Editorial

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Biographical notes: Željko Šević is a Professor of Accounting, Finance and Public Policy and the Dean of the Caledonian Business School at Glasgow Caledonian University in Scotland. Prior to joining the Caledonian Business School in 2008, as the Head of the Division of Accounting, Finance and Risk, he was the Professor of Accounting Finance and Public Policy in the University of Greenwich Business School, where he was also the Director of Research, Outreach and European Affairs. He has extensive professional experience not only in academia, but also private, public and third sectors. He holds terminal degrees in Law and Financial Economics, is a professionally qualified accountant and certified fraud examiner. He has research interests revolving around the public sector and the application of business models in public sector organisations.

In times of crisis, and we have witnessed certainly the biggest financial and economic crisis of the 21st century in the last year or so (from 2008 onwards), it is difficult for companies to raise finance externally and they often have to look at their internal resources to be successful in what they do. This pecking order may work fine in 'normal' buoyant times, but somehow is more problematic in times of crisis, especially if companies were relying on borrowed funds. Certainly the classical finance floscula – that the main duty of the managers is to provide returns to the company's shareholders (as principals) – is still valid; but has lost its currency, significantly. The companies are increasingly looking at aligning internal resources – not only the financial ones, but also human capital, effective governance structures and to improve the overall relationship with the banks – as traditionally the main source of external finance, even in the countries with the so-called 'market based financial systems'. The success of the company will largely depend on how it can genuinely innovate and provide the new deployment of *re-defined* internal resources. The financial innovations have largely been kept accountable for the current crisis, but the innovations in financial management at the micro, company level, will certainly be a decisive factor, as to whether the company will survive the current challenges, and later grow; or will simply be closed and fall into oblivion. Economic history has taught us that in the event great companies fail … There are very few companies that were major players in post-WWII era and are major players today … The last crisis has brought to their knees companies like Lehman Brothers, a leading investment bank, let alone the small and medium enterprises and sole proprietorships.

Realignment of resources, ability to persuade investors (or lenders) that even in times of major economic crisis the company is worth considering are the challenges of not only the company's management team, but also the society as a whole. It has been rather often stressed that only societies that can focus on the new models of delivery, new models of conducting economic policy are those that may come out of this critical challenge stronger and with a more or less prosperous future. There is also a claim that the current model of corporate governance has failed, as the independent (non-executive) directors have failed to exercise the public interest (in whose name they were appointed) and were rather complacent with the company's management teams (or rather the top manager) and have not challenged (enough) the strategies and the moves made by the management. It may have been a result of the very process of appointing non-executive directors, or just a result of widely spread cross-directorships, etc. In either case, the need for a further reform has been detected and the model that only a few years ago has been uncritically proposed to the transitional and developing nations needs to be seriously reviewed. The regulators are actively toying with an idea of compulsory training of non-executive directors, and focus especially upon the area of risk. Whether training, *per se*, will improve the overall performance of the troubled (but still most performing) model, remains to be seen. Regulatory attempts have been noted at national and international levels and various forces that support globalisation and approximation in financial services regulation and practices are well in place to explore the current climate of better international cooperation and promotion of the adoption and application of internationally developed and endorsed business standards, like for instance the International Financial Reporting Standards (IFRS).

The current crisis has hit the developed nations (advanced economies) probably more than the countries in transition, especially those with fairly closed economies (refer to the EBRD materials to assess the degree of economic openness of the country's economy), unless they have been heavily dependent on the foreign financial agents in the national financial sector. In the latter case, the mother banks focus on their home countries and do not provide credits and other facilities to their (troubled) foreign subsidiaries. In some cases, it has improved the overall capacity of the national banking sector, whilst in others it has contributed to the heavy in-country indebtedness. In the vast majority of the transitional economies the foreign ownership of domestic banks is a rule, rather than an exception. The profit rates have, for a number of years, overshoot those charged in the countries where the mother bank is registered and supervised by a competent national banking supervisor.

The focus on improving internal aspects of the business have been looked upon by Theriou, Šević, Maditinos and Theriou, who have looked at the Greek practices in defining the management control systems and how it does affect the organisational performance. Looking at a good sample of Greek businesses, the authors have put into a unique context importance, behavioural uncertainly, firm specificity and spread, when defining the strategic human capital in the use of designing management control systems and organisational performance. They have found the positive relationship between non-traditional control and organisational performance and the negative relationship between traditional control and organisational performance. McGee and Bose have looked at the somewhat macro issue of corporate governance practices at country level, comparing the experiences of Armenia, Azerbaijan and Georgia, all being post-Soviet transitional countries. The research, based on IMF/World Bank data which were used within the OECD Principles framework have generally shown, not surprisingly, that corporate governance practice in these countries is lagging significantly behind the legislated practice. But, the very legislation is again well behind the advanced transitional countries in Europe. Analysing another post-Soviet phenomenon – dollarisation – Dorbec is looking at the relative strengths of dollar as a de fact reserve currency in the Russian Federation. Dollar has been the most attractive currency in Russia, even in the Soviet times, and this practice has just continued. Although, there are some signs that other currencies may also be attractive to be used for reserves. Lissowska, in this issue, looks at the effectiveness of the Polish experience with consumer credit requirements and asymmetries between two sides – borrowers and lenders. Although the customers appear to be better organised, they are still a weaker party in the contract with the banks, and the later are still charging excessive premiums. As in other transitional countries (whether advanced or not) the market risk component is rather complicated and high. The author finds that high interest rates together with borrower deficiencies and unfair bank practices have an adverse effect on the customers, i.e., bank borrowers. Other authors (Stojanovic and Pavkovic) do look at the issues of bank consolidation, and what the benefits of bank consolidation may, in fact, be. It is generally agreed that consolidation of banks is a process that delivers positive results, as the banks become bigger, can initiate internal savings and part of it transfer to their respective customers. The problem is that the bulk of research in the area would not really support this position and will question the logic behind. But, whether the banks pass on the savings or not; they (banks) remain unchallenged as the primary source of finance, for both listed and privately-held firms. In the case of Hungary, Szoradi-Szabo looks at the structure of Hungarian companies and explores why particular choices have been made. Often, too much of a choice, may distort the company's management focus, but in times of crisis the windows of opportunities may remain closed and often the risk-averse behaviour (as a rule) becomes a norm. Of course, those who run the heavily indebted and overall failing companies may enter (and they usually do enter) the vicious circle of indebtedness and self-deceptive rosy views of the situation. The classical adverse selection and moral hazard problem, simply, has emerged.

In the conditions of a weakened market, and market clearing price that may be illusive, it is important to ensure that market structures remain intact and they really deliver what is expected of them in times of recovery. The institutions are there to reduce transaction costs, and they have to be there to ensure that the trust has returned to all the market participants and to the institutions themselves. This is not an easy task, and it is an enterprise that is both time and resources highly intensive. Through general market communication it may be possible to restore the faith of the public to all what the interested parties are doing. Or may be we will be in the (constant) search for new, better performing institutions, that will stir our imagination and creativity to design and launch effectively. The time itself will tell …