

Johan Knif - Professor

Kenneth Högholm - Professor

Fernando González Miranda - Associate Professor

swedish school of economics and business administration

Ranked Market Information as a Stock Return Indicator

During the last two decades the academic community has frequently reconsidered the issue of stock market efficiency and predictability of stock returns. The empirical evidence suggests that prices do not reflect all publicly available information, hence indicating that future stock returns are at least to some extent predictable. Consequently, there seem to be anomalies present on the stock markets that are not consistent with the concept of market efficiency.

Although the use of financial ratios in predictability studies has been extensive in the past, the use of the filtered information contained in their rankings has received little attention. Rankings of stocks according to some financial indicator may predict future stock returns. One reason for this could be that it is easier for a portfolio manager to use the ranked market indicators in order to make his investment decisions for the proportion of the portfolio to be invested in the stock market. Another reason could be that if there are less active participants or laggards on the market it is more likely that this group of investors will build up their portfolio according to the ranked value of a specific market indicator rather than according to the actual level of that indicator.

The present study extends the literature in mainly two ways. Firstly, the paper provides further evidence on the predictability of stock returns and the impact of financial indicators measured not only as levels/ratios but also as rankings. Secondly, we examine the impact of the financial indicators under different market conditions.

We use the information in a number of market oriented financial measures in order to predict returns on the individual stocks contained in the S&P500 index. Specifically, these financial measures are the projected dividend yield, the price-to-book ratio, the market capitalization, the cashflow-to-price ratio, the price-to-earnings ratio and the volatility. The applied financial measures are widely used to evaluate the stock market performance of a company.

Firstly, our results confirm predictability of stock returns based on financial market indicators. Furthermore, the empirical results support the assumption that the rankings of stocks according to financial indicators contain additional information about future stock returns within a linear regression framework. Monthly regressions of 6-months future returns on our information set of financial indicators, levels/ratios as well as rankings, result in an average adjusted R-square of about 11%. Using ranked indicators only we obtain an average explanatory power of 10%.

Secondly, the results indicate a weak relationship between market conditions and the impact of the financial indicators. Our conclusions are, however, not conclusive for all the financial indicators considered. j

Jyrki Niskanen - Ph.D. - University of Tampere

Mervi Niskanen - Ph.D. - Helsinki School of Economics and Business Administration

Does Relationship Banking Have Value for Small Firms?

While the potential benefits of relationship banking have been given increasing attention in the finance literature, the European capital markets are simultaneously at least to some extent moving towards a more market based system. Even if the bond market may be the most efficient way to finance the very largest corporations, there is little evidence to indicate that it would be profitable for other firms to bypass banks or long-term bank-borrower relationships in a traditionally bank

based financial system. This study is the first one to investigate empirically the importance of bank-borrower relationships for small and medium-sized firms in the Finnish capital markets.

This study examines empirically the effect of bank-borrower relationships on the availability of funds, cost of funds and loan collateral requirements in a sample of small and medium-sized Finnish firms. We use three different measures for the closeness of the bank-borrower relationship. These measures are the number of banks the firm borrows from, the length of the relationship between the borrowing firm and its main bank and whether the loan has been taken from the firm's main bank or some other bank.

The results on loan availability suggest that a close banking relationship improves loan availability. The results also suggest that outside funding is more easily available the larger, more profitable and liquid the firm is. The results on how relationships affect the cost of funds are somewhat weaker than the ones for loan availability. It seems that small firms benefit from having long term relationships in the form of lower interest rates. This pattern is reversed for larger firms, and they do in fact pay higher interest rates when their banking relationship ages. This result is well in line with theoretical arguments on the role of bank-borrower relationships stating that smaller firms with few other options benefit from close relationships. The above theories also suggest that larger firms which for some reason borrow from banks face higher interest rates than they would if they used direct market sources. The results also suggest that the more profitable and the less levered a firm is, the less it pays for its loans.

Even if the bulk of corporate loans are secured, empirical studies on the role of collateral are few in number. Our results suggest that collateral is required more often if the firm borrows from multiple banks. This result is intuitively appealing because it can be easily accepted that a bank will be more inclined to require collateral as security, if it is likely that the firm will borrow from other sources as well. The results also suggest that large firms pledge less collateral. We also investigate the effect that interbank competition has on loan availability, cost of funds and collateral requirements. The results suggest that while interbank competition has no impact on loan availability or the cost of funds, the number of banks that operate locally does seem to reduce collateral requirements.

Finally the findings of this study could have some broader implications concerning the ongoing discussion around the Finnish banking environment. It has been argued that relationship banking may help limit the so-called decline in banking, which is expected to follow from securitization and non-bank competition that reduce the share of loans held by banks. The findings of this study support the above argument in that firms with bank relationships are better off because they obtain funds easier and at better terms than the firms which do not rely on relationships. j

Timo salmi - professor - university of vaasa

marko järvenpää - lic.sc (econ. & bus.adm.) - seinäjoki polytechnic, seinäjoki business school

The Case Study Method and the Nomothetic Approach Hand in Hand

There is a long tradition of discussion on re-search approaches in the Finnish accounting literature and in the Finnish doctoral dissertation guidance. The case study method and the nomothetic approach are occasionally deemed opposing schools of thought. The purpose of this paper is to present how the case study method and the nomothetic approach can be seen as parts of the same research process with the same common scientific principles.

In general terms, the purpose of scientific research is to accumulate knowledge in an organized and verifiable manner, whatever the approach chosen to conduct the actual research work. Theories, observations, understanding, analysis and application are the central concepts in describing this process.

In the nomothetic approach typically a theory is confirmed, or subjected to doubt, based on a (considerable) number of statistical observations. Case studies can be seen as a compatible intersection with the nomothetic approach. One, or few observations are analyzed, often in terms of several theories and sources of evidence. Neither the general goals of scientific

research nor the existing base of theories and doctrines are changed by the choice of the approach.

Deduction, hypotheses, models and empirical testing play a key role in the nomothetic approach. New theories and hypotheses are typically sought by induction. Here the case study method can play a crucial role as an avenue of organized induction. The nomothetic approach has long traditions for the theory model empiricism chain. The principles of the case study method are more preliminary and would benefit from developments towards generally acceptable, common research principles. Seeing the two approaches as parts of the same process will greatly enhance such a development.

The final parts of the paper also take up some details by considering the special nature in obtaining and analyzing the case observations. j

Jukka Ojasalo - Ph.D. - swedish school of economics and business administration

Managing Quality Dynamics and Customer Relationships in Professional Services

The professional services and information-intensive businesses in general comprise one of the most rapidly expanding areas in the new network economy. In professional services and information-intensive industries, management of quality and customer relationships plays a key role in achieving sustainable competitive advantage within the market. The term quality dynamics refers to changes in quality itself as well as to changes in factors both closely affecting and caused and affected by it. The dynamic approach to service quality is a particularly relevant issue since the time parameter and various over-time changes are an essential part of quality in professional services. Moreover, a realization of the benefits of the relationship marketing orientation requires an understanding of quality as a dynamic phenomenon.

How does quality dynamics become manifest in professional services? How can a professional service company manage quality dynamics to achieve stable and strong customer relationships? Quality dynamics occur in various forms and may have both positive and negative implications for a professional service company. However, most importantly, quality dynamics can be managed by a professional service company. Negative dynamics can be turned into positive quality dynamics. Companies have understood the value of long-lasting customer relationships, however there is an evident lack of managerial practices which help to build and enhance customer relationships. This article explains how quality dynamics occur in professional services. Furthermore, it suggests various practices which a professional service company can use to manage quality dynamics to achieve long customer relationships.

This article draws on a larger empirical study of professional services. The study was based on in-depth interviews and a qualitative analysis. Highly experienced senior consultants from five different companies, their professional careers varying from six to eighteen years were interviewed in extensive multi-hour in-depth interviews which were tape recorded, transcribed, and analyzed.

The essential findings and aspects of quality dynamics explained in this article relate to customer expectations, short- and long-term quality, the accumulation of satisfaction in customer relationships, customer switching, quality for the company and for the individual in business-to-business relationships, and customer expertise. The findings provide excellent application opportunities particularly in the management of quality in services, customer relationships, and professional practice in business-to-business contexts. They enable firms to design and deliver higher quality to their customers, strengthen customer relationships, and thus improve their own competitive strength. j

Jukka Perttunen - Professor - University of Oulu

Do the Stock Prices Bubble?

Recently, the stock market prices have raised sharply all over the world. The boom has mainly been due to the enormously high growth expectations in information technology businesses. By all means, it is possible that these expectations can be fulfilled in future. However, more and more people are worried about the existence of a possible bubble in stock prices. A bubble that might burst throwing the economies into a depression. Stories have been heard about collapsed asset price bubbles, beginning from the tulip bubble of 1600s until the stock market crashes of the 20th Century. More and more people argue that the next stock market crash is just ahead of us.

The modern financial theory knows the bubbles in stock prices. The Euler equation determining the theoretical stock price accepts the existence of a possible bubble component. Having once been developed, in a way or another, the bubble may exist in prices as long as one expects it to stay there over her own investment period. What then causes the bubbles to be born? During certain periods, new irrationally behaving noise traders are continually entering the market making the prices to diverge from fundamental value. If their power is strong enough, the rational traders the smart money have to take their actions into account in their own pricing policy. This makes irrational prices rational from the point of view of an informed investor. The power of noise traders comes from their herding behavior. Many well-known trading rules that are typically followed by noise traders are basically 'follow the trend' type of trading rules. Such being the case, instead of being independent of each other, the actions of uninformed noise traders are highly tied together. This makes their relative power strong enough to determine the market prices. The different technical analysis tools and positive feedback strategies are typical examples of these pricing elements.

We might have had elements in our domestic market that have been favorable for the prices to diverge from fundamental values. For instance, in the initial public offerings of information technology firms, there has been much more demand than there have been shares to sell. The prices have hardly been determined by the equilibrium in demand and supply of these stocks. Also, there has been a continuous flow of new uninformed investors into our market. We cannot be sure that there is a bubble in our stock market. However, we should notice the presence of all the elements that are required for the existence of a price bubble. j

Janne Tienari - Professor - lappeenranta university of technology

'Organizational Change' and Gender Segregation Thoughts on Feminization of Lower Middle Management in Banking

This discussion article presents an overview of the doctoral dissertation "Through the Ranks, Slowly: Studies on Organizational Reforms and Gender in Banking", defended in the Helsinki School of Economics on April 16, 1999.

Change and transformation remain the meta-discourse in the increasingly turbulent market. The contemporary era of global, real-time financial and capital markets, information technology and active owners brings about 'novel' elements to organizational life. Established bureaucracies are dismantled through reforms and restructuring. Firms cross historical boundaries and merge into larger entities. Processes are engineered and operations downsized. Organizations are becoming temporary and disposable. Managerialist perspectives dominate contemporary business practice, and are echoed by influential business intellectuals.

The antecedents and consequences of managerialism in examining change and its underlying discourse(s) have been challenged from a variety of socio-political and critical perspectives in organizational theory and management studies. Change and stability are seen as inextricably intertwined. Forces, processes and discourses in 'organizational change' are treated as both complex and ambiguous.

The theorization of change within both managerialism and its critics, however, typically carries a particular shortcoming. The writings are predominantly gender-blind. They ignore a wide range of feminist approaches to understanding organizational phenomena. Feminist contributions have opened up previously neglected fundamentals and articulated new themes. They, in turn, have often failed to explicitly address 'organizational change'. Discussions have typically run in parallel.

The studies that comprise this doctoral dissertation focus on the hitherto seldom examined link between organizational change/reforms and gender. The thesis aims at bridge-building rather than a gap-filling exercise. Its core contribution is on specifying reform-triggered mechanisms that reproduce gender segregation in the seemingly flexible bureaucratic business firm. The research is based on longitudinal, in-depth case studies in banking. Increasing female representation in middle manager jobs, especially (local) branch management, is examined in detail.

A domestic horizontal merger is presented as an event where mechanisms of gender segregation are particularly visible. Similarly, cross-national comparative settings unveil how women's unprecedented advancement to particular managerial positions i.e. feminization does not necessarily co-emerge with a profound change in gender segregation in an organization as a whole. Rather, it is likely to be a reflection of a contrary, reproductive development.

The empirical backbone of the studies in this dissertation is the fieldwork carried out in Kansallis Banking Group. Kansallis was a major Finnish commercial bank which merged with its main competitor, the Union Bank of Finland, in 1995 to form Merita Bank. The dissertation comprises an in-depth examination of organizational change via reforms in Kansallis in 1982 - 1995, an analysis of the gendered nature of the merger between Kansallis and UBF in 1995 - 1997, a comparison of the feminization of branch management and its connections with organizational reforms in Kansallis and the Swedish Skandinaviska Enskilda Banken 1982 - 1995, and a comparison of Kansallis, UBF and Merita with a middle-sized German bank 1982 - 1997, again, in terms of organizational reforms and gender segregation.