

BUSINESS AND FINANCIAL ENVIRONMENT [1]

Part 1

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Further papers by robin Matthews can be found at

<http://robindcmatthews.com>

<http://www.tcib.org.uk/about.html>

Also <http://kpp-russia.ru> and <http://www.russtrategy.ru>.

<http://kingston.ac.uk/CIPB.php>

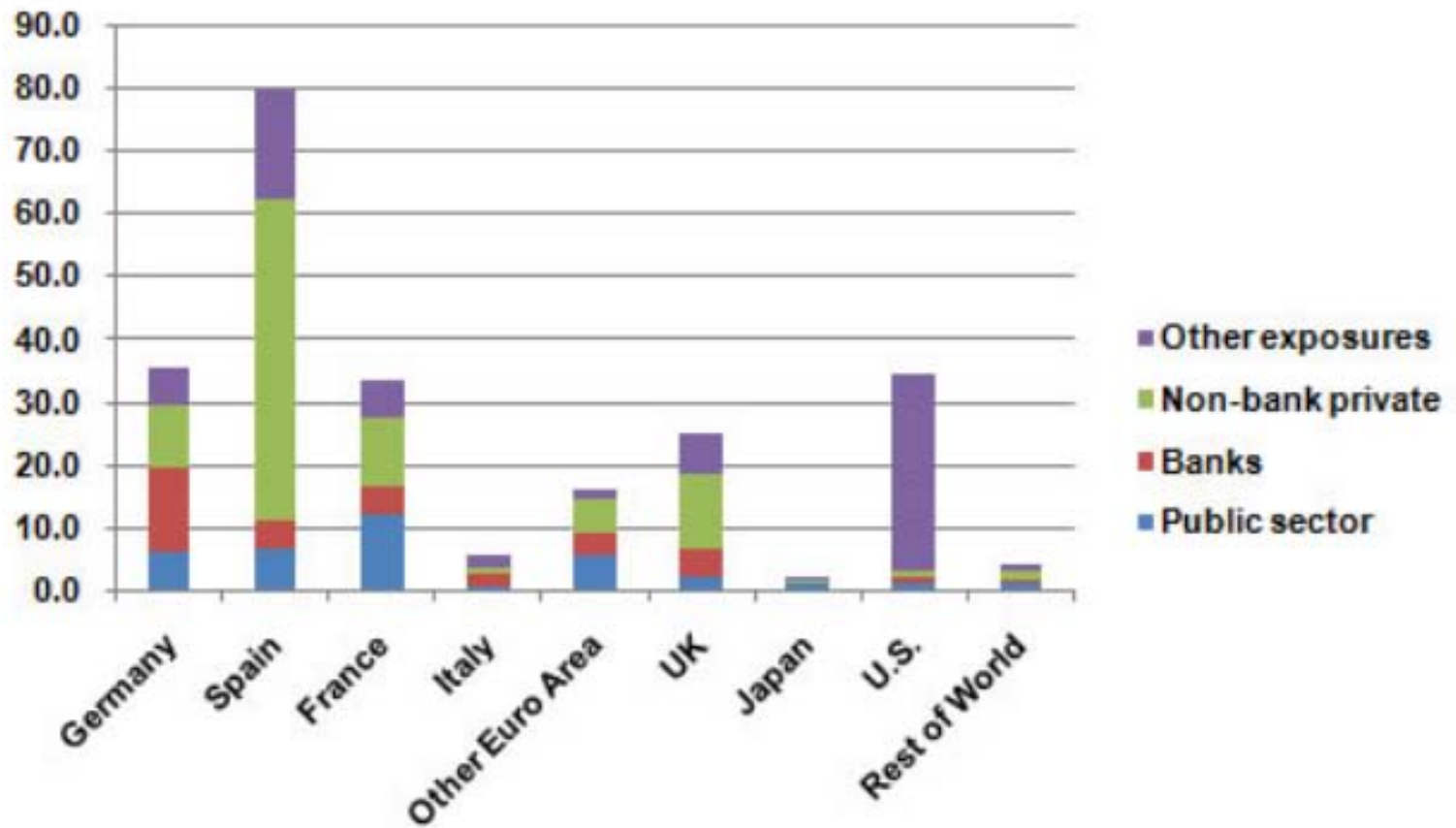
Greece

Bailout/default

Efsf European financial stability framework
Psi private sector involvement

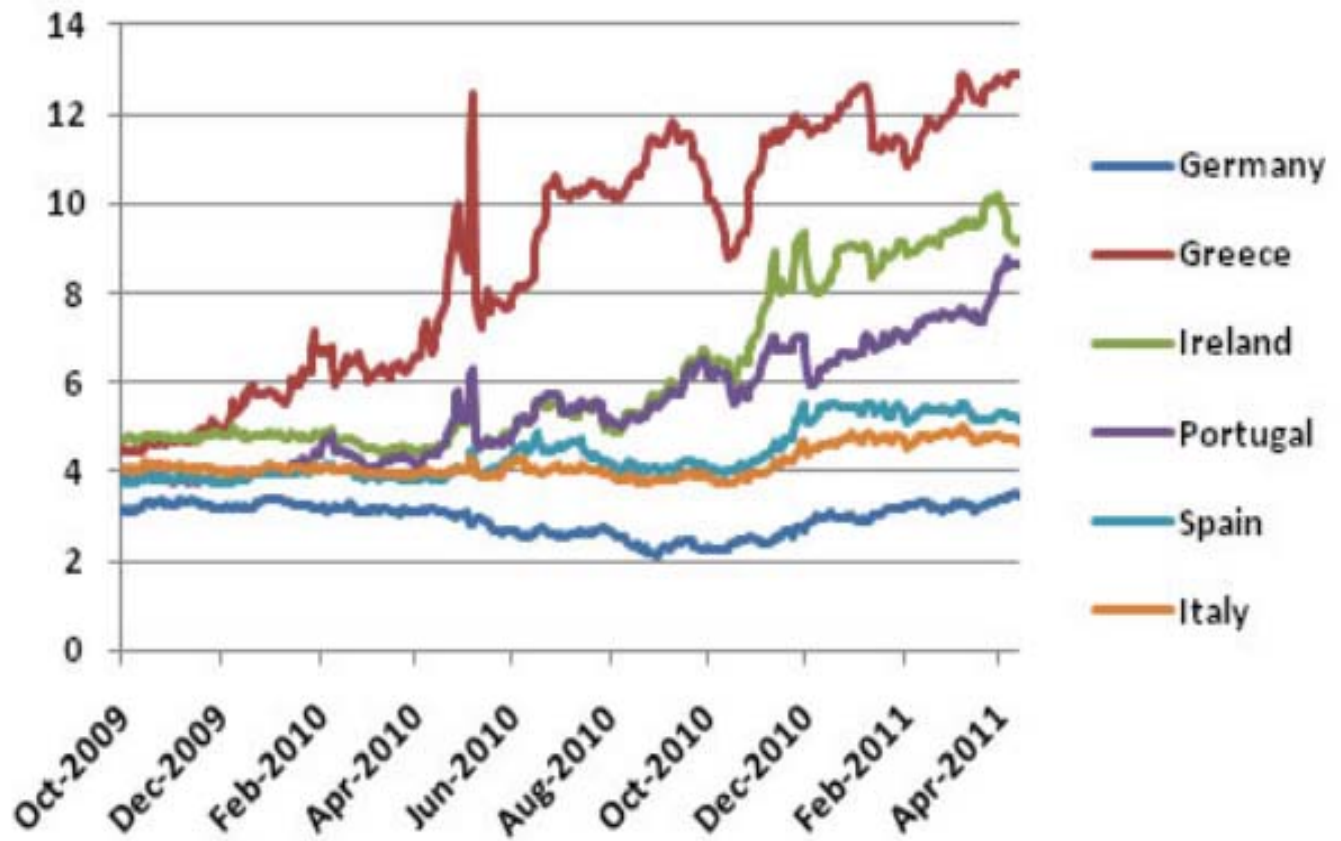
On Greece the EU Council decided (July 21 2011)

"The total official financing will amount to an estimated 109 billion euros. We have decided to lengthen the maturity of future EFSF loans to Greece to the maximum extent possible from the current 7.5 years to a minimum of 15 years and up to 30 years with a grace period of 10 years. In this context, we will ensure adequate post programme monitoring. We will provide EFSF loans at lending rates equivalent to those of the Balance of Payments facility (currently approx. 3.5%), close to, without going below, the EFSF funding cost. The EFSF lending rates and maturities we agreed upon for Greece will be applied also for Portugal and Ireland." With respect to PSI "The net contribution of the private sector is estimated at 37 billion euro with credit enhancements for continued access to central bank liquidity by Greek banks. Greek banks will also be recapitalized if needed." On the EFSF and contagion, flexibility was increased—subject to appropriate conditionality—to "act on the basis of a precautionary programme; finance recapitalisation of financial institutions through loans to governments including in non-programme countries; intervene in the secondary markets on the basis of an ECB analysis recognizing the existence of exceptional financial market circumstances and risks to financial stability and on the basis of a decision by mutual agreement of the EFSF/ESM Member States, to avoid contagion."



Note: Ultimate risk basis except Germany

Source: BIS, Q3 2010



Source: Bloomberg

fundamentals

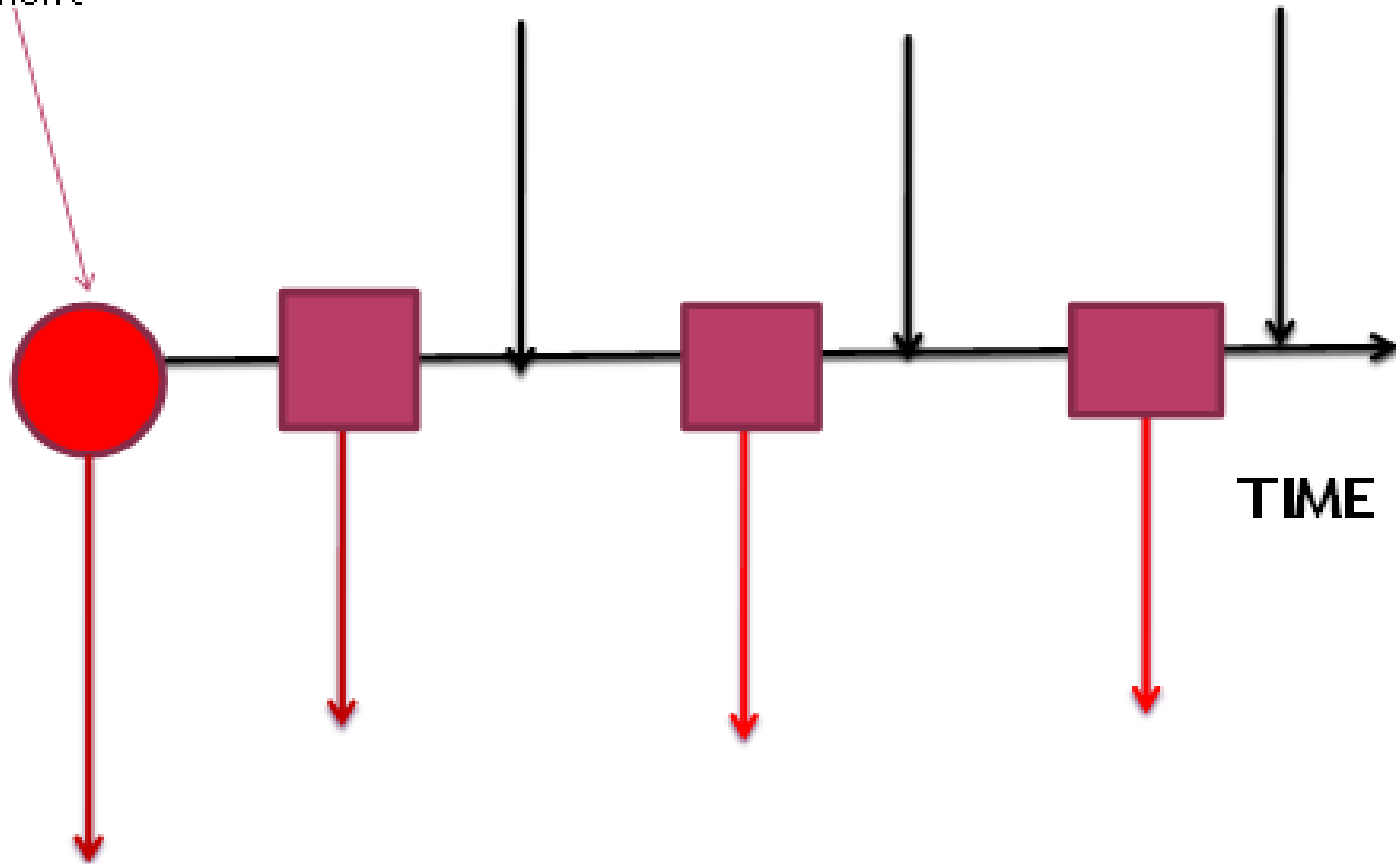
Integrating the real and financial sectors



BANKS REFINANCE THE TIME GAP BETWEEN CASH INFLOWS AND OUTFLOWS

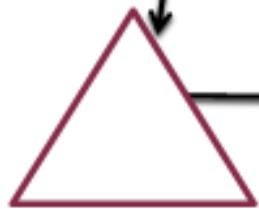
Initial investment

Cash inflows



Cash outflows

INITIAL INVESTMENT AND OPERATIONS OVER TIME EXPECTED TO GENERATE NET CASH FLOWS IN THE FUTURE



BUSINESS

BANK
LOAN

REPAYMENT OF
PRINCIPAL
PLUS INTEREST

TIME

BUSINESS BORROWS
FROM
BANKS

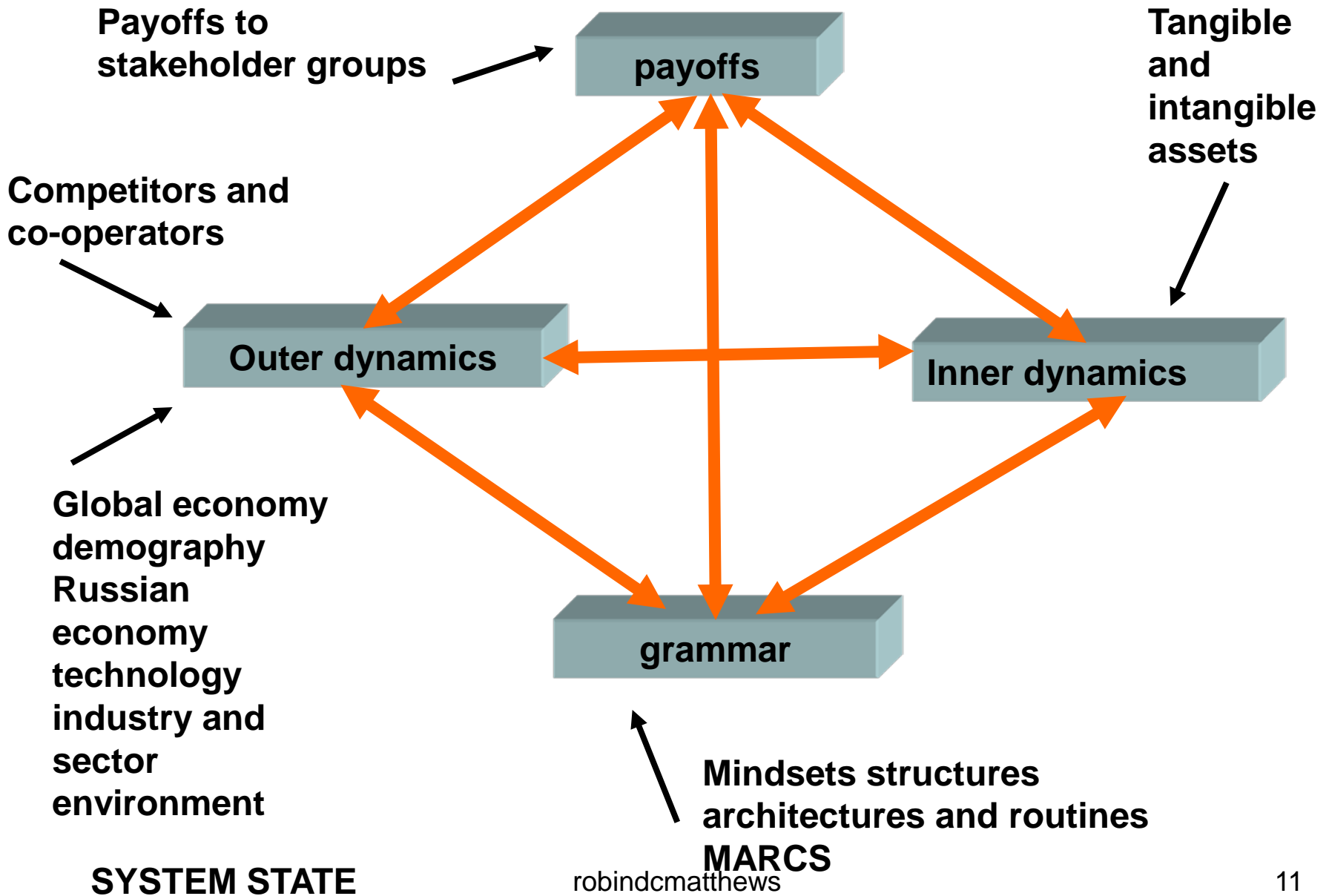
BANK LOANS SECURITIZED AGAINST
EXPECTED NET CASH FLOWS AND
ASSETS OF THE BUSINESS

System states

Trajectories

System states and trajectory

- **The system state of an organization is a description (always incomplete) of *where it is now* (at this moment in time). The complete description consists of a specification of current inner and outer dynamics, payoffs and organizational grammar (orgrammar)**
- **The trajectory of an organization is its path over time: it is the series of system states over time.**



SYSTEM STATE

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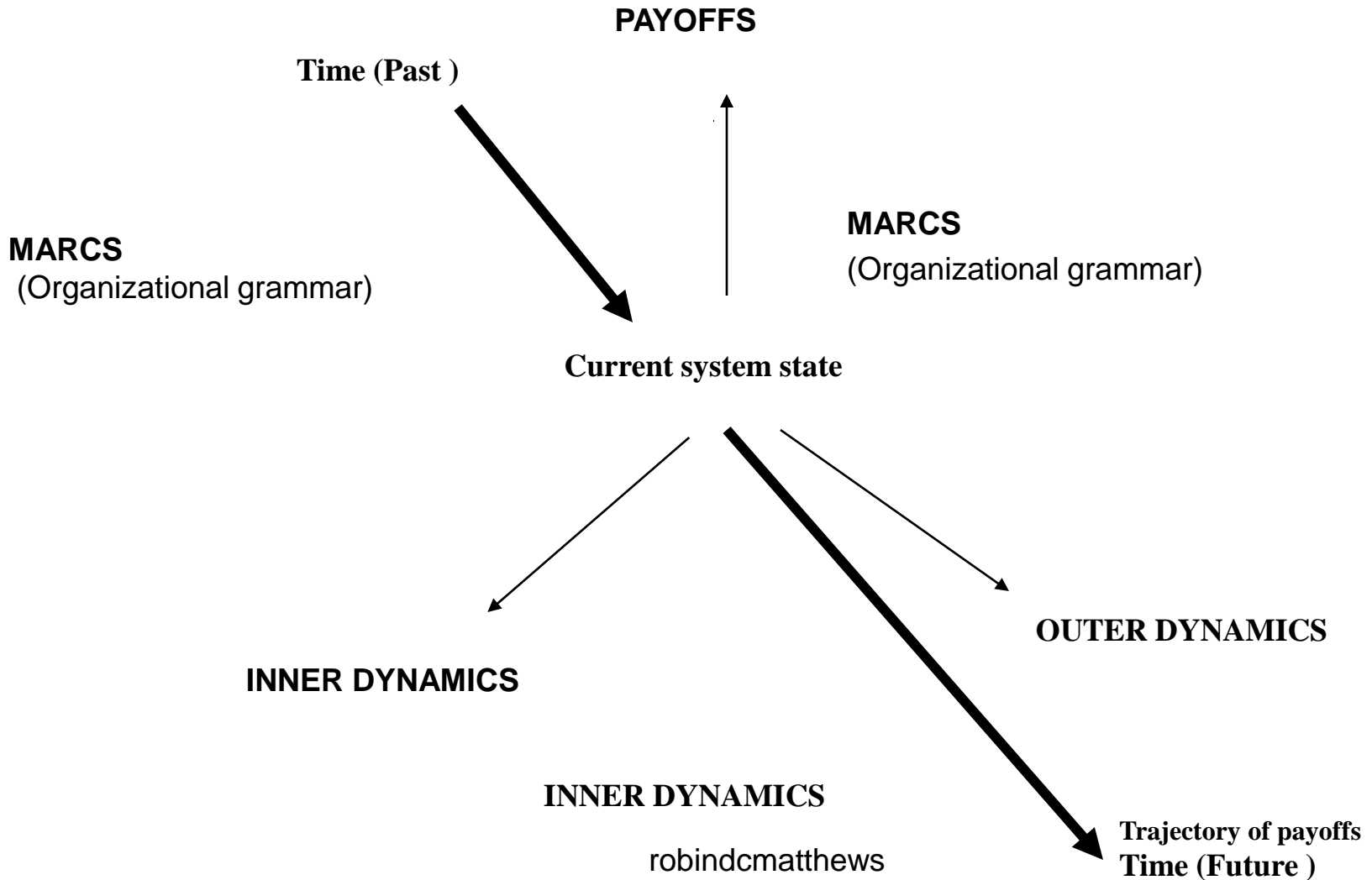
payoffs

GRAMMAR

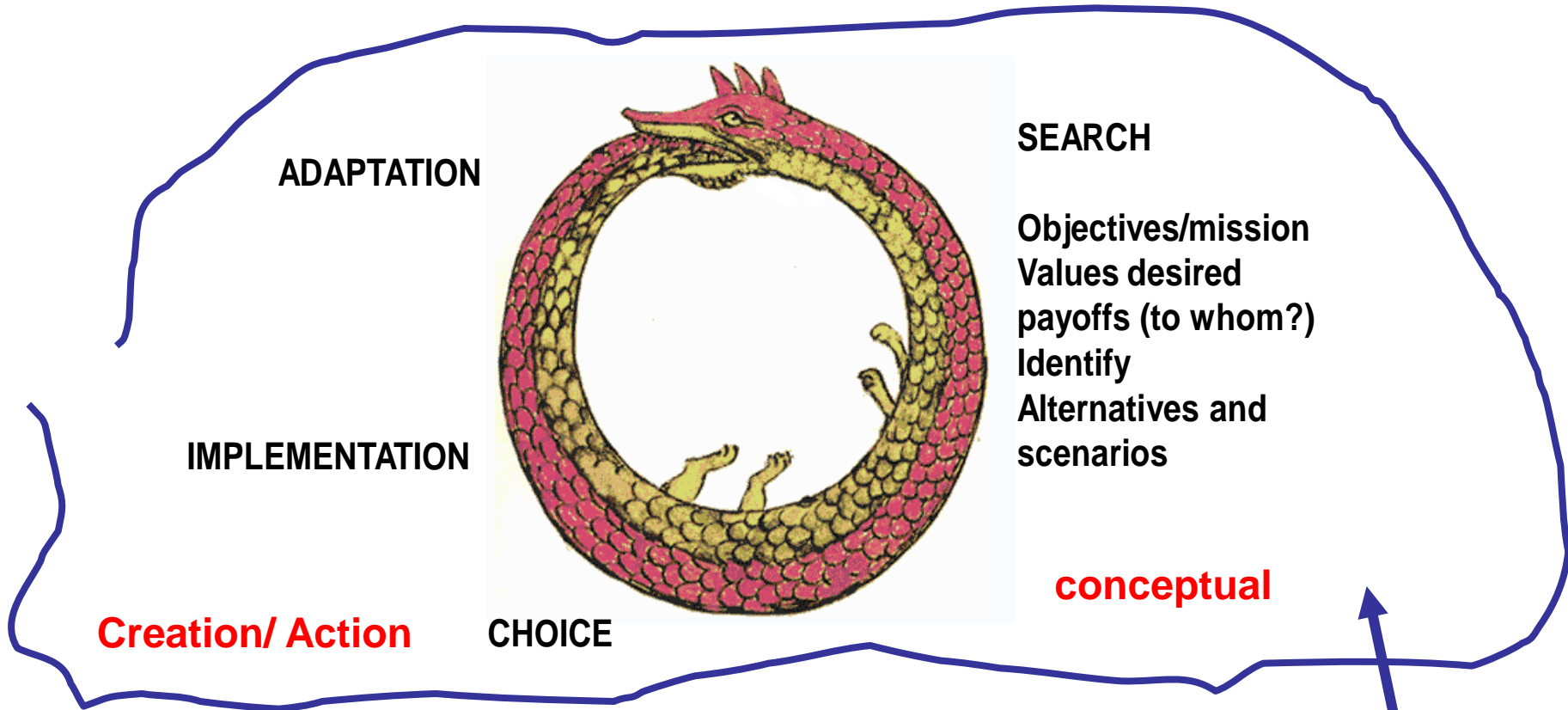
**Outer
dynamics**

**Inner
dynamics**

Trajectory: system states over time



Strategy over time



The Ourobus:

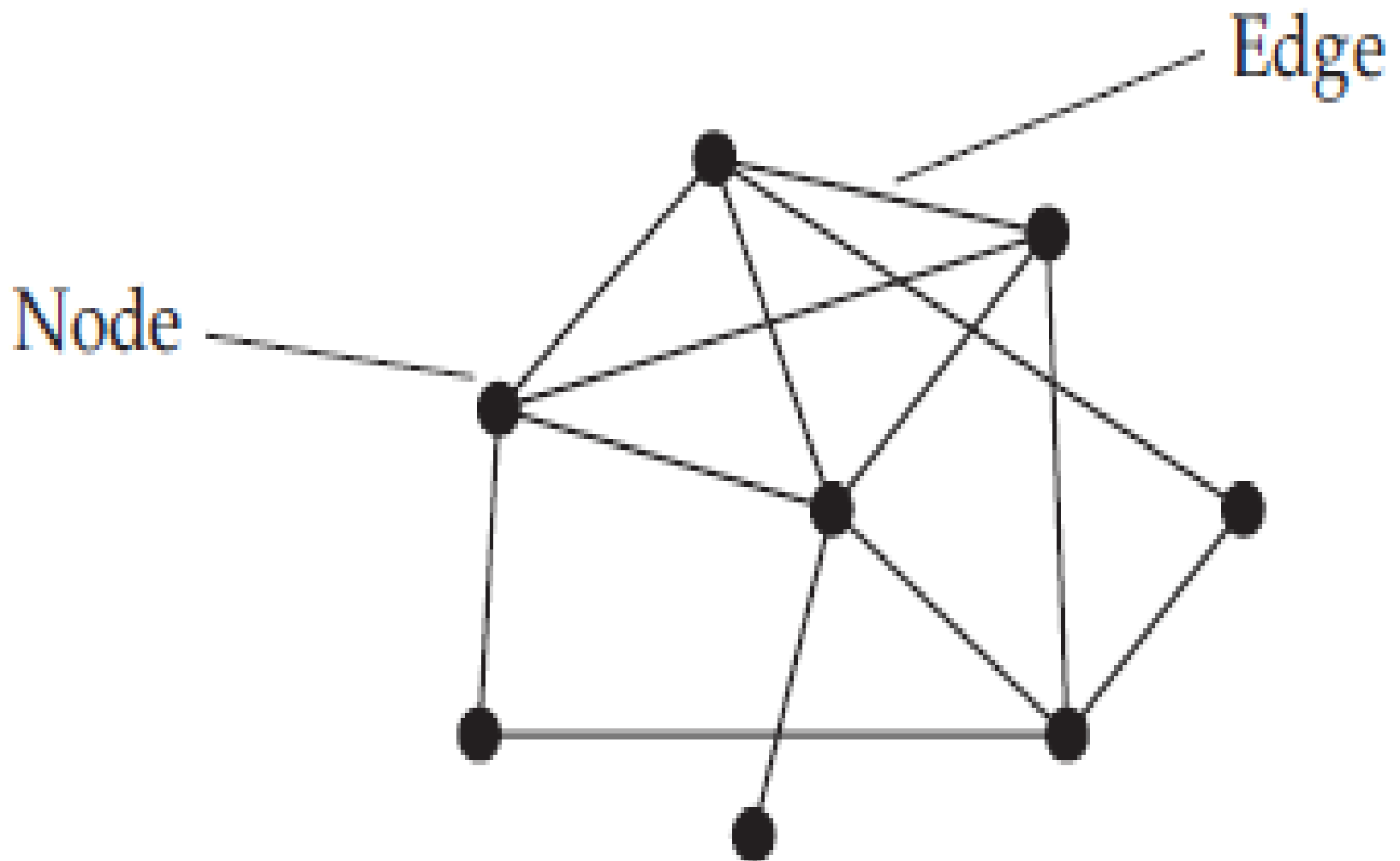
From an Image drawn in 1478 by Theodoros Pelecanos in an alchemical tract entitled *Synosius*.
Reproduced from a Wikipedia entry. And In the public domain.

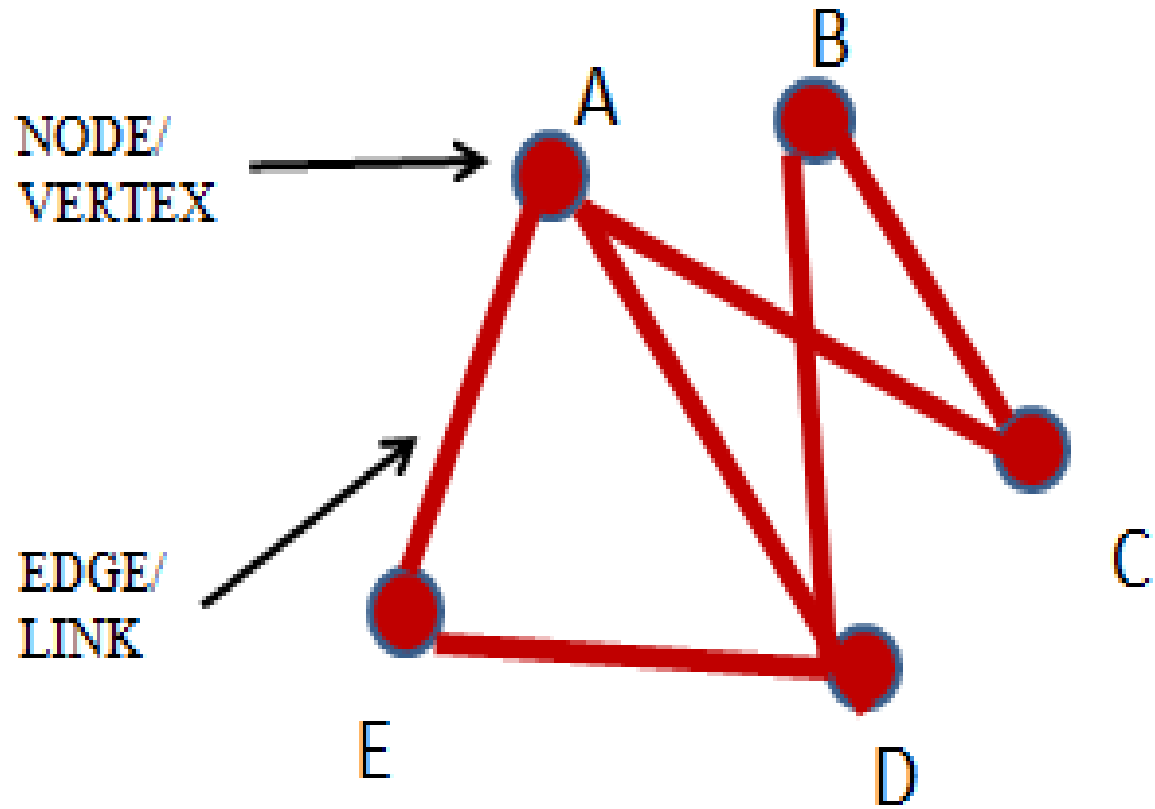
**The strategic process is embedded in
organizational grammar**

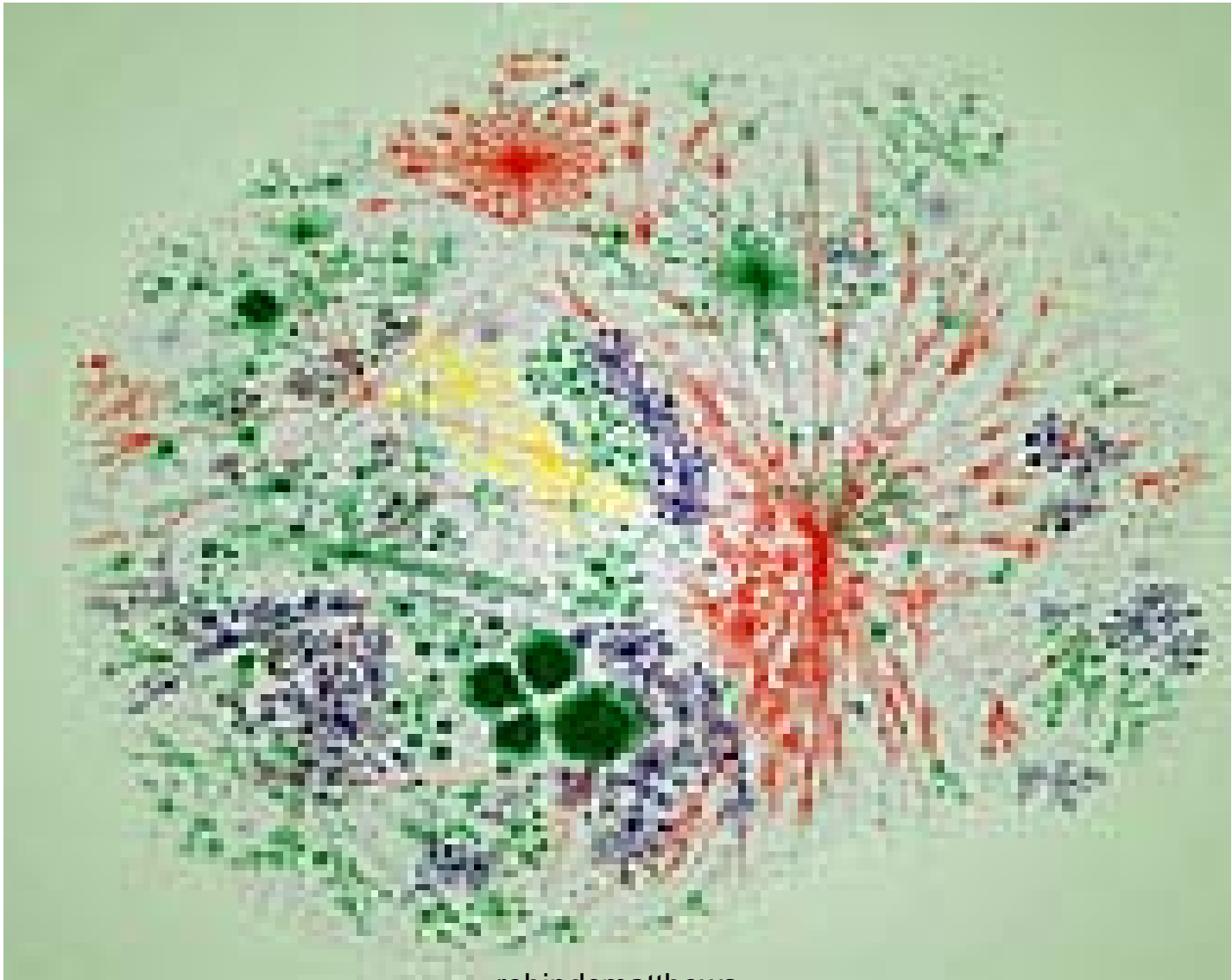
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networks

Synergies and feedback







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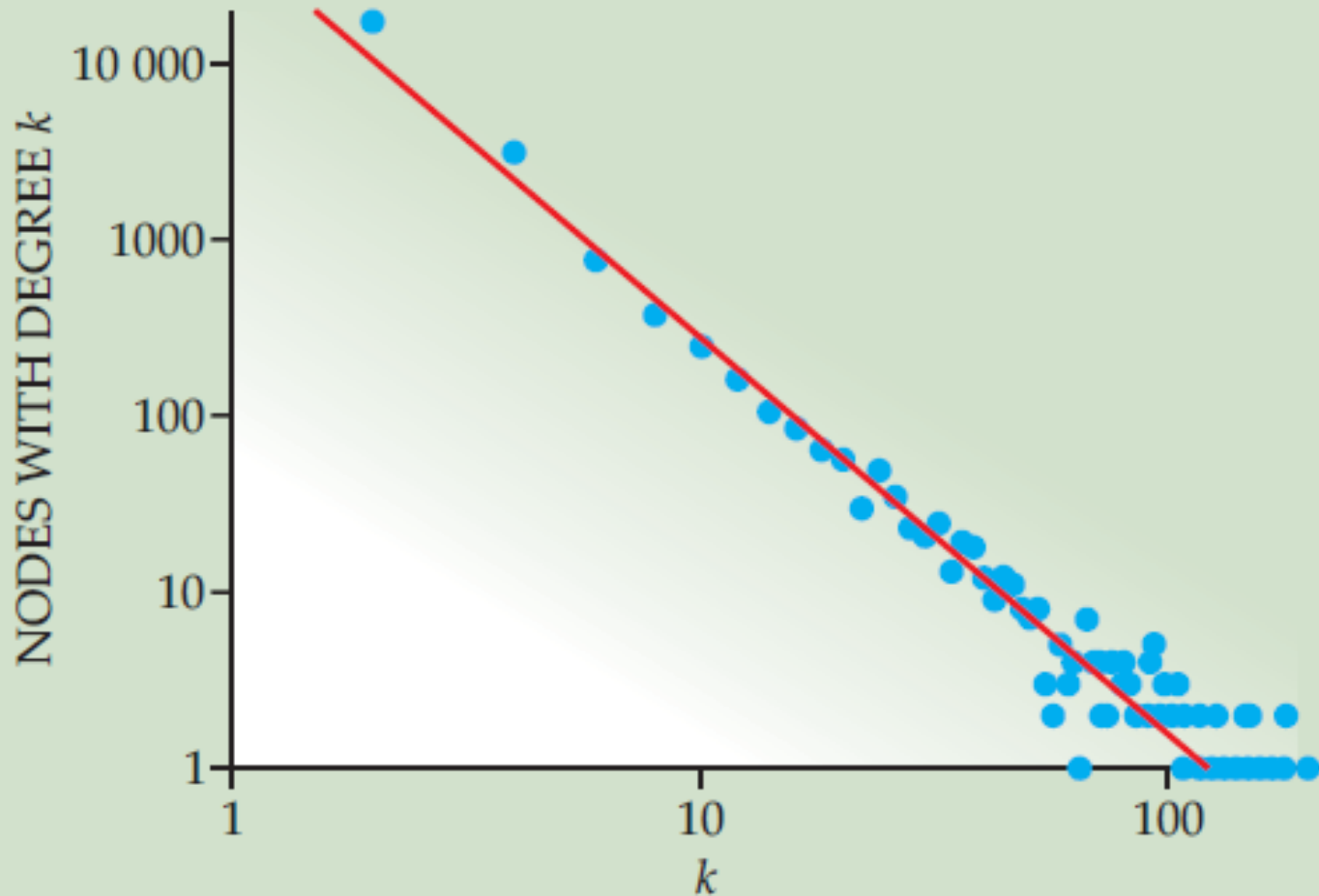


Figure 2. The distribution of the degrees of nodes on the internet. As indicated, the distribution roughly follows a straight line on a logarithmic plot; that is, it obeys a power law.

Networks: default state

Small world: highly clustered, short path lengths

- Degree of a node is the number of edges (k) connecting it to other nodes.
- High degree nodes have many connections (high k); low degree nodes have few (low k)
- $P(k)$ probability of degree k follows a power law
- $P(k) \sim z k^{-\alpha}$.

$$P(k) \sim z k^{-\alpha}$$

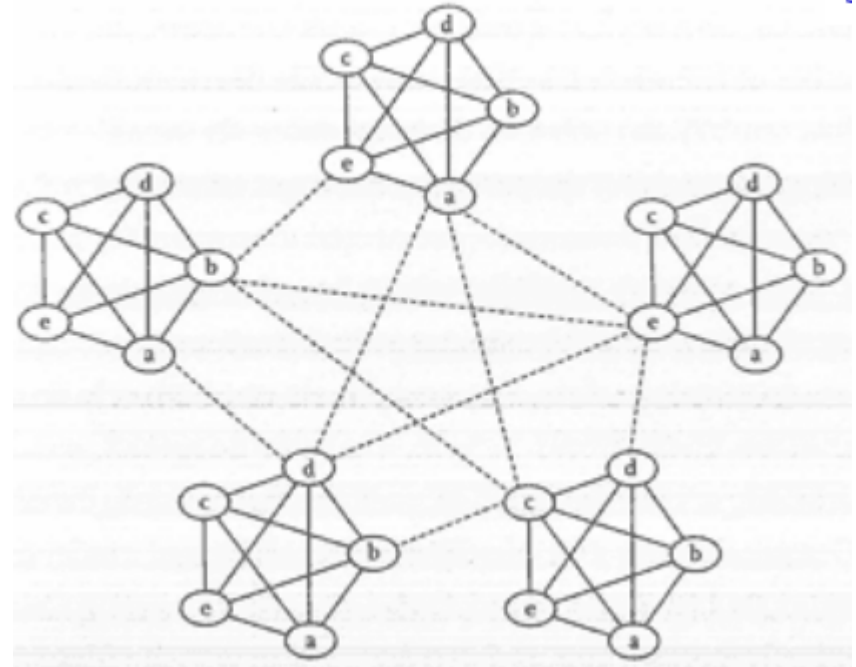
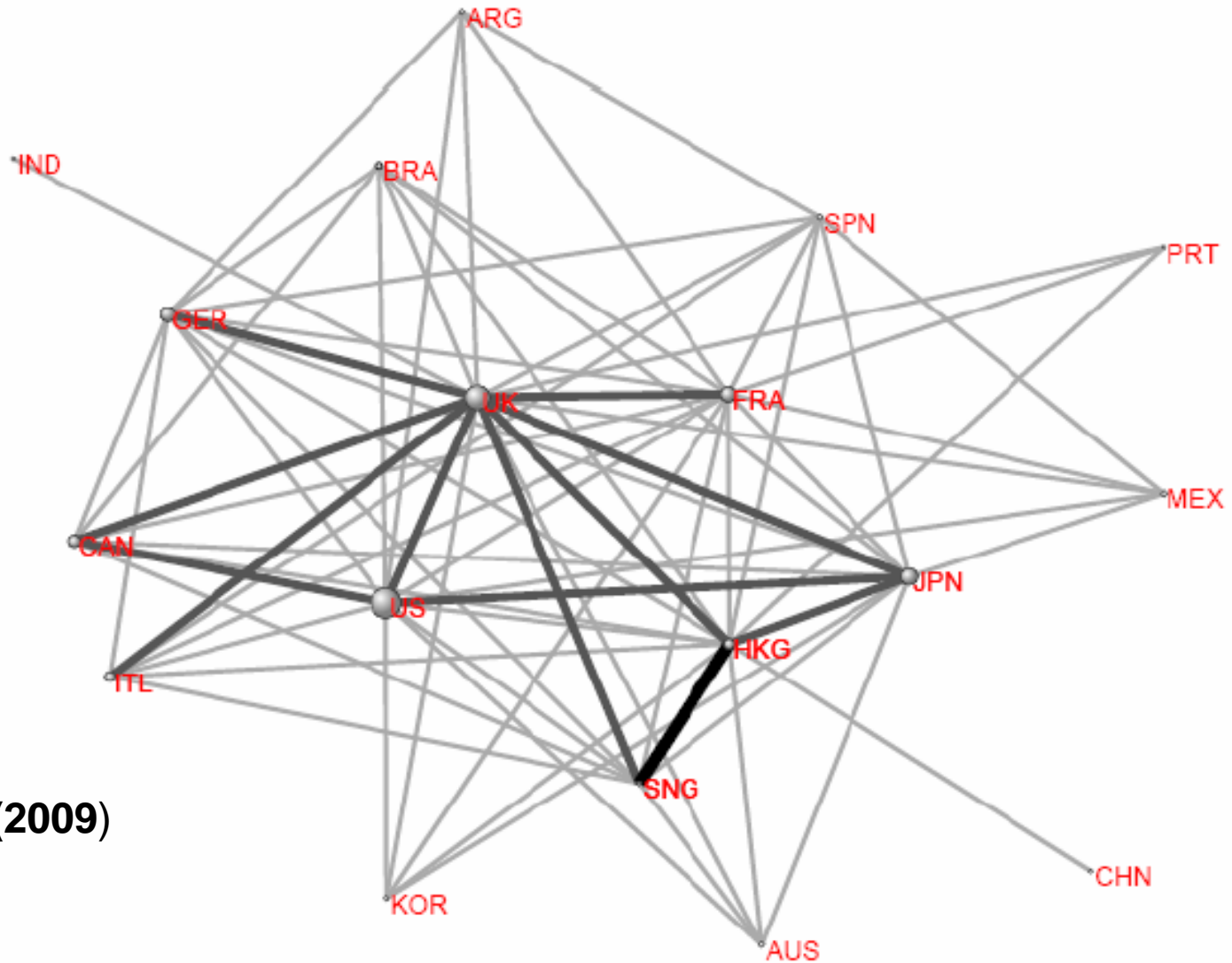


Chart 1: Global Financial Network: 1985

1985

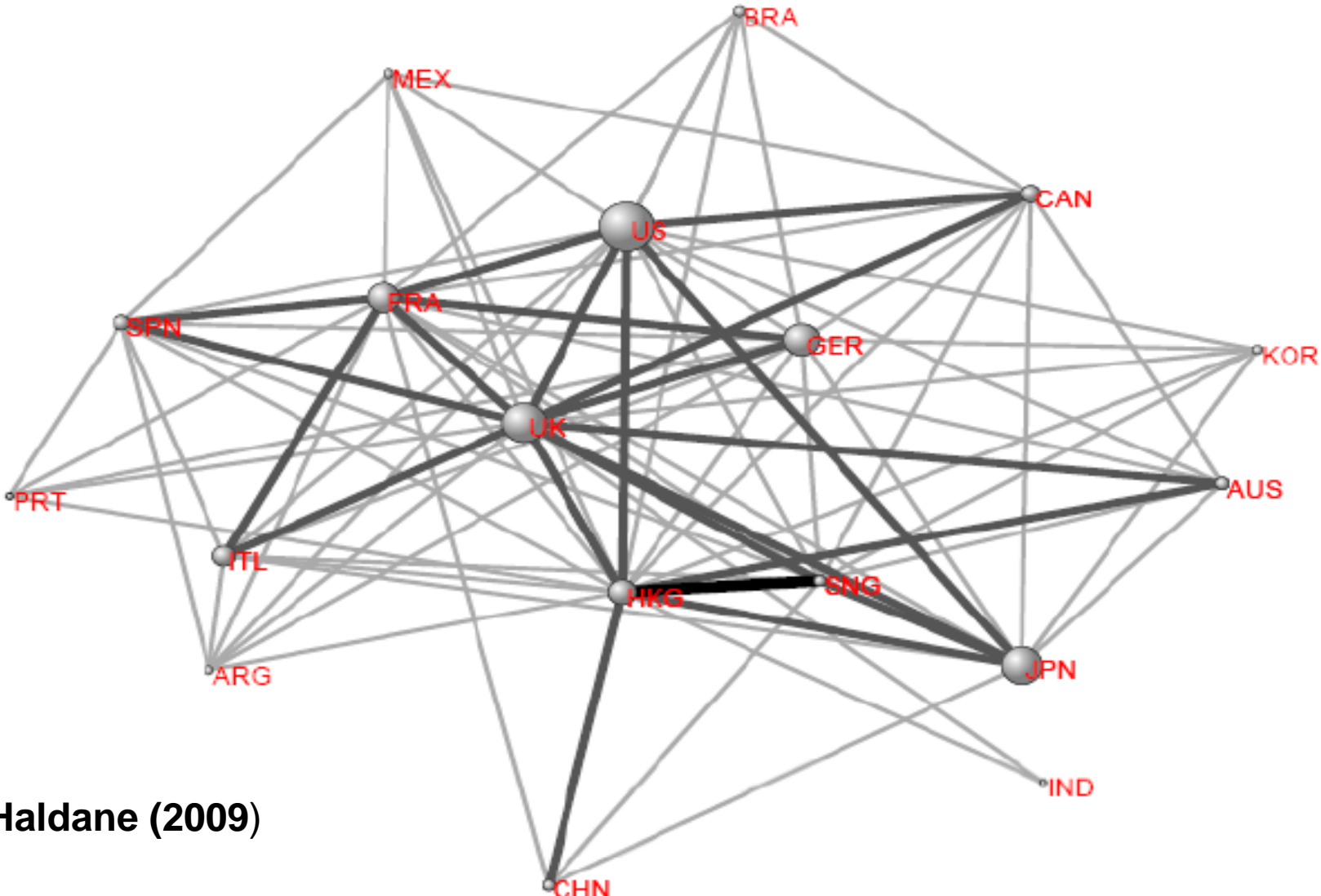


Haldane (2009)



Chart 2: Global Financial Network: 1995

1995



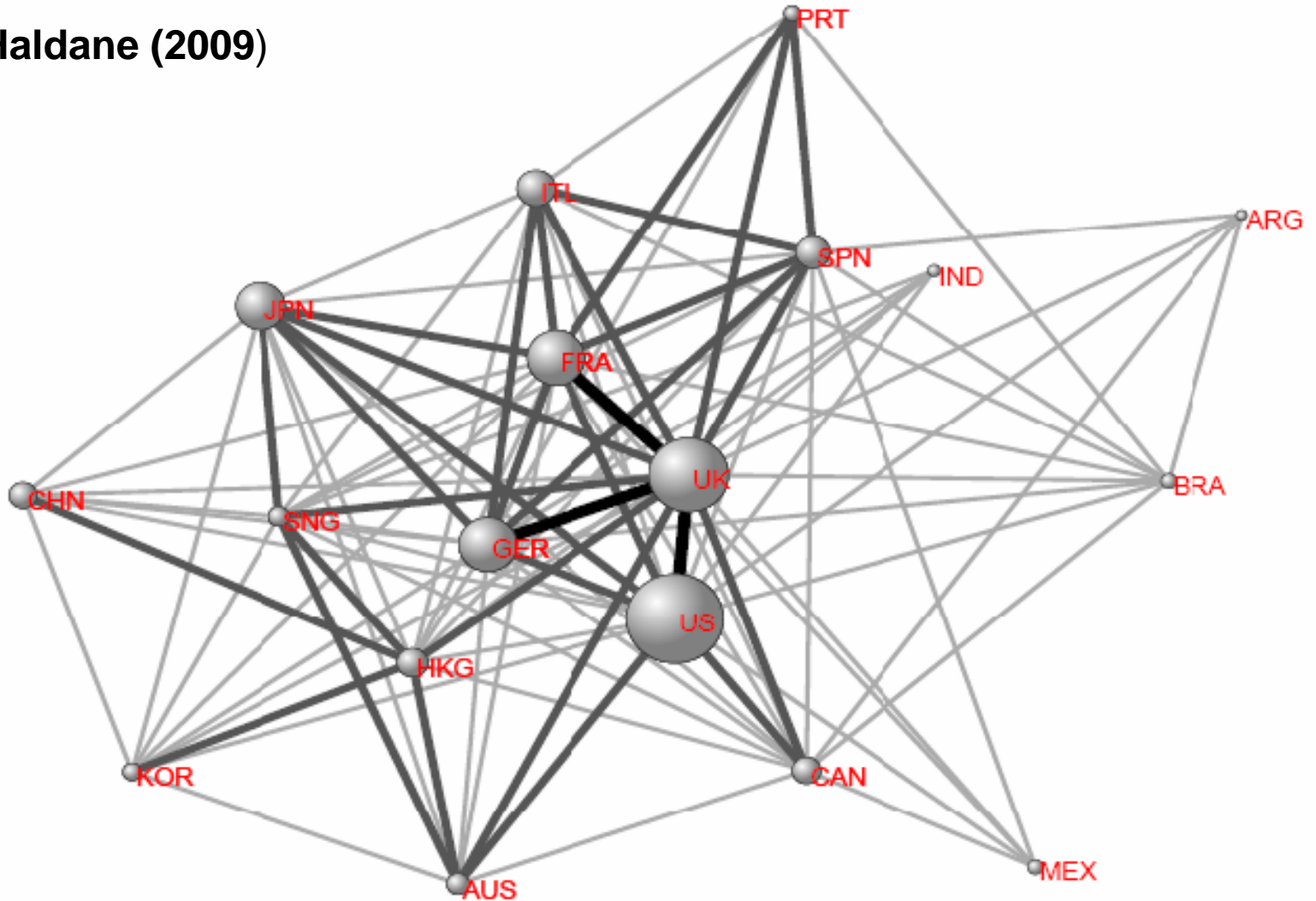
Haldane (2009)

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Chart 3: Global Financial Network: 2005

2005

Haldane (2009)



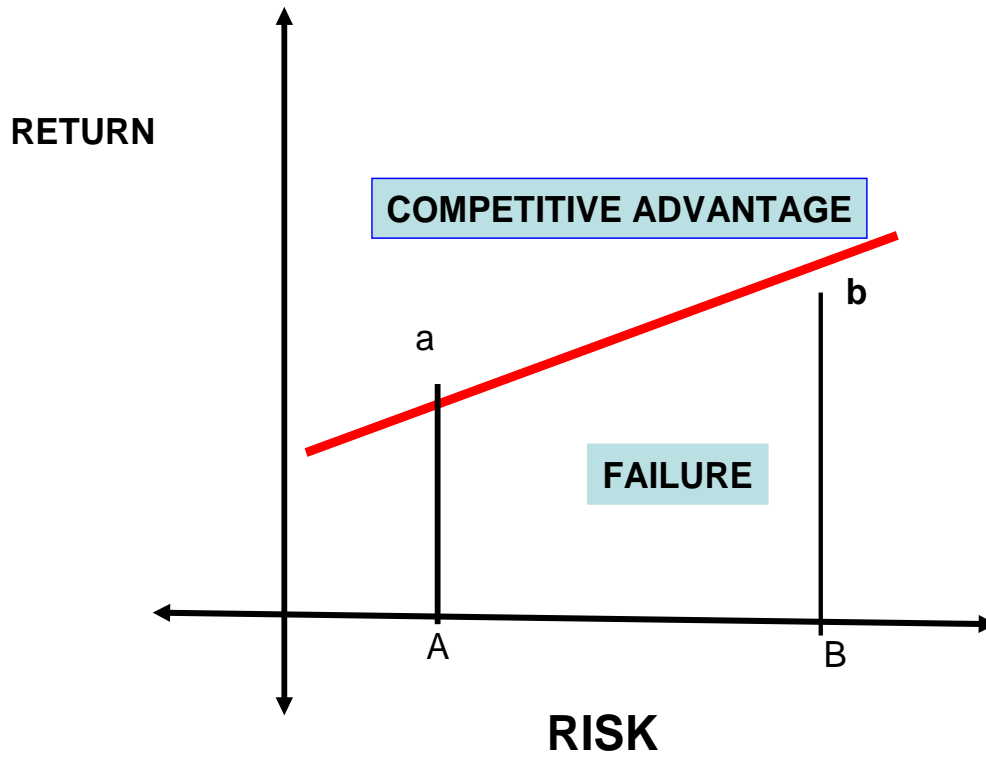
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Competitive advantage

Red queens

Competitive advantage



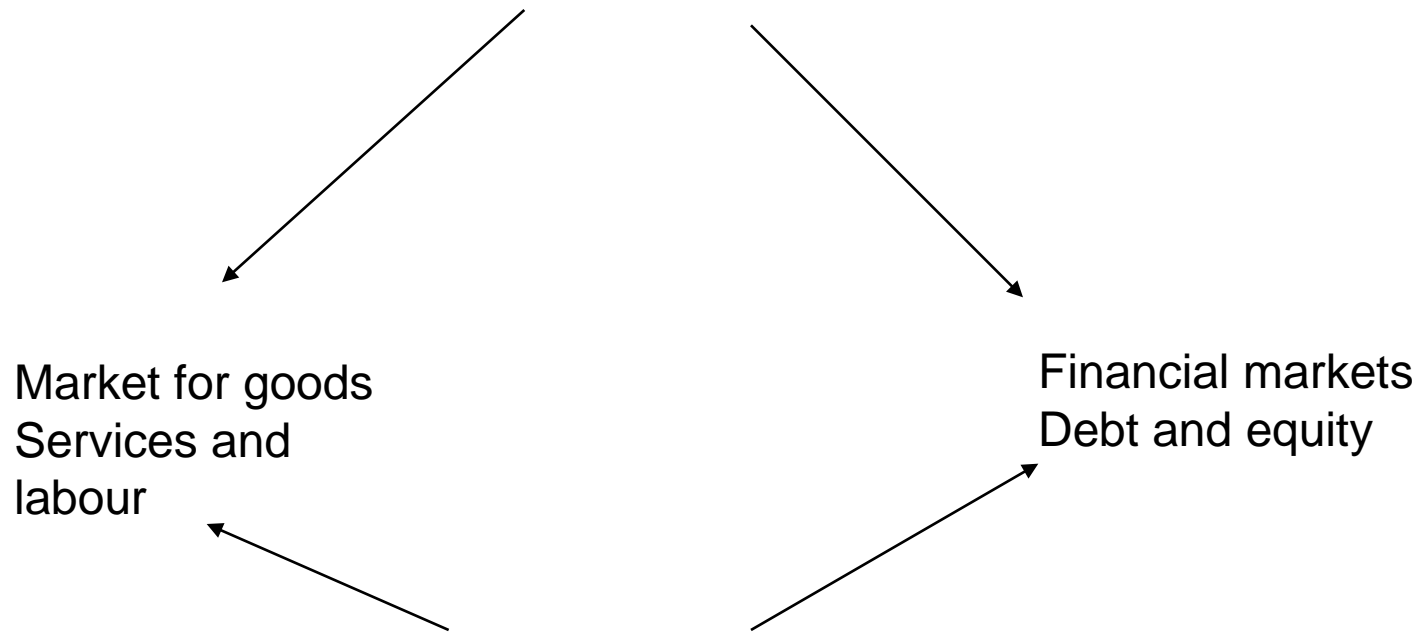
Competitive advantage

The USA/Anglo Saxon business model

The dominant paradigm 1980 - 2008

- Competitive advantage:
 - a return above normal to the company or organization.
- Measured by:
 - profits above average for the sector or industry
 - Above average share price growth
 - Above average **PAYOFFS** returns to stakeholders generally

Schumpeterian Capitalism

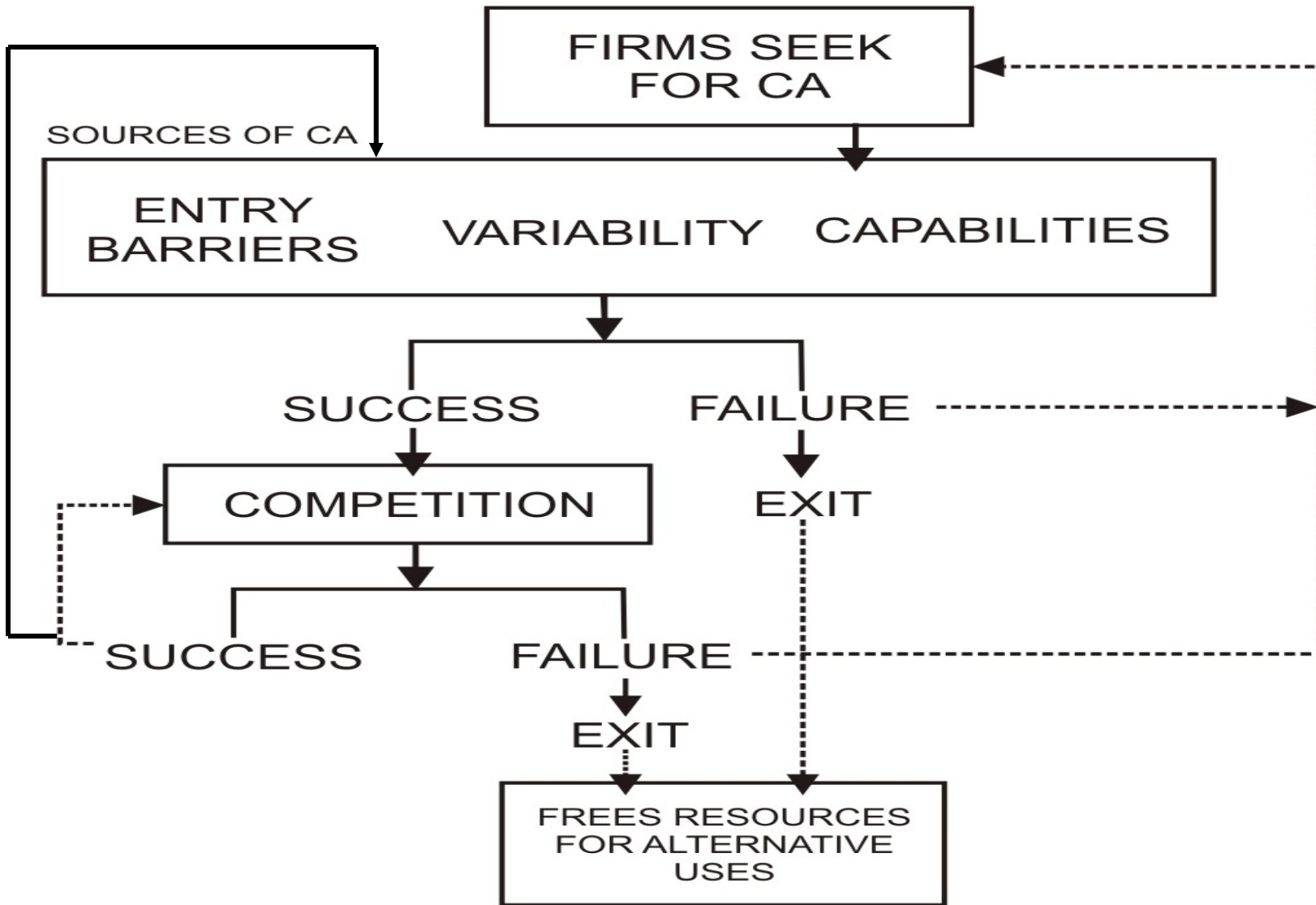


Market for goods
Services and
labour

Financial markets
Debt and equity

In both private property rights are exchanged subject to contractual arrangements and other aspects of grammar

COMPETITIVE DYNAMIC



commodification

Red queens in the new economy

Roots of the great recession

It always happens again