Evan Lau · Lee-Ming Tan
Jing Hee Tan *Editors*

Selected Papers from the Asia-Pacific Conference on Economics & Finance (APEF 2016)

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Preface

The 2016 Asia-Pacific Conference on Economics & Finance (APEF 2016), jointly organized by East Asia Research and East Asia Institute of Management and supported by BEFfore from Universiti Malaysia Sarawak, was held on the 27th and 28th July 2016 in Singapore at the EASB campus.

The special theme for APEF 2016 was "Will the current oil crisis and China market slowdown result in a global recession more brutal than 2008? What are the current top global economic challenges?"

APEF 2016 achieved the objective of bringing together leading scholars, students, and practitioners from overseas to Singapore for an academic exchange. The programme consisted of an opening speech by Dr. Andrew Chua, Principal of East Asia Institute of Management, and two plenary lectures by Dr. Evan Lau, Associate Professor, Director of Centre for Business Economics and Finance Forecasting (BEFfore), UNIMAS, and Dr. HUSZAR, Zsuzsa Reka, Department of Finance at National University of Singapore (NUS) Business School.

A total of 60 registered delegates from the following countries attended APEF 2016: Australia, Bangladesh, Canada, China, Columbia, Egypt, France, India, Indonesia, Israel, Japan, South Korea, Latvia, Malaysia, Russian Federation, Slovak Republic, Sri Lanka, Singapore, Taiwan, Thailand, UK, and USA. Participants were invited to submit papers to the present volume. We thank APEF 2016 conference chair Dr. Evan Lau, Associate Professor, Director of Centre for Business Economics and Finance Forecasting (BEFfore), UNIMAS, for coordinating the review of the submitted papers.

East Asia Research (EAR)

Established in Singapore in 2015, East Asia Research (EAR) envisions being the gateway to improving lives and enhancing productivity in Asia through promoting the cross-geographical exchange of ideas and knowledge in various faculties. This

will be achieved through the dissemination of knowledge from the Asia-focused research conferences and publications by EAR.

EAR academic conferences provide a meaningful platform for researchers, post-graduates, academicians, and industry practitioners to share unique insights and drive innovation. This is a great opportunity for expanding contact networks beyond a singular field and kick-starting a strategic collaboration. Such partnership can bridge the resources and expertise of multiple disciplines to spearhead pioneer movements, thus giving rise to breakthroughs in long-standing issues.

Kota Samarahan, Malaysia   Evan Lau
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Acknowledgements

This book is dedicated to the memory of my beloved mother, Mdm Pang Soon Kwee, 冯春桂 (1944–2016). You will always live on in our hearts—Lee-Ming Tan, 陈礼铭.

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About the Editors

Dr. Evan Lau is a well-trained University Putra Malaysia graduate with vast experience and research excellence covering the areas of International Economics with numerous applications of econometrics techniques. Recently he ventured into socioeconomic discipline including Economics of Crime and Suicide. He joined Faculty of Economics and Business University Malaysia Sarawak (UNIMAS) in 2005 soon after completing his Ph.D. in 2004. He has served as Associate Professor since June 2014 and is the current Managing Editor of International Journal of Business and Society (IJBS), an internationally refereed journal indexed in the SCOPUS bibliographic database, Emerging Sources of Citation Index (ESCI), Malaysian Citation Centre (MCC), ProQuest publisher, Ulrich's Periodicals Directory, Cabell's Directories (Economics, Finance and Management), and EBSCO Host Publishing. He is the director of Centre of Excellence for Business, Economics and Finance Forecasting (BEFfore) as well as UNIMAS, which—among other—serves as a platform and reference point for business, economic, and finance forecasting. He was the Visiting Scholar in Faculty of Economics at the University of Cambridge from October 2013 to April 2014.

Mr. Lee-Ming Tan is the founder of East Asia Research, and he obtained his Masters Degree in Applied Finance from the University of Adelaide. He is deeply interested in how humans function and react with each other. Insight into how people's minds work and how they people together is invaluable in just about every field. Outside of work, he enjoys outdoor activities and occasional computer games.

Dr. Jing Hee Tan is an Executive Director of East Asia Institute of Management as well as the Chairman of its Academic Board. He has worked as a Retail Manager, a Senior Science Master of a government secondary school, and as a Merchandising Manager of Robinsons Departmental Store with responsibilities in

its Menswear Division. In 1973, he joined the Singapore Institute of Management and eventually became its Chief Operating Officer. In 1994, he wrote his doctoral thesis on Developing a Factor Model of Management Work in Singapore, for which he was awarded his Ph.D. from Henley Management College/Brunel University.

Evaluation of Cluster-Development Strategic Outlooks Using Book Value and Revenue Multiples

Egor Koshelev, Sergey Yashin and Nadezhda Yashina

Abstract This paper suggests an approach making it possible to recognize a core company of a future innovative and industrial cluster in order to subsequently expand this type of business up to a pilot cluster of the region. For that end, it is proposed to use book value multiples, Tobin's Q multiple, and revenue multiples, which allow to determine whether the company in question will be able to become a core of a potential cluster in the very near future. The multiples can also help verify whether a large company meets its current position of the "cluster core." With this end in view, the company's book value multiple is compared with the profitability spread, and the revenue multiples are compared with the profit margin. If the values of the multiples are low, and the profitability spread and the profit margin are high, and if Tobin's Q multiple is >1, the company is underestimated in the stock market and will be developing in years to come more rapidly than other companies in the industry or cluster.

Keywords Cluster · Cluster core · Book value multiple · Revenue multiple · Brand value

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1   Introduction

In the context of economic globalization, present-day globally accepted methods for economic management of countries and their regions become increasingly relevant. Russia's continuing integration into the world economy charges both the government and companies with new tasks, which are aimed to improve the country's compliance with the world's advanced technologies including management of the economy and finance. For instance, applying IFRS standards in financial statements of public companies has become a prerequisite of their recognition in the market as well as their future development.

Clusters are also of paramount importance in such globalization process (Porter 1998; Tukkel et al. 2013). Despite their great variety in the economy, this article emphasizes regional innovational and industrial clusters. Such variety of rules and methods of economic management by regional companies and, most importantly, a variety of methods of interaction between companies result in the formation and successful development of informal groups of companies. Such companies may operate in the same industry and in related industries. However, the reality of the twenty-first century is such that clusters indirectly regulated by the government are the most efficient structures in economic and social terms. This makes even stronger the well-known synergistic effect that is common to clusters themselves (Porter 1998; Tukkel et al. 2013).

Although there are a number of standard cluster-management models, which may include, for instance, the following—Leontyev's model (Tukkel et al. 2011; Prosvetov 2012), the matrix approach to cluster management (Bergman and Feser 1999), the gravity models (Bogomolov and Surina 2011), the model of creating an export-oriented regional cluster (Gnevko and Rokhchin 2006; Tukkel et al. 2013), the model of cluster construction based on the fractal theory (Fedorenko 2010), and the processes of cluster formation and evolution—but they have not yet been studied in sufficient detail. The models required for this must adequately describe organizational issues and market mechanisms for their implementation using the relevant mathematical tools for that purpose. Furthermore, one cannot but take into consideration the fact that even in the presence of efficient interaction between three key agent types, i.e., scientists, government officials, and businessmen, it is required to orient a future pilot cluster and its potential further development to brand appreciation of such cluster, which is actually composed of brands of companies constituting its core.

Speaking of an innovational and industrial cluster, it is primarily required to highlight a situation where a potential cluster may start forming around a single core company of the cluster. Such a scenario is only possible if, in the first instance, such company has adequate manufacturing facilities. In any opposite situation, for example, where we consider a tourism cluster, the presence of a single core company will indeed kill the incipient cluster because there will be no internal competition in the region, which might contribute to harmonious development of the area.

Consequently, to recognize a potential cluster in a region, it is required to identify a potential core company of the would-be cluster. Those methods, which we will further
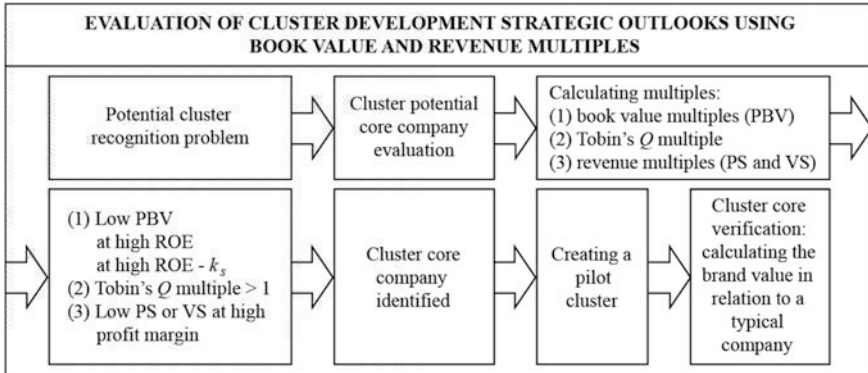
Fig. 1 Concept of evaluating cluster-development strategic outlooks using multiples

present for that purpose, are also applicable for addressing the issue of degeneration of an already-existing cluster in its new manufacturing quality, for instance, from an oil-refining facility into a facility for another type of chemical production or even automobile manufacturing. In such a situation, as always, in operation are market mechanisms that should be simply predicted in due time. Here we mean a situation where any type of business in the market is worth little but, at the same time, has attractive outlooks for further market growth. Such a situation, for instance, in a stock market, portrays itself as a situation of company undervaluation (Damodaran 2002; Roche 2005). Only truly inquisitive financial analysts can detect such trends.

However, in this article we suggest our own approach making it possible to recognize a core company of a future innovational and industrial cluster in order to subsequently expand this type of business up to a pilot cluster of the region (Fig. 1). To that end, it is proposed to use book value multiples (PBV), Tobin's Q multiple, and revenue multiples (PS and VS) (Damodaran 2002; Fernandez 2015b; Pappa 2015; Roche 2005), which allow to determine whether the company in question will be able to become a core of a potential cluster in the very near future. The multiples can also help verify whether a large company meets its current position of the "cluster core." With this end in view, its PBV multiple is compared with the profitability spread, and the PS or VS multiple is compared with the profit margin. If the values of the multiples are low, and the profitability spread and the profit margin are high, and if Tobin's Q multiple is >1, the company is underestimated in the stock market and will be developing in years to come more rapidly than other companies in the industry or cluster.

2   General Description of Multiples Required for Analysis

Currently there are a great number of various financial multiples depending on what exactly an analyst wishes to clarify. However, multiples have the following basic classification (Damodaran 2002):