28%	78,37%
DTA	0,0004	0,0003	0,0001	0,0001	3,95	0,00	3,15	0,00	13,83%	83,34%
DTL	0,0019	0,0007	0,0002	0,0002	7,98	0,00	3,61	0,00	155,80%	82,88%
DTP	0,0028	0,0016	0,0003	0,0002	10,19	0,00	7,20	0,00	84,58%	79,50%
DTR	0,0028	0,0001	0,0001	0,0000	31,63	0,00	4,68	0,00	5,29%	35,92%
DTX	0,0016	0,0004	0,0001	0,0000	15,80	0,00	8,53	0,00	14,66%	46,30%
DYG	0,0009	0,0004	0,0001	0,0001	6,55	0,00	3,97	0,00	23,74%	73,17%
DXM	0,0008	0,0002	0,0001	0,0001	12,10	0,00	3,29	0,00	23,46%	89,90%
DXY	0,0025	0,0006	0,0001	0,0001	16,80	0,00	5,56	0,00	68,34%	70,16%

where  $S_i^2 =$  The total variance of the returns or the variance of the residuals for the  $i$  period

$i$  = The period

From the analysis of the variance that is appeared in Table 4 we may conclude that:

- ✓ Both the variance of the real returns (total risk) and the variance of the residuals (non systematic risk) increase during the crisis period as compared to the period before.
- ✓ The percentage of the variance of the residuals to the total variance decreases during the crisis period as compared to the period before. As a result, the percentage of the non-systematic risk to the total risk of the indices decreases.

- ✓ Since the percentage of the non-systemic risk to the total risk of the indices decreases, the percentage of the systematic risk to total risk of the indices increases.

Therefore, the above results suggest the increase of the systematic risk of the Stock Exchange Market of Athens during the period of crisis.

## 5. Conclusions and proposals for further research

### 5.1 Conclusions

The basic conclusions of the above are presented below:

- ✓ The international financial crisis affected the returns of the stocks of the Athens Stock Exchange, since the indices under performed during the period Septem-

ber/October 2008 in comparison with the period September/October 2007.

- ✓ The international financial crisis affected the risk of the stocks of the Athens Stock Exchange, since the total variance of the indices increases during the period September/October 2008 in comparison with the period September/October 2007.
- ✓ The increase of the variance of the indices during the period September/October 2008 comes from the increase of the systematic risk, since the percentage of the variance of the residuals (non-systematic risk) to the total variance (total risk) decreases.

As a result, the recent crisis in the Greek Stock Exchange may be recognised as a systemic one.

## 5.2 Proposals

The global financial crisis has revealed the need to rethink fundamentally how financial systems are regulated. Further research is needed to shed light on the issues left open for a thorough understanding of the crisis. We suggest that the same statistical analysis should be done for the following years. Furthermore, it would be interesting to find out how, in which way and for how long the stocks of the industries of the Greek economy were affected by the crisis. Finally, the examination of the risk from the point of view of heteroskedasticity may contribute more to our aim.

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# Firm visibility via Group Presentations

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Investor relations (IR) is a function that should make a difference to listed companies' communication process to the markets. It is also the strategic corporate activity that promotes the investment case of a listed company and puts its listed stock "on the radar screen" of the analysts and the fund managers. But which corporate communication tool should the listed companies utilise to inform the market? What can the top management and especially the in-house Investor Relations Officer (IRO) do to increase company visibility? One option is to participate in and communicate through group presentations. This paper investigates the Greek listed firms' efforts towards attaining visibility via group presentations. Visibility should result in better stock liquidity and increased stock price.

**JEL Classification codes:** G14; M41

**Keywords:** Information asymmetry; Corporate discretionary disclosure; Investor relations; Visibility; Group presentations

## 1. Introduction

Investor relations and corporate communications are activities that are initiated, planned and executed by skilful people in an organization at the highest level. Good investor relations and corporate communication may affect the company's evaluation, cost of capital and future prospects (Lang and Lundholm, 1996; Botosan, 1997). The leader of the communication team, namely the IRO, is the executive who is responsible for initi-

ating, organising, planning and implementing the IR strategy in order to increase market awareness of the company and stimulate buying behaviour of its stock. Firm visibility can be attained by using a combination of corporate communication tools. Many public companies, especially small and medium, capitalization ones listed on a peripheral stock exchange usually implement group presentations as part of their communication policies in order to be visible locally and globally. Firm Visibility is a "value relevance" variable (Isimbabi,

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2003, p. 5). It is a non-financial variable that affects firm valuation, stock trading, equity shareholding and share price (Bushee and Miller, 2007; Brennan and Tamarowski, 2000).

As this research demonstrates, group presentations or conferences take place when one firm or a number of listed companies present their investment cases to a group of prospective investors, analysts and other market players. These conferences most commonly take place in the major local cities as well as the major global financial centres such as London, New York, Frankfurt, etc. Table 1 displays group presentations or confer-

ences grouped into six types and two categories (this research; Demos 2005).

The format of these events is described below. General assembly presentations are organized by the company and the target audience includes local and global institutional and retail shareholders (representatives in person or by proxy voting), analysts, financial journalists and other market players. General assembly presentations can take place annually, semi-annually or any-time during the fiscal year as extraordinary assemblies. This is a mandatory communication tool while the other five, mentioned in the table above, are voluntary

**Table 1: Group Presentations / Conferences Categories and Types**

Group Presentations Categories	One company presents			Many companies present		
Group Presentations Types	General Assembly Presentations	Analyst Presentations	Media Presentations	Industry Group Conferences	Small Group Presentations	Large Group Presentations

corporate communication tools (Demos, 2005; Avgouleas, 2004; Law 21901). Analyst presentations are organized by the IRO and/or the company, where the top management and especially the CFO present, update and analyse the latest financial results to mainly sell side analysts. They take place most commonly in May or June, when the audited annual financial results are published<sup>2</sup>. Media presentations are similar to the analyst presentations and the target audience is financial journalists and media people. In these presentations, the CFO and the CEO along with the IRO update and present results, prospects and strategy to the media people. Media presentations (i.e. press conferences) usually are utilised to channel company information to the retail investors and other stakeholders including the general public. Industry group conferences are organized commonly by a global investment bank such as UBS, Citibank, Nomura, Deutsch Bank, etc. Listed companies from many countries but from the same industry participate and present. The audience includes special-

ized funds, other institutional investors, analysts, bankers, media, corporate finance people, etc. Small group presentations are organized usually by a consulting IR firm or a broker or the local IR society. Four or five listed companies participate and present their investment cases, regardless of capitalization and industry. The audience is targeted fund managers and analysts, who have invested, are interested in or follow the participating companies. Large group presentations are organized either by a bank or by a consulting IR firm or the local authorities such as the Athens stock exchange, where many ASE listed companies participate. These conferences are also called “Greek days”. The audience is everyone interested in the presenting companies.

In this paper we try to shed some light on how the aforementioned voluntary types of group presentations affect Greek listed firm visibility and its related parameters, by investigating how they are perceived and used by three participants in the capital markets. In particular, we investigate how group presentations are employed by company insiders in order to have direct contact with two major market players, the analysts and the fund managers and develop “investment viability attributes” (Bushee and Miller, 2007, p. 151). We also determine how group presentations are utilised by ana-

1 Law 2190 is the basic corporate law in Greece that governs governance and accountability.

2 The majority of the ASE listed companies’ fiscal year ends December 31.

lysts and institutional investors in order to extract direct information on the listed companies. It is a first attempt to “examine the (Greek) firms’ simultaneous choice of disclosure quality, management incentives and corporate governance structures” and practices, which are unknown, hidden and invisible (Core, 2001, p. 453). We try to evaluate group presentations as a disclosure tool by the listed companies as part of voluntary external reporting to create awareness, visibility and reduce existing information asymmetries. Overall we try to get a better understanding of the role of the group presentations as part of the interactive financial information flows between the company and the market.

Our analysis contributes to the understanding of how companies increase market awareness and inform institutional and retail investors, how analysts influence the firm visibility process and how investors benefit and form their opinions and investment decisions from the disclosure during group presentations. The main contribution of this study is to provide evidence on how group presentations to analysts, investors and other relevant market participants are perceived to affect firm visibility and other related attributes such as stock liquidity, firm evaluation, stock price and equity shareholdings. We also identified other issues important to smaller capitalization companies such as costs and learning during group presentations. In particular, we investigate how listed companies on the Athens stock exchange can become visible to the global investors since, as Huberman suggests, people like to invest in a company they know and most investors “*shy away from foreign stocks and concentrate their portfolios on stocks they know*” (Huberman, 2001, p. 678).

The paper is organised as follows. In section 2, we state the research motivation, objective, questions and limitations. In section 3, we describe previous related research. In section 4, we provide the research design and in section 5, we display the research results. Conclusions are presented in section 6.

## 2. Research motivation, objective, questions and limitations

The study was motivated from the need for knowledge expressed by Greek company executives, firstly how to increase company visibility and secondly how to communicate better, efficiently and reliably their knowledge

of the company’s activities and financials<sup>3</sup>. The research was also motivated by the ongoing international discussion, especially during the IIRF conferences<sup>4</sup> and effort to identify IR strategies and corporate communication tools that should be followed, especially for smaller capitalization listed companies.

The plan in this survey is to extract the perceptions and experience of three major market players (company executives, fund managers and analysts) on group presentations, and to identify the effectiveness of group presentation activities towards improving the Greek listed companies’ visibility. The idea is to find out what these listed companies do to improve their visibility both in the local but more importantly in the global market place; why they choose group presentations and how they find ways to improve the impact of group presentations, especially for small and medium capitalization companies which are listed in a peripheral, emerging, non-English speaking market like the Greek one. Moreover, why do company insiders, analysts and fund managers participate in group presentations? We wish to identify whether respondents believe that group presentations can increase company visibility, raise investors’ interest and attract capital to the underlying stock. We are also interested in whether group presentations are initiated by the companies or by other intermediaries like the underwriting banks, brokers or consultants. When group presentations are proactively initiated and organised by the IR departments this indicates the high level of top management understanding of the communication process and the level of development of the company along the voluntary disclosure life cycle. Additionally, proactive initiation of group presentations indicates recognition of a need for Greek listed companies to promote their cases globally.

## 3. Previous research

This research belongs to the “*discretionary-based disclosure*” literature, according to Verrechia’s disclosure literature taxonomy (Verrechia, 2001). We assign this research to the “*voluntary disclosure literature and stud-*

3 The first author has many years of experience as an IRO for Greek companies and the founder and president of the local IR society, the Hellenic Investors Relations Institute (HIRI).

4 IIRF annual conferences 1997-2007(www.iirf.org). The first author was a member of the board of directors of the IIRF.

ies" which "argue that there are potentially three types of capital market effects for firms that make extensive voluntary disclosures: improved stock liquidity, reduced cost of capital and increased information intermediation" (Healy and Palepu, 2001, p. 429). Our research also takes into consideration "recent macroeconomic forces such as rapid technological innovations and globalization" but incorporates the personal element of information delivery via group presentations by the managers (Healy and Palepu, 2001, p. 432). From the five identifiable strands of related literature (disclosure, visibility, investor following and ownership, analyst following and media following), our research follows the visibility literature but encompasses on other areas as well (Bushee and Miller, 2007).

Previous research has examined how discretionary public and private corporate communication activities, such as analyst presentations (Francis, Hanna and Philbrick, 1997); analyst coverage (O'Brien and Bushan, 1990; Lang and Lundholm, 1996); press coverage (Miller, 2004; Falkenstein, 1996); advertising (Grullon, Kanatas and Weston, 2004); and multiple exchange listing (Kadlec and McConnell, 1994) reduce information asymmetry, affect firm visibility and investment behaviour towards the underlying stock. However there is limited research on group presentations and their effects and the current research tries to shed some light on.

In particular, researchers have also studied the effect of analyst presentations. Francis, Hanna and Philbrick (1997) reported that stock prices are affected by corporate presentations to securities analysts. Brennan and Tamarowski (2000) documented that increased disclosure especially via presentations to analysts affects positively liquidity of trading and stock price. Healy and Palepu (2001) documented that voluntary disclosure of information increases analysts' coverage. Hong and Huang (2003) identified parameters and incentives of insiders to utilize investor relations discretionary activities such as analyst and media presentations to increase company visibility and stock liquidity. Bagnoli, Levine and Watts (2005) examined how group presentations affect firm visibility via analysts' coverage. They found that corporate information events (CIEs) or group conferences increase firm visibility. Corporate information events organised by companies trigger earnings estimate revision activity by analysts which in turn trigger positive responses among investors leading to stock

purchases. They concluded that "stock prices react most strongly and adjust most quickly to revision clusters that accompany CIEs that focus on financial statement information. CIEs that offer strategic information take longer for analysts and investors to assimilate, and investors appear to rely heavily on later analyst revisions following such events (p. 261)."

Some researchers have examined issues related to media following. This literature is very limited and includes the work by Falkenstein, 1996; Miller, 2006; Carter, 2006; and Dyck, Volchkova and Zingales, 2008, who investigated firm visibility and media coverage in Russia. Falkenstein documented that "(mutual) funds show a significant preference towards stocks that are discussed in newspapers" (1996, p.128). Miller reported that "the press facilitates earlier public knowledge of a fraud both by original investigative reporting and broadly rebroadcasting information from other intermediaries" (2006, p.1004). Carter found a positive correlation between firms with more highly educated top management and increased visibility via media activities. She reported that "as the media increasingly attends to a firm's actions by publishing increasing numbers of articles about the firm, the firm becomes more visible to its multiple stakeholders" (2006, p. 1152). In a study in Russia, Dyck, Volchkova and Zingales suggested that "in most developing countries, with little or no credible media outlets and unsophisticated public opinion, domestic media are not very powerful in pressuring companies to behave (but) foreign media can have an impact (when) companies need credibility to raise capital" (2008, p. 1129).

Researchers have examined what affects firm visibility. In particular, Merton (1987) has identified that some company characteristics such as firm size and investor base influence firm visibility and valuation. Huberman (2001) has identified that communication initiatives and activities like analyst coverage, media coverage, quality of information, direct contacts with investors also influence company visibility. Ackert and Athanasakos (1998) argued that firm visibility affect stock performance and trading. They documented that visible firms have the propensity for strong seasonality in excess returns. Bushee and Miller (2007) examined the relationship between IR and visibility, especially for the smaller companies. They focused on the corporate communication policies of small and medium capitalization listed firms which face visibility challenges and they found that "IR activities play a significant role

in helping small and mid-cap companies overcome their low visibility due to their firm characteristics to attract a wider following by investors and information intermediaries and improve their market valuation" (p. 3). They concluded that many small firms initiate an investor relations program in order to increase company awareness, improve visibility and attract investors to their stock. Lerman, Livnat and Mendenhall (2008) documented a relationship between high-volume return premium and changes in firm visibility such as earnings announcement, earnings forecast errors, etc. Chordia, Huh and Subrahmanvam (2008) concluded that stock trading activity is influenced by stock visibility. Moreover, they indicated that the number of analysts following a stock affects liquidity, trading patterns and company evaluation. Almazan, Banerji and De Motta (2008) argued that "managerial disclosure of information, even though hampered by agency conflicts, plays a role in attracting attention and directing market research" (p. 1418). A group of researchers has investigated the relationship of firm visibility and accounting choice of either IFRS (Covrig and Defond, 2007) or US GAAP (Bradshaw, Bushee and Miller, 2004). A lot of interest has been focused on how dual and multiple listings affect visibility in mature markets and includes the work by King and Mittoo, 2007; Mehran and Peristiani, 2006; Baker, Nofsinger and Weaver, 1998; and Baker, Powell and Weaver, 1998, and in emerging markets that includes the work by Bancel and Mittoo, 2008; and Kumar, 2006.

However most of the aforementioned relevant visibility research has been focused on mature capital markets, especially those of the USA and the UK. Empirical research on visibility in emerging markets includes a study on Chinese stocks by Ng and Wu (2007), who documented that stock trading increases are associated with stock visibility and familiarity, within-branch bias, location, local bias, firm size, and calendar effects. In particular, they found that there are strong word-of-mouth effects in the trading decisions of Chinese individual investors. European based studies have also appeared like the pan-European research into all aspects of IR by Marston (2004), which included smaller markets such as Greece and newly emerging ex-communist markets such as Poland and Hungary. But there is very limited research for the Greek capital market in relation to voluntary corporate communication apart from Levantis and Weetman, 2004. They investigated there three categories of voluntary disclosure (corporate environ-

ment, social responsibility and financial disclosure) of 87 companies listed on the Athens stock exchange and found out that voluntary disclosure is relatively low. But there is no research on group presentations by the Greek listed companies and this survey by collecting, analyzing and synthesizing the opinions, experiences, practices and perceptions of the interviewees identifies and develops theories, models and the aforementioned types on group presentations.

#### 4. Research design

Our research approach is based on the grounded theory methodology (Strauss and Corbin, 1990; Strauss and Glaser, 1967), which has been used in corporate disclosure research (Holland, 2005; 1997). As Strauss and Glaser observed that "grounded theory research aims to organize many ideas which have emerged from analysis of the data, through systematic analysis of documents, interview notes, or field notes by continually coding and comparing data to produce a well constructed theory" (1967, pp. 22-23). And "the theory will often be complex, formulated through iterative analysis of data, and through the development of core concepts whose relationships are investigated in order to generate an explanatory theoretical framework which emerges from the data collected" (Strauss, 1987, p. 54).

The semi-structured interview format was used by other researchers in similar research projects (Marston, 1999; Holland, 1998; Barker, 1998). Such interviews with open-ended questions not only allow the interviewees to express themselves fully and be completely comprehensible, but also free them to be communicative in a framework of issues, themes and questions. Indeed, as Marston states semi-structured interviews "afford respondents the freedom to answer questions without restricting their responses, while the use of an interview framework or agenda, may prevent excessive deviation from the research questions and issues" (Marston, 1999, p.12). Weetman (1994) also evaluated the two qualitative research - gathering methods (questionnaires and interviews) and identified three advantages of interviews, compared with questionnaires: specific and detailed answers by the interviewees; clarity of answers; and participation of the interviewer in the soft cross-examination process to unravel truthful information and insights.

In this research, as mentioned, we collected empirical data, on the workings and results of group presentations, from three groups. We researched the opinions, perceptions, understanding and comprehension of the top management, (namely Chairman of the BoD, CEO, CFO and IRO), from a representative mix of small, medium and large capitalization listed companies. These companies were listed on the Athens Stock Exchange (ASE), out of which 45 were dual listed on other international exchanges such as the London Stock Exchange (LSE), NYSE, and NASDAQ.

As Table 2 shows, at the end of 2004 there were 360 listed companies at the Athens Stock Exchange. Most

of the dual listed companies also trade on the LSE as well as on the Frankfurt Stock Exchange and on the American Exchanges, namely on NYSE and NASDAQ. Prior studies on Greek multiple listings documented that dual listings had improved disclosure and stock liquidity and there by motivated voluntary corporate communication strategies of the local listed companies. (Demos, 2000a; b).

Requests for interviews were sent to 355 targets on January 2005. The largest quoted Greek companies (250) were selected as targets, out of a total number of 360 listed companies. The targeted listed companies were stratified not only by market capitalisation but we

**Table 2: Greek Market Capitalization**

Market Capitalization (December 2004 - €)	Number of Companies (% of Total)	Percentage of Total Market Capitalization
Less than 100ml	277 (76.9%)	4.3%
100ml to 200ml	40 (11.2%)	5.2%
200ml to 1bn	31 (8.6%)	29.1%
Over 1bn	12 (3.3%)	61.4%
Totals	360 (100%)	100%

also selected those which were known<sup>5</sup> to communicate to the market participants and acknowledged ones operating a good IR department<sup>6</sup>. We did not target the remaining 110 listed micro capitalization companies, since their capitalization (less than €40 million); share liquidity; trade marketability and corporate communication and IR were marginal and insignificant<sup>7</sup>. The prime target was the large capitalization firms, which need specialized and advanced IR services, and also the dynamic but small and medium capitalization firms, which either have global operations or strive to attract foreign institutional investors. In particular, the target was to interview top executives from the companies that belong to one of the three FTSE/ASE indices: the FTSE-ASE 20, which consists of the 20 largest capitalization stocks; the FTSE-ASE 40, which consists of 40

medium size capitalization stocks, and the FTSE-ASE 80, which consists of 80 small size capitalization stocks. Interview data was collected from 76 top managers of Greek listed companies. The authors interviewed 14 Chairmen of the BoD, 11 CEOs, 15 CFOs, and 36 IROs (Table 3).

The research also focused on collecting not only quantitative evidence but also perceptions and opinions of the local and London sell side analysts, on how they interact with, support and utilize the group presentations and conferences to obtain updated company information, write sell side research reports, recommend the underlying stocks, and inform end clients (institutional investors). Interview data were collected from 44 sell side analysts, 34 of whom operate in Athens and 10 in London, who cover mostly Greek stocks. The selection criteria for the financial analysts (FAs) were the publication of reports in both Greek and English, on ASE listed companies.

The research finally evaluated the opinions of Athens and London fund managers of the viability and benefit in participating in one or many of the group presentations initiated by the Greek listed companies.

5 Based on Hellenic Investor Relations Institute's (HIRI) IR rankings and media references.

6 European and Greek IR awards recipients.

7 Based on analysts and media reports appeared on Euro2day.gr and Capital.gr.

Table 3: Response Rate to the requests for Semi-Structured Interviews

Research Response Rate	Initial mailing		Interviews			FTSE/ASE Index Listed		
	No.	% of total	No.	% of total	% of Initial	Index Listed Firms	No of Firms	% of FTSE
<b>Top Management</b>								
<i>Chairman of the BoD</i>			14	8.5%		FTSE/ASE 20	16	80%
<i>CEO</i>			11	6.8%		FTSE/ASE 40	25	63%
<i>CFO</i>			15	9.2%		FTSE/ASE 80	35	44%
<i>IRO</i>			36	21.9%		Other	0	0
<i>Subtotal</i>	<b>250</b>	70.5%	<b>76</b>	46.4%	30.4%	<i>Subtotal</i>	<b>76</b>	<b>54.3%</b>
<b>Analysts</b>								
<i>Locals</i>	35	9.8%	34	20.7%	97.1%			
<i>London based</i>	10	2.8%	10	6.1%	100%			
<i>Subtotal</i>	<b>45</b>	12.6%	<b>44</b>	26.8%	97.8%			
<b>Fund Managers</b>								
<i>Locals</i>	40	11.3%	26	15.9%	65%			
<i>London based</i>	20	5.6%	18	10.9%	90%			
<i>Subtotal</i>	<b>60</b>	16.9%	<b>44</b>	26.8%	73.3%			
<b>Interview Total</b>	<b>355</b>	100%	<b>164</b>	100%				

In particular, 44 institutional investors, 26 locally in Greece and 18 in London, UK, were interviewed. The selection criteria for the fund managers (FMs) were the active participation, as investors and shareholders, in the Greek listed companies. Analyst publications information data and lists as well as Institutional Investors shareholdings were drawn from the Athens Stock Exchange depositary information bank, the Greek Analyst Association tables, the Greek Broker Association coverage date, and the Association of Greek Institutional Investors records<sup>8</sup>.

Primary data were collected using semi-structured interviews with three targeted information process participants, over a period of two years (January 2002-December 2004). Starting in January 2002, the questionnaire (in Greek and English) was mailed to the listed companies, the analysts and the fund managers. After a period of 15 to 30 days following the mailing of the questionnaire, we began calling for a personal interview, and, on average, succeeded in arranging ten semi-structured interviews per month for the following months. It took two full years to complete the interviews. The interviews, either in Greek or English, took 60 minutes,

on average, and the authors mailed the questionnaire before the actual interview meeting in order to give to the interviewer the opportunity not only to read through the questions but also to think about, answer and elaborate precisely on the questions away from the pressures of the interview. The questionnaires having been contemplated or sometimes completed before the actual interview saved a lot of time and the interviewees were better prepared. Before and after the interviews, intelligence and data were also collected from materials in the public information domain on the participating managers, listed companies, analysts and fund managers, such as interviews in the newspapers and magazines, corporate and marketing materials, websites content, industry conferences, group and company presentations, official filings, talk shows, analysts reports and forecasts, Bloomberg and Reuters content and TV commercial and interviews, etc. All interviews were tape-recorded along with detailed notes of explanations, body language movements and executive attributes. In that way, the interview was less time consuming and it was possible to focus more on the qualitative issues rather than simple quantitative answers such as yes/no, one/two, good/bad, etc. Subsequently, they were carefully transcribed and translated from Greek into English and occasionally vice versa in such a way as not to distort meanings, quotes and sayings. Each interview had a suggested time limitation of 45 minutes

<sup>8</sup> Tables and information from [www.ase.gr](http://www.ase.gr); [www.agii.gr](http://www.agii.gr); [www.smexa.gr](http://www.smexa.gr); [www.cfa.gr](http://www.cfa.gr) on the ASE listed companies on December 2004.

but in reality often took up to an hour and half, simply because the interactive element of the interview motivated both the interviewer and the interviewee to examine deeply and extensively all possible functions and parameters of group presentations in relation to visibility and the investor relations policies. After the interviews, telephone follow up calls were used in order to clarify answers, ambiguous replies and missing items in the questionnaire. These telephone interviews were not taped but detailed notes were taken.

In sum, the grounded research methodology was adopted in this research, by collecting quantitative and qualitative information on group presentations by interviewing top executives of 76 listed companies, from the three major international indices (FTSE/ASE 20-40-80); 44 analysts; and 44 institutional investors. The organisation of collected data, the derived statements of relationship, the formulation and comparison of the set of findings offer an explanation of phenomena and lead to the development of a theory on group presentations.

## 5. Results

Table 2 shows that almost 75% of the 360 Greek listed companies are considered to be medium-to-small capitalization companies. Our research showed that most of these companies have particular characteristics such as low visibility, no separate IR office, mostly Greek language material and tools, etc. and face challenges in terms of market awareness, more and better disclosure especially via press releases in English, analyst and media coverage, targeting financial centres and institutional investors, stock liquidity, stock price, capitalization, etc. Interviewees indicated that a number of factors may deter active foreign funds from investing in Athens such as the small size of the local stock market, family controlled companies, lack of market depth, etc. But many company executives indicated problems with their own promotional efforts. Indeed, this research found that the major problem facing local firms is the incapability to sell themselves to the active international institutional investors. To overcome this, some companies have set up investor relations departments and hired experienced investor relations officers (IROs) to initiate and implement voluntary communication strategies. In the past, insufficient IR budgets; low commitment and limited participation by the top manage-

ment in the IR activities; few proactive IROs and other factors and prerequisites slowed down the corporate communication efforts and process. But lately, as the research shows, most of the IROs and other top executives comprehend and propose group presentations as an economical promotional activity along with other voluntary communication means.

As Table 4 shows the large capitalization listed companies (FTSE/ASE 20) identified as initiators of group presentations the company and the IR office (63%), the local brokers and/or banks (56%), the global brokers and banks (50%) and external IR consultants (13%). The medium size capitalization companies (FTSE/ASE 40) identified as initiators of group presentations the IR office (80%), the local brokers and banks (56%), the global banks (40%) and external IR consultants (28%). Almost all interviewed small capitalization firms (FTSE/ASE 80) identified as initiators of group presentations the IR office (89%), the local brokers and banks (48%), the global brokers and banks (17%) and external IR consultants (31%). In conclusion, the majority of the Greek listed understands the value of the group presentations and try to initiate and organise analyst and media presentations as well as industry or group presentations.

The interviewed local and London analysts identified and ranked, according to the best of their knowledge, as the initiators of group presentations the company and the IR office, the local brokers and banks, the global banks and the external IR consultants. Therefore, both analysts' groups perceive that the listed companies tend to organise group presentations more than other intermediaries.

The interviewed fund managers identified the initiators of group presentations differently. Almost half (50%) of the local FMs and 22% of the London based FMs replied that the IROs or the company itself initiate the group presentations, while 54% and 39% respectively answered that local banks and brokers plan and execute the group presentations. Finally, they ranked similarly the global banks and the external consultants as initiators of the group presentations (Table 4). Therefore, the interviewed fund managers believe that intermediaries initiate the group presentations while the companies are passive and "*not appropriately energetic*".

In conclusion, both the interviewed company executives and the analysts believe that the listed firms increasingly comprehend and value the role and ef-

**Table 4: Who initiates group presentations? (N=164)**

	FTSE/ASE 20	FTSE/ASE 40	FTSE/ASE 80	Local FAs	London FAs	Local FMs	London FMs
	(N=16)	(N=25)	(N=35)	(N=34)	(N=10)	(N=26)	(N=18)
IRO / Company	63%	80%	89%	74%	70%	50%	22%
Local Bank / Broker	56%	56%	48%	65%	60%	54%	39%
Global Bank / Broker	50%	40%	17%	62%	60%	58%	61%
IR consulting company	13%	28%	31%	56%	60%	42%	56%

fectiveness of group presentations but the institutional investors perceive that the companies act insufficiently towards this communication tool and expect more driving and enterprising efforts by the top management.

The majority of the listed firms, in this survey, recognize the need to promote and market themselves via group presentations to the local and foreign investor community. In particular, the majority of the interviewees (81%) from the large capitalization listed companies (FTSE/ASE 20) indicated that they participate in

group presentations and only 19% do not use this communication tool (Table 5).

Similarly, 84% of the medium size capitalization companies (FTSE/ASE 40) participate in group presentations, while 16% never do so. Finally all small capitalization firms (FTSE/ASE 80) participate in group presentations since they can not initiate and organise one on one meetings with local and global fund managers due mostly to their size, budget, lack of qualified people and know-how limitation. By participating in

**Table 5: Companies' communication via group presentations (N=76)**

Companies in Indices	Communicating via Group Presentations
FTSE/ASE 20	81%
FTSE/ASE 40	84%
FTSE/ASE 80	100%

small (1-5 companies) or larger group presentations they manage to make their story visible to a number of institutional investors and other market players like analysts, media, bankers, etc. At the same time, they manage to present their companies economically since they split the costs with other listed firms, learn from other presenters' presenting methodology, styles, speech techniques, industry tactics, etc., and therefore improve their disclosure performance.

The interviewed executives of the large capitalization companies (FTSE/ASE 20) ranked highly two sets of reasons for group presentations (Table 6). One refers to the visibility of the companies and their underlying stock and the other pinpoints to effects such as stock liquidity and firm evaluation. The interviewed executives of the medium size capitalization companies (FTSE/ASE 40) also stated visibility and liquidity effects but

ranked learning and cost issues highly for participating in group presentations. The interviewed executives of the small capitalization companies (FTSE/ASE 80) also ranked highly visibility, liquidity, learning and economics as motivators for participating in group presentations. As an IRO mentioned, "*in order to boost company visibility, we prioritize IR options and activities and use of mix of group conferences such as analyst presentations, media presentations and industry conferences*". In conclusion, senior executives relate group presentations with company visibility (1, 2, 3, 5 and 6) and stock liquidity (4) which in turn affect stock demand, company capitalization and the mix of the shareholders.

The interviewed local analysts ranked highly visibility, direct company information, personal contacts, exchange views and perceptions, interact with other analysts and reflect on the presenting companies' models

**Table 6: FTSE/ASE 20-40-80 companies: Reasons for holding group presentations? (N=76)**

		FTSE/ASE 20	FTSE/ASE 40	FTSE/ASE 80
		(N=16)	(N=25)	(N=35)
1	Expose story to many at once	87%	96%	89%
2	Meet new potential investors	81%	88%	65%
3	Meet many retail investors	75%	64%	77%
4	Increase stock liquidity	63%	72%	66%
5	Increase company visibility	63%	76%	97%
6	Increase industry focus	56%	56%	86%
7	Learn from competition	45%	68%	74%
8	Learn from others	42%	68%	74%
9	Split the cost	57%	64%	69%

as reasons and benefits of group presentations (Table 7). The interviewed London based analysts also ranked highly company visibility, meeting the decision makers in person, discovering new investment cases and including them into their watch list even into their coverage universe as reasons and benefits of group presentations.

Therefore, analysts relate and connect group presentations with visibility (a, b, and c), firm evaluation (d and e), and share price demand (f and g), which in turn affect stock liquidity, capitalization and equity holdings.

The interviewed local fund managers ranked highly the personal contact and interaction with the top company executives, the new companies' visibility, the interaction with other market players such as analysts, fund managers, etc., the gathering of company information and market intelligence, as reasons and benefits of group presentations (Table 8). The interviewed Lon-

don based fund managers also ranked highly meeting the decision makers in person, discovering, adding to their universe and buying stock of new companies, interacting with other market players as reasons and benefits of group presentations.

In conclusion, fund managers relate and connect group presentations with visibility ( $\alpha$ ), firm evaluation ( $\beta$ ,  $\delta$ ,  $\epsilon$ ,  $\sigma\tau$  and  $\eta$ ), and share price demand ( $\gamma$  and  $\zeta$ ), which in turn affect stock liquidity, capitalization and equity holdings.

Most of the top managers interviewed stated that the group presentations are very important because "they expose the investment story to many people as well as updating on financial results, strategy and company's operations," as one CEO mentioned. Also, "they split the cost among the participating companies"; "they learn from the other presenters"; and "they attract more people due to company and industry diversity," as some executives mentioned. When the top management sets as

**Table 7: Financial Analysts: Reasons for attending group presentations? (N=44)**

		Local FAs	London FAs
		(N=34)	(N=10)
a	Know "new" companies	91%	90%
b	Increase company visibility	85%	80%
c	Meet top executives	79%	80%
d	Understand business model	65%	60%
e	Interact with other analysts	62%	60%
f	Motivate coverage	59%	60%
g	Add new firms to my watch list	56%	70%

**Table 8: Fund Managers: Reasons for attending group presentations? (N=44)**

		Local FMs	London FMs
		(N=26)	(N=18)
$\alpha$	Discover "new" investment cases	88%	89%
$\beta$	Meet and interact with top executives	88%	95%
$\gamma$	Add new firms to my watch list	77%	78%
$\delta$	Interact with analysts, brokers and media	73%	72%
$\epsilon$	Interact with other FMs	65%	72%
$\sigma\tau$	Get intelligence from the participants	65%	67%
$\zeta$	Motivate buying	65%	72%
$\eta$	Understand local industry better	60%	67%

priority increased stock liquidity, the local retail investors become as important as the institutional investors, then companies organise, implement and capitalize on group presentations around major cities in Greece. Due to the limited availability of local capital though, all Greek listed companies are searching ways to get the attention of global investors. When the managers target global both private but predominantly institutional investors (i.e. pension, mutual, hedge funds, etc.), then companies and the IR departments use industry presentations and "Greek Days" around the world's major international financial centres. These presentations can be an effective form of corporate communication, especially to those financial markets and centers such as the Nordics, the Persian Gulf cities, Toronto, Sydney etc. that hardly know the Greek listed companies. The Greek listed organize and implement group presentations in these financial markets because of matching industries (i.e. shipping to Oslo and Singapore, packaged meat to Denmark and Holland); existing institutional shareholders (when a fund from Stockholm has invested in a stock, other Swedish investors follow); existing individual foreign investors (members of the Greek Diaspora from Canada and Australia); existing

strategic investors (investment authorities from Dubai and Qatar). The majority also of the interviewing executives from the three aforementioned groups of listed companies indicated their preference for and intention to participate in group presentations and especially in industry group conferences, along with other global firms, listed on different stock exchanges, and organized usually by global banks such as UBS, Citibank, Credit Suisse, etc, where increase their companies visibility, raise investor interest and also the learning experience is highly beneficial.

The research indicates that the presenting core team from the companies includes the CFO, the IRO, the CEO and the Chairman of the Board of Directors (Table 9). In particular, the CFO and the IRO are the executives who present the companies in local and global group conferences (100% and 100% for large, 76% and 76% for medium and 57 and 69% for small size companies respectively). In the medium and small capitalization companies the CEO and the BoD Chairman present more since in most companies it is the same person. The top management's participation in group presentations indicates that the companies' information insiders believe that they should handle

**Table 9: Management's participation in group presentations (N=76)**

	FTSE/ASE 20	FTSE/ASE 40	FTSE/ASE 80
	(N=16)	(N=25)	(N=35)
BoD Chairman	23%	52%	60%
CEO	38%	56%	58%
CFO	100%	76%	57%
IRO	100%	76%	69%

themselves the voluntary disclosure, in front of a diverse audience which probably meets the company for the first time. Therefore, top management is motivated to increase disclosure quality and information symmetry in order to reap expeditiously the benefits from the group presentations.

The analysts interviewed indicated that they eagerly participate in group presentations which they see as a very effective and efficient means of obtaining company information. 88% of the interviewed 34 local analysts and all 10 London based analysts accept invitations to and attend group presentations by Greek listed companies. The analyst participation rate in these group presentations is high and the highest ranking officials such as the senior analyst, the country or the industry analyst, are involved, which proves the importance of

this communication channel for the local and global analysts (Table 10).

On average, the local analysts participate in 80 group presentations annually, including those that the Association of Greek Fund Managers (AGII) and the Greek Brokers Association (SMEXA) organize every week, while the London based analysts, who cover Greek stocks, take part in 45 group presentations per year. On average, 30 local analysts participate at the group presentations around the year, while 9 global analysts take part in the group presentations by the Greek listed companies annually. Finally, 76% of the local analysts and 80% of the global analysts indicated that they always go to the group company presentations that are organized by the other banks, brokers, etc, while 65% and 90% respectively often go. In conclusion, the inter-

**Table 10: Analysts participation in group presentations (N=44)**

Local FAs	London FAs	
	(N=34)	(N=10)
Industry Analyst	94%	90%
Specialist Analyst	91%	80%
Country Analyst	N/A	100%
Region Analyst	N/A	90%
Senior Analyst	79%	70%

Note: FAs=Financial Analysts

viewed local and London based analysts suggested that Greek listed companies by utilising group presentations, can reach the analysts' screen and be included in their (coverage) universe. The top level analyst participation suggests that group presentations indeed raise companies' interest and increase analyst coverage and therefore firm evaluation, stock demand, marketability and liquidity which finally affects share price.

The interviewed fund managers indicated that they also communicate and obtain information from the Greek listed companies from group presentations/conferences. It was recorded that most of the local FMs and 100% of the global ones use extensively both mandatory and especially voluntary group presentations. In particular, 77% and 100% of local and global FMs always participate in group presentations by the Greek

**Table 11: Fund Managers' participation in group presentations (N=44)**

	Local FMs	London FMs
	(N=26)	(N=18)
Buy-side Analyst	96%	95%
Portfolio Manager	88%	78%
Investment Strategist	73%	61%

Note: FMs=Fund Managers

listed companies and the remaining 23% of the locals use them irregularly. The fund managers' participation rate in group presentations is high since the buy-side analyst, the portfolio manager and the investment strategist get involved (Table 11).

On average, the local FMs participated in 120 group presentations, while the global FMs went to 170 group presentations. Also, on average, 3 local and 5 global fund managers attend group presentations. On average, 22 local fund managers participate at the group presentations around the year, while 14 global fund managers take part in the group presentations by the Greek listed companies annually. It was recorded that, 77% and 95% of local and global FMs participate in group conferences organized by banks, brokers, etc, while 38% and 56% of the local and global fund managers respectively indicated that they participate in group presentations organised by the listed companies. In conclusion, the interviewed fund managers urged the listed companies to participate in the group presentations in order to reach the investors screen, shape their views and influence investment decisions.

## 6. Conclusions

Our research documents that Greek listed firms promote locally and globally their investment cases, by pursuing active and proactive IR strategies, in order to attract capital and especially foreign funds. They believe that in an increasingly competitive landscape for international institutional funds, if listed companies neglect to be visible then could possibly fail to attract capital, hurt their image, lose existing shareholders, encounter stock under performance and possibly decrease their capitalization. The acceptance and use of the group presentations as a primary objective and IR activity is a necessary initial step to effectively and directly communicate to the local and global fund managers, who will understand the companies better and probably invest in the underlying stocks.

The current research shows that companies use group presentations in order to increase company visibility and provide reliable company information to investors, especially sophisticated institutional investors, brokers, media and other market participants. Group presentations can take the form either of one company's presentation to analysts, fund managers, bankers, etc., or of a group of listed companies' presentations

to a diverse audience of market players. Interviewed company executives as well as interviewed analysts and fund managers asserted that all types of group presentations and conferences are very practical and economical disclosure tool for listed companies especially from small emerging markets and could be very effective in order to increase company visibility, awareness, knowledge, valuation, stock demand and liquidity and even increased capitalization. By participating and attending group presentations top management, existing shareholders, potential institutional investors, and analysts know each other in person open a direct (two ways) communication line, create a bond and a close feeling to one another. This in turn increases interest in the company, motivates analyst coverage, attracts capital, stimulates stock buying, increases stock liquidity and affects capitalization. Most of the Greek listed companies, especially the smaller ones, showed their strong appetite to participate in group presentations since they promote their investment cases globally, create visibility, attract attention and also learn efficiently.

This research contributes towards a better understanding of the use and effectiveness of group presentations as a corporate communication and IR tool, especially when used by listed companies from a small capital market, which struggle to get attention of the analysts and global money managers and try to distinguish from other local and global listed firms.

The current study has several limitations. Our sample from a marginal capital market is relatively small. Similar research could be done in emerging but also in mature markets in order to obtain more evidence. Our choice of the interview method for data collection enabled us to collect both quantitative data and qualitative data from interviewees. Other methods such as postal or online questionnaires could have been used to sample a larger group of respondents. Case studies of a small number of companies could have been used to obtain more in depth information than was collected by our method.

There is scope for further research on group presentations. While this research concentrates on the perceptions of the market players, future research could attempt to measure the effects of group presentation on market variables. Additionally the role of other market players such as the media could be investigated.

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# Searching for a New Paradigm in Competitive Strategy:

## The Use of Financial Statements in Mapping Strategy

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This article aims to propose guidance for novel research towards competitive strategy in the highly competitive global age. It is common knowledge among academics that current competitive strategy paradigms are based on unrealistic assumptions in the age of globalization and intense competition and thus are not viable in current business arena. For that reason, we review prior research on existing competitive strategy schools of thought to identify the underlying assumption and evaluate their practical relevance. Furthermore we describe current business environment in order to identify which paradigm more accurately reflect the specifics of today's firms, markets and industries. Finally, we conclude that there is not a universally accepted conceptual framework concerning a viable competitive strategy with practical relevance. For that reason, we introduce an alternative conceptual framework on competitive strategy, based on critical key strategic targets that can be mapped from financial statements. Following our attempt to provide a conceptual framework, we call for an empirical research of our propositions.

**JEL Classification codes:** L21

**Keywords:** mapping strategy, competitive advantage, turbulent business environment

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## Introduction

Intense competition and structural changes as a result of globalization have altered the way firms compete in the current constantly changing business arena. Globalization is associated with increased trade liberalization among nations that transforms the historic patterns of investment, production, and distribution of corporations (Johansson & Yip, 1994). The globalization of markets has transformed the business environment to such a degree that many managers and academics alike feel that the omnipresence of the globalization phenomena fuels the growth of intense competition in the global marketplace. In the future, the changing nature of competitive conditions will necessitate that the management of global organizations to recognize that present competitive advantages are time sensitive, and therefore, erode quickly (Harvey et al., 2001).

The fundamental structural transitions in a wide variety of industries brought by severe competition are imposing new strains on managers around the world. Old strategic recipes do not work anymore. Managers, concerned with restoring competitiveness of their firms, are abandoning traditional strategy approaches; they are searching for new paradigms that give guidance in a turbulent environment. On the other hand, investors and shareholders are trying to identify patterns which can map competitive strategy in order to monitor and evaluate formulation and implementation process. Many academics, confronted with the same reality, are re-examining the relevance of the concepts and tools of the strategy field. In the absence of a consistent and useful strategy paradigm that they can use and in order to satisfy their shareholders, 'managers appear to have embraced attention to 'implementation' as their saviour, more or less abandoning strategy as either unimportant or uninteresting' (Prahalad and Hamel, 1994, p. 5).

Current theories of strategic management stress the importance of seeking, establishing and defending a unique sustainable competitive advantage or sequential transient competitive advantages. However, considering present competitive environments which - especially in the international context - keep growing more dynamic, volatile, aggressive and unforeseeable, doubts have been emerging about the applicability and the value of these traditional and rather static theories of strategy (Ruhli, 1997).

For all the above reasons, there is an imperative need for a novel conceptual framework on a viable competitive strategy with practical relevance in the current, highly competitive, global business arena.

In this article we outline the major catalysts that are driving the need for a revitalized approach to strategic thinking and strategy development. Many of the assumptions that were embedded in traditional competitive strategy models may be outdated as we march the new competitive milieu. We argue that the need for strategic thinking and behaviour among managers has never been more urgent. This reality forced us to re-examine the traditional competitive strategy paradigms and their underlying assumptions. We follow this analysis with a brief outline of empirical studies of those competitive strategy paradigms. We also describe current business landscape and then return to our basic thesis: that more than ever, the strategy area represents a fertile field for innovative research. In this context, we phrase our research propositions that we anticipate to guide future research in the field of competitive strategy. Finally, we conclude with a conceptual framework that utilizes the tools of accounting and finance to answer the ultimate question of business strategy: how to compete in current, volatile global environment.

## Literature review: Identification of key concepts

### Review of theoretical schools of thought on sustained competitive advantage

Baaij et al. (2007)'s review of the economic and strategic management literature reveals three contrasting schools of thought on sustained competitive advantage. The neoclassical school of thought states that sustainable competitive advantages are impossible. In perfect markets the competitive dynamics of supply and demand quickly erode all competitive advantages, superior performance and above-normal profits.

In contrast, the structural school of thought assumes the possibility of sustainable competitive advantage. More specifically, industrial organization' (e.g., Bain, 1968; Mason, 1939) and the 'market-led view' of strategic management on one side (Porter, 1980, 1985) and the 'resource-based view' (Barney, 1991; Wernerfelt, 1984; Peteraf, 1993) argue that sustainable competitive advantage and, thereby, sustained superior performance are possible. The market-led view to busi-

ness level strategy proposes that firms gain competitive advantage through identifying external opportunities in new and existing markets or market niches and then aligning the firm with these opportunities (Brown S. and Blackmon K., 2005). These strategy types, sometimes called generic strategies (Porter, 1980), archetypes, or *gestalts* (Robinson & Pearce, 1988), simplify a myriad of possible strategies into a limited set of strategy types. Here, we are referring only to Porter's framework of generic strategies because it overlaps with other market-led typologies. For example, Porter's strategy of differentiation resembles Miles and Snow's (1978) prospector strategy, and Porter's strategy of cost leadership is similar to Miles and Snow's defender and Hambrick's (1983) as well as Dess and Davis's (1984) cost leadership strategies. Porter's strategy of focus is very much like Miller and Friesen's (1986) niche innovator strategy. The resource-based view to business level strategy proposes that firms that possessed resources which were valuable and rare would attain a competitive advantage and enjoy improved performance in the short term (Barney, 1991). Barney (1991) also contended, drawing heavily on Dierickx and Cool (1989), that in order for a firm to sustain these advantages over time, its resources must also be inimitable and non-substitutable. The mobility barriers, the strategic positions of firms and the specific resources and capabilities help sustain competitive advantage, if environmental change remains limited. Putting it differently, whether competitive advantage based on mobility barriers and/or positioning and/or resources and capabilities persists, depends on market imperfections in stable environments.

The dynamic school of thought encompassing 'Austrian economics' (e.g., Schumpeter, 1934, 1942; Kirzner, 1979), 'evolutionary economics' (Nelson and Winter, 1982), the dynamic capabilities perspective (Teece et al., 1997; Eisenhardt and Martin, 2000) and the model of hypercompetition (D'Aveni, 1994) ascertain that in dynamic environments, competitive advantages cannot be sustained. Although all competitive advantages that exploit market imperfections will be transient, firms may sustain superior performance by concentrating transient competitive advantages.

Hypercompetition is being viewed as the continuous generation of new forms of competitive advantage through neutralizing, destroying, or rendering competitors' competitive advantage obsolete (D'Aveni, 1994, 1997, 1999; Gimeno & Woo, 1996). The pri-

mary thrust of hypercompetition arises from the proactive disruption of the marketplace "status quo" by the management of global organizations, recognizing that the only enduring advantage results from the ability to generate a continuous flow of new advantages. The underlying logic of the hypercompetitive strategy is that enduring competitive advantage may not come from a single strategy, but rather the ability to modify or adjust strategies more quickly than competitors. This demand for strategic agility due to hypercompetition among global organizations necessitates a proactive management posture to search continually for new sources of competitive advantage (D'Aveni, 1999).

While the neoclassical school of thought assumes perfect markets, the structural and dynamic schools of thought both assume market imperfections. Moreover, the neoclassical and structural schools of thought assume stable or predictable environmental change, whereas the dynamic school of thought is based on turbulent and unpredictable change. The differences between the three schools of thought derive from different assumptions about the functioning of markets and about environmental change (see Table 1). The structural and the dynamic schools of thought have developed over time and led to similar yet distinct understandings of the phenomena. Exceptional conditions and relatively stable market structures, the so-called market imperfections, can lead to sustained competitive advantage. Conceptual development and empirical support from the structural point of view suggest that competitive advantage in stable and predictable environments is sustainable if existing market imperfections (e.g., mobility barriers, positioning postures, firm-specific resources and capabilities) can be preserved. However, the dynamic school of thought does not deny the possibility of sustained superior performance but suggests other concepts for its understanding. Looking back, the earliest concept of 'temporary superior performance' is found in Austrian economics (Schumpeter, 1934, 1942). Being unable to sustain transient competitive advantages in hypercompetitive environments, firms need to adapt and recreate advantage over time (e.g., Rindova and Kotha, 2001). Innovation of a firm's products, services, processes and organizational capabilities is crucial in developing a chain of competitive advantages (Eisenhardt and Martin, 2000; Helfat and Peteraf, 2003; Zollo and Winter, 2002; Winter, 2003). In hypercompetitive environments, the exception of

**Table 1. Schools of thought on sustainable competitive advantage**

School of Thought	Main Academics	Assumption about Environment	Assumption about Market	Sustainable Competitive Advantage	Drivers of Sustainable Competitive Advantage	Guidance to Practitioners
Neoclassical	Marshall (1890)	Stable	Perfect markets	Not feasible	Not applicable	Not applicable
Structural	IO: Bain (1968), Mason (1939) MLV: Porter (1980, 1985) RBV: Barney (1991)	Stable or predictable	Lasting market imperfections	Feasible	IO: Mobility barriers MLV: Positioning (differentiation, low cost, niche focus) RBV: Valuable, rare, inimitable, non-substitutable resources and capabilities	Develop and defend a single sustainable competitive advantage
Dynamic	AE: Schumpeter (1934, 1942), Kirzner (1979) EE: Nelson and Winter (1982) HC: D'Aveni (1994) DC: Teece et al. (1997), Eisenhardt and Martin (2000)	Turbulent and unpredictable	Transient market imperfections	Feasible but transient	Dynamic capabilities, innovation	Continuously develop and concatenate transient competitive advantages

Abbreviations:

IO industrial organization, MLV market-led view, RBV resource-based view, AE Austrian economics, EE evolutionary economics, HC hypercompetition, DC dynamic capabilities

concentrated competitive advantage leads to sustained superior performance.

### Review of the empirical studies on theoretical schools of thought

Wiggins and Ruefli (2005) have provided an overview of numerous empirical studies on competitive advantage in a wide range of industries. This research found that over time competitive advantage has become significantly harder to sustain and, further, that the phenomenon is limited neither to high-technology industries nor to manufacturing industries but is seen across a broad range of industries. In addition, they found evidence that 'sustained competitive advantage is increasingly not a matter of a single advantage maintained over time but more a matter of concatenating over time a sequence of advantages' (Wiggins and Ruefli, 2005, p. 887).

Most empirical studies find partially conflicting results on sustained competitive advantage. McGahan and Porter (1999) show that industry has a stronger ef-

fect on the persistence of competitive advantage than corporate and business effects. Other empirical results show market share, firm size, mobility barriers, product differentiation, advertising intensity, export intensity, foreign firms and growth to be positively related to sustained competitive advantage and consequently on sustained superior performance (e.g., Mueller, 1990; Schwalbach and Mahmood, 1990; Droucopoulos and Lianos, 1993), whereas capital intensity, size and risk concentration and mergers and acquisitions are negatively related to it (Mueller, 1990; Kambhampati, 1995; Droucopoulos and Lianos, 1993). Active and aggressive firms gain market share (Ferrier et al., 1999) and those with a high innovation propensity (Roberts, 1999) are associated with sustained superior performance, while firms that are passive or avoid competition do not. Roberts and Dowling (2002) associate sustained competitive advantage with relatively good reputations. While Roberts and Dowling (2002) find no significant effect of firm size, Wiggins and Ruefli (2002) find firm size and low diversification associated

with sustained superior performance but they do not find a significant effect of concentration on lasting advantage. In sum, most empirical studies described test the structural school of thought.

The complexity of the dynamic school of thought makes empirical research more difficult, yet the testing of hypotheses related to dynamic capabilities, for example, has only recently commenced (e.g., Arthurs and Busenitz, 2006). The complex linkages with sustained superior performance are still under-researched, especially those with longitudinal research designs. As a result, empirical research lags behind development of theoretical perspectives and practitioners' guides to action (Baaij et al., 2007, p. 90). However, recent empirical studies on the influence of hypercompetition on financial performance show mixed results. Some studies find support for the hypercompetitive shift, that is a shortening of the periods of superior financial performance (e.g., Wiggins and Ruefli, 2005; Ruefli and Wiggins, 2003). However, other research does not find such support (McNamara et al., 2003).

### **Description of current business environment**

In the current milieu, companies compete in a turbulent and highly volatile environment due to globalization. Globalization is associated with gradually increased trade liberalization among nations that transforms the historic patterns of investment, production, and distribution of corporations (Johansson & Yip, 1994). The underlying forces driving the globalization of markets can be classified into four categories. We should mention that there is an interaction between the four groups of drivers influencing the rate of globalization taking place. The four categories are:

**Macroeconomic Drivers** — the universal availability of key production factors, converging production differentials among countries, increased transfers of cross border technology, rapidly expanding and migrating global population, uneven fluctuations in exchange rates, particularly between developed and emerging economies (Harvey et al., 2001).

**Political Drivers** — removal of many barriers to international trade (i.e., deregulation and opening of markets to foreign competitors), development of regional trading blocks (i.e., NAFTA, EC, ASEAN, Mercosur, and the like), diluted protection of intellectual property rights, encouragement of greenfield investments both

at the regional and individual country levels (Harvey et al., 2001).

**Technology Drivers** — rapidly declining global communication, computation, and transportation costs, shortened product and technology life-cycles, rapid growth of knowledge-based industries, and increased globalization of product and service offerings to consumers (Harvey et al., 2001).

**Organizational Drivers** — increased heterogeneity of firms in industries, "commodification" (i.e., facilitated access to factors of production through relationships) of corporate resources, increased competitive value of intangible corporate resources, quick consolidation of competitors, growing development of network organizations (Aldrich and Whetten, 1981; Griffin and Khan, 1992; Liebeskind et al., 1996).

Globalization of markets has been resulting to hypercompetition occurring in many of the industries that have moved into a global arena. D'Aveni's concept of hypercompetition (1994) is based on the notion of an extremely dynamic and aggressive competitive environment. 'Hypercompetition may be viewed, therefore, as just a faster version of traditional competition. But that's like saying that a hurricane is a faster version of a strong wind' (D'Aveni, 1994, p. 217). In hypercompetition, the dynamics of market changes is ever increasing. The driving forces of this development besides globalization are upcoming markets in south-east Asia, and changes in customer behaviour (Harvey et al., 2001). In this global and highly competitive environment, academics have proposed different and oftentimes contradictory strategic orientations.

Some academics argue that in hypercompetitive environments, the purpose of strategy is not to build and then defend a large sustainable competitive advantage, but rather to create a constantly changing series of small, temporary competitive advantages, thereby keeping competitors off balance by forcing them to be in a reactive strategic mode and become a follower in the global market place (Makadok, 1998). Sustaining a competitive advantage and leveraging current competencies is viewed as not being beneficial or practical and instead incumbent leaders should create a series of unsustainable advantages under the discontinuous conditions of intense rivalry (Nault & Vandenbosch, 1996). Others assert that firms in volatile competitive environments should focus on their core competence (Prahalad & Hamel, 1990).

## Research propositions

Our first question is whether the quest for sustainable competitive advantage or transient competitive advantages should be the cornerstone of competitive strategy. A central objective of strategic management research has been to understand the contingent effects of strategy on firm performance (Zott and Amit, 2008). Current theories of strategic management stress the importance of seeking, establishing and defending a unique sustainable competitive advantage (Ruhli, 1997). But many researchers (Macmillan, 1988; Olivia et al, 1988; Williams, 1992; D'Aveni, 1994, 1995; Hamel & Prahalad, 1994) have challenged the sustainability of competitive advantages in today's deregulated and knowledge-rich global business landscape. In addition, the applicability of transient competitive advantages has not yet been empirically proved (Baaij et al., 2007). In the absence of a consistent and useful strategy that managers can use, we believe that the need for strategic thinking, during these turbulent times, is greater than ever. Thoughtful members of the academic community are increasingly recognizing that the concepts and tools of analysis that formed the backbone of the strategy literature may need a basic re-evaluation in order to pave the way for new ideas (Prahalad and Hamel, 1994).

Contingency theory suggests that there is no optimal strategy for all organizations and posits that the most desirable choice of strategy variables alters according to certain factors, termed as contingency factors (Donaldson, 1996). Kim and Mauborgne's research (2005) confirms that there are no permanently excellent companies, just as there are no permanently excellent industries. For all the above reasons, we believe that the strategy of companies should not be oriented towards seeking, establishing and defending a unique sustainable competitive advantage or sequentially transient competitive advantages. It can therefore be safely assumed that:

**Proposition 1:** Central objective of competitive strategy should not only be the acquisition and development of a sustainable or transient competitive advantage.

But if the primary target of competitive strategy is not to seek a competitive advantage then what should be its goal? Managers and strategists need guidance on the origins, directions, and logic underlying strategies. Oth-

erwise firms will wander without commitment resulting in disaffection and confusion (Mascarenhas et al., 2002). Extending earlier definitions (Chandler, 1962; Andrews, 1971; Porter, 1980; Quinn, 1980; Mintzberg and Waters, 1985; Itami and Roehl, 1987; Bowman and Hurrey, 1993; Brown and Eisenhardt, 1998), firm's strategy can be defined as the planned or actual coordination of the firm's major goals and actions, in time and space that continuously co-align the firm with its environment. In addition, business strategies are the decisions at the strategic business unit (SBU) level that determine how the SBU will support organizational goals (Garvin, 1993). A business strategy defines the SBU's competitive direction, its scope, and how it will survive in the long run. Consequently:

**Proposition 2:** Competitive strategy, which is business strategy, should seek to more effectively support firm's organizational goals that increase its enterprise value.

And what should be those goals? Little research has been conducted on specific business-level strategies that produce profitable growth (Mascarenhas et al., 2002). Incontrovertibly, growth of sales is a key strategic goal of any company in any industry. In addition, managers have been always endeavoured to lower operating costs. Thus the organizational goals of increasing sales and decreasing operating costs should be included in critical key strategic targets.

In addition, rapid firm growth is not restricted and cannot be attributed only to high growth of their industries. One prevalent assumption is that growth requires merely expanding what a firm is doing currently. Another common premise is that achieving growth simply requires more investment (Mascarenhas et al., 2002). For that reason, expanding business activities via investments should be the third critical key strategic goal.

Unquestionably, economic analysis is a critical component of strategic analysis. However, political and public policy analysis is as crucial as economic analysis. A significant literature exists in the international business research stream on the impact of government policy—specially the role of host government policy (Doz, 1979). However, mainstream research on strategy has not accepted the complex interplay of public and private policy as determinants of strategy outcomes; or that economic and political analysis are equally important to the strategist (Prahalad and Hamel, 1994). Mi-

Microsoft case is indicational example of the above allegation. 'The European Union fined Microsoft Corp. €899 million (\$1.35 billion) for failing to comply with a 2004 antitrust order, tying up a remaining loose end in the EU's landmark case. The fine, which had been expected, is the largest the EU has imposed against a single company in an antitrust case. It is the third against Microsoft and brings the Redmond, Wash., company's total tab in fines to €1.68 billion' (Forelle, 2008, p.B2). Thus, it is obvious that grow of sales, decrease of operating costs as well as business leverage through investments are not sufficient to increase the enterprise value. For that reason, we include compliance to restrictions and regulations as the fourth critical key strategic goal.

From all the above, it can be assumed that:

**Proposition 3:** The objective of business strategy is the simultaneous and well-balanced accomplishment of the four critical key strategic targets, namely: growth of sales, reduction of operating cost, compliance with regulations and leverage of business activities via investments.

If the simultaneous and well-balanced accomplishment of the four critical key strategic targets is in fact the objective of business strategy, then we can easily map business strategy using firm's financial statements. Mapping business strategy is feasible when its tenets are structured around variables which can be found in financial statements. Sales and operating costs can be found in profit and loss account whereas investments can be found either directly to cash flow statement or indirectly to profit and loss account from depreciation. Last, the adverse effect of non compliance with regulations can be seen in extraordinary and non recurring results of profit and loss account. Therefore we could argue that:

**Proposition 4:** Business strategy, which is based on the simultaneous and well-balanced accomplishment of the four critical key strategic targets, can be mapped using financial statements.

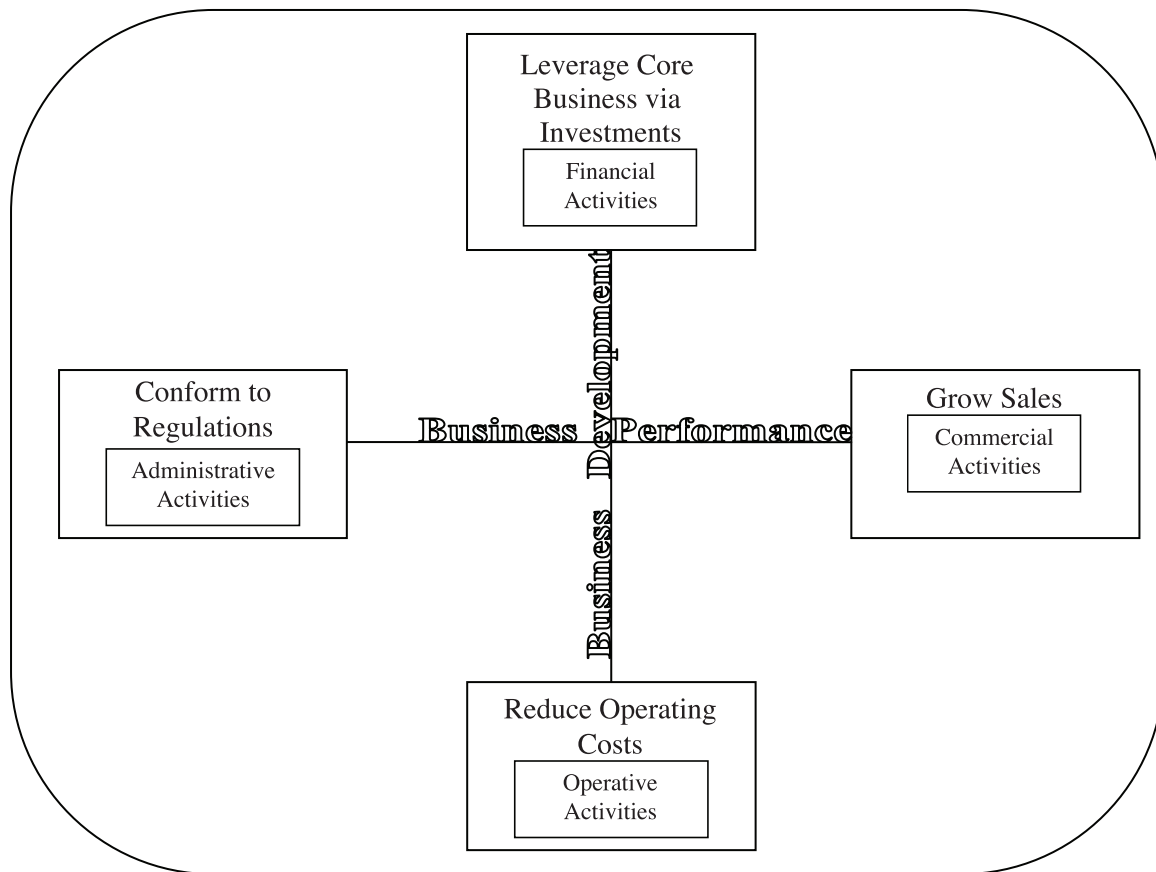
The above allegation if it is empirically validated then it will change our view towards strategy. Many academics argue that strategy can not be easily mapped, monitored and implemented because it is not based on quantitative or measurable qualitative variables. Our proposition – if proved to be sustained - is a breakthrough contribution to strategic management not only

because it translates strategy from an abstract notion into practice but rather because it is a proxy for investors and shareholders to evaluate business strategy unfoldment. From past financial statements over several years, investors can assess business strategy past unfoldment whereas from forecasted financial statements for the years to come investors are able to evaluate business strategy future unfoldment based on firms business plan.

## Conceptual framework

We believe that that in order for a company to be successful – increase enterprise value over time in order to meet the needs of all the agents that have eligible right from its operations (Damodaran, 2001) - it must seek its primary goals or critical key strategic targets, namely: a) grow its sales, b) leverage its core business via investments, c) reduce its operating costs and d) conform to the restrictions and regulations. To better present the four key critical strategic business targets, we place them into two square axes or dimensions, namely: x axis denotes business performance dimension – ability to increase firm's enterprise value in the short term – whereas y axis denotes business development dimension – ability to increase firm's enterprise value in long term (see Figure 1). We should mention that both business performance and business development dimensions must be met in order the business to have diachronically the ability to increase its enterprise value so as to survive in the long run.

The key critical strategic business targets of sales growth and regulations compliance, which impact business performance, would be placed in the x axis. In a similar way, the key critical strategic business targets of business leverage and lower operating costs, which impact business development, would be placed in the y axis. The target of sales growth require the optimization of commercial group of activities so that the business increase its sales in volume or in value or both resulting to gross profits maximization and in turn on enterprise value aggregation. On the other hand, regulations compliance target requires the optimization of administrative group of activities to avert any business misconduct and also to minimize any mulct which have adverse effect not only on the financial standing of the business, but also on its reputation. Furthermore, the goal of leverage business requires the optimization of

**Figure 1.** Critical key strategic targets

financing group of activities with the intention of more effective financing of the business projects resulting to business development. Last but not least, the target of low operating cost requires the optimization of operative group of activities with the purpose of cost reduction of the operative activities.

At this point, we should mention that in commercial group of activities group we include marketing, sales and customer relationship management activities. All the above activities aim to increase customer satisfaction and customer retention that in turn lead to growth of sales. On the other hand, accounting, tax, legal and corporate responsibility activities are contained into administrative group of activities. Furthermore, operative group of activities consist of procurement, production, inventory management, value chain management and logistics activities. Last, in financial group of activities we incorporate asset management, investment, financing and financial engineering activities.

The simultaneous and well-balanced accomplishment of the above key critical strategic business targets advances business performance and business development, which in turn increase enterprise value. If we take the above statement into our consideration, we end up to the conclusion that the business strategy of any company in hypercompetitive economy must incorporate those four key critical strategic business targets into its two dimensions in order to secure transient business advantage. The proposition that enterprise value augmentation is based on the simultaneous and well-balanced accomplishment of the four primary business targets, premise that there can be a business strategy with two dimensions. Business strategy must be developed and deployed across those two dimensions, which are business performance and business development. The twofold dimensional business strategy can lead to enterprise value growth but not to a sustainable superior performance. What makes businesses outperform

and demonstrate sustainable superior performance over time is the degree of applied innovation (radical or incremental) as compared to competition in each of the two dimensions of the business strategy. But, in the global economy, sustainable competitive advantage is an 'ephemeral business abnormality' and innovation spillovers scatter competitive advantage of any form.

### Conclusions and suggestion for further research

The objective of this article is to provide guidance for future research on novel tenets in competitive strategy that will lead to a viable competitive - business strategy with practical relevance in current, highly competitive, global age. Unquestionably, there is not a universally accepted conceptual framework concerning competitive or business strategy. Thus, nowadays companies mostly middle sized ones, which are not well established in the market lack specific strategic guidance and business strategy orientation. In our opinion, literature in strategic management fails to provide an integrated theoretical context with viable practical implications regarding business-level strategy. To begin with, neo-classical school of thought states that sustainable competitive advantages are impossible due to the competitive dynamics of supply and demand quickly erode all competitive advantages and above-normal profits. But its assumptions heavily rely on perfect markets and stable environment conditions which are not valid in business landscape. On the other hand, structure school of thought, which assumes market imperfections in rather stable environments, supports the possibility of sustainable competitive advantage. Unquestionably, alike neoclassical school of thought, the assumption on stable environment is not the case in current alternate and versatile business arena. In contrast, the dynamic school of thought ascertains that competitive advantages cannot be sustained, because in dynamic environments all competitive advantages that exploit market imperfections will be transient. Apparently, the aforementioned differences between the three schools of thought derive from different assumptions about the functioning of markets and about environmental change. Current business environment can be described more than turbulent and highly volatile due to globalization. Globalization is related to the progressive increase of trade liberalization among nations that sharpen firm's

competition, a phenomenon which is called hyper-competition. If we accept the fact that nowadays firms operate in an extremely dynamic and aggressive competitive environment in which the dynamics of market changes is ever increasing, dynamic school of thought best describes current situation. But dynamic school of thought proposes that the purpose of strategy is not to build and then defend a large sustainable competitive advantage, but rather to create a constantly changing series of small, temporary competitive advantages. Although the above tenet seems to be compelling in the current global age, we believe that it is not applicable, hence with only theoretical interest and with no practical relevance. Thus there is a gap in the strategic management literature regarding viable business-level strategies that companies can apply in order to survive in the long run. In addition, current theories in competitive strategy fail to provide a framework where business strategy can be mapped, measured and consequently translated into practice. Current literature treats strategy like an abstract notion that it is only of top management concern and that can not be disambiguated by non insiders like investors or shareholders. Our research propositions, that need to be empirically tested, challenge the commonly accepted consideration that competitive advantage is the main and only concern of competitive and consequently business strategy. We extent prior research to state that competitive strategy should be directed towards primary organizational goals or critical key strategic business targets that are essential for any firm's enterprise value aggregation. We go one step further and allege that those targets can be found in firm's financial statements and thus can be mapped, measured and monitored.

Future research should attempt to empirically validate the research propositions and the theoretical premises of the conceptual framework presented herein regarding competitive strategy. The essence of this research has been to provide a completely new paradigm on what basis firms should compete in current volatile global business landscape. By challenging the beaten track of competitive advantage, is proposing an alternative route of strategy based on organizations' critical key strategic targets which can be found in firms' financial statements and therefore those targets and consequently business strategy can be mapped and monitored. Future research efforts are expected not only to confirm the validity of the research propo-

sitions presented here, but also produce more precise and in-depth guidelines about this new way of looking at competitive strategy.

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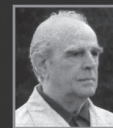
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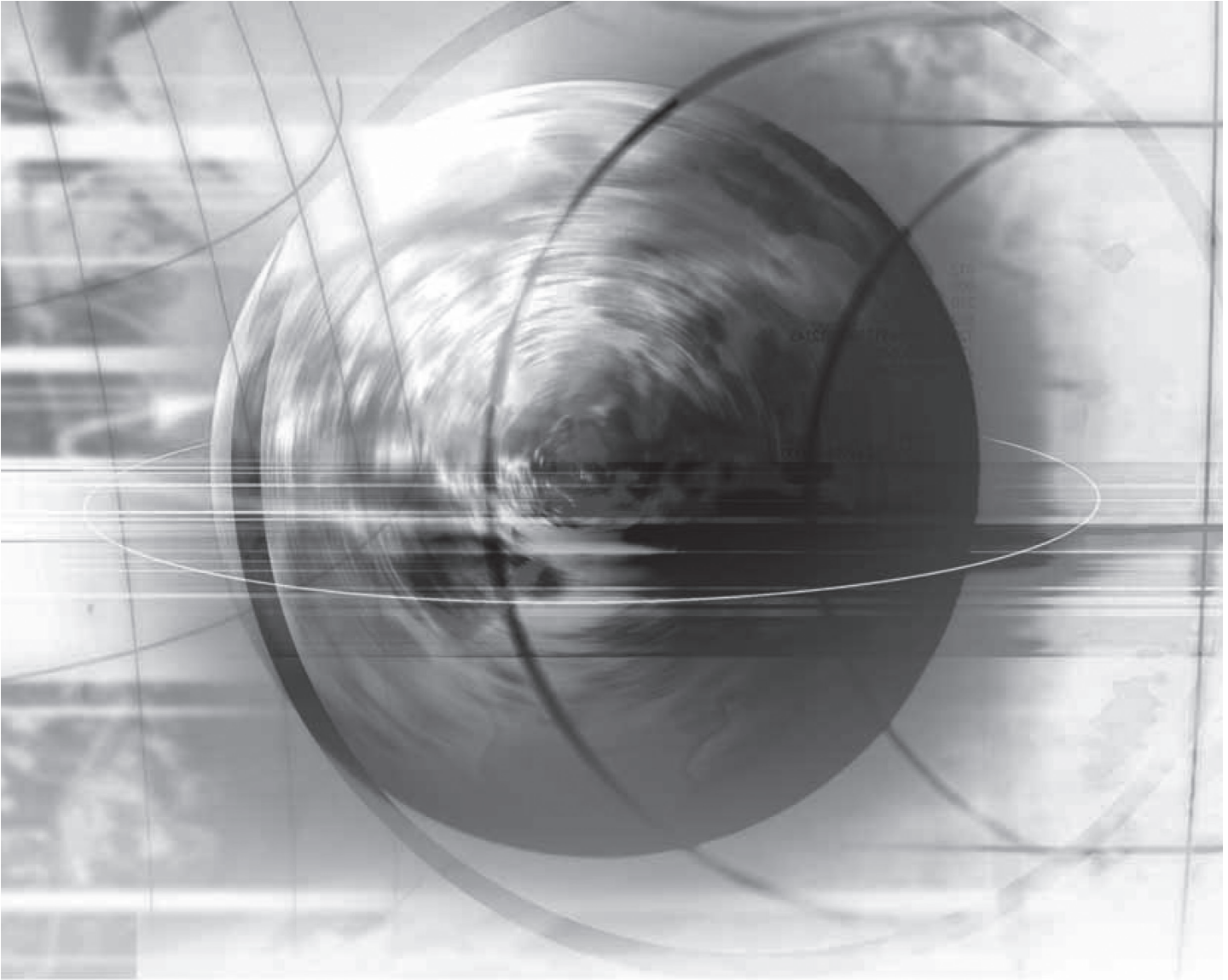
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