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CONTENTS

EVIDENCE ON THE IMPACT OF THE "SUSU" SCHEME IN GHANA

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ABSTRACT

The study explores the impact of the "susu" scheme, an informal banking mechanism for daily or weekly collection of deposits prevalent on the West African markets, on small businesses in Ghana. Evidence gathered from the analysis of a randomly-drawn sample size of 1,600 small business owner contributors indicates that their average daily/weekly contribution to the scheme is three Ghana cedis (approximately two US dollars) and that majority of them have seen its positive impact on their businesses. Binomial logistic regression analysis results support the contention that the number of years of contribution, the number of years in business, marital status, the number of dependants, gender and the amount contributed daily or weekly are predictors of the positive impact of the "susu" scheme on the business of its contributor.

JEL: G20, G21, G23

KEYWORDS: "Susu", Microfinance; Small business; Impact, Contributors, Ghana

INTRODUCTION

Access to finance has been one of the priorities on the agenda of policy makers worldwide. This is because without credit accessibility economic growth is stifled, culminating in the escalation of poverty with dire social consequences for an economy. Research using firm-level surveys has shown that improvements in the functioning of the formal financial sector abate financing constraints more for small firms (Beck, Demirgu¨c¸-Kunt, Laeven, and Maksimovic, 2006). Research also indicates that access to finance promotes more start-ups (Klapper, Laeven and Rajan, 2006). Improved access to the financial system also enables existing firms to attain a larger equilibrium size by enabling them to take advantage of growth and investment opportunities (Beck, Demirgu¨c¸-Kunt, Laeven, and Maksimovic, 2006).

Making credit available to small business entrepreneurs who are mostly poor for productive economic activities requires the role of formal financial institutions with commercial banks playing the pivotal role. However, over the years, commercial banks have shown a great deal of reluctance to serve the lower end of the economic spectrum-micro and small enterprises (Westley and Shaffer, 1999). It has long been argued that commercial banks have not provided for the credit needs of relatively poor people who cannot provide loan guarantees but who have feasible and promising investment ideas that can result in profitable ventures (Hollis and Sweetman, 1998).

The cumbersome features of formal financial institutions in the delivery of credit have led to the development and growth of a considerable number of microfinance institutions (MFIs). Microfinance is seen as the key innovation of the last 25 years in terms of means of reaching out to the poor and the vulnerable (Montgomery and Weis, 2006). The microfinance concept has emerged as a development tool aimed at providing credit and financial services to the productive poor who lack access to formal financial intermediation and are engaged in small and micro enterprises (Kyereboah-Coleman, 2007).

RURAL TOURISM AND IT'S IMPACT ON SOCIO-ECONOMIC CONDITION: EVIDENCE FROM WEST BENGAL, INDIA

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ABSTRACT

This study explores rural tourism in West Bengal, India. Rural tourism promotes the local economy, socio-cultural changes and life style of the people residing around the tourist locations. This study explores the reasons foreign and domestic tourists visit this location for religious or recreational purposes. This tourism has created tremendous impact on the local economy, life style and socio-cultural changes among the rural people in and around this tourist destination. A pilot survey shows that rural tourism at this location improved civic amenities like communication, sanitations, transport facilities and standard of living for the people in general. This study assesses the impact of India's National Tourist Policy 2002 as promoted by Ministry of Tourism, Government of India, on this rural tourist location. Specifically in terms of economic growth, employment potential, livelihood and changes in life style of the local people.

JEL: R11, E27

KEY WORDS: Rural Tourism, Non-urban livelihood, Socio-cultural pattern of life, income generation, Implementation of resources, ARMA Model, Economic Migrants.

INTRODUCTION

Tourism is likely to be a growing industry in India for some time. It has tremendous potential due to peoples' interest in travel and desire to explore nature and religious sites. Tourism in India is expected to play a key role in the country's economic growth, human resource, culture, wealth of the country in terms of foreign exchange earnings, etc. Simultaneously, it has a direct bearing on local culture, socio-economic patterns of life, traditions, food habits, language, values and ethics of the local people due to frequent visits of national and international tourists to attractive tourist destinations. People visit tourist locations to have a flavor of pilgrimage, cultural heritage, and nature. Sometimes they simply wish to get away from the monotony of routine life. People not only rejuvenate from these visits but also directly contribute for the growth of the local economy through the hospitality industry, handicraft industry and secondary occupations including tourists guide, carriers, etc.

The World Travel and Tourism Council (WTTC), estimates in 2002 travel, tourism and related activities contributed about 11% to world's GDP. This industry is currently generates 7.8% of the total workforce. This percentage is expected to increase to 8.6% by 2012. As per WTTC report of 2002, Tourism is expected to create more than 255 million jobs, almost 10.7% of the total global workforce. Much of this employment potential will be concerned with rural tourism where unemployment and lack of occupation are key issues for the local people and a large number of people live below the poverty level. Rural tourism has been neglected in India for a variety of factors including lack of infrastructure, civic amenities, lack of publicity, and peoples' awareness and accessibility to tourist locations. As a result, tourists from the home country and overseas countries prefer to visit urban tourist sites. This results in

ECONOMIC GROWTH AND REDISTRIBUTION: EVIDENCE FROM DYNAMIC GAMES

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ABSTRACT

This work is based on a differential game proposed by Kelvin Lancaster. The game between two agents called workers and capitalists is based on the accumulation and redistribution of benefits among social classes concluding that cooperative outcomes outperform non-cooperative. This approach determines the optimum solution in a centralized economy as a non-cooperative game and cooperative Pareto solutions forced by the social planner. We compare the model solution in a decentralized economy, where rates economic growth are converging to a steady state and obtain high rates of inflation, and higher levels of consumption. Alternatively, the cooperative solution found between agents can be confirmed. A capitalist game continues to monitor the cooperative principle, in which the maximum benefit is obtained through cooperation.

JEL: C61, C71, C72, C73

KEYWORDS: Differential game, non-cooperative game and cooperative game

INTRODUCTION

Since the publication of the book of von Neumann and Morgenstern (1994) The Theory of Games and Behavior, many authors have relied on game theory to represent a vast range of dynamic conflict situations in the field of economic theory. We consider the work of Kelvin Lancaster (1973) as the first reference to the application of differential games to economic growth and redistribution in our modern economy. Lancaster made a differential game between two agents called workers and capitalists, based on the topics of accumulation and redistribution of benefits among social classes. He studied the classics such as Malthus, Ricardo and Marx, concluding that cooperative outcomes outperform non-cooperative.

The work of Lancaster, Hoel (1978) considered the utility function of players discounted consumption over time. On the other hand Pohjola (1983) compared the Nash solution found by Lancaster with the Stackelberg solution in open cycle. This article would be years later commented on by de Zeeuw (1992) showing that the solution found by Pohjola is not complete and that there are infinitely Stackleberg balances. Similarly, Soto and Ramos (1992), made the same comparison of results in a Stackelberg game solution, and a cooperative Pareto solution, modifying the model, where both players seek to maximize the present value of consumption, when the two updated at the same well, reaching the result that the cooperative solution is Pareto more efficient than the one found in Stackelberg solution.

Finally, we find the solutions of a differential game, with changes to the original approach of Lancaster. We compare the solutions found to the Nash and Paretian solution, under a centralized economy and solutions in a decentralized economy in an infinite time horizon, where two agents present value is discounted to their consumption at different rates. Then we study the dynamic behavior of the economic growth model proposed by modifying the golden rule posed by Ramsey (1928) to maximize the use of both agents over time constant and determining the value of redistribution that should be awarded in the economy for both agents.

A MODEL FOR THE INTERVENTION OF A FINANCIAL CRISIS

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ABSTRACT

This paper builds a model for intervention and/or mitigation of a financial crisis by first identifying those conditions precedent to a systemic based financial crisis, and then outlying a process to integrate firm specific and systematic risk into a comprehensive strategic model. A simple application of the model was able to identify significant outliers. For example, using 2006 to 2010 data, Capital One Financial Corporation was identified for intervention from as early as 2006. This corporation received $3.56 billion of the Emergency Economic Stabilization Act Federal bailout funds.

JEL: G01 - Financial Crises, G28 - Government Policy and Regulation

KEYWORDS: Systematic risk, financial crisis, banking, reform, failure, regulation, capital, interconnectedness, macro-prudential, micro-prudential

INTRODUCTION

In hindsight, regulators and analysts, alike, have been able to identify several factors that led to the Financial Crisis that began in 2007 (Poole, 2010b). The causes presented include factors such as: inadequate regulation; duration mismatch; federal subsidy of housing; federal subsidy of debt financing; moral hazard; interconnectedness of institutions; and unmanaged systematic risk (Lal, 2010; Poole, 2010a; Poole, 2010b; Scott 2010; Leondis, 2010; Ennis and Keister, 2010). Unfortunately, historically, bank regulations tend to be passed in response to various crises rather than to prevent them from occurring although there is no doubt that financial institutions play an integral role in the functioning of the economy and should be given priority (Barth et al. 2010; Holowecky et al. 2010). Therefore, going forward, the important question that needs to be answered is: *In foresight, how can we prevent or mitigate future financial crises, and what regulation is required?*

The remainder of the paper attempts to answer that question. The next section is a continuation of the review of the literature introduced here in the introduction. The literature review focuses on identifying conditions precedent to a financial crisis, and then on building a model to prevent or mitigate future crises. The following section presents data and analysis of a simple application of the model. The final section summarizes the paper and makes recommendations for further research.

LITERATURE REVIEW AND MODEL DEVELOPMENT

In reviewing the literature, prevention solution options presented include recommendations to: alter capital requirements; change clearing houses usage requirements; alter the way insolvent institutions are resolved; continue emergency lending by the Fed, and restructure the regulatory system All such solutions have been argued to be burdensome and ineffective to prevent a systematic risk based crisis (Scott, 2010). In his paper, Scott concentrated on reviewing the literature on the relevant recommendations of the Committee on Capital Markets Regulation (CCMR) and The United States Treasury as well as pending congressional legislation. The CCMR is an independent, nonpartisan research organization founded in 2005 to improve the regulation of United States capital markets. It consists of 30 leaders from the investor community, business, finance, law, accounting and academia (CCMR, 2011).

IMPLEMENTING SOLARIS CONTAINERS TO INCREASE PERFORMANCE AND SCALABILITY OF FINANCIAL MANAGEMENT SOFTWARE

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ABSTRACT

This paper examines Virtualization Technologies which are popular in modern financial management systems. Many researchers and financial systems administrators have researched the techniques related to utilizing server computational resources. Currently there are many technologies for this purpose. These technologies include running multiple applications, and multiple operating systems on the same hardware, like: VMWARE, Linux-VServer, VirtualBox and Xen. These technologies try to solve the problem of resource allocation from two approaches: running multiple operating system instances on the same hardware and virtualizing the operating system environment. Our study presents an evaluation of scalability and performance of an operating system virtualization technology known as Solaris Containers. The main objective is to measure the influence of a security technology known as Solaris Trusted Extensions for securing financial management software.

JEL: L86, M15, C88

KEYWORDS: Financial Management Systems, Solaris Containers, Trusted Extensions, ERP Systems, Kernel-Based Virtualization

UDC: 004.63

INTRODUCTION

In recent years, many projects have focused on virtualization of financial management system environments, using different technologies and operating systems (OS) such as FreeBSD Jail, Linux-VServer and Virtuozzo. Kernel based virtualization is a technique based on using a single underlying operating system kernel. Using this paradigm the user can potentially run multiple financial applications in isolation from each other. The basic idea is to run groups of processes that cannot be interrupted by others in different virtual environments.

Solaris containers are built on the same paradigm, offering virtualization on the operating system-level. Solaris approach is to extend its virtual operating system environment to include more features of a separate machine, such as a per-container console, dedicated system log, packaging database, run level, identity (YP, NIS), and IPC facilities. They make it possible to run more than one instance of the operating system into the same kernel. Many resources of Data Center's Server architectures are usually not properly and efficiently used, like CPU cycles and RAM storage. With this technology we can better utilize these resources and make them useful for all financial management software.

These containers act as completely isolated virtual machines within a computer, aiming to reduce costs in both, hardware and system administration. Furthermore, the Solaris Containers mechanism can provide protection through compartmentalization for separate virtual machines on a single physical machine. This technology is cheaper to install and configure, because only a single OS copy is involved in contrast to several OS instances in the case of Xen. Furthermore, unlike logical partitioning it is not limited to high-end systems. Moreover, the granularity of resource allocation is finer-grained than logical partitioning. In

CLOUDSOURCING: MANAGING CLOUD ADOPTION

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ABSTRACT

Cloud computing adoption by organizations has been minor despite the initial optimism. The primary concerns obstructing adoption of cloud-based services are security, loss of control, and inadequate legislative. In a cloud-based model, information technology services are distributed and accessed over networks such as intranet or internet. Intranets are inside organizations and internet outside. The main concerns are inherently linked to employing services provided by other organizations and accessing them over internet. In such case, valuable organizational data and services are transferred to providers. The provider or other entities may compromise organizational data and services, thus posing significant security risks. By moving data and services to outside providers, organizations also loose substantial control over timely management and retention. Organizations must follow the rules set by the providers– which may not be well suited for them. The providers legally distance themselves from liabilities on important issues such as security, data loss and damage. There are also several other pertinent factors. Proper cloud computing adoption and utilization by organizations requires balanced approach. We elucidate various factors and highlight proper strategic concepts for effective cloud adoption management—benefiting both organizations and providers.

JEL: M15; O14; O32; O33; L86; K12; K23; K42

KEYWORDS: cloud computing, cloud providers, cloud-based systems, cloud services, web services, information technology management, knowledge management, risk management, actionable knowledge, knowledge-intensive organizations, knowledge workers.

INTRODUCTION

Cloud-based systems and services have been regarded as '*the next big thing*' by business communities, as well as technology and service providers—until WikiLeaks happened. The case of WikiLeaks plainly exposed intrinsic risks (Sternstein, 2011). What happened? WikiLeaks employed Amazon's cloud services for content and data hosting. Amazon, on a short notice, terminated its services to WikiLeaks and removed the content and data simply upon inquiry by US federal lawmakers (MacAskill, 2010; O'Connor, 2010). The shockwave strongly resonated with businesses. The lesson learned was clear: organizations cannot entrust their mission critical services and data to cloud providers.

Data and related information technologies are at the functional core of knowledge-intensive organizations. Organizations rely on a spectrum of information technologies supporting their operations (Alvesson, 2004). Information technology tools and services are indispensable for their efficient functioning (Ringel-Bickelmaier and Ringel, 2010). Knowledge workers depend on information technologies and data for completing their tasks. Information technology services are also enablers for achieving higher working and operating efficiencies (Davenport, 2005). Any impairment of organizational data or information technology tools and services translates to considerable losses for knowledge-intensive organizations. Hence, significant financial, physical and human resources are dedicated to management and innovation of organizational information systems and infrastructures.

Significant investments of organizations into information technologies attract cloud-based providers. They aim at providing information technology services to organizations for remuneration (Marston et al.,

PROPOSALS FOR THE IMPLEMENTATION AND IMPROVEMENT OF ISO 9001

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ABSTRACT

The ISO 9001 quality management system (QMS) includes a method of continuous improvement put in place in 1994. Through this system, audits and reviews are performed to identify, correct and prevent problems. Although the method of continuous improvement, combined with adherence to annual quality objectives, is an important part of the QMS, only a few business managers and quality professionals seem to acknowledge its significance. Whether the organization uses QMS or other improvement programs such as Six Sigma, Lean and TPM, it faces the same key question: how to ensure that methods that were beneficial during the execution of a project have continuity in the organization after the project has ended? One method of ensuring continuity is to apply QMS at the end of a project. Many organizations acquire and use ISO 9001 QMS in a limited way, for marketing purposes among other things, without taking a full advantage of its beneficial features. This paper analyzes various ways by which an organization can use the most beneficial characteristics of ISO 9001 QMS to improve its operations. The paper contributes to an ongoing discussion on the content and implementation of a quality system version related to ISO 9001 QMS, known as ISO 9001:2008. The paper proposes revisions that will make substantial improvements to ISO 9001:2008.

JEL: L20; L21; L23; M10; M11

KEYWORDS: ISO 9000, quality management system, performance improvement, process approach

INTRODUCTION

ISO 9001 QMS has been in use for more than 20 years and has become the most popular industrial standard with more than 1 million organizations using the technique. The suitability of ISO 9001 is therefore important for those organizations. If it is not suitable, they may invest time and energy into it without real positive impacts on their businesses. ISO 9001 is not immune to criticism. This paper discusses common arguments against ISO 9001 QMS and reviews their counter arguments. The literature review specific areas of quality and business management research issues. Two most important areas are tacit knowledge and process management. Several good features of ISO 9000 are identified and their ability to improve quality is discussed. By analyzing the present content and interpretations of ISO 9000, the author finds areas for improvement like the process approach. The paper closes with concluding comments about the present state of ISO 9001 standard.

LITERATURE REVIEW

The benefits and functionality of ISO 9001 quality management system has generated criticism from time to time. Curkovic and Pagell (1999) list some typical arguments against ISO 9000 like: the system is not directly connected to product quality, an organization does not need to demonstrate that its customers are satisfied, it is paper-driven and overly bureaucratic. Seddon (1998) identifies many examples of the harmful effects of ISO 9000: ISO 9000 makes things worse for their customers, ISO 9000 is inspection oriented and not development oriented, contract reviews have harmful effects, external auditors define quality and organizations do not achieve the promised results.

SMALL- AND MEDIUM-SIZED ENTERPRISES: DATA SOURCES IN AUSTRALIA

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ABSTRACT

Small- and medium-sized enterprises constitute a significant sector in any economy. Academic research studies, which analyze various dimensions of small- and medium-sized sector in Australia, reiterate the importance of availability and reliability of data sources regarding these firms. Any research study has to be supported with reliable data sources that provide comprehensive, consistent and timely information, enhancing the significance of research results. This article provides information on eleven data sources for conducting a research on small- and medium-sized enterprises in Australia. The main aim of this article is to support the continuance of research in this crucial business sector. The data presented in this article provides vital information for researchers interested in conducting studies on different aspects of small- and medium-sized enterprise sector.

JEL: M15, C80

KEYWORDS: small business, SMEs, data sources, research in Australia.

INTRODUCTION

Since the early 1970s, activity in small- and medium-sized enterprise (SME) research in Australia has increased greatly (Johnson & Kells, 1997). Most Research studies concentrate on management issues (Wiesner, McDonald, & Banham, 2007), tax regulations (Chittenden, Kauser, & Poutziouris, 2003), industry (Johnsen & McMahon, 2005), performance (McMahon, 2001), export/import (Styles & Ambler, 2000), innovation and entrepreneurship (Parker, 2006), information technology (MacGregor & Vrazalic, 2008), failure of SMEs (Berryman, 1983), liquidity (Drever & Hutchinson, 2007) and financing arrangements (Watson, 2006b). However, there are still many opportunities for advancing research on Australian SMEs. For instance, there is generally a shortage of broad, in depth and comprehensive analysis about the SME banking market in Australia (KPMG, 2003). According to Drever (2006), it is essential to verify the awareness of the range of financing sources available to SMEs and identify gaps in the current credit management arrangements for Australian SMEs. McMahon (2001) also reported it was vital to include a wider range of industries when studying SMEs financial behavior. Watson's (2006a) work concerning SMEs external funding and growth, stated that there were limited studies on growing entrepreneurial SMEs in Australia.

Any research study must be supported with data sources that provide comprehensive consistent and timely information which enhances the significance of research results. This article provides essential information on SME data sources in Australia. In addition, it makes a contribution to existing academic literature and provides current information on SME data sources in Australia. The article is organized as follows. First, a literature review is presented. This is followed by a discussion of the methodology and results. The paper closes with some conclusions, a summary of the findings, and directions for a future research.

THE IMPACT OF FINANCIAL DECISIONS AND STRATEGY ON SMALL BUSINESS COMPETITIVENESS

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ABSTRACT

This paper examines the financial decisions made by companies, the strategies that organizations follow, the alignment between these two variables, and the relationship of financial decisions to the level of competitiveness. Two hundred two businesses' testimonies in the region of Celaya were analyzed. The results show that most micro and small enterprises make funding decisions in a certain way, apply an intensive strategy, also that their market longevity is low and their level of sales is regular, implying that Mexican companies lack competitiveness, which hampers their development and expansion. The emphasis that companies place on certain financial decisions is not always appropriate for the type of business strategy being implemented. Likewise, companies that efficiently manage their short-term assets and liabilities are more competitive, as evaluated by their longevity on the market.

JEL: M10; G30

KEY WORDS: Small business, competitiveness, strategy, financial decisions

INTRODUCTION

The effect of financial decisions on business competitiveness is a topic that researcher have not yet studied in depth. Despite its importance and the need to adapt financial strategies to an organization's characteristics, few studies have focused on analyzing decision-making and its impact on small enterprises' competitiveness. A business's financial environment is a main factor for the organization's success, especially small businesses forced by financial limitation to be highly efficient in allocating their scarce resources in order to ensure survival and generate profits.

The importance of financial decisions in business is evident, since many of the factors that contribute to failure can be managed properly with strategies and financial decisions that drive growth and the organization's objectives. According to a number of studies (Ibarra, 1995; Van Auken and Howard, 1993) the main causes of business failure are the lack of financial planning, limited access to funding, lack of capital, unplanned growth, low strategic and financial projection, excessive fixed-asset investment and capital mismanagement. Many of these causes of failure are challenges that can be successfully managed with financial strategies developed and implemented by the organization. However, the study of financial decisions has been, for a long time, limited to large corporations, about which extensive research has been published.One of the main features of small businesses is that they do not have useful financial information to make decisions. The information generated is utilized to pay taxes but does not reflect the real situation of the organization. In addition, small businesses do not have specialized personnel with expertise for planning, administration and financial decision-making, and the owner has to make decisions without a solid foundation. Because small-business owners concentrate mainly on obtaining resources for operating expenses, it is difficult to develop financial plans: there is no knowledge of how to implement them, daily problems overwhelm entrepreneur decision-making and the urgency is to solve basic problems in order to generate income. However, this does not imply that financial decisions should not be based on financial planning. Small businesses' problems are very clear in Mexico. Sixty-five

SHARING TACIT KNOWLEDGE WITHIN ORGANIZATIONS: EVIDENCE FROM THE CZECH REPUBLIC

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ABSTRACT

Knowledge is a changing system with interactions among experience, skills, facts, relations, values, thinking processes and meanings. Literature differentiates between the two dimensions of knowledge, explicit and tacit. Explicit knowledge can be expressed in formal and systematic language and can be shared in the form of data. ICT makes this process easy these days. Tacit knowledge is highly personal and hard to discover. Explicit knowledge and intuition, mental models, experience, crafts and skills etc., create it. It is partly or fully subconscious, deeply rooted in action, procedures, routines, commitment, ideas, value and emotions of individuals or groups. It is very difficult to turn into data. Attempts to formalize it usually lead to its damage. Even though tacit knowledge is an important asset that enables us to do practical activities, many organizations underestimate it. This article discusses the basic theoretical background of tacit knowledge, its importance for modern organization and the results of research on tacit knowledge management in organizations in the Czech Republic (Central Europe). The research is qualitative and helps us to monitor development of knowledge management activities in our country. It started in 2004, continues to this day and currently provides the experience of 145 organizations.

JEL: M19

KEYWORDS: knowledge, tacit knowledge, apprenticeship, communities, storytelling

INTRODUCTION

This paper presents results of research on tacit knowledge management and sharing carried out in organizations in the Czech Republic (Central Europe). Having started in 2004, the research provides us with a detailed analysis of knowledge management and management of tacit knowledge sharing in 145 organizations. Knowledge is a major creative force of the knowledge society. Its potential can be fully exploited only if proper knowledge management is introduced. An important task of knowledge management is to optimize the flow, creation and exploitation of knowledge in an organization. Knowledge management must cover both explicit and tacit knowledge in relation to the specific needs of an organization, in relation to its strategic objectives, culture, principles and habits.

Our research shows that organizations in the Czech Republic still do not understand the importance of tacit knowledge and that they don't know how to work with it and how to manage it. Only 19% of reviewed organizations know and use all three tools for tacit knowledge sharing intentionally; apprenticeship (we use the term coaching for this paper; see below), communities of practice and storytelling. Organizations have a great reserve in the application of methodology of individual tools. For example, employees are usually coached by their direct managers (44%); coaches are not rewarded for their effort (58%), organizations do not manage the relationship between the coach and the coached (27%), they do not reward community members for their activity (81%) and they do not use storytelling (70%).The latest literature on knowledge management offers many concepts, systems and recommendations. They can be classified into three large groups: the first group addresses the problems of explicit knowledge, the second group is focused on work with tacit knowledge and the third group tries

EVOLVING DYNAMICS IN THE PROCESS OF BUSINESS INTERNATIONALIZATION

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ABSTRACT

Over the past century the global economic scene has undergone numerous rapid and ongoing transformations. The consequences of these changes are reflected in problems linked to organizational and qualitative adaption that companies must carry out in order to compete successfully. The goal is to achieve strong economic growth and obtain accurate and timely information regarding emerging markets. In this context it has become a priority for dynamic companies to take their business overseas in order to grasp opportunities offered by foreign markets for their goods and services.

JEL: F0; F13; F23

KEYWORDS: internationalization, economic development, competitive ability

INTRODUCTION

Globalization places markets in ever closer contact, reduces physical and cultural differences and intensifies international competition. All this puts the survival of various types of companies at risk. Yet, at the same time, it offers a growing range of business opportunities for enterprising companies, provided they are able to create a distinctive image for their products and services on the world market. Technological innovations that have reduced cognitive differences allow companies easier and more rapid access to information making them better able to compete offering opportunities for expanding business. Given the ease with which a business can become global, few sectors can consider themselves safe. Thus, the only means of defense is an offensive strategy, in other words to accept the challenge. Perhaps the best ways for companies to do this is enter the international market themselves.

The expansion into foreign markets, business internationalization, represents a basic means for creating value, guaranteeing returns on investment, increasing competitive edge, and gaining new opportunities and means for growth. Nevertheless, the decision involved in going global is complex since the factors to be considered are numerous and unpredictable. Moreover, one can never have all the relevant information on foreign markets or their environmental conditions. This is obviously the case for large companies but also, and especially, for small and medium ones. In the past internationalization was a course taken nearly exclusively by large scale companies. They were the only firms in a position to overcome trade barriers and other obstacles and establish themselves on major overseas markets. Only in recent years that smaller sized businesses have become a presence on the international scene. One of the most interesting characteristics of the current global economic situation is the birth of a new phase of internationalization, in which no company of whatsoever size or sector is unaffected.

The summary of the paperr is as follows: Section 2 describes the literature review. Research, methodology and empirical models are described in the Section 3. Section 4 presents the findings of the research. Section 5 concludes the paper, highlighting the limits and the future research perspectives.

LITERATURE REVIEW

Market globalization involves companies of all sizes competing against each other on the international market where it is increasingly difficult to assess external threats or opportunities and evaluate strong

RESTRUCTURING THE FINANCIAL CHARACTERISTICS OF PROJECTS IN FINANCIAL DISTRESS

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ABSTRACT

This paper deals with project finance restructuring in the view of future or present financial distress. We treat the occurrences of negative cash flow and negative NPV as signs of potential project distress. The solutions offered for negative cash flow are (1) restructuring debt thereby making it payable earlier when the project has sufficient cash influx or (2) change of the project management and contractors. The paper explains advantages of the first technique over the second. We explain that legal costs in the latter can exceed perceived benefits. The paper argues the best solutions for negative NPV problems are deferring of payments and restructuring of cash disbursements as a part of the project financial agreement.

JEL: G31, G32

KEYWORDS: Project Finance, Financial Distress, Positive Cash Flow, Positive NPV, Finance Restructuring

INTRODUCTION

Despite "the fact that more than $200 billion of capital investment was financed through project companies in 2001, an amount that grew at a compound annual rate of almost 20% during the 1990s, there has been very little academic research on project finance." (Esty, 2004) According to (Hainz & Kleimeier, 2004) the value of deals closed in the January 1980–March 2003 period was about 960 USD billion. This amount equals 5% of the total syndicated loans allowed worldwide in the same period (Gatti, Rigamonti, Saita, & Senati, 2007).

The topic of project finance has been a source of a large number of journal articles. The discussion generally is at the descriptive level. The comprehensive financial analysis of the Eurotunnel failure, presented in (Vilanova, 2005), is one of the few studies performing financial analysis of the phenomenon. The authors of this paper argue that financial tools described in financial textbooks can resolve complex and non-trivial problems causing the failing financial conditions of a project. However, application of these tools requires knowledge of the specifics of project finance especially its contractual side.

There are several unrelated reasons for a project to be in distress, namely managerial, organizational or financial. Projects can suffer from poor performance due to objective conditions such as supply delivery faults, fluctuations in quality and labor force availability. The majority of these reasons have nothing to do with financial elements of the project. They can influence the financial outlook of the project but rarely cause a big financial concern. Well-structured project financing has a sufficient number of securities, bonds and covenants, which are required or set in place to compensate for poor performance.

Invoking covenants or withdrawing conditions cannot prevent financial distress by itself. The causes of distress are usually set in place by the provisions of the original contract. Unless there is a looming bankruptcy threat, the project company may not be aware of the distress problem. Moreover, the project company will often not admit to its existence even if they detect the distress condition. Project lenders

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