
Editorial

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Biographical notes: Ronald W. Spahr is a Professor and the Chair of the Department of Finance, Insurance and Real Estate. He received his PhD and MBA from the University of Wisconsin-Madison, MS in Operations Management from the University of Southern California and BS in Mechanical Engineering from South Dakota State University. Previously, he was the National City Bank Distinguished Professor of Banking and Finance at the University of Illinois, Belk Distinguished Professor of Finance at the University of North Carolina and Professor of Finance at the University of Wyoming. He has also lectured at a number of European universities.

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In today's globally economically competitive environment, we generally observe that capital is relatively fluid and will tend to flow to countries that provide the highest risk-adjusted returns. Alternatively, labour is much less fluid and will tend to migrate to countries with higher employment rates and living standards; however, at a much slower rate than for capital. In addition, although at a slower rate than capital, multinational corporations will also tend to migrate to and reincorporate in countries and economic environments that will provide higher risk-adjusted returns for stockholders. Thus, in today's competitive global economy, countries are essentially competing for capital and to a lesser extent labour and multinational company residencies to maintain or improve their population's living standards.

Currently, much of Western Europe and the USA are engaging in unsustainable economic policies where governments are continuing to operate with large deficits and have accumulated problematic quantities of debt. Greece and Ireland have required bailouts and countries such as Portugal and Spain are also on the verge of requiring bailouts or may fail to continue to meet their financial obligations.

The economic problems in Western Europe and the USA have evolved from a simple economic principal that a country's standard of living can only be sustained by equally high aggregate economic productivity. Simply stated, the economic problems in these countries results from attempting to maintain high living standards including government promised benefits that are unjustified by each country's aggregate economic productivity. Just as an individual cannot maintain a sustainable standard of living that is unsupported by personal income, individual countries also cannot support living standards and unfunded government benefits with resorting to borrowing or sell off assets. Most of these countries currently having fiscal problems also have had twin deficits-federal budget deficits (federal borrowing) and trade deficits (leading to selling off the country's assets). These twin deficits; however, are unsustainable. Thus, there exists only two sustainable solutions for these countries, to either reduce living standards (which have already and may result in additional future political volatility and demonstrations) and/or implement and foster economic policies that will increase productivity to a level that will sustain current and desired living standards. The papers in this special edition of the *Global Business and Economics Review* represent a sample of the best papers presented during the 2010 IASK Global Management International Conference, held in Oviedo, Spain, and address issues which are necessary to foster future sustainable economies.

The first paper by João Zambujal-Oliveira, 'Can sustainable investing generate carbon credits?', addresses one of the current major environmental issues greenhouse gases. Financial instruments may be created that are tradable on the carbon market by investing in projects that reduce GHG emissions. This study analyses the effectiveness of a project that may create EcoSecurities because it mitigates the emissions of methane from a coalmine located in China's Sichuan province. This project generates carbon credits that are later sold to governments and organisations under the Kyoto Protocol. This paper concludes that this project by generating EcoSecurities that may be sold improves the firm's value as it increases revenues and improves efficiency.

Our second paper by Ronald W. Spahr, Pankaj K. Jain, Fariz Huseynov and Bhavik Rajesh Parikh, 'Tax policy and macro-finance in a competitive global economy where government is considered as firms' third financial stakeholder', proposes a macro-financial model be considered along with traditional financial macroeconomic theory. Their model postulates that economic activity results from aggregate effects of all domestic private and public saving and investment, net international trade, inter-country

capital flows and consumption decisions. They modify Modigliani and Miller's original capital structure propositions by adding government as the third major financial stakeholder. They posit a 'conservation of value' where capital structure and the domestic tax structure have no effect on total firm value; however, affect relative stakeholder values, discount rates, capital investment and flow of capital into and out of a country.

Paper three by Timothy Adedapo Falade-Obalade and Jacinta Agbarachi Opara, 'Understanding sovereign wealth funds in the global age', identifies sovereign wealth funds as one source of fluid capital that has been accumulated by wealthy nations for the purposes of cross border investments. These funds are primarily generated from traditional sources such as foreign exchange, and tax revenues as well as other non-traditional sources such as pension funds and so on. Their paper shows the various types of SWF and analyses their purposes, limitations and disadvantages while suggesting some guidelines and rules of engagements in the modus operandi.

Paper four by Tomohiro Ando, 'Bayesian portfolio selection under a multifactor asset return model with predictive model selection', addresses portfolio selection using a multifactor asset return model, using Bayesian analysis to deal with uncertainties in parameter estimation and model specification. Using data from the USA and Japanese stock markets, this paper applies two approaches: the empirical Bayes method and Bayesian model averaging. This paper is unique from previous literature on Bayesian portfolio selection, which has paid little attention to the researcher's choice of asset return prediction factors: whereas, this paper adopts previously published criterion to quantify the predictive power of several candidate models and justify model choice. A comparative analysis is conducted between the two Bayesian methods and the classical mean-variance method. A major finding pertinent to investors is that the influence of each asset return factor varies with time, depending heavily on the state of the market. Both Bayesian methods perform better than the classical method, but the difference between them is not great.

Paper five by Eric Terry and Bettina West, 'Style matters: investment performance presentation effects on investor preferences', examines the influence of investment fund performance presentation format on investor decisions. They perform an experiment in which participants are shown past performance information about two funds – one with superior short-term results and the other with better long-term results – and asked to choose their preferred option. Results indicate the fund with superior short-term results is chosen more often when short-term performance appears last and the fund with superior long-term performance is chosen more frequently when long-term performance is presented last. This recency effect, in which individuals overemphasise the last piece of performance data presented to them, is insensitive to simulated market conditions, and disappears entirely when performance results are displayed vertically rather than horizontally. Implications for investors, fund managers and policy makers are discussed.

Paper six by Mihaela Herciu, Claudia Ogrean and Lucian Belascu, 'Leveraging tangible and intangible assets by using a possible firm competitiveness index', observes that to achieve global competitiveness, firms need to develop and apply unique and dynamic competitiveness models. They propose an index that measures firm competitiveness by taking into consideration some tangible and intangible assets. Their index suggests that a firm is highly competitive as long as its managers are able to mix the tangible and intangible assets in the most effective and efficient manner. Thus, a firm

may attain the same score of competitiveness by using different combinations of assets and by giving different importance coefficients to the tangible and intangible assets.

Our seventh and final paper by Rute Abreu and Fátima David, '*Caixa Geral de Aposentações: why social responsibility is needed?*', examines annual reports of the Caixa Geral de Aposentações (CGA) that administers the Portuguese pension programme for civil servants (retirement, survivor and other minor special pensions). The results suggest that constant changes in laws and regulations distort the real purpose of the CGA to the extent that the continued survival of the Portuguese pension programme is threatened. The CGA has implemented new questionable strategies for the maintenance of the programme to prevent its failure despite the existence of several limitations and social, economic and political constraints. Thus, future social responsibility and prudent policy are required to ensure the collective welfare of current and future generations.

We hope that you will appreciate the variety of papers presented in this special edition of the *Global Business and Economics Review*. Our selection of papers results from the theme of this special edition, which is competitiveness and sustainability of countries' economies when postulating that a country's economic activity and viability is derived from its ability to attract investment capital, increase productivity and create productive, higher paying jobs for its citizens. Economic viability and sustainability result from aggregate effects of all domestic private and public saving and investment, net international trade, inter-country capital flows and consumption decisions.