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The scientific journal was founded in order to spread and intensify the scientific activities of the International Association dell'ARETHUSE (Association des Rencontres Économiques Thématiques des Universités du Sud de l'Europe) since 1985 allows scientists and managers to identify areas of research, sometimes interdisciplinary, which are the most appropriate in defining the interpretative models of the changing economic environments. During the annual meetings, which are repeated on a regular basis for over twenty five years, and associated academic institutions they represent are compared to the need to develop theoretical models and cultural through a more intensive research that is capable of enhance not only theoretical knowledge but also the skills available in the area (business, markets, institutions).

Although resulting from scientific and cultural association, the magazine is aimed at all those who wish to compare and improve their knowledge of economic and managerial issues related to various economic actors operating in the territories of southern Europe. In view of this, the magazine aims to provide valuable contributions to the cultural and scientific update of those who intend to deal with, both in academia and in the operational areas of business and territories, the socio-economic development of the countries of the South.

The journal accepts only original articles. All essays, even those presented by the thematic numbers shall be submitted to two anonymous referees for acceptance for publication; in case of discrepancy between the two evaluations is provided the use of a third referee. The editorial guidelines for items are specified in detail in the magazine's website (download PDF).

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From ubiquity into oblivion: Valencian banks as casualties of the multinational banks in Spain

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Abstract

The economy of the Valencia region (Comunidad Valenciana) in Spain has suffered the consequences of Spanish and Valencian corruption in its banking and government policies. The scandalous/outrageous and dangerous 26% unemployment rate nationwide has reached almost 30% in the Valencia region. From a regional perspective, there have been historical tensions between centre and periphery, seen with the Franco regime (1939–1975) that reaffirmed the pre-eminence of private commercial banks and handicapped traditional savings banks, implementing a practice from the 1920s called the principle of territoriality. Until 1974 the savings banks or 'cajas' remained outside the Spanish clearinghouse system until Fuentes Quintana's Reform (1977) that brought a competitive environment for savings and private banks, resulting in their convergence. Savings banks raised their share of total national deposits from 35 to 45 percent and after 2009 large conglomerates were created, but in the Valencia region this did not take place until 2011 when 'cajas' transferred their banking business to commercial banks. Banco Valencia, the sixth largest commercial bank in Spain, founded in 1900 and the largest regional savings bank from each of the three Valencian Community provinces (Castellón, Valencia and Alicante) vanished completely at the beginning of the 21st century. Now, all large-scale credit operations are no longer decided in the region, but rather in Madrid, Barcelona or elsewhere, leaving out regional developers from decisions that are now handled by larger national conglomerates. At the time of writing of this paper is being, many events and answers to these questions still lie with the court room; meanwhile, there is no regional financial entity of critical mass left in the Valencian Community. At the end of the paper we analyse the effects of the financial-system crisis on small and medium enterprises (SME or PYMES) in the Valencian Community from 1995-2012.

JEL classification: E5, G2, G3, O1

Keywords

Spanish banking sector, economic regional development, savings banks, financial crisis, mergers and acquisitions, M&A, SME, Valencian Community, regional economics.

1. Introduction: the economy of Valencia region (comunidad valenciana) in the Spanish financial and economic context

In a competitive market, some firms will be denied financing if their risk profile far exceeds the willingness of investors to supply funds at a given rate. Specifically, a financing gap is said to exist if firms that merit financing cannot obtain it in financial markets due to the existence of market imperfections, and that might be the situation of Spain. Comparing different regions, the type of financing available to innovative SMEs (Small and Medium-sized Enterprises) in a country is also influenced by economic growth, progress with reforms of the financial sector, access to international capital markets, monetary and fiscal policies, etc. Traditionally, theories of economic growth remark the increasing role of the credit system for their contribution to funding economic development activities. In the field of regional economics, the banking system determine the spatial distribution of credit and the development of the territories in which they operate.

European Central Bank (ECB or *BCE in Spanish*) and the European Commission pointed that the degree of integration and competition of wholesale banking activities has been increasing progressively. However, in retail banking services, where banks' customers are mainly households or small firms, the markets were more fragmented. This lack of integration is due to the existence of (mainly regulatory and institutional) obstacles or barriers that protect national markets from outside competition and other important complex and cultural factors. Corvoisier and Gropp (2002) have shown that in the principal European countries, and for some banking products, there was monopolistic competition in the 1990s, and that the hypothesis of monopoly can not be rejected in banks that acted in small markets.

Valencia region or *Comunidad Valenciana* (Valencian Community) is a relevant economic region in Spain whose economy is based in clusters and industrial districts of SMEs, and development is function of regional and local factors as well as the banking policy implemented at national level by the Spanish government, and the agreements adopted from the European Union government(s) recently. SMEs face the consequences of Spanish and Valencian corruption, banking and government policies both before and after the crisis. Another important factor has been the political situation with the big two parties PP (Republicans or Conservative Party) & PSOE (Democrats) in Spain: while in two other regions, Catalonia and the Basque country, perceived neglect by the central government fuelled regional separatism, in Valencia it fuelled a building spree.

A 2009 snapshot showed the president of Spain's Valencia region (PP, connected to PP governing Madrid region) cruising along in a \$200,000 Ferrari, after presiding over the Formula One European Grand Prix and the America's Cup yacht race. Valencia was dubbed the "California of Spain" for its gorgeous coastline, modern architecture and mind-set. Construction of upscale homes and resorts was booming, and four years later, Camps resigned as regional president in 2011 to defend himself against allegations that he accepted expensive suits as bribes. Dozens of other politicians and businessmen caught up

in a sweeping corruption investigation and Valencia ranks as Spain's most indebted region per capita — more than \$28 billion in the red (Frayer, 2013). So Valencia was put on the map in the wrong way this time.

Corruption remains the mean problem, even at the highest levels of Spanish government in Madrid. Investigators are looking into allegations that Prime Minister Mariano Rajoy received under-the-table cash payments for years. The central government is already juggling its own fiscal deficits, plus 26% unemployment nationwide. In Valencia region reaches almost 30%, and the legacy of the boom years is a changed urban skyline, and a pile of unpaid bills. Perhaps, the most prominent addition was the City of Arts and Sciences (CAC), a seven-building complex constructed in a dried riverbed that features a planetarium, Imax theatre, aquarium, opera house and interactive museums. A project broke ground in 1996 which eventually swelled to more than five times the original budget that figure, \$1.75 billion; said to be the anchor of Valencian tourism that ultimately took away from money available to put toward schools and other public services (Frayer, 2013).

Unemployment rate in Comunidad Valenciana

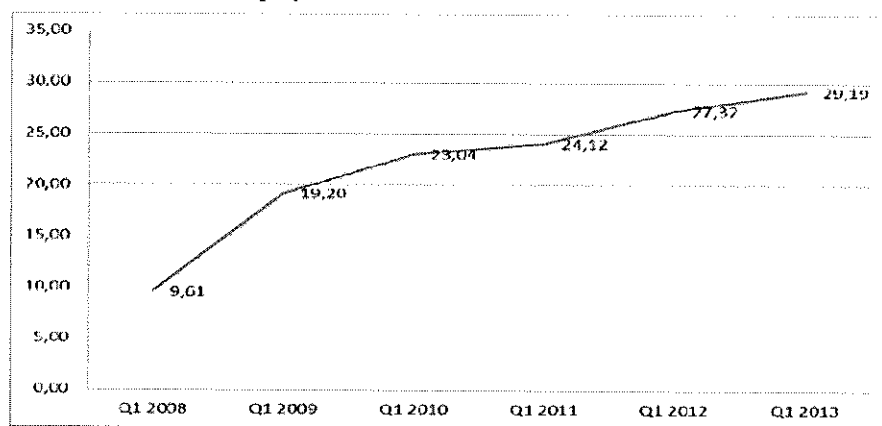


Figure 1. Source: EPA (Labour Force Survey)

<http://www.datosmacro.com/paro-epa/ccaa/valencia?sector=Tasa-de-paro&sc=EPA->

Diversity is the main feature that defines the Valencian Economy where the crop to export prevails with manufacturing industries that elaborate durable goods, some of them with an intensive use of labour, for the final consumption as shoes, toys, furniture, ceramic tiles, textile products, Ford automobile exports..., and a strong tertiary sector that is mainly related to commerce and tourism with an open exporting vocation. The port of Valencia handles 20% of Spain's exports and is the country's biggest port and in the Mediterranean for container traffic with export trade purpose. Extensive renovations have been completed with funding of the ECB (European Central Bank), and ambitious expansion projects were under way.

SMEs represent 99.9% of enterprises in Spain in 2013. SMEs generate 74.8% of employment which is 8.2 percentage points higher than in the EU-27 (European Union including European 27 countries) and, in addition, the bank loan represents 39% of its external financing (10 percentage points higher than in larger companies). Small and medium enterprises (SMEs) are facing major problems in accessing finance compared to larger companies. Improving SMEs access to bank credit is the main economic policy recovery strategy to implement according to the situation.

In the latest survey of the ECB on business access to finance referred to the situation of October 2013 to March 2014, Spanish companies go wrong stops in the context of the euro as the conditions of the bank financing relates. Spanish SMEs require special attention for two reasons: 1) because they constitute 99.9% of all enterprises; and 2) because they are highly dependent on bank financing. In particular, bank credit accounts for 40% of external financing. Consequently, any exit strategy from the crisis requires improving the conditions of the financing of SMEs.

The most recent data on the evolution of new credit from the ECB latest survey of access to funding, published in April 2014, shows an improvement in the availability of credit, although it remains well above the percentage of companies that have worsened reviewer conditions on the access to finance (increased interest rate, fees, guarantees, etc..) than the opposite view. Also future expectations of Spanish companies about the availability of bank financing has improved, but much more in the case of large companies than in SMEs which constitute the productive core of the Valencian reality.

2. Historical evolution of banking and financial scenario

2.1. Franco regime (1939–1975) reaffirmed the pre-eminence of private commercial banks

After the outbreak of the subprime mortgage crisis in the United States, Spain suffered the end of international expansion and growth, experiencing a loss in competitiveness. Being nowadays the fourth largest country in the euro area with a population of over 46.5 million, from a regional perspective, there have been historical tensions between centre and periphery. Regions, or regional economies, have always been in tension and also competing for budget and resources among themselves, and against the centralized traditional power based in Madrid (as nation's capital and power centre of the country) where international companies locate their headquarters.

Between 1900 and 1914 the Spanish banking sector experienced a sharp increase in its levels of activity. Some banks also observed increased efficiency and enhanced competitiveness. Assets of private commercial banks grew significantly due to both the repatriation of capital due to the colonial crisis and World War I, in which Spain remained neutral. These circumstances favoured the geographical expansion of the regional private commercial banks based in Madrid and the Basque Country (*País Vasco*, Northern region where heavy industry was always located) throughout Spain.

In 1921 the first banking law was enacted, and that year the *Consejo Superior Bancario* (CSB or High Banking Council) was established by private commercial banks. The role of the CSB was to co-ordinate the actions of private commercial banks as their economic power became more important. By the beginning of the Spanish Civil War (1936–1939), private commercial banks dominated financial markets, and were organised through the cartel that built around the CSB and supervised by the Ministry of Employment, Commerce and Industry.

Spanish political and economic history has shown historical tensions along different periods of time where more political power and autonomy were given to regions in democratic periods (during the 1st and 2nd Spanish Republic and beginning of Democracy) or the opposite. Less autonomy as happens recently with the crisis, when Madrid has retained control as capital of the central government (being the centre of political and economic power). Historically, Spanish government clearly displayed a preference for initial investment to come from the private sector. Spanish banking system structure was largely a throwback to the post-Civil War period of the Franco era (last dictatorship during the period 1939–1975), when Spanish private banks played a leading role in financing the development of heavy industry. As financial backers of the Nationalist cause, they had won Franco's confidence and gratitude, and they were given a relatively free hand during the reconstruction period.

With the adoption of an economic policy that emphasized self-sufficiency and barred foreign investment capital and banking competition, their role was strengthened. It has been estimated that, by 1965, the five leading private banks controlled over 50 percent of Spain's capital. In the second half of the 1980s Spain had about 100 private banks even if the Big Seven (*Banco Popular Español, Banco de Santander, Banesto, Banco de Bilbao, Banco de Vizcaya, Banco Central, and Banco Hispano Americano*) dominated the whole financial sector controlling approximately 80 percent of the country's banking resources. Beyond their industrial holdings, they also possessed extensive retail networks.

Banking has been said to be the last redoubt of Franco's economic autarchy. It is important to clarify that "Banco Central" that could be translated as "Central Bank" was a private entity using this name, a small commercial bank significantly different from the important concept associated with the Central Bank of a country, and in the case of Spain it is officially named *Banco de España* or Central Bank of Spain (BDE). In the new context of the European Union, the role of this BDE or central bank of the Spanish economy has changed significantly in the last years as explained in Jaime & Hernández-Carrión (2012).

European Commission report of the late 1980s indicated how to proceed in order to harmonize the costs of financial services in member states and mergers were undertaken with the government's encouragement in order to create large Spanish financial holdings that could adequately compete with their European rivals. Although an attempted merger of the *Banco de Bilbao* and *Banesto* fell through in 1987, in early 1988 a successful union took place between the *Banco de Bilbao* and the *Banco de Vizcaya* (both representing name of one province and its capital city in the Basque Country). This merger resulted in the creation of

Western Europe's thirty-second largest financial institution, the Banco Bilbao-Vizcaya. BSCH was formed as a result of the 1999 merger of Banco Santander (founded 1857) and Banco Central Hispano. Prior to this merger, Banco Santander had acquired Banco Banesto in 1994, and Banco Central had merged with Banco Hispano Americano in 1991.

Now we could find a more-efficient and more professionalized banking system which entities were growing or had been restructuring themselves for more than a decade, creating large banking conglomerates that we know of today, such as the BBVA (*Banco de Bilbao Vizcaya Argentaria*) (the merging result of the historical banks in Spain such as the Bank of Bilbao, Bank of Vizcaya, and also the Argentaria Group, which itself was the nationwide group of the industrial investment state banks such as the Bank of External Commerce -BEX-, Bank of local Credit -BC- and many others, also we found the best known BSCH (*Banco de Santander Central Hispano*), as well as the natural evolution from the original four big private entities: Bank of Santander, Central Bank, Banesto, and Hispano Bank.

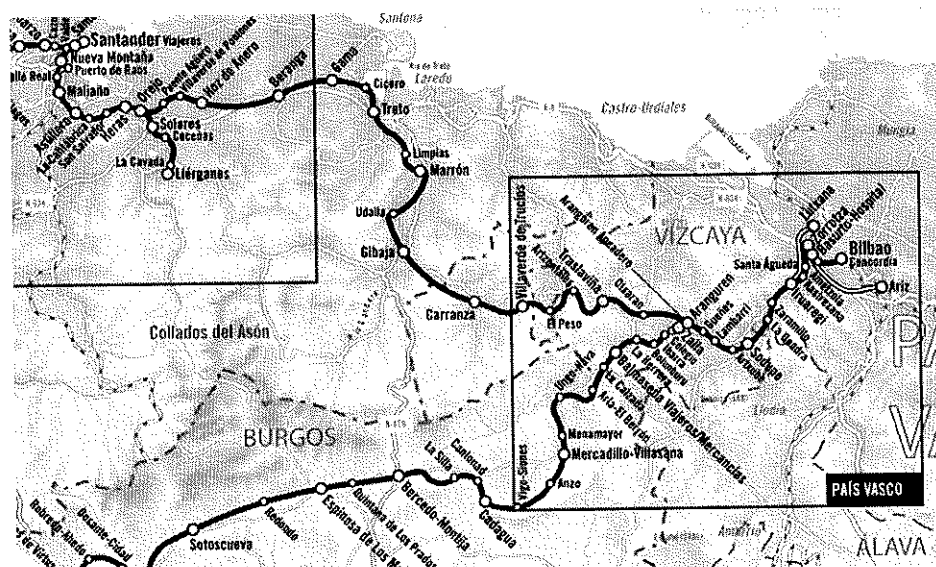


Figure 2. Source: Railway route Bilbao-Santander. Retrieved 30/05/2014 from: <http://www.vicjaentrenporeuropa.com/rutas-en-tren/espaa%3%B1a/10linea-feve-bilbao-santander/>.

2.2. Fuentes Quintana's reform (1977) brought a competitive environment for savings and private banks

In a parallel path, a regional banking system was working since, when at the Spanish town of Jerez de la Frontera -Cadiz, Spain-, in 1834, was funded the first Spanish *Savings Bank* or "*Caja*" following the "Sacred and royal impounding house of the souls of the purgatory of Madrid" model. Regulation introduced in 1835 was the first to authorise the

establishment of savings banks in Spain, allowing the establishment of independent non-profit-orientated institutions which had to be financed by own resources. Later on, after more than a century of existence, such structures started to evolve in the mid-nineteenth century to the actual German Sparkasse-model-like based entities, that is, a public banking system working as banks with local and regional interests and centred in a non-profit and regional compromised entities with large reinvestment and public service programs as we exposed extensively in Hernandez-Carrion & Ruiz-Hall (2014).

Their original commitment was only to lend small loans for specific personal purposes, not competing with larger and more professionalized banks for the business market and commercial loans to the large private sector investment groups. These entities were nominated Savings Banks (*Savings Bank or Caja, in Spanish, or Caixa, in Catalan language equivalent*) and were specialized in accepting savings deposits and granting loans. These changes ended up in the opening of their own regional enclosed interests in favour of a nationwide expansion that started mainly after 1992 with three entities ahead of the rest and representing the powerful regions in addition with the Northern powerful banks, the Madrid-based *Caja Madrid*, the Barcelona-based *Caixa Catalunya* and the Leon-based *Caja Castilla-León*, among many others.

Even if the Franco regime (1939–1975) reaffirmed the pre-eminence of private commercial banks within the Spanish financial system and introduced some regulation that handicapped traditional savings banks. Franco continued implementing a practice developed during the 1920s called the principle of territoriality, meaning that the business of each savings bank was restricted to its home province and was enacted into law in 1964. Until 1974 the savings banks remained outside the Spanish clearinghouse system having access to only a restricted business portfolio. Fuentes Quintana political Reform (1977), during the birth of democracy after Franco's death, brought a competitive environment for savings and private banks which started to converge.

The reform gave savings banks strong incentives to modernise their infrastructure and develop new products. In 1977, for example, the Bank of Spain authorised the first automated teller machine for the savings banks and by 1996, their combined network had 14,169 machines, the biggest network in Spain and the third largest in the world. This was the second major group in the banking system, consisted of savings banks, which predominated in rural areas that could not attract branches of the leading private banks. There were no real differences in products or goals between savings and commercial banks and by then, the credit mass had grown to a spectacular rate, nearly one hundred thousand new employees had been hired in new offices in all over Spain.

Since the late 1970s, savings banks have raised their share (45%) of total national deposits from 34 percent to 45 percent, a feat that was accomplished despite severe restrictions. In the mid-1980s, these restrictions were gradually being relaxed. For example, barriers that limited their operations to specific areas or regions were lifted in June 1988, and by 1992 they were to be free to open up branches anywhere in the country. In terms of deposits, the Barcelona-based *Caja de Pensiones para la Vejez y de*

Ahorros de Cataluna y Baleares, popularly known as *La Caixa*, was the country's largest savings bank. Another large savings bank was *La Caja de Madrid* or *Caja Madrid*, today part of *Bankia*.

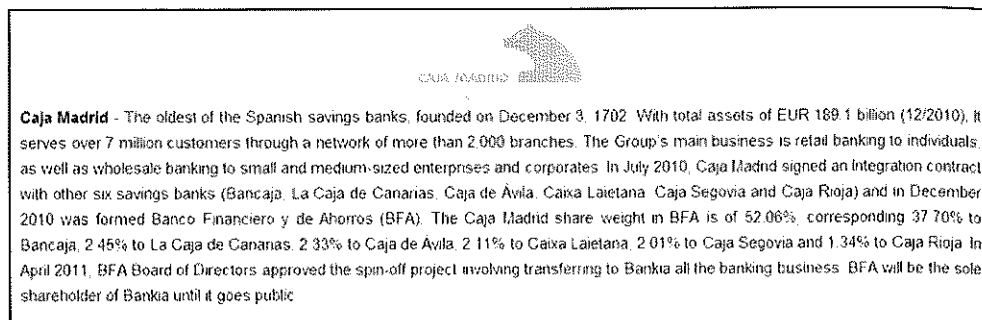


Figure 3. Source: Retrieved 30/05/2014 from: <http://www.relbanks.com/europe/spain/caja-madrid>

After the relevant restrictions were lifted, a large-scale merger process commenced among savings banks. A process that exponentially grew in recent years as a response to the crisis and in order to fight the serious situation of the financial and banking sector in the new context of globalization and European competition. Many savings banks were suffering from financial degradation and structural overreaching. Spanish banking and financial system evolution had its mean changes after 2009, when large conglomerates were created, but in Valencia region was not important until in 2011. Since 2011, most *Cajas* transferred their banking business to commercial banks and followed the new rules coming from the Spanish and European governments.

Assets, EUR bn 31/12/2011

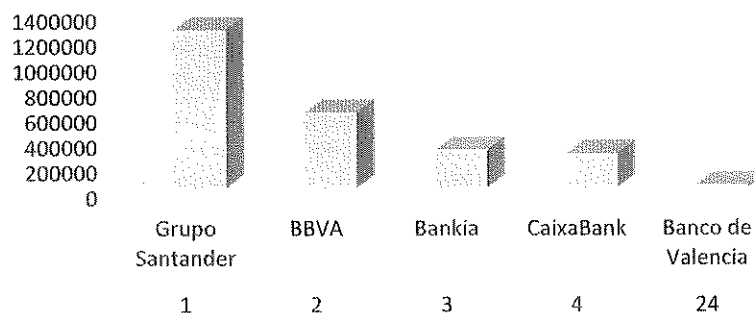


Figure 4. Source: Bluebird® Official Site. Retrieved 30/05/2014 from: <http://www.relbanks.com/rankings/largest-spanish-banks>

3. Spanish and European Union legislation, back to private commercial banks by constraints to savings banks

The country had undergone a remarkable transformation since the death of Dictator Francisco Franco in 1975, reaching a position of world's eighth largest economy in the year 2008. One of the key elements behind this process was his entry into the European Union in 1986 and the subsequent entry into the Euro currency area in 2000. After joining the Euro, interest rates declined sharply and Spain enjoyed an extraordinary housing boom of housing construction which came to an end shortly before the collapse of Lehman Brothers in 2008. While it lasted, thanks to abundant credit and low interest rates, Spain enjoyed a period of unprecedented growth (14 years sustained annual GDP growth above 3%), sustained primarily by a large increase in private debt growth.

After bubble burst, private and public sector plunged into a major debt crisis, the economy stagnated and unemployment soared reaching an unemployment level of 25.9% in 2014. According to last data, employment fell by 0.1% quarter-on-quarter in 2014 Q1, undoing the good figures from the previous quarter (+0.1% quarter-on-quarter) so the unemployment rate only increased by 0.2 percentage points to 25.9% due to a further reduction in the labour force (of 187,000 people). This decline would have been even bigger without the public sector creating jobs (11,100), the first positive balance since 2011 because of the elections and the political change.

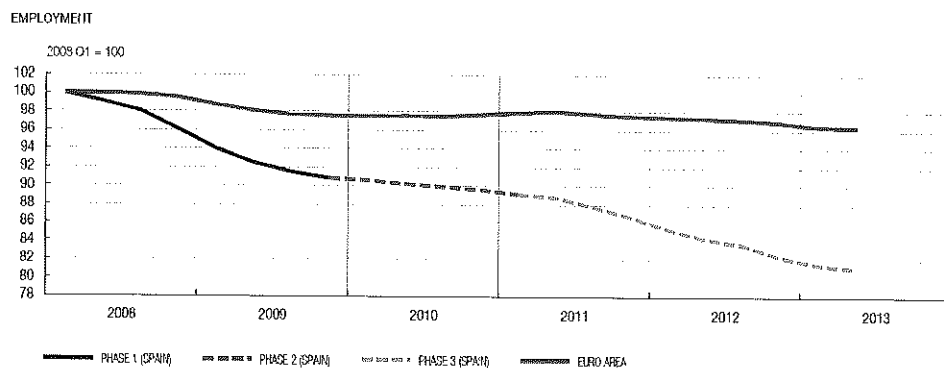


Figure 5. Eurostat, INE and Banco de España.

On November 20th, 2011, the Popular Party (PP) led by Mariano Rajoy, won an absolute majority of 186 to reach the 350 possible seats in the Spanish parliament after the early elections called by the outgoing president, José Luis Rodríguez Zapatero (PSOE, democrats or socialists). The new government required urgent measures by to ease the pressure on Spain. Mr. Rajoy faces three main challenges: the 23% unemployment (the second highest rate in the world after South Africa), expectations of zero growth in the most optimistic forecasts and at a very high risk premium, levels resulting from a growing

budget deficit. Shortly after the elections, the government undertook a reform of the financial sector and the labour market, highly anticipated by the markets. However, pressures on sovereign debt remained.

Spanish leaders were shielded from the fact that the level of public debt in Spain was lower than that of Germany and was below the average of the European Union. However, in recent months, several European representatives, while the markets themselves have begun to sound the alarm about the rapid growth of the country's debt. Spain was forced by its European partners to carry out numerous austerity measures; however, on March 2, Mariano Rajoy, as former President of Spain, asked Brussels in 2012 to renegotiate the objective of GDP to 5.3% instead of the initial agreed deficit target of 4.4% proposed by the European Union.

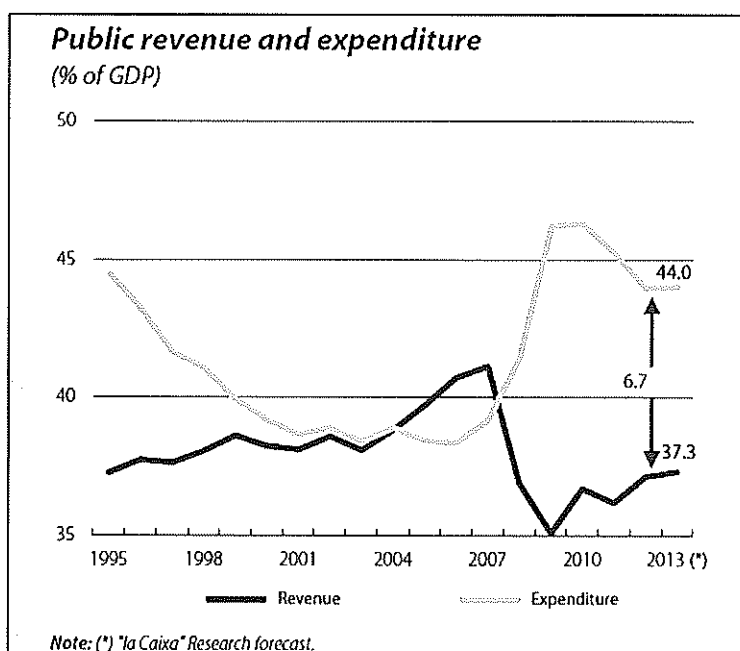


Figure 6. Source: "La Caixa" Research, based on State public Accounts.

The euro crisis has highlighted the fact that a truly integrated banking system is vital in order to guarantee the long-term stability of monetary union. There is a project for a solid banking union among the European economies. Current plans envisage a union that seeks to limit the use of taxpayer funds by extending the principle of bail-in. It is a banking union that, albeit limited, is difficult to implement in the short term given the current legal framework of the economic and monetary union, and that will lack key elements such as a pan-European backstop that operates as a lender of last resort for sovereigns.

The risk is that it may be unable to withstand the challenges of the current crisis (Gual, 2013).

On December 20, 2013, the European Parliament and the Commission approved a proposed directive establishing a framework for the recovery and resolution of credit institutions and investment firms, also known as the Bank Recovery and Resolution Directive (BRRD). In fact, Mario DRAGHI on July 2013, as President of the European Central Bank (ECB), expressing ECB's opinion related to the Purpose of the draft law for 'savings banks' ('cajas'), proposed:

"1.1.1 The draft law regulates redefines the composition of the savings banks sector and regulates the governance of the institutions which form part of it. In particular, 'savings banks' will be strictly limited in terms of geography and size. If a savings bank exceeds these limits: (a) it will have to transfer all equity allocated to its financial activity to another credit institution in exchange for shares therein; and (b) it will be converted into a 'banking foundation' if its stake in that other credit institution is significant, otherwise it will be converted into an 'ordinary foundation'. In either case, the foundations will lose their banking licence. The draft law provides a period of six months for the conversion of savings banks into foundations. As regards the savings banks that are already acting indirectly through a commercial bank, they will be transformed into a banking or ordinary foundation, as applicable, within one year from the entry into force of the law. Finally, it is noted that the draft law states the basic regime for savings banks, without prejudice to the regime applying to them by the region (Comunidad Autónoma) in which they are established.

(...)

1.2 Savings banks

The draft law imposes constraints on the savings bank business model. In order to avoid a savings bank reaching a systemic size, the following limitations are imposed: (a) they may only operate in the territory of an autonomous region or a maximum of 10 neighbouring provinces; (b) they will not be authorised to exceed a certain volume of activity, i.e. the total assets must not exceed EUR 10 billion or its share of the deposits market must not exceed 35 % of the market in which it operates. Corporate governance is reinforced, as only 25 % of the members of the General Assembly may be appointed by government authorities and public-law entities and corporations, and the majority of the members of the Board of Directors will be independent.

(...)

1.4 Banking foundations

1.4.1 This is a new concept introduced by the draft law. A banking foundation is a foundation that has a stake in a credit institution of at least 10 % of its capital or voting rights which allow the appointment or removal of a member of its governing body. Its purpose is to carry out its charitable and community work and to manage its stake in the credit institution under the

strengthened regime laid down in the draft law. As for corporate governance, only 25 % of the members of the Board of Directors of a banking foundation (patronos) may be designated by government authorities and public-law entities and corporations. Banking foundations must submit an annual corporate governance report to their supervisor."

OPINION OF THE EUROPEAN CENTRAL BANK
of 23 July 2013 on savings banks and banking foundations (CON/2013/52)

In January 2014 Spain successfully completed the financial aid programme to recapitalise its banks. 2013's business scenario was still affected by an adverse environment for sales, with these falling by 2.8% year-on-year for listed non-financial firms. According to the Spanish Securities and Investments Board (CNMV or *Comisión Nacional del Mercado de Valores*), consolidated earnings went from -8.8 billion euros in 2012 to 25.08 billion in 2013 (specially thanks to strong growth in the turnover of companies in international markets), of which an astounding 92% correspond to Ibx 35 companies.

Spanish private banking sector almost reached in 2013 a 30% of the weight of Ibx 35, the group containing the 35 most liquid Spanish stocks traded in the Madrid Stock Exchange General Index which is reviewed twice annually. The IBEX 35 Index is a capitalization-weighted index comprising the 35 most liquid Spanish stocks traded in the continuous Spanish stock market.

BANK NAME	SECTOR	SYMBOL	% INDEX WEIGHTING
Banco Popular	banks	POP	1.51
Banco Sabadell	banks	SAB	1.17
Banco Santander	banks	SAN	16.47
Bankinter	banks	BKT	0.61
BBVA	banks	BBVA	8.82
Caixabank	banks	CABK	1.56

Table 1

4. Risk undertaken in assets and their banking effects in Valencia region situation during the period 2008-2011

In the early years of the twentieth century, very few mergers took place of any strategic importance at the national or regional level. Even later, except for the *Cajamar* conglomerate, there was no entity big enough to modify the credit access or fluency in any region by itself. This would later change in the region of the Valencian Community, which, as the foremost example of the national intervention and bank nationalisation, would eventually lose its three larger credit institutions in its soil, the Bank of Valencia, the CAM (Savings bank from Alicante and Murcia, previously known as *Caja de Ahorros de*

Alicante y Murcia) and *Bancaja* (former Savings bank from the provinces of Valencia region, or *Caja de Ahorros de Valencia, Castellón y Alicante*). All these changes can be disclosed in the following chronological order:

01.01.2011 - The year 2011 marks the beginning of operations of the famous new group of Finance and Savings Bank called *Bankia*. The SIP of Caja Madrid, Bancaja, Caixa Laietana, Caja de Avila, Caja Insular de Canarias, Caja Segovia and Caja Rioja, whose new trademark is Bankia.

07.22.2011 - Mediterranean Savings Bank (CAM) is intervened after failing integration with Cajastur, Caja Cantabria and Caja Extremadura in the Bank Base. The Alicante-based bank was forced to ask 2,800 million euros to the FROB. The Bank of Spain now has a credit line of EUR 3,000 million for its feasibility and was capitalized with 2,800 million euros, so that the state controls between 80 and 85% of its capital.

11.21.2011 *Bank of Spain* intervenes *Banco de Valencia* after the forced resignation of its operators and injects 1.000 million Euros through FROB to ensure its viability and 2.000 million to ensure its liquidity.

12.07.2011 - The Bank of Spain informs that the Mediterranean Savings Bank (CAM) has been bought in an open public auction by *Banco Sabadell*.

02.03.2012 - The new president in office, Mr. Mariano Rajoy, from the Conservative Party (*Partido Popular* or PP), holds his first reform with the approval of the Royal Decree Law for the reorganization of the financial system, which required financial institutions to increase by 50,000 million Euros its provisions in order to withstand the complete risk of their real estate assets and pushing some of the already existing entities to new mergers and acquisitions.

05.09.2012 - The Minister of Economy and Competitiveness, Luis de Guindos (PP), announces the nationalization of 100% of Financial and Savings Bank, the *Bankia* bank matrix, which will be controlled by 45% of the latter company. Bankia, by this time, becomes the biggest former savings bank intervention carried to date. A key figure in this development is the former President of Bankia, Rodrigo Rato. Rato was Minister of the Economy in Spain from 1996 to 2004, Managing Director of the International Monetary Fund (IMF) from 2004 to 2007, who assumed the presidency of the main savings bank in the Bankia merger (Caja Madrid), and resigned on May 7, 2012. By July 4th, 2012, Rato had been charged with accounting irregularities, along with thirty other former members of the board of directors of Bankia.

05.11.2012 - The then new Spanish government takes another step in this restructuring of banks with a new Royal Decree Law on the reorganization and sale of real

estate assets in the financial sector, with the aim of cleaning up and protecting the balance sheets of banks to promote new risk-taking operations.

This new reform also includes the creation of "bad banks" in order to group toxic assets and to require higher provisions for entities to ensure their viability.

It also raises the general provision of the loan portfolio and real estate assets of the banking unproblematic (123,000 million Euros), which will mean around 30,000 million Euros of new banknotes that will have to be made before December 31 of that year.

These write downs join the 54,000 million Euros and made after the approval of Royal Decree Law February financial reform, so that the total sanitation made will be placed near the 84,000 million Euros.

05.29.2012 - The Ibercaja savings bank, Caja3 savings bank and Liberbank boards, approve the protocol integration to create the seventh largest Spanish financial group.

06.08.2012 - The Spanish government announced a third round of write downs pending to be analysed about the sector.

07.10.2012 - The Mediterranean savings Bank-CAM is merged with Sabadell bank and disappears after 137 years of existence. Banco Sabadell acquires Banco CAM.

11.27.2012 - *Caixabank* purchases *Banco de Valencia* from the former *Bankia Group*. (Caixabank have mergers with Banca Cívica, S.A. and Banco de Valencia, S.A.).

As shown in the timelines, the end result of all these years of changing models has been that the fourth largest financial entity nationalized (Bankia, only behind BSCH, BBVA and La Caixa savings bank). It has to be translate as the foreclosure of the savings banks social system in favour of a solely commercial banking system. The end result of all these years of changing models resulted with the fourth largest financial entity nationalized (*Bankia*, only behind BSCH, BBVA and La Caixa savings bank), the foreclosure of the savings banks social system in favour of a solely commercial banking system. In other words, the model that had taken more than two centuries to build, took less than a decade and a half to ground it (Hernandez-Carrion & Ruiz-Hall, 2014).

Rank	Bank	Assets, EUR bn 31/12/2011
1	Grupo Santander	1251530
2	BBVA	597688
3	Bankia	302846
4	CaixaBank	270425
24	Banco de Valencia	22468

Table 2. Major Spanish banks per assets.

Source: Bluebird® Official Site at <http://www.reilbanks.com/rankings/largest-spanish-banks>

In other words, the model that had taken more than two centuries to build, took less than a decade and a half to ground it. After the merger, Bankia was initially owned by a holding company named *Banco Financiero y de Ahorros (BFA)*, and the seven banks controlled BFA. *The most toxic assets from the banks were transferred to this new bank BFA*, which obtained 4.5 billion euros from the Spanish government rescue fund FROB in exchange for preference shares, so the resulting new entity is this toxic mixture known as *BFA-Bankia*.

5. The effects of financial-system crisis on the medium-sized business in Spain. The Valencian Community from 1995-2012

i. Past and future of the financial system in the Valencian Community

In any given country or region, all the above mentioned effects, such as a shift in the regional credit system or a reduction in the credit risk due to the amount of new core funds needed that forbid new risk operations due to the needed leverage of the already existing ones (with TIER 1-like required elements) would have already been large, however, from a regional point of view, in the Valencian Community, the changes in the banking and business sectors have been enormous to the extent and scale that they have derived in the total suppression of the local credit entities.

At the turning of the last century, there was one large regional savings bank, at least, for each of the three Valencian Community provinces, *Castellón, Valencia and Alicante*, deriving the first two in what would later be called by the mid-nineties *Bancaja* savings bank (created by a fusion via absorption of the ones from Castellón and Valencia) and the later one, continuing as the *CAM* savings bank. On the other hand, and although there were some very smaller savings banks left (Caixa Ontinyent savings bank is an example) there were no other savings banks that could play any effect in a larger scale. As we have already explained, all these entities have been lost in time, via Bankia or via SabadellCAM fusions, mergers and acquisitions.

On the other hand, *Banco Valencia*, the sixth largest commercial bank in Spain was founded on March 20th, 1900, and after more than a hundred years of existence, having been bought by Bancaja, later Bankia Group (now state-intervened) has recently (November 27th, 2012) been bought by the la Caixa group (Barcelona), therefore, ending completely the large scale banking operations in the Valencian Community by own-based entities. This means, in the final sense that any and all large-scale credit operations are no longer decided in the region, they are now taken in Madrid, Barcelona or elsewhere, but not at the place anymore.

There was and has always been a sense of self determination given by the later saving bank model of the eighteenth century, which all the credit operations to local businesses, entrepreneurial decisions could be taken by those who knew your company on a strict-daily base, since the operated with you on a continuous basis. This means that every

region would develop itself with each one's credit capabilities, and if not, you could always resource to a nation-or larger regional based commercial bank system.

Should we go back and research that regional-based system, no other than Christopher Columbus (1436-1506) would be more suited to be used as an example, since his first voyage to the discover the America's would be founded not by the King Fernando II of Aragon and Castilla (1452-1516), but from Luis de Santángel (1440-1507), a converted Jew banker that loaned the million one hundred and twenty thousand *Maravedís* (the then used currency) that the endeavour required.

The destruction of this self-supporting mechanism and the distortion of the decision making progress in the risk conceding mechanism will inevitably change the discretion and the regional equilibrium that those decisions can no longer be taken by regional developers but via larger national conglomerates that in any event are and would be able to discriminate the already existing regional equilibrium thus supporting in equal risk-terms one region over another. In a capital asset pricing model (CAPM) model, we would end up discriminating assets that within the same required return, having the same risk; one would be chosen by regional or national interest, therefore, not by an economic-based decision, but might be chosen by other-than-economic reasons.

The conclusion has been thrown among us, thrust by unsolved questions such as the real reasons for all those M&A's in the financial system and the responsibility of the supervising authorities of the Spanish banking sector, however, while this paper is being written, many events and answers to these questions still lay in the court rooms, while, at the same time, there is no regional financial entity of critical mass left in the Valencian Community, none that by itself can be regional-significant nor that it can lead the region via investing in its own interests.

ii. The medium sized company in Spain

As well as in other countries you can find other industrial structures, in which you can clearly distinguish leading big-sized companies and medium-sized companies, all around a multi-national based layout, in most of Spain and specially in the Valencian Community, we can find a distinct pattern-like company, the PYME (Pequeña y Mediana Empresa - Small and midsize company or "SME"-)

As for 2012, recent studies like the annual SME Portrait (2012), Ministry of Industry, Energy and Tourism, Spain, all SME account for 3.246.986 businesses in total, where between 2000 and 2010, the total number of companies has increased by more than 600,000, which represents a cumulative increase of 22.8% in that period. Also, in 2010, PYME's affected by the crisis ended in the destruction of 40,388 companies, representing a decrease of -1.23% over 2009 and -5% from its peak in 2008.

Nevertheless, all SME's are not represented equally in all sectors, since we find active in the service sector the 78.1% of them, and mainly in trade only 24.0% of them. However, the most notable feature of them are their contribution to the employment, generation, occupying about 60% of the total workforce, specially the smaller companies which occupy

a larger number of employees and the micro and small enterprises, accounting for 21.1% and 20.5% of all employments respectively.

Yet this enormous crisis, this never-ending company destruction has also been severe with such enterprises, since in December 2011, the year drop in the total number of employees ended with a result of a -3.96%, which means a reduction 304,800 jobs (out of the 7.387.000 employees (Annual Report on EU Small and Medium sized Enterprises 2010/2011 (2011), EU Commission) by SME's out of the total 14.596.859 employees in Spain), from which the small and midsize businesses are suffering a further decline, with a -5.19% and -4.11% respectively. Contrary to that, as a contrast, we can see that larger companies, with a variation of -1.18%, and a decrease of 63,100 employed, are the less affected stratum.

Another aspect that must be pointed out of SME's are the year-round continuous creation of newer entrepreneurial companies, however, yet again, the largest number of new businesses created have been over the recent period created around retail trade, health activities and wholesale trade, with a growth of 8.6%, 23.9% and 5.3% respectively, and at the same time, the construction sector, losing more than 23,339 companies with has shown a variation of -4.57% from the early figures of 2009, remains to date the largest sector in terms of destruction of businesses in absolute terms.

This also means that, in relative terms, the activity that has a lower net rate of creation of enterprises is related to research and development, with a -22.9% decrease, from a net rate of -0.13% in 2009, so, at the end, less and less companies are created and those who are, are less focused on research and development, therefore, depleting and reducing the long term growth possibilities of the industry as a whole and specifically of the region based SME's in particular.

Another large aspect that must be considered when addressing the SME's phenomena is their size, since 97.4% of companies are focused on the stretch of less than 2 million Euros in assets and 2.0% of them are admitted between 2 and 10 million Euros. At the same time, should we regard their revenues, we would find most of them under 10 and 50 million (only the 0.4% in 2011) and only accounting 0.06% admitted a gross revenue over 50 million Euros last year.

Finally, SME's are usually strongly focused around the individual-entrepreneur, in most cases, the self-employed businessman, which is the predominant figure form in the SME's establishment. The limited liability company or limited partnership is listed as the second option as well as the community property in the third and only as the fourth option, the large corporation. We must note that this latter legal form is losing ground in favor of the limited partnership and the community property, and this transfer is expected to continue to occur in the following years due the greater suitability of the limited partnership for the constitution of a SME company.

iii. The actual situation in the Valencian Community, from the SME's structure to other activity sectors

As well as Spain is having strong difficulties in dealing with the recent recession times, also, the Valencian Community has been having difficult times in dealing and solving this situation, and also, this has derived in the constriction in many public services and social cuts never before seen in this region. Focusing on the level of debt and deficit reached at the end of 2011, the Valencian Community is one of the most that should make more efforts to adjust, in this sense, the recent facilities for payment by the territorial government can smooth the adjustment, although its impact will continue to derive into private actors, implying that the need for cuts, both this year and next, will slowly reduce even further the contribution to the economic growth by the public sector.

We must emphasize that the regional public sector finances also leaves the Valencian Community with a further disadvantage, the amount of debt raised in the financing system, even assuming an improvement in absolute terms, implies that the relative imbalance exists for the region will be maintained for the period of application of this new system, and, therefore, the change in the funding system will not add an extra contribution of funds to the region.

In the final sense, the need for consolidation, and repayment in cash advances for the last couple of years, will mean an additional burden for the coming years, were, given the importance that this may have on the process of fiscal consolidation, and for the role of territorial administration as a driver of the economy, this will not help the straining labour market, and in particular, the unemployment rate in this region, which is showing a greater sensitivity than the overall cycle of the Spanish economy, which is already high.

The actual labour market has many different factors to be considered nowadays in comparison to the so called old trends of the labour market model. These differences strive in the ever more different growth path between production and employment rates, and although there are many problems in measuring its effects, it is also self-evident that technological changes are no longer based in research and development indexes alone, were innovation is no longer the sole driving force of economic change.

Any new labour market model has to analyse that the new jobs created are no longer as the ones destroyed, we are no longer replacing workforce in the same industry, we are slowly but gradually introducing new technology as well as requiring new skills from our already-in-use workforce, requiring a longer-apprenticeship period in a computer-driven world. Such changes are also applying new organizational changes, requiring new ways of labour and work distribution, combined with a larger degree of flexibility in our workforce that can in turn change the size and shape of our businesses.

But all these changes can also bring storming new social problems, thus changing the knowledge and perception of these new growth requirements. We can no longer set aside concepts such as data, information, and knowledge, striving in new areas of research that can provide new competitiveness to the SME's in the Valencian Community, but also creating new unexploited areas of employment that might imply deeper changes in the

educational model as well as focusing in a constant formation-based employment cycle, in which every bit of know-how received has to be profited from and taken back to society.

All this having been said, the evolution of the labour market in the Valencian Community is comparatively negative in its unemployment rate in this crisis, which is a novel feature of the current recessionary cycle, but as was it seen in the crisis of the 90's, this may be explained at least partially by the differential evolution of the regional GDP relative to the national one, since as in the crisis of the 90's, the GDP of the region began to fall later than the rest of Spain, but when it did, it was with a greater intensity and for a longer period. In aggregate terms, it appears that the regional GDP fell 2.8% in the period from 1992 to 1995, a 2.3 percentage points higher than the national average, while the unemployment rate it fell at the rate of 7.4 pp, 0.9 pp more than in Spain.

Therefore, the Okun-Law Model, this is, the empirically observed relationship relating unemployment to losses in a country's production, when analysed and applied both to Spain and to the Valencian Community differs in the establishment of the "gap version", which states that for every 1% increase in the unemployment rate, a country's GDP will be at an additional roughly 2% lower than its potential GDP, and for the last data of the Q4 2011, the correlation contemporary shown between unemployment and growth is higher than 0.7 in Spain, while in the region revealed greater dispersion, which is manifested in a slightly lower correlation 0.6 (also when compared with Spain).

The Valencian Community has had a very important degree of development since 1995, focusing mostly in the growth of employment and inhabitants, based mostly on the construction sector, on the other hand, the Aggregate Value Added of all industries in the Valencian Community has shown a lesser than Spanish average growth during the latter part of the last decade, in which other regions, such as the Basque Country, Navarra or Catalonia have ended having a more profound AVA value. This historic reduction of added value levels has been most noticeable between 1985 and 2006 in the Valencian Community, and, therefore, has been reducing the weight of the Industry in comparison to other sectors in all three provinces, as per 30,8% in Castellón, 19,7% in Valencia and 14,3% in Alicante as their highest values in the last five years by 2008.

The large employment rate that the region experimented due to the growth of the construction sector focused in even larger questions about its sustainability or long-term effects, that having given time the ultimate answer in this last years, we can resolve that it has deepened the lack of historical sectors production and productivity growth that might have unbalanced the loss of this then-new construction boom and that the deterioration of the comparatively high unemployment rate in the region during the last recession cycle is explained by its greater elasticity to GDP – that shrank considerably more than the whole of Spain between 2008 and 2011 – as per the negative effects of the higher rate of temporary and less weight in the primary sector employment.

At this stage, since the expected growth of the Valencian Community economy in the short and medium term will be weaker than in precedent periods, we should not expect a significant recovery in employment in the coming quarters, and therefore, this

circumstance, coupled with the low probability of occurrence of persistent reductions in the labour force, the unemployment rate will remain at elevated levels during the current cycle.

In conclusion, the Valencian Community situation is dyer, the unemployment rate is ramping, the industrial growth level is negative, there is no sufficient investment in research and development and nor will the private sector push the economy via public investment and demand growth, therefore, if the credit sector is, as we have seen in a perfect disorder scenario, the only growth than can be created in the Valencian Community must be created via internal private growth and development.

iv. The new financial decision variables

Although there is a common thread to every historic recession or crisis, in this paper we describe all the related events and facts of this particular case. However, it is also true that the different responses to all those facts and to all of those measures have been different in many Spanish regions, and to this effect, we are only going to concentrate ourselves in the Valencian Community's response to the Spanish banking sector crisis, that, as we have extensively explained, it has specially hit the region by the straight loss of all of the region's large-volume financial figures, structures and players.

Firstly, this has been the result of the high sensitivity of the financing regional economic cycle. And the second cause is that it has been delayed for more two years the fall of regional income in cash terms, which can be explained both in the mechanics system of this crisis as well as the cumulative forecast errors by the central Government. This has allowed the regional governments to postpone the start of the adjustments required by the current crisis more than would have been prudent enough. This means that the main focus of the problem is not, indeed, that the central government lacks to adopt fiscal stimulus measures in a recession, but the structure of the financing system and the change in their year basis that such measures do not have an impact on the whole say of the accidental future path of the regional funding.

The Valencian Community region, when analysed is located near the national average in terms of the drop in funding in the last year of 2011, (23.4% vs. 24.3%) but has a decline in funding per capita more accused than the average (6.5% vs. 3.1%), as well as at the same time, the system has preserved the region thickness derived in a long revenue shock in although a somewhat lesser degree than in the case of other regions in Spain.

Therefore, the sharp decline in accrued financing will still prove to be even greater in the coming years to finance per savings bank, forcing a sharp adjustment to ensure the sustainability of the financial structure in the region and shows that funding has been significantly below the national average throughout the last years.

As a result of these past years, the region appears consistently in the rankings of junior countries or regions, just ahead of Ireland before its reform in 2009 and Andalusia after the reform, given the fact that the relative funding also shows a clear trend low since 2005 that placed in 2008 carried more than ten percentage points below the national average, and although the situation improved significantly in 2009 due to the state reform in the

financial market and legislative changes by then introduced, all these efforts were not enough to eliminate the persistent funding gap in the region, even though the region earns around five points relating to financing reform, which makes it the second most benefited by it after Baleares, however, this does not prevent its index of unit financing need in 2009 to remain at more than seven points below the national average in terms of accrual and nearly ten in cash terms.

Notwithstanding the above, the credit in this region, as well as in Spain as a whole is following a trend of sharp correction contractions due to the sum of two factors, mostly in first case, by aside exogenous factors, such as restricting international liquidity resulting from the international crisis, which is affecting the uptake of external resources; and secondly, endogenous factors resulting in the contraction of the domestic market (such as tax increases) and strong positions of financial institutions in the construction and domestic the sectors, whose situation has deteriorated strongly upon the last few years resulting in a trend to decrease, with negative values whose minimum reached in October 2010, with a variation of -3.8% the credit liquidity in the system.

If we look closely between the 2008-2011 period to the financial credit availability and absorption in the market, credit cooperatives are the only type of entity with positive values, all being stable at around 1%, while banks, had shown negative values until the summer of 2010, variation from which evolves positively, reaching the value of 4.86% in December 2010. Finally, the saving banks are, due to the heavier credit crunch, with negative credit values throughout the period ranging from -0.71% to -3.78%.

Also in that period, we are able to see the great variation in the granted credit by savings banks, from those that had higher positive values in the first half of 2008, to be those with a higher decline in credit in the second half of 2010 (38.545 million Euros compared to -29.769 Million Euros). At the same time, regarding to banks, the values recovery has been seen via positive values in 2010 after the fall semester of the variation in credit suffered in 2009. Finally, the credit cooperatives have shown its stable trend and positive along three years, but with absolute values much lower than the banks and savings banks.

Therefore, we must conclude that all financial institutions have reduced their new credit concession, they have all closed all financial means to the SME's and have only been there for precise refinancing procedures, but those being only restructuring-debt operation and never implying the most urgent requirements, which were to sustain and develop the industry by lending more financial aid that, on the other hand, was being injected via the EU as financial loans to the Spanish banking sector and the forced restructuring of several failed entities, as we have seen above in this paper.

Attending to several other papers, even in aggregate terms we can see in specific past-role players in the growing edge of the local regional economy, that financial borrowing by all sectors is reduced with increasing equity values, therefore, the only way in which companies are being able to re-establish their own financial equilibrium is via their own capabilities, by focusing on their EBITDA, by focusing on their liquidity and debt

management and therefore, resolving in an asset reducing strategy as a way with which balance back the liabilities derived from the past operations that in many cases have been if not successful, not as economically successful as desired.

In conclusion, such a new strategy, which requires not only managing the liabilities restructuring but also, calculating and managing the working capital needs for the following years have been blindly entitled to the CFO's in all SME's, with different levels of success.

v. The CFO's planning requirements

The SME's in Spain have ended up risking decisions before bankruptcy threats in requiring their CFO's with a bullet-proof financial plan, and, such an instrument of core-calculation has been required to fulfil these three basic guidelines, liquidity, solvency and asset reduction.

However, we could define the financial plan as a planning tool that assigns foreseeable future in income and expenditure budgets, that, in many cases, integrates an investment and disinvestment budget, although it is true that these figures are commonly mistaken, attributing to the latter case that several projects can generate future income while forgetting that we must study not only the viability of such options, designating the cash-flow add-ons which are generated by them, but also the financial costs resulting from the project (also talking in consideration a weighted average cost of capital model beforehand) when it's integrated in the business and develops its effects fully, therefore, all projects will eventually have to be projected from an inside business view rather than in a laboratory-like scenario.

We must also never reduce the fact that a financial plan must refer to all three primary financial statements (balance sheet, income statement and cash flow statement) created within a business plan, but also to the necessary financial forecast derived from the financial plan, that must ultimately refer to an annual projection of income and expenses for a company, department or industry. This estimate is calculated via the cash needs and must resolve in taking strategic decisions on collection periods, borrowing through loans or other types of leverage, or even issuing either equity instruments traded in primary, secondary or OTC markets.

We can conclude, therefore, that a financial plan refers to estimating future income and expenses and investments of the sum of departments of the company, according to its business plan and its day to day operations as assigned from the planning of their economic income and the sum of all strategic decisions of the company, while a financing plan usually only refers to the means by which they acquire the property or make the investment and how to cover the future expenses, for instance through income, debt or liquidity.

The logical conclusion to the above statement is that the financial plan must be able to realign the company's financial capacity and be able to redesign the policy of acquisitions and divestitures of it, given the set of limited possibilities of investment of the company as well as the ever shrinking financial market limitation to provide more funding

opportunities to the company. As a result of the above, financial planning is not separated from the rest of the company, on the contrary, it receives -and it must on a regular basis- the necessary information from all departments or members, identifying funding needs and observing the necessary reduction of the related asset.

Then again, for the integrated analysis of the financial plan, we will necessarily match a financial budget, which will give us the perspectives and operational details of the company, framed within the objectives of its strategic plan, and therefore, depart the balance accounting to a specific date, that after calculating the working capital needs, will give us the forecast balance sheet at the end of the financial plan.

The financial plan is a local-based tool (or a set of different department tools) that, affecting or taking into account many other elements of the company, its business strategic decision, their supplies, their stock shortage condition or financing conditions and coverage of its payment obligations, in that sense, it becomes and should be considered a global tool in which the changing needs of the company in the current financial environment can be controlled and changed in the company's forecast evaluation.

However, once established all this interaction, the achievement of the analysis may lead to a saturation of information to the employer, and by then, there should be a filter for the entrepreneur or businessman and his management team to have indicators, easily achieved by implementing a BSC, in which case, at the end, the financial plan must provide not only the changing needs of the company, if it is to assist the employer in evaluating the results of the quantitative and qualitative aspects resulting from the company's strategy, but also to help the rethinking of the corporate strategy for the next period and to help him in resolving the ever changing forces in his business environment.

vi. The SME's strategy for 2014-2016, liquidity, solvency and asset reduction

CFO's have been forced in order to compensate with the lack of any credit capability by the system to focus on the core business requirements of their companies, and this stage, means that all companies have been set in motion to a self-preserving state, in which they can provide enough liquidity and solvency so that they don't go into any bankruptcy-based scenario and therefore, base their financial decisions via an asset reduction model.

This model is centred in short and medium term goals, and is based in obtaining the needed liquidity as to avoid any service provider or creditor to force any insolvency request upon the company (as per Law 22/2003), that means obtaining enough working capital to be able to sustain a current payment basis that provides salaries and debt service return amounts under the company's required by Law 3/2004 stability and control of all payments while operating commercially in the private market.

As a second step in the CFO's strategy, out of the three-pillar strategy, we can find the solvency requirement, and to this extent, is the quotient ratio between current and non-current assets vs. current and non-current liabilities. This ratio, although it's exact figure

depends on the industry, sector or even region and competition, must always be kept as far away from one as possible, measuring the difference to the unit figure as the growing equity that is required in the final sense as a working capital and that must be used in order to refinance the company by its own capabilities.

As we indicated before, since there is a manifest credit crunch that has created a crowding-out in the investment sector, in return, there is no hidden or golden or philosopher's stone way or better solution than to revert into the company's capabilities by readjusting its processes and expenses in search of a company that is measured by its needs and its market demands.

This ending analysis from the solvency question has to inevitably resolve by focusing on the final pillar of this new strategy that is the much needed asset reduction, finding the right size for the new market in the Valencian Community and in the Spanish market as a whole. Although many companies have tried to compensate via resolving to rely with the export market approach, the cash flow required and the pay-back time of this investments do not suffice in many cases the much needed lack of financial resources that are focused on them.

Any multinational endeavour must be started with non-vital resources from any company, otherwise, it might strain the already-financially-stressed company, and as a result, killing the very same patient it was supposed to save. Nevertheless, many wrong strategies are being served in silver platter every day, distorting the mission at hand, which is none other than finding the company size and requirements that can serve as a contra measure to this passive in our company. Since we can agree upon the fact that there is no capability in the short and medium term that there is going to be new credit in the system, then we can converge in the thought that the credit we (as a company) have is the maximum credit that our assets and our solvency ratios can provide us, and therefore, we must assign such credit to new investments or to more efficient investments than the ones we already have, and therefore, we must reshape, change, reform and analyse our current assets and reduce them so that we can fit in the new economy.

A question should therefore arise; which is the new economy and how should my company respond to it? And the answer should be non-other than in the middle of a recession, with an ever-ending loss in the internal market demand, with a foreseeable bigger credit reduction between the next three to five years, the only option is to rebuild the concept of your company around its capabilities, around its financial resources and around the working capital it can achieve, in order not to be self-supporting, but to be able to grow into the new market or new sectors that should either re-emerge or be re-focused upon, it will mean that companies are no longer going to risk into growth, since they can no longer grow via borrowing money or other types of fund from the financial market, they can no longer invest in research and development nor can they search for other markets in order to compensate with their lack of funding, and their first objective will be to set the company in existence levels that they can withstand.

Many papers strive to look for a greater understanding between the different authorities and sectors in the Valencian Community in order to solve the problem, which in our view is a wrong approach, since, as we have proven, such sectors (referring to the public sector as a whole) can no longer provide for help or funding due to its financial abyss. However the Keynesian models such emphasize in this large accord, there are no resources coming from the public sector in the next few years, and the debt way, is no longer an option, that path, has long been exhausted, depleted and in any instance, mismanaged in projects that have proven to be completely unsuccessful or have not been the driving force that the region required and still longs for.

On the other hand, many other sources refer to the export market as the only solution, yet, many SME's don't have the critical size to go abroad, and therefore, the solution must come from within, the solution must come via the internal restructuring of the companies, via the asset reduction and via the investment in productive resources that can end up as research in development, then and only then will the SME's be able to change their actual self-driven mode to a growth model nonetheless, regardless of the financial sector. This will therefore be a second age to all Spanish SME's, in which they will have to learn how to adapt and grow without growing via debt or liabilities.

In conclusion, the solution to this problem is an all-hands-on-deck model that requires that all departments, all personnel and all stages of the financial circle must be realigned to the common goal, which is none other than being able to find a strategy that no longer depends of external financial aid. Such structure should not be interpreted as some kind of autarchy, since this is not the purpose of this paper, however, we must realize that many SME's have no longer any free assets that can be taken into account for any type of liability, and therefore, their financial strain is at their maximum, should this be the case, then we must enter a large-scale refinancing operation of all our passive structure in order to accommodate the new cash-flow capabilities to this required cash-flow return. Should we fail to do so, then the only way should be, in order to preserve the CEO's responsibilities, to file for insolvency protection.

We must also consider that other SME's may not be as strained, and in such case, they should try before exhausting their assets, reducing the non-essential ones, in order not only to create some financial income via dis investing in some of them, but also, by doing this, they will be able to reassign their liabilities to new assets that can and should provide for a better a mid-term based strategy, that resolves the where, when and how questions of any strategy (being other "W" questions asked before or after those main three) and refocuses the company in the right path.

Time, the eternal decision-making-process judge will tell if the SME's will focus their efforts in such goals, yet the financial constraints of the region are no longer invisible and don't seem to be short-termed, and in such circumstances, the strategy that we have seldom explained is and ought to be the main focus of their agenda, since no external financial player should be expected, as a white knight, to resolve their day-to-day debt requirements and working capital or cash-flow overstretched needs.

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