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Financial Management and Stock Markets in Finland

This paper is a review of the literature onfinancial management and stock markets in Finland. The study examines the influences of financial management activities on stock markets and on individual shareholders. Aggregate-level stock market studies comprise the largest group of studies in the field and they are based on the semi-strong stock market efficiency hypothesis and rely on the information content of financial management activities and decisions. In the individual-level studies, which are rare in the field, the interest lies in managers' and shareholders' perceptions and actions during financial management activities. In this study, "financial management" refers to financial and dividend as well as capital investment decisions.

The results of association studies on financial decisions indicate that there seems to be a negative relationship between financial leverage and stock returns prior to the late 1980's and debt might not have had any positive tax-effect on the market value of listed companies. Event studies indicate that announcements of rights issues, stock dividends and combined issues are positive signals to the market, and the results of event studies support the implicit dividend increase signal hypothesis, which seemed to hold when ex post cash flows were analyzed. IPO studies have shown the presence of the winner's curse also in the Finnish market. However, IPO pricing appears to be endogenous to the seasoned equity offers. Event study methodology has recently been extended by including new variables and various types of institutional features into the studies and grouping investors into various categories. Such a contextual analysis of stock markets has been further examined by surveys, field and case studies. These studies show the importance of interpretations when studying and understanding how stock markets work in daily operations, and may offer more accurate interpretations of the results obtained in association and event studies.

The results of studies on dividend decisions indicate no clear association between the value of the firm and the dividend policy of these firms. However, studies applying event study methodology suggest that since the early 1980's dividend announcements may have conveyed relevant information to the market. Moreover, the results of the ex-dividend day behaviour of stock prices indicate that there exists a tax effect on the valuation of dividends.

Studies focusing on capital investment decisions have been rare despite their major role in defining the profitability of the company and more research with larger samples is clearly needed on this topic.

Future research should concentrate on the extensive changes in the Finnish capital markets and financing systems during the late 1980's and early 1990's. In addition, we need further understanding of the contextual and institutional features of financial management decisions, surveys for analysing managerial and shareholders'attitudes and activities during the financial management decisions as well as case studies in order to detect the internal processes of companies and investors.