Emerging Policy Imperatives of Capital Markets and Economic Development

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Recommended Citation
Available at: http://epubs.scu.edu.au/jesp/vol10/iss1/1
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This article is available in Journal of Economic and Social Policy: http://epubs.scu.edu.au/jesp/vol10/iss1/1
Emerging Policy Imperatives of Capital Markets and Economic Development

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Journal of Economic and Social Policy
vol. 10, no. 1, December 2005.

This edition of JESP presents a body of research from Southern Cross University's Doctor of Business Administration program which fits under the heading of financial economics, largely using analysis of financial information. All the papers cover issues that have major public and social policy implications and four of the six provide analyses based in emerging economies where the social impact of financial markets is of critical importance to economic and social development.

Venture Capital

The first three papers consider the emerging field of micro finance or venture capital. New ventures are suspected to be the growth engines of economies, fostering micro businesses that have been the prime generators of employment and wealth creation around the globe. Mechanisms to foster and incubate new businesses have been at the heart of economic and political policy in many of the post-industrial economies as well as in the developing world. The first two papers in this volume with Rakhman and Hudson provide a contrast between the role of venture capital in a developing economy and in a developed one, while the third paper, also with Hudson, is an international comparison of research into venture capital.

Venture capital and small business have made a significant contribution to economic growth, employment and innovation of technology, all factors that make business environments sustainable. The paper with Rakhman reports the results of a survey of venture capitalists (VCs), businesses receiving VC finance (investees) and those entrepreneurs not receiving such support in the South Sulawesi province of Indonesia. Venture capital in Indonesia is more of a development issue since VC funds have obligations to fund micro ventures
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with investments as small as $100, as well as much larger ventures typically associated with VCs in the larger economies.

The role of the South Sulawesi Venture Capital (SSV) has been widely acknowledged by investees as contributing significantly to a strong business community and local economic growth. However, the lack of monitoring systems and technical and management assistance remains a big obstacle to VCs and investees. The research finds that these barriers need to be eliminated by implementing sustainable partnerships between VCs and investees, an issue that needs to be addressed by Indonesian policymakers.

The study with Rakhman shows that current evaluation procedures place emphasis on the personalities and experience of the entrepreneurs, product/services of the proposed projects and financial aspects. The evaluation could be made more reliable by also including consideration of variables relating to market, management and technical assistance.

The first of the two papers with Hudson also addresses the role of VCs. From a public policy perspective, the research highlights important issues in decision making in the venture capital industry. VC and entrepreneurship have a significant impact on economic growth, employment and the creation of new technologies that may have an impact on standards of living. This contribution has been clearly identified in a number of research reports. It is therefore of significant interest to those who develop public policies. The Australian government has attempted to correct for any failure in decision making, all of which have failed to improve the ratio of VC investment in early stage investments. However, it is important to address the issue of the prejudice against new venture financing from within an industry as well as a need for policy development.

The second of the two papers with Hudson is an international comparison of the results of the research in the previous paper and highlights some substantial differences in the way the industry operates. Australian VCs operate more like those in the US, with similar hurdle rates for investment and similar behaviour in assessment of new venture proposals.

It was found that there are significant differences in the decision-making processes internationally. As noted, in a number of respects, the VC industry in Australia is more similar to the US and UK than Europe; however, there are
some interesting differences. Australian VCs display a shorter time horizon for new ventures than those in Europe and a preference for MBO/MBI investment, which is not defined as VC financing in the US. This implicit 'impatience' with new ventures is a worrying phenomenon for the development of start-up ventures in Australia and an issue deserving policy revision.

Financial Market Analysis

The final three papers in this edition cover issues from financial markets in developing economies – Thailand and Indonesia – and all point to the need to maintain transparency and high standards of financial disclosure in those emerging economies. The papers with Leksrisakul and Nurazi relate to failure prediction models using financial information which aim to identify problems in the years before financial distress emerges. The final paper with Ronapat is a study of dividend patterns in the Thai stock market. All three papers rely upon regulated disclosure of financial information, an issue that has been widely debated in these economies following the financial contagion of the late 1990s.

The paper with Leksrisakul raises important issues surrounding the prediction of financial distress in a developing economy. From a social and economic policy perspective, regulatory agencies face problems when evaluating the risk of insolvency. For policymakers in Thailand's capital market, there is concern with maximising the returns to investors, transparency of regulation, ensuring fair trade practices and boosting confidence among both domestic and international investors.

The paper with Nurazi also considers financial distress prediction but focuses on the banking sector in Indonesia. Logistic regression in tandem with multiple discriminant analysis (MDA) can act as an early warning system to identify bank failure as a complement to on-site examination. Logistic regression models and MDA can be included as decision aids in solving banking problems.

The research developed in the paper with Nurazi is significant for government policy or banking regulators, the public and academics. The significance for government or banking regulators is that it could: (a) be used as an early warning of bank failure; (b) provide the Indonesian Banking Supervisory
Agency and other regulatory bodies with a tool that may help predict future problems in the Indonesian banking system; (c) be used to supervise and monitor the quality of a bank's assets to prevent bank failure; and, (d) be used to maintain a safe and sound banking system.

The significance for society of the Lekrisakul and Nurazi papers is that this research could: (a) become an early warning signal for bank and corporate problems; (b) confirm investors' concern or confidence on whether to continue to invest or not; and, (c) provide information on whether there is substantial doubt about a bank's or company's ability to continue as a going concern for a reasonable period of time.

The final paper with Ronapat considers the phenomenon of the disappearance of dividends from the Thai Stock Exchange. Since this research concentrates on the dividend payment of listed firms in Thailand, its findings have implications for the Securities Exchange Commission of Thailand (SEC) and the Stock Exchange of Thailand (SET). The research provides a tool to supervise and monitor the characteristics of listed firms and their dividend behaviour. The findings of this research provide a preliminary investigation of the changes in the characteristics of listed firms and could help predict the expected number of dividend payers in the market and monitor the performance of new and existing listed firms.

Overall, this edition provides a valuable contribution to debate over public and social policy and the relationship with financial markets. The papers all use simple quantitative techniques to investigate elements of the financial systems of Australia, Indonesia and Thailand. The results point to major implications for public policy in those countries, policy arenas not known for such quantitative platforms, for example, government support for venture capital organizations that fail to focus in the appropriate policy direction; comparative analysis within the increasingly integrative economies of the Asia-Pacific Rim; and policy transfer implications in support of business and innovation where market barriers normally prevail.

The second set of papers provides empirical evidence to support greater policy commitment and regulation of financial disclosure. This is a critical issue in the emerging governance debate within the North-South gradient. The evidence shows that financial disclosure can, and does, enable identification of financial distress many years before ultimate bankruptcy, and analysis of
investor returns from dividends. This provides wider shareholder and stakeholder benefits. The impact of this research on banking and corporate regulation overall has the potential to better inform World Bank and other Bretton Woods institutions in their policy prescriptions and interventions.
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