EDITORIAL

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I am very pleased to introduce the first issue of 2018 of the *Journal of Financial Management, Markets and Institutions*. This is the first issue published by World Scientific Publishing Company (WSPC). This is an important milestone for the journal as it signals a number of new aims to develop the international dimension of the JFMMI and its scientific impact. With the invaluable support of editorial team and inspired by the new guidelines of the journal, the number of submissions to the JFMMI and the citations of the articles published are increasing rapidly. The work ahead is still considerable but the results so far look very promising and are encouraging. This transition would have not been possible without the great and generous effort of many colleagues and, in particular, of Francesca Arnaboldi, Vincenzo Capizzi and Paolo Mottura. I believe that this joint effort would be even more fruitful in the future and will permit the JFMMI to widen its impact and to be included in a larger number of indexing references.

The first issue of 2018 includes five articles on a variety of relevant topics. The first one is entitled “Reward Culture and Banks’ Performance during the 2008 Financial Crisis” (by Hazel Nguyen). This paper analyses the relationship between banks’ ‘reward culture’ and banks’ performance and risk during the 2007–2008 financial crisis. The article explores various dimensions of the incentive structure and the performance culture within the banking firm during the last financial crisis. In particular, it deals with the incentives of the Chief Executive Officers and other members of the senior staff and with the incentives of employees. The main result and contribution of this study is the evidence of a nonlinear relationship between reward culture and bank returns and risk. The findings permit classifying banks into high, average, and low reward culture groups in the pre-crisis year and to analyse the ex-post performance of those incentives (during the crisis). Banks classified as those with a high or low reward cultures are shown to perform worse and to be riskier than banks within the average reward culture group. The implications of these results provide material evidence on the recent criticism about the impact of failed incentive structures on moral hazard in the banking industry.

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The second contribution to this issue is also related to the post-crisis structure of the financial system as it explores the risk and performance features of one of the increasingly relevant participants in the market. With the title “Hedge Funds: Risk and Performance” (by Sangheon Shin, Jan Smolarski and Soydemir Gökçe), the authors undertake and comprehensive analysis of hedge fund exposure to risk factors. Specifically, the article examines the time-varying performance of hedge funds. The empirical model extracts from various well-know specifications the best six factors for each hedge fund portfolio by investment strategy. In a second stage, the empirical results show the variance in performance of each hedge fund portfolio based on investment strategy. The findings suggest that incorporating a time-varying factor exposure feature would be the best way to measure hedge fund performance. They also show how hedge funds are sensitive to risk factors according to market conditions.

The third contribution also covers risk management but in the case of banks and, specifically the case of dynamic provisioning. Using detailed data from the Spanish experience of counter-cyclical provisions, the article “Do Banks Game On Dynamic Provisioning? (Santiago Carbo-Valverde and Francisco Rodriguez-Fernandez) examine the degree to which these “dynamic” provisions have achieved some of their key objectives in reducing cyclicity of bank lending. The authors analyse the effects of loan growth on managerial discretion and, ultimately, on the effectiveness of dynamic provisions before and during the crisis. The findings suggest that the Spanish counter-cyclical provisioning scheme has been reasonably effective in restricting capital management and reducing the procyclicality of loan-loss provisions but has also allowed banks to game on them by assuming higher ex-ante risk. A dual regime is also identified whereby a threshold estimated at 4% of quarterly loan growth before the crisis could trigger non-performing loans during the crisis. The results also suggest that income smoothing, profit signalling and the gaming on loan-loss provisioning are significantly larger in banks showing the higher loan growth rates before the crisis.

In “Leverage, cost of capital and bank valuation”, the authors (Daniele Previtali, Stefano Caselli and Federico Beltrame) try to shed some light to one of the most controversial questions in the banking industry nowadays: how does the cost of capital affect the valuation of banks? They present a model that captures the effect of debt on cost of capital and value in the case of banking firms. The model is based on a static partial equilibrium setting, both in a steady state and steady growth scenario. The theoretical framework presented by the authors proves helpful to address bank debt benefits valuation and to reconcile equity and asset side approaches. It permits to derive a bank-specific valuation metric which separately attributes value to assets and debt cash flows in the form of a liquidity premium and tax-shield. The model is applied to 26 large European banks and the main finding is that the value contribution of debt benefits to enterprise value is large and persistent.

The last contribution to this issue is “Does Post-IPO M&A Activity affect firms’ profitability and survival?” (Matteo Bonaventura, Stefano Bonini, Vincenzo

Capizzi, Giancarlo Giudici). The article examines the operating performance and the survival rate of a treatment sample of 715 US IPO firms conducting at least one acquisition in the first years following the listing in the period 1986–2008. It also compared the operating profitability of acquiring IPO firms to the performance of a control sample of both matching non-acquiring companies and already listed acquiring companies. In a second stage, it also investigates whether changes in operating performance are due to IPO and/or firm characteristics or are due to the acquisition strategies. Finally, they study the impact of M&A on post-IPO survival of our treatment sample of newly listed companies. The main findings suggest that, contrary to empirical evidence based on stock returns, post-IPO acquirers experience better operating performance compared to their non-acquiring peers. In the case of acquiring IPO firms, they are not found to experience significant changes in operating performance after the IPO compared to industry medians. The findings also suggest that IPO companies are characterized by lower survival rates compared to their non-acquiring peers.

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