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The MetaCapitalism spectacle

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The MetaCapitalism Spectacle

A thesis is presented as part of the requirements for the award of the Degree of

Doctor of Philosophy

from

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by

George MICKHAIL

BCom *Ain Shams(Egypt)* GradDip (MgmtSc) *SAMS(Egypt)* MScEcon *LSE(UK)*

School of Accounting and Finance

September 2013

CERTIFICATION

I, George MICKHAIL, declare that this thesis, submitted in fulfillment of the requirements for the award of Doctor of Philosophy, in the School of Accounting and Finance, Faculty of Business, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

.....

(signature)

George Mickhail

09 September 2013

ABSTRACT

Purpose

The spectacular Internet Bubble that burst in 2000 makes the latest 2008 global financial crisis seem persuasive in its reflection of the same flawed logic, which prompted all other crises and bubbles in-between. The flawed logic of a globalised electronic free-market economy is built on the premise that disruptive Internet innovation would enable seamless electronic transformation of corporations, and their interconnectedness and collaboration across the ‘electronic’ demand and supply chains (outsourcing non-core and at times core activities), which would free up corporate capital resources to decapitalise non-core assets. However, when we look more closely at the facts of the past twenty or so years, the theoretical surface no longer seems smooth with the shift from a virtuous circle of industrialised value creation and job creation, where businesses were prospering, employment expanding and communities thriving to a post-industrial globalised world. This new economic world order is where corporations moved to lower-cost regions and production capability became distributed more widely, and as we get closer to the evidence of leaner but meaner working conditions, more responsibilities and fewer staff, longer working hours, stagnant salaries, smirking bean counters promising more cuts, and powerless nation-states in the face of an increasingly weakened link between business growth and local job growth, cracks begin to appear. This thesis examines such resource allocation tensions, which are often articulated in socio-economic, political, technological or ethical rationales, with accounting arbitrarily ‘calibrating’ their parameters. These parameters may include age, time limits, useful lives, budgetary and efficiency constraints. The purpose of which is to privilege and

legitimize parochial power structures over deep-seated inequities of resource allocation.

Design/Methodology/Approach

Accounting is a complex communicative symbolic exchange of interests that obfuscates the potency of our role, in the pacification and de-politicisation of resource allocation tensions. The spectacle of international and regional wrangling over economic governments' bailouts and rescue packages due to the 2008 Global Financial Crisis and the continuing European Debt Crisis, only overwhelms its observers and disconnects them from the *powers* that *control* their *lives*. The disenfranchised populace are out in force voicing their discontent, but nevertheless are completely oblivious to *who* should be *blamed* for their miserable condition. Some blame politicians and foreign governments, while others blame corrupt institutional structures and financial institutions, and so forth. All the while, the spectacle and its euphoria go on, away from the perpetrators of exploitation and injustice. The contemporary nature of MetaCapitalism that has its intellectual underpinnings in the contentious neoliberal ideology, lends itself to an exploratory approach in its study so as to clarify and define its problematic nature. This thesis develops an exploratory evaluating methodology that provides an analytical critique of the subjective-objective complexities of the MetaCapitalism model assumptions, so as to provide evidence of the model's success or failure.

Findings

Presented in this way, the story sounds historically compelling, logically consistent and empirically convincing – but only if I can establish one basic fact: the global process of 'financialisation' has been led by the United States. Its liberalisation and

deregulation of financial markets in favour of self-regulatory regimes, have failed to avert the recurrence and intensity of financial crises. This is the starting point. So let's look at the evidence. MetaCapitalism change strategy has exacerbated the intensity and frequency of structural resource allocation changes within the largest global corporations and this has amplified their market volatility. The Big 4 audit firms, who monopolise 85 per cent of the global audit market, have failed their agency role within the financial markets. The findings from the analysis of nearly 70,000 corporations reveal that they have failed to recognise the complexity of the new technological structural changes to resource allocation, even after analysing their conventional analytical methods, which should have signalled the problems. How could they have missed those signals when giving unqualified opinions of the audited financial reports of corporations, which have subsequently collapsed or had to be bailed out within less than a few months from the issuance of the audit report?

Originality/Value

The scale of the study, breadth of the analysis, and novel critique of the new technological business changes and their neoliberal ideological underpinnings, are some of the contributions of this research. However, one of the most important contributions of this research is the development of a corporate performance evaluation method, which exposes the culpability of the Big 4 audit firms in their failure to fulfil their entrusted agency role in the financial markets.

self-regulation

CRAs, IASB (IFRS)

agency

Big 4

deregulation

public sector reforms / privatisation

Did the neoliberal ideology deliver on its promises of **efficiency** & **untold wealth**?

MetaCapitalism Performance Evaluation Methodology

I - Profile Analysis

Q1. MetaC widely adopted?

Q2. MetaC = Hi Volatility?

Price Trends
-189.78 (52 weeks)
-8.0 (2006-09)

Equity Price Volatility (360 days)
Big 4 firms **3.10 (14 times)** the average for banks audited by non-Big 4 firms).

Beta (360 days)
average for 5 reference indices was **5.68 (9 times)** the average for banks audited by non-Big 4 firms).

Q3. MetaC outperform Non-MetaC?

Net Income
MetaCapitalised (2006-09)
Big 4 [72.11]
Non-Big 4 [2.70] (1996-09)
Big 4 [33.93]
Non-Big 4 [2.85]

Earnings Per Share
MetaCapitalised Banks 2007-09
Big 4 [-26.63]
Non-Big 4 [-2.95]

Resilience
MetaCapitalist banks received **84%** of all bailout funding and lost **64%** of all market capitalisation losses during the crisis

Q4. Who's to blame for MetaC underperformance?

Self-regulatory CRAs
S&P / Moody's / Fitch
Failed to reflect risks & volatility
"Prime/High Grade/Medium" assigned to 90% MetaC banks audited by Big 4

Self-regulatory IASB (IFRS)
90% IFRS adopters audited by Big 4

Agency Big 4 Audit Firms
Monopoly
85% global audit market
unqualified opinions
84% bailed-out
76% of failed banks
didn't recognise impact of market risk & high volatility & reflexivity on the going-concern.

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1 INTRODUCTION

1.1 Statement of the Problem

This thesis is an *analytical critique* of the MetaCapitalism phenomenon, which defines its accounting parameters, examines the long-term implications of its efficiency claims for corporations, and its impact on and reaction to the financial markets.

It empirically demonstrates for the first time one of several mechanisms of linking MetaCapitalism's neoliberal claims that the deregulation, agency and self-regulation of markets would result in efficiency and untold wealth for corporations and society.

Evidence point to the contrary: poor market performance, mass decapitalisation of corporations and their extensive reliance on outsourced and offshored networks of providers which has only undermined their survival in the long-term, giving rise to monopolies and oligopolies and severely exacerbating the global financial crisis of 2008.

MetaCapitalism is a term coined by the largest accounting and consulting firm in the world, PricewaterhouseCoopers (PwC) Global, to describe their manifesto for 21st Century companies and markets.

MetaCapitalism describes a 'generic recipe' (or should I say a 'universal recipe', given the wide influence and global reach of the Big 4¹ accounting and consulting

¹ PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst Young and KPMG (in order of their total revenues for 2012) comprise the 'remaining' Big 4 accounting firms, after the spectacular fall of Arthur Andersen (Accenture is the newly formed firm by its previous partners and employees) after being found guilty for its role in the Enron debacle in 2001. The Big 4 firms' operate in over 120 countries with total cumulative revenue in 2012 of US\$ 110 bn, placing them in the top 30% of the world or 61st place out of 200 countries, which was the equivalent to the total GDP of the bottom 55 countries. Their size and reach allows them more access to the corridors of power, especially with

fraternity) for corporate transformations to exploit the efficiency gains from the composite of political, economic and technological changes.

The rise of neoliberal regimes brought economic policies that were business-friendly, with the deregulation of mainly labour markets and relinquishing of the state regulatory powers to self-regulation, which facilitated outsourcing/offshoring, and the utilisation of the new information and telecommunication technologies. By examining this phenomenon, the thesis brings the central conflict in resource allocation to the fore.

The conflict is between two diametrically opposed systems. That of *closed* (internal) organisational systems mired in opaque and oppressive managerial machinations of biased control and manipulations to ‘efficiently’ allocate resources, and the more democratic exchanges of *open* (external) free market systems in resource allocation.

This forcible *internal* resource allocation, according to some artificial measure of efficiency, like MetaCapitalism, inhibits internal systems, making them extremely fragile and susceptible to ‘external’ *Black Swans*², while exhibiting no visible risks.

The global free-market economy is driven by an efficiency imperative, and accounting, as the primary means of measuring³ corporate efficiency, no doubt

strategies ranging from donations to political parties and employing ex-politicians (such as, the ex-Queensland Premier, Wayne Goss as chairman of Deloitte and the ex-Victorian Premier, Steve Bracks, at KPMG) for influence, and ensuring their representation on professional standards boards & market regulatory bodies.

² Nassim Nicholas Taleb (2007) defines Black Swans, as those statistically unpredictable large-scale external events, like the rise of the Internet, and the September 11th, 2001 attacks, and the global financial crisis of 2008.

³ Corporations raise Capital to fund Assets (Balance Sheet), then they utilise those Assets in the course of their economic activity to generate Revenue while incurring Expenses (Income Statement), with the results of their economic activity for the year (Profit or Loss) borne by the Owners of Capital (in the Balance Sheet). In essence then, accounting measures how well or ‘efficiently’ a corporation had allocated its resources.

privileges the efficient market hypothesis. The U.S. financial crisis in 2008 quickly spread worldwide due to the interconnectedness of the global economy in trade, finance and investments. The impact on developed nations and emerging markets, and their level of economic integration and policy responses only cushioned their reaction to the crisis.

This thesis aims to demonstrate that the very obsession with the ideal of ‘efficiency’ by corporations, through deploying ‘internal’ efficiency change strategies, such as MetaCapitalism (since its early adoption⁴ in the year or so just before the beginning of the new millennium, given the early promises of Internet technologies), may have compounded, if not caused among others, the 2008 Global Financial Crisis.

1.2 Motivations for the Research

This research was prompted by my observation of CISCO’s share price plummeting from \$83 to \$18 at the end of 2000, when the Internet bubble burst. I remember asking myself, how could the share price of the darling of the Information and Communication Technologies (ICT) sector, and the poster child of the *MetaCapitalism* book, fall 78%?? It just seemed *bizarre* to me.

The Internet bubble burst and market participants’ unrealistic expectations made me more sceptical of such ‘seasoned’ arguments for the collapse of the ICT sector, especially due to the fact that other sectors were also equally affected.

⁴ It is my firm view that cumulative efficiency transformations of corporations over a long period of time, which supposedly made them much leaner without any corporate slack, only made them extremely fragile, as they were unable to cushion any unexpected large-scale market volatility.

It seemed to me that companies that were *reconfiguring*⁵ their capital, technology and labour resources for short-term profitability, were doing so at the expense of their long-term survival.

This was not only bad for companies and harmful for the economy, but also devastating for the workers, their families and the wider community. In doing so, are corporations reneging on their social contract⁶ – if ever they were party to it?

The suppressed voices of those devastated workers, their families and communities, made me determined to unveil the fallacy lurking beneath ideas, such as innovation, outsourcing and decapitalisation, which constitute the main tenets⁷ of MetaCapitalism.

⁵ Corporations were changing how they were allocating their (unique mix of) capital, technology and labour resources to capitalise on the Internet and business-to-business (b2b) technologies so as to achieve 'efficient capital usage'. The Internet innovative capacities had enabled companies to outsource much of their non-core activities (initially), then much of their core activities to partners and alliances that can do it better and cheaper. That lead them to embark on a massive decapitalisation program which meant that they were able to cut down their long-term borrowings, and reduce considerably their operational expenses (with many of those expenses –including salaries- being spent on maintenance of their *capitalised* plant, property and equipment). For example, Virgin Blue and Qantas in Australia outsource much of their "above the wing" services such as counter, check-in and lounge staff, and/or "ramp" services that include baggage-handling, replenishing stores on board and cleaning planes, to companies, such as Aero-Care, Menzies Aviation and Toll Dnata (Heasley 2010).

⁶ The idea of a 'social contract' implies that the people surrender their sovereignty to an authority (usually a representative authority of the people, like government), in return for social order through the rule of law (determined by the representative authority of the people). However, the rise of multinational corporations that operated on a global scale brought (through political campaign finance in developed nations and corruptive practices, such as bribes, in underdeveloped nations) economic and social policies, such as globalisation, which favoured those corporations. Those corporations cultivated and brought politicians into power, who mastered neoliberal populism, like Thatcher in Britain, Reagan in the USA and Howard in Australia. The neoliberal ideologues maximised the role of the private business sector in determining the political and economic priorities of the state, and hence subverting the social contract. This subversion of the social contract implied that the people surrender their sovereignty to the free market in return for their freedom to participate through the rule of market laws of demand and supply. The ideals of a social contract as envisioned by Hobbes, Locke and Rousseau were undermined by the rules of demand and supply, with corporate participation in society, has become increasingly unjust.

⁷ **Innovation** enabled corporations to transform their demand and supply trade exchanges with their customers and suppliers through the Internet and this enabled (better controlled) **outsourcing** of non-core and core activities, which naturally eliminated the need for capital resources (**decapitalisation**), like PP&E (plant, property and equipment) and their long-term financing liabilities (long-term debt), let alone all their associated expenses, within the corporation.

It is my belief that critical accounting research should be a place of dissent and debate, especially of ‘fancy’ ideas like that of MetaCapitalism promoted by the Big 4 accounting (fraternity) firms. The role of these firms in pushing a particular neoliberal agenda to bring about changes which are mostly beneficial to the owners of capital, but not necessarily the workers, made it the more worthwhile to embark on such an analysis.

However, my dilemma in this research was thus: how can I expect a financial practitioner to listen to or understand my arguments about their financial statements and analysis, in a language that is totally foreign to theirs, and without countering their analysis with a ‘better’ analysis of those numbers? How could my analysis have any legitimacy in the world of ‘*numbermania*⁸’, which has been legitimised by global institutions and governments over the last 30 years?

This is why I am of the view that critical accounting studies should engage practitioners using their own language of “numbers” even if those “numbers” were ideologically undesirable and imprecise. The fact that a wealth of critical insights would be brought to bear on the analysis of those numbers may prove advantageous in providing a wholly different lens to how those numbers should be viewed within their larger socio-economic context.

1.2.1 The Financialization Menace

Bruce Bartlett (2013) claims that *financialization* may be to blame for the slow growth of the U.S. economy five years after the 2008 global financial crisis. He

⁸ Numbermania is a term coined by the late Professor John Oxland, my colleague and friend, in an article about Voltaire’s *Candide* in one of his travels stumbling upon *Numbermania*, which he wrote in the student magazine AIESEC, to describe some of the convoluted machinations of our accounting colleagues and their unfettered obsession with empiricism, when we both worked for the University of Sydney in 1991.

contends that financialization is an important factor in the growth of income inequality, which may have been contributing to slow growth.

Financialization or the growth of the financial sector as a share of the gross domestic product is not a new invention. It is merely a modern extension of its original Florentine invention during the trade expansions across Europe of the late thirteenth and early fourteenth centuries (Arrighi 1994:96).

The financialization of our economies and their associated sovereign debt crisis only mirrors a long history⁹ of city and nation states that collapsed under the weight of their debt to finance their ‘expansionist’ ambitions, like Venice (1490), Genoa (1555), Spain (1650) and Amsterdam (1770).

Arnold (2009:806) argues that the economic downturn of the 1970s as a result of global overproduction and declining rates of profit prompted the “US to adopt a host of monetary, fiscal, regulatory, and trade policies to promote the growth and global expansion of the financial sector” in the last quarter of the twentieth century.

It has been argued elsewhere that the “financial services sector contributed 8.3 per cent to US GDP at its peak in 2006 from 4.9 percent in 1980 and 2.8 percent in 1950.” (Greenwood & Scharfstein 2013:3)

⁹ Public debt has been inseparable from the nation-state throughout its evolution. The expectation of future ‘conquests, harvests, or taxes’ fuelled the public debt ‘frenzy’ that ensued from Babylonian times to our present day. The Peloponnesian Wars did not only spread the debt ‘habit’ throughout the Greek city-states, but had also contributed to the erosion of Hellenic power and the rise of Rome. The Venetians innovated the art of financialization, where they allocated debt to the state, and confided its management to a specialized bureaucracy (public treasuries). Since, the repetitive pattern of moratoriums, inflation, and defaults were disrupted at times by revolutions, such as the French revolution in the 18th century. Interestingly, there were more than 300 national defaults recorded between the years 1800 and 2009 (Attali 2010).

Figure 1.1 The Growth of Financial Services

[Source: Greenwood & Scharfstein 2013:4]

This radical shift had the unintended effect of a surge in finance capital and the unholy alliance between economic and political interests on a global scale more than ever before. (Arnold 2009:806; Arrighi 2007:118; Bartlett 2013; Greenwood et al. 2013:25; Kripner 2005:173; Nitzan et al. 2009).

The boost in financialization was at the expense of investment in the “real” economy, and the rising cost of financial intermediation to nonfinancial corporations has shrunk the internal funds available for investment, shortened their planning horizon and increased uncertainty. (Greenwood & Scharfstein 2013:5)

Greenwood and Scharfstein (2013:5) points out that those working in the financial services industry had comparable wages to their counterparts in other industries in 1980, but that changed dramatically by 2006 to about 70 percent more on average. This meant that more of the highly skilled workers would be drawn to work in the financial sector, which deprives other sectors of the “real” economy of their skills.

Others have also observed the domineering role by the financial sector when competing against other sectors for scarce resources. The Bank for International Settlements found that, “.. the impact of finance on economic growth is very positive in the early stages of development. But beyond a certain point it becomes negative, because the financial sector competes with other sectors for scarce resources.” (Bartlett 2013)

It seems that the privileged position of the financial sector in exerting *undue influence* over scarce resources by comparison to the real economy can only lead to extracting economic rents from the real economy, which would contribute to slow growth.

1.2.2 The Rising Income Inequality

The neoliberal tidal wave of ‘enforcing’ privatisation and deregulations of markets over the last three decades, since Thatcher and Regan came to power in 1979 and 1980, was at the great expense of the labour market.

The outcome of more income going to financial assets is a decline in labour’s share of the nonfarm business sector, which has fallen 12 percentage points since its peak in early 2001 and even more from its historical level from the 1950s through the 1970s. (Bartlett 2013)

Figure 1.2 Labor Share of Nonfarm Business Sector in the United States

[Source: Bartlett 2013 and Federal Reserve Bank of St. Louis]

The International Labor Organization (ILO) states

“in the case of developed economies all factors contributed to the fall in the labour income share over time, with global financialization playing the largest role. The estimates mean that, in terms of relative contribution, global financialization contributes 46 per cent of the fall in labour income shares, compared to contributions of 19 per cent by globalization, 10 per cent by technology and 25 per cent by changes in two broad institutional variables: government consumption and union density.” (ILO 2013:51)

Therefore, if “financialization” is contributing to growing income inequality, then it stands to reason that in the absence of good-paying jobs, the purchasing power of the middle-class would be diminished, which would reduce their consumption of goods and services. This fall in consumption can only lead to the economy slowing down.

1.2.3 The Mass Layoffs and Poverty

In the United States, mass layoffs have been quite the corporate ‘sport’, and according to the United States Bureau of Labor Statistics (2001) “one-third of all layoff events and separations in the private sector in 2000 occurred in manufacturing industries”.

Compared with 1999, the number of layoff events and worker separations increased due to internal company restructuring, with separations reaching 253,796 workers. Layoffs were most pronounced in the manufacturing sector of motor vehicles and car bodies, motor vehicle parts and accessories, and aircraft.

It was no surprise, then, that the horrific attacks of September 11th, 2001 on the United States not only brought carnage and horror, but also mass layoffs by airlines and large aircraft manufacturers, like Boeing who used the attacks (Sustar 2005) to push through massive job cuts of approximately 30,000 workers.

While it is difficult to determine precisely how many of the job cuts can be blamed on the attacks, the Department of Labor claimed (2002) that the attacks were either directly or indirectly cited as the cause for 408 mass layoffs of 114,711 workers in the final quarter of 2001.

A Newsweek report (2010), echoed identical sentiments to that which I observed (Mickhail et al. 2006) when examining the airlines industry and their response to the September 11th, 2001 attacks in the USA:

the majority of the layoffs that have taken place during this recession — at financial-services firms, retailers, technology companies, and many others — aren't the result of a broken business model. Like the airlines' response to 9/11, these staff reductions were a response to a temporary drop in demand; many of these firms

expect to start growing (and hiring) again when the recession ends. They're cutting jobs to minimize hits to profits, not to ensure their survival.

It is still outrageous to think that corporations are cutting jobs to minimise the effect on their short-term profits, rather than their long-term survival. If indeed such a mind-set is the standard operating procedure, then one must question its contemptible premise for workers, especially when the highest rewards go to the ones who lay-off the most workers.

10 Highest-Paid CEO Layoff Leaders			
Company	CEO in 2009	2009 total compensation ¹¹	Announced layoffs (11/1/08-4/1/10) ¹²
1. Schering-Plough	Fred Hassan	\$49,653,063	16,000*
2. Johnson & Johnson	William Weldon	\$25,569,844	8,900
3. Hewlett-Packard	Mark Hurd	\$24,201,448	6,400
4. Walt Disney	Robert Iger	\$21,578,471	3,400
5. IBM	Samuel Palmisano	\$21,159,289	7,800
6. AT&T	Randall Stephenson	\$20,244,312	12,300
7. Wal-Mart Stores	Michael Duke	\$19,234,269	13,350
8. Ford	Alan Mulally	\$17,916,654	4,700
9. United Technologies	Louis Chenevert	\$17,897,666	13,290
10. Verizon	Ivan Seidenberg	\$17,485,796	21,308

Table 1.1 10 Highest-Paid CEO Layoff Leaders

[Source: Anderson et al. 2010:6]

It was the top 500 companies in the USA, which announced 697,448 layoffs between November 2008 and September 2010, with more than 75% of these layoffs (531,363) taking place in just 50 companies (over 3,000 jobs each).

The Institute for Policy Studies found (Anderson 2010:26) that *the top 50 US CEOs who laid-off the most workers got the most pay* (Table 1.1 above). Meanwhile, Europe, Asia and South America are under constant attack to make their labour markets more “flexible”, in ways similar to the United States.

Bakija et al. (2010:1) argue that the past three decades have witnessed the considerable rise of “the percentage of all pre-tax income (excluding capital gains) in the United States that was received by the top 0.1 percent of income earners” from 2.2 percent in 1981 to 8.0 percent in 2006. In their study of income inequality and income growth of top earners, they have observed the following:

- (a) The incomes of executives, managers, supervisors, and financial professionals accounted for 70 percent of the increase in the income going to the top 0.1 percent of the income distribution.*
- (b) The fastest income growth was that of financial professionals in the top 0.1 percent.*
- (c) The incomes of the top 0.1 percent seem to move in tandem with stock market prices during the period, which suggest that some combination of corporate governance issues, the stock market, and entrepreneurship are probably very important parts of the explanation for rising top income shares since 1979.*

They conclude unequivocally that the phenomenon of “*financialization*” is one of the “principal drivers of the rising share of income going to the ultra-wealthy or the top 0.1 percent of the income distribution.” (Bakija et al. 2010:27)

Figure 1.3 A Comparison of Poverty Measures in the United States

[Source: Moore 2012]

Should one, then, be surprised that poverty levels in the leading economy of the world, which were at 16% with nearly 1 in 6 Americans being poor¹⁰ in 2012 (Moore 2012), were correlated to unemployment levels since 1968 (U.S. Federal Reserve 2010), as can be seen clearly in figure 1.4 below.

¹⁰ Official poverty estimates have traditionally been prepared according to a formula based on cash income; but a new supplemental poverty measure (SPM) started in 2010 incorporates more factors, such as tax payments and work expenses. Consequently, poverty rates overall – and among specific groups – vary between the two measures (Moore 2012).

Figure 1.4 Correlation between Poverty and Unemployment Levels

[Source: U.S. Federal Reserve Economic Data Repository, Census P-60 reports 2010]

After all, in 1980, it was Ronald Reagan who forged ahead with Milton Friedman's economic shock doctrine, in reforming the U.S. government and liberalising the financial markets.

At the end of his second term, and according to the Federal Reserve, in 1990 the richest 1% owned 40% of its wealth and the richest 20% owned 80% of America - the greatest level of inequality among all rich nations, and the worst in U.S. history since the roaring 1920s.

1.2.4 The Dominance of the Neoliberal Ideology

Figure 1.5 Cartoon with a play on words of Reagan's slogan.

Source: The Christian Science Monitor (2012)

Neoliberalism contends that the primacy of individual rights is paramount and can only be ensured through: (a) a free market, where the individual is at liberty in choosing their socio-economic needs and services from either public or private institutions, (b) the rule of law, and (c) governments moderating free trade.

The crux of neoliberalism is individual self-determination, instead of having a Nanny State, which decides what is best for the individual, so responsibility for the provision of socio-economic services rests with the individual instead of the State. The assumption is that individual choice would cause costs to plummet. This should, in theory, spur economic growth due to efficiencies and cost reductions.

The Reagan-Thatcher legacy in breaking down trade barriers and organized labour while privatizing state-run industries, had a domino effect, with other countries modelling their policies, that were often more pronounced and extreme, to ensure a greater boost to their economies.

The prevailing mantra of consumer choice, markets, and efficiency promised by the private sector and its expanded role in determining the political and economic

priorities of the state, does not always work for the common good. Consider the role of private financial institutions in the global financial crisis of 2008, and the role of the privatised nuclear energy sector in the Fukushima disaster of 2011 in Japan.

It is inescapable how the neoliberal ideology seems to have trumped any other political discourse in the last 30 years, while being condoned by the masses that elect its political proponents into government, with the promise of economic prosperity which always comes with strings attached, such as: massive cuts to public health, education and social welfare services.

The domino effect of its rehearsed parade of socio-economic policies, usually goes something like this: (a) massive cuts to public services, especially social welfare, health and education, (b) liberalising markets from regulation, especially labour-centric regulation, in order to exploit such favourable operating conditions¹¹ by, for

¹¹ Fundamentally, there are two main exploitative forms (of economic imperialism that are at play) of favourable operating conditions. The first usually takes place externally, often in a third world nation, where the foreign corporation capitalises on corrupt local officials to facilitate contracts, operational setup, and to conveniently ‘overlook’ any breaches of inferior regulation concerning employment and work conditions, while ensuring the ‘loyalty’ of the workforce despite their bare subsistence compensation and often inhumane working conditions. This is notwithstanding, the modest quality of materials and machinery used in the production process. However, there is a much darker side to offshoring and outsourcing, namely: human trafficking and slave labour, with ‘bonded labour’ as its most common form in places like India, China and the USA. The CNN Freedom Project (CNN 2011) on human trafficking highlights the extent of this problem, with the main reason being the considerable drop in the price of a slave to only US\$90 on average in 2009, as compared to an average of US\$40,000 in 1809 when adjusted to today’s money. The International Labour Organisation (ILO) estimated the number of slaves in 2006 to be between 24 and 32 million in the world. In the United States, for example, Mexicans who are without papers and owe exorbitant amounts of money to their traffickers (bonded labour), would be coerced to work 18 hours a day on farms, or construction sites or dress-making factories (for high-street brands that are sold in large department stores) for meager pay, sub-standard accommodation and one meal a day. The U.S. Equal Employment Opportunity Commission, filed a lawsuit (Carter and Tamura 2011) accusing Global Horizons Manpower Inc., based in Beverly Hills, California; and eight farms in Hawaii and Washington state of luring more than 200 men from Thailand under a federal H2-A visa program to work at farms where they were subjected to abuse. The lawsuit alleged that the men had: (a) their passports confiscated, (b) were not paid for their work, (c) were barred from leaving the farms, and (d) were forced to live in cramped, dirty conditions. According to Brian Byrnes (2011) nearly 80 percent of the clothing produced in Argentina is made by 25,000 workers in 3,000 clandestine clothing factories. Those ‘illegal’ workers, like their counterparts in places like Thailand and Brazil, were lured in with the promise of steady work, a dignified wage of about US\$200 a month, and a home. Unfortunately, the reality left much to be desired - when working for 18 hours a day, seven days a week, in a hot, crowded factory, rarely

example, relocating industry (through outsourcing and offshoring) to where production is cheap, and (c) shifting the tax burden from the super rich onto the middle class, in the hope of job creation.

The Conservative government cuts in Britain is a case in point, where much loathed neoliberal policies were pushed through since, coming to power in May 2010. Their approach commenced with an “enemies of enterprise” attack (Watt 2011) on the civil service, followed by severe-cut backs of public services, such as education, health and social welfare benefits (e.g., childcare support).

Sparrow (2011) argues that the National Health Service (NHS) had to contend with *reforms* focused on closing public hospitals if they were not competitive, privileging private patients, and with less accountability for NHS services (read closing NHS units without any consultation).

Those future reforms were described by one of the prime minister’s advisors at a conference of private equity executives in New York, as ones that “would show *no mercy* to the NHS and offer a *big opportunity* to the profit sector.” (Boffey & Helm 2011)

Reforms such as these were considered extreme even for the government coalition partners, the Liberal Democrats. Both the deputy prime minister and the business

being allowed outside, sleeping in hallways, for a paltry US\$25 a month. The Chocolate and Cocoa industry is an example of exploitation of Child labour, where the ILO estimates between 56 to 72 million African children work in agriculture, with 60 percent of global cocoa production being produced in the Ivory Coast and Ghana. The second exploitative form of favourable operating conditions is internal. Once much of the manufacturing and services had been relocated overseas, then there is pressure on governments to ‘dilute’ regulation of local labour working conditions. This usually takes the form of ‘liberalising’ the workplace by changing the often permanent, highly paid and generous leave entitlements to more temporal and inferior workplace entitlements. In order to drive salaries and entitlements down further, the business lobby often pressures governments into creating temporary visa categories to bring in guest workers, which increases the labour supply causing local labour to compete with foreign labour over temporal and inferior workplace entitlements.

secretary, lashed out at how "the health service reforms went some way beyond what was in the coalition agreement" (Fallon 2011), and vowed to block the planned NHS reforms, unless there were "substantial, significant changes" to the proposed package.

Such reforms, like many others proposed by like minded governments elsewhere, seem like a naive reading of the *Tragedy of the Commons*¹², with the neoliberal proviso that the "sum of separate ego-serving decisions would be the best possible one for the population as a whole" (Harding 1998).

The Noble Prize Economist, Paul Krugman (2011), explains that this view of resource allocation is one driven by a small group of ideologues, and that it was never in response to demand by the populace.

He argues that the global financial crisis was a "top-down disaster", driven by neoliberal policies championed by a small group of influential people in the service of party ideology during the George W. Bush years.

For example, the bulk of the tax cuts went to a small affluent minority, which is why energy and pharmaceutical companies make extraordinary profits, but governments

¹² 'Tragedy of the Commons' is a term that was first coined by scientist Garrett Harding in an article in the journal *Science* in 1968, describing the dilemma of how multiple individuals acting independently in their own short-term self-interest, would be in essence working against their own long-term self-interest! Harding, who has been a proponent of a 'managed commons' in the face of population growth, argued in an extension (1998) to his seminal thesis (1968) on the "Tragedy of the Commons", that the "cardinal task for Government, is to marry a philosopher's literate ethics to a scientist numerate analysis". Harding's view was that "the language of 20th-century commentators and traditional thinking was magnificently verbal and deplorably non-numerate", which was also a view shared by Rosenhead (1995) about the absent role of scientific analysis in informing public policy decisions in the UK during the Thatcher years. Since then, there have been several interpretations and reinterpretations of the Tragedy of the Commons dilemma, with some favouring the prevalence of private ownership, while others favouring government intervention. One thing remains unresolved with all the permutations and combinations ranging between government intervention and no intervention: the difficulty of measuring the effect of what an individual does at the micro-level on the collective at the macro-level.

are unable to tax such windfall profits or stop the billions in government subsidies, let alone secure lower prices or enforce environmental protection laws.

Secondly, the decision to invade Iraq (Krugman 2011; Lackoff 2004), was something the president and his close circle of advisors wanted to do, as it was not in response to the American populace who sought to change a regime that had nothing to do with 9/11. Thirdly, the powerful elite in Washington, who had close links, with the financial industry, brought in, the reckless financial deregulation.

It is uncanny how those “top-down” policy prescriptions by elites everywhere, seem to be like a *universally scripted response* to the *threats by major corporations* to relocate their production and jobs elsewhere, if they were not given tax subsidies or allowed price-gouging. Three groups usually deliver those threats to an unsuspecting populace (Wolff 2011).

First, corporations deliver the boardroom mantra using their corporate (mouthpiece) spokespersons. Secondly, politicians who are mindful of their corporate sponsors¹³ often repeat in public the mantra communicated by those corporate spokespersons.

Thirdly, various commentators explain those threats or what corporations want, by translating them into: (a) accessible common sense for the layperson, usually by journalists, and (b) economic science to legitimise their validity, usually by academics who subscribe to the neoliberal bent.

Those highly dubious ‘reforms’ promoted by corporations and their crony elite ideologues are a serious threat to democracy and the common good of all citizens, as

¹³ It is to be noted that corporate sponsorship is not the only means to reign in politicians. The Australian mining sector dethroned Kevin Rudd, the Australian Prime Minister (reclaiming it back in 2013), from his elected office in 2010, because he dared to challenge the status quo and introduce the “Resource Super Profits Tax” and the “Carbon Pollution Reduction Scheme”.

they translate into cutting social programmes required for development, like education, health and social security.

Those reforms only lead to the destabilisation of the employment landscape and subsequent unemployment, as is the case with the United States who have mass unemployment (Krugman 2011) for the first time since the 1930s.

The coupling effect of market liberalisation and aggressive social welfare reforms renders any safety nets ineffective for the vulnerable in society, and plummeting them into poverty.

The recent geopolitical shift by 32 Latin American countries (CELAC) away from an era dominated by pro-U.S. policies of free trade and neoliberalism was not a surprise (Taylor 2011). The exclusion of the United States and Canada from the newly formed bloc is testimony to the common social agenda of Latin America, which was marginalized by the North American neoliberal agenda. The symptoms and causes of poverty have become the priority of right and left leaning governments in Latin America.

One might then ask: why ‘ruthless, calculating and thoroughly tribal’ (Fallon 2011) governments espousing neoliberal policies in Anglo-American countries appeal to voters who bring them to office? Has something changed in the sentiments driving voters today, in comparison to the strong sentiment of egalitarianism present when the “new deal” was brought in with overwhelming popular support in the United States? Could this radical change in sentiment be signalling the end of democracy itself?

The immeasurable societal angst and misery caused by a highly questionable accounting practices based on the parochial advice of consulting firms, which are rooted in a fundamentalist obsession with a flawed economic ideology, is my main motivation for undertaking this research. I aim to furnish reasoned experimental evidence, as to the detrimental effect of such ideology on corporations' long-term survival and society's overall well being.

Obviously, the confronting changes over the past decade, since I became interested in examining the MetaCapitalism phenomenon, provoked an intense sense of disbelief that one was actually observing such socio-economic experimentation *en masse* unfolding before one's own eyes, which makes it rather difficult to write dispassionately or objectively about it.

I hope that this research will contribute to improving our practical knowledge of corporate performance, and that the findings will help provide an analytical underpinning of why society and its institutions, both public and private, should be motivated by long-term aspirations, and not just by fleeting short-term instantaneous gratifications.

1.3 Structure of the Thesis

Chapter two - background and literature review

This chapter crystallises in concrete arguments how previous research furnished some of the motivations for this research, and how this proposed integrated body of research articulates a defensible critique of the fallibility of the technical mantra of the neoliberal political ideology in society.

Chapter three – methodology

The paradox of social science research in general, and accounting research in particular, stems from the futility of articulating some universally accepted theoretical measure of the universal unpredictability of human norms and practice. Hence, there exists no single unified theory of accounting or any other human practice, for that matter. However, what social science and accounting researchers often endeavour to do is to impart a theoretical understanding that balances the multitude of interests in society, and brings it to bear upon their particular practice. This stated aim has been undermined in the last thirty or so years by the concerted effort of a relentless neoliberal machine, that is financially supported by big banks and multinational corporations to promote their own economic interests at the expense of the welfare of the masses. This renders any supposedly democratic process dysfunctional, with the political *Right* being the guardians and promoters of the neoliberal agenda and the political *Left* facing a hopelessly compromising¹⁴ position. This research proposes a methodology, not a theory, given the futility of such an endeavour. It stresses the urgent need for a new critique of Capitalism that targets, evaluates and demonstrates the technical futility of the neoliberal methodology. I certainly believe that the rhetorical critique of the neoliberal agenda is meaningless, and cannot be won against such a prevailing opponent. There may be a chance however, in battling its privileging of the economic interests of the very few, at the expense of the masses.

Chapter four – results and discussion

This chapter examines the results of the proposed methodology, and contextualizes those findings within their neoliberal prescriptions, to demonstrate the long-term

¹⁴ The cruel treatment (Fraser 2011) of asylum seekers in Australia is a case in point, where both Left and Right compete in coming up with relocation and processing policies, that are equally inhumane.

socio-economic instability and failure of the neoliberal promise of exuberant wealth due to the uninhibited pursuit of economic efficiency. The proposed methodology examines the proposition that forcible *internal* resource allocation according to the MetaCapitalism measure of efficiency inhibits internal systems, making them extremely fragile and susceptible to ‘external’ *Black Swans* while exhibiting no visible risks. This research examines the effects of one major ‘Black Swan’, namely: the 2008 Global Financial Crisis, on the internal MetaCapitalism resource allocation in the top 400 financial institutions and banks in the World. The discussion of the key findings in each of the five analytical stages of the MetaCapitalism Performance Evaluation Methodology points to the dysfunctional role of self-regulation and the contentious role of the Big 4 audit firms. The final analysis attempts to establish if the Big 4 audit firms may be blamed for some of the upheaval in the global financial markets.

Chapter five – the hegemony of the efficiency doctrine

The hegemony of the efficiency doctrine through the domineering subservience of the Pnyx¹⁵ (the political space), to the predatory needs of the Agora¹⁶ (the economic space), can be seen in all aspects of our daily lives, from education, health and the provision of social welfare services. This unholy union between the Agora and the Pnyx had only aggravated the long established inequities between the bourgeoisie

¹⁵ The American School of Classical Studies at Athens, notes that in ancient Athens from around 507 BC, all male Athenian citizens “had the right to attend and vote in the citizen’s assembly; *Ekklesia*, which met about every 10 days. The *Ekklesia* ratified all decrees, before becoming law. As a rule, the *Ekklesia* met at its own special meeting place known as the *Pnyx*, a large theater-shaped area set into the long ridge west of the Acropolis.” (Agathe n.d.)

¹⁶ The archaeological evidence of the “numerous shops where potters, cobblers, bronze-workers, and sculptors made and sold their wares indicated the use of the Agora as a marketplace”. It was located “immediately north of three rocky heights: the Acropolis, which was Athens’ citadel, sacred center, and treasury; the Areopagus, seat of Athens’ oldest and most august court; and the Pnyx, meeting place of the legislative Assembly (*Ekklesia*).” The American School of Classical Studies at Athens claims, that “Nowhere is the history of Athens so richly illustrated as in the Agora, the marketplace that was the focal point of public life.” (Agathe n.d.)

and the proletariat through its vicious mechanisms of deregulation, agency and self-regulation. How can we possibly counter the prevalence of such a cruel doctrine that purports to empower people, when it is in fact exploitatively preying on the weak and destitute?

Chapter six – conclusions and recommendations

This chapter outlines the main conclusions reached from this research, which sets the platform for a concerted assault on the impractical, let alone inhumane, techniques of the neoliberal agenda.

1.4 Contributions of the Research

This thesis aims to provide a demonstrable analytical critique of the limits of the neoliberal efficiency prescriptions of deregulation, agency and self-regulation in resolving resource allocation tensions, and how they may have exacerbated the Global Financial Crisis of 2008. The thesis not only offers the first systematic analytical methodology to examine the performance of MetaCapitalism as a device of neoliberalism, but it also attempts to discover who may be to blame for poor performance by scrutinising the contentious role of the Big 4 audit firms in the crisis to establish if they were culpable.

2 BACKGROUND AND LITERATURE REVIEW

2.1 Introduction

The purpose of this chapter is to review the literature on the MetaCapitalism phenomenon from its inception in the year 2000, so as to provide the background information necessary for this study. The chapter begins by highlighting the increased uncertainties due to the interconnectedness of the global economy. Section 2.3 proceeds to make the link between those uncertainties and the neoliberal salvation offered by MetaCapitalism. Section 2.4 defines the MetaCapitalism ideological prescriptions. Sections 2.5 to 2.7 define the model, its leaders and predictions. Section 2.8 attempts to demystify the tenets of MetaCapitalism. These sections are then followed by section 2.9, which provides a number of concluding remarks and the chapter summary.

2.2 The Interconnectedness of the Global Economy

In Global Risks 2009 (World Economic Forum [WEF] 2009:9), September 2008 will not only be remembered as the month when Lehman Brothers collapsed and the world financial markets became dysfunctional, declining on average by more than 50 per cent but serves as a reminder of the undeniable interconnectedness of the world of trade and finance and their attendant risks. Uncertainty spirals as contagion arises from the coupling effect of trade and finance linkages and their risks.

Brad DeLong (2009) argued along similar lines, when he observed that, one of the first lessons of the 1990s was that “a globalized world is likely to be a more unstable world”. The interconnectedness of the global economy (Weiss 2008:5, Kato 2009, World Economic Forum [WEF] 2009:12) in trade, finance and investments, has no

doubt accelerated what was initially a U.S. financial crisis, and escalated it into a Global Financial Crisis (GFC) in 2008.

Mark Phillips (2009) reported that the Australian Prime Minister Kevin Rudd, on the eve of the G20 meeting in March 2009 in London, said that “the interconnectedness of what happens to banks in the city of London and banks on Wall Street and what happens with jobs in Brisbane and what happens with jobs in Birmingham, these are all linked.”

The IFAC President, Robert Bunting (2008) echoed similar sentiments in an interview with the American Institute of Certified Public Accountants (AICPA) acknowledging that “the global financial crisis has demonstrated the interconnectedness of global markets and the need for common sets of accounting and auditing standards”.

In an increasingly globalised free-market economy, where the evolution of internet telecommunication technologies has transformed and connected the demand and supply chains more than ever before, it is no surprise that the ubiquity of such interconnectedness, may be blamed for the speed by which the Global Financial Crisis spread worldwide.

2.3 A Neoliberal Salvation: MetaCapitalism

PricewaterhouseCoopers (PwC) may have been the first among accounting and management consulting firms, to articulate succinctly the ubiquity of such *global interconnectedness* in “MetaCapitalism: The E-business Revolution & the Design of 21st Century Markets”. The book was written by Grady Means and David Schneider

and published it in March 2000 under the auspices¹⁷ of PricewaterhouseCoopers, when they were Strategy Consulting Partners¹⁸.

Means and Schneider not only offered a comprehensive analysis of how B2B (business-to-business) e-business technologies would radically transform organisations and markets, especially during the years 2000-2002, but also prophesied (2000:ix), that “companies must either adapt or perish”.

It is without doubt that having the full endorsement of a corporate consulting giant, such as PricewaterhouseCoopers (PwC), by way of the corporate logo on the cover of the book and the CEO writing the forward to the book, must extend considerable legitimacy to the claims made in the book.

It is to be noted that the book’s claims are reflections of the social institution within which they originated, namely: PricewaterhouseCoopers. And as such the claims have a specific ideological function, based on the background and ideology of its authors, both of whom worked for PricewaterhouseCoopers.

The authors’ hyperbole begins in the introductory paragraph, when they claim that,

A worldwide earthquake is shaking the foundations of traditional economic and business thinking. And for once the results of a quake are good. It is generating a

17 James J. Schiro, CEO of PricewaterhouseCoopers emphasizes the central precept of Social Darwinism about how ‘companies must either adapt or perish’ in the first sentence of his forward to the book. His first paragraph claims that the book discovers ‘a truth that is at once exhilarating and sobering’. He goes on to stress the sense of urgency about how ‘the clock is ticking for every business’ to follow this ‘survival guide and road map’ about how to respond to the business-to-business e-business revolution which is ‘sweeping every corner of the economy’. In his final paragraph, he urges ‘business leaders, entrepreneurs, educators, legislators and public officials to absorb its chief findings’, given that ‘MetaCapitalism will literally change our world’.

18 Both, have later worked for IBM Business Consulting Services, when IBM acquired PwC Consulting practice in October 2002, after the Sarbanese-Oxley legislation enacted in July 2002, restricted auditing companies from providing non-audit services, such as consulting, for the same clients.

tidal wave of economic growth and prosperity, changing not only business but also politics and international relations. Economic value and wealth creation will accelerate to unprecedented levels. Global capital market value will grow from \$20 trillion to \$200 trillion in fewer than 10 years, unleashing undreamed-of possibilities and solutions to longstanding problems. This book documents the early tremors.

Such prophetic promise of sensational corporate triumph and long-term salvation, coming from the giants of consulting must, at the very least, seduce corporations to consider its prescriptions. However, one cannot escape the parallels between the cult-like prophetic prescriptions, which claim that “a worldwide earthquake is shaking the foundations of traditional economic and business thinking” and that “Economic value and wealth creation will accelerate to unprecedented levels”, and the promise of a spiritual experience leading to personal salvation.

Those inescapable parallels between consultants and cults, have been described elsewhere as

... the salvational promise of immortality is equally seductive, let alone dominant, in our personal and professional lives alike. The promise of a company's global successful salvation is no different to the promise of humans' salvation. It has been the most revered ideal over the ages and religions promise to deliver such salvation. Consulting firms are no different as they represent the modern religious experience to companies. (Mickhail 2001:12)¹⁹

It would be naive, on my part, to think that Means and Schneider, the strategy consulting partners, of the largest accounting and consulting firm in the world, PricewaterhouseCoopers Global, did not have access to the most up to date public

¹⁹ This is highly unorthodox to quote myself. It has been necessary to use my own name, because this is merely an indication of work that has been done.

opinion polls, or the in-depth profiles of corporate and political leaders. It comes as no surprise that the religious²⁰ overtones enveloping their ideas were pandering to the rise of religious fervour in the United States from the mid 1990s, with its strong support of a conservative social and political agenda.

2.3.1 A Religious Case for Capitalism

The political and social movements of the religious right in the United States and elsewhere were perhaps a ‘collective’ grassroots societal response to the *insecurities* fomented by globalisation.

Interestingly, it was these same social movements that supported the very policies that brought on those insecurities in the first place. Policies that touted ‘change’, ‘reform’ and ‘efficiency’, which were euphemisms for, and in reality translated to, fewer jobs, inferior working conditions and mass layoffs, further widening socio-economic inequality!

The “Less Government, More Jesus” slogan, which is often seen in conservative right wing rallies in the United States, might enlighten our understanding of this paradox.

²⁰ Max Weber (1905) argued that the Protestant work ethic had fuelled the Capitalistic spirit in many people to be Entrepreneurs and engage in secular trade, accumulating wealth for investment. One must ask, then, if the Protestant roots of the early founders of PricewaterhouseCoopers may have played a part in shaping its modern (and somewhat religious) corporate culture.

Figure 2.1 Less Government and More Jesus Sign

[source: Wikipedia]

One of the main challenges for liberal democracy is to balance its “secular laws” with the “laws of God” in ‘spirit’, given the increased religious sentiment globally, where 87% of the world declared themselves as being part of a religion in the Gallup International Millennium Survey (Gallup 2000).

After all, a collective religious experience brings a sense of spiritual hopefulness and certainty in the face of the rather uncertain future at the hands of globalisation and its rabid race for technological, economic, political and social change.

The spiritual void of globalisation was a prelude to a confrontation that was bound to happen in the aftermath of the horrific events of September 11th, 2001 attacks on the United States. The world has been engulfed by a ‘religious-war’ as a consequence of the much anticipated and feared cultural conflicts, of which religion was a key factor, and which was fuelled by the end of the Cold War and the collapse of the Soviet Union.

In an increasingly religious world railing from the uncertainties of globalisation, secular liberal democracy, with its total disregard for religious sensitivities (and the scriptures), with its support for legalised abortion, IVF treatment, and same-sex relationships and marriage. All of which, have been quite confrontational to most religious²¹ persuasions, thereby prompted organised action by networks (Maddox 2005) of right-wing think-tanks and religious organisations.

The conservatives had successfully constructed a “religious case for capitalism”, where they offered themselves as the guardians of religion with their appeal for a return to ‘family’, ‘values’ and ‘social stability’. This protectionism effectively concealed their ‘free-market’ economic agenda, and helped hijack the masses’ disillusion with the abject failure of secular liberal democracy. By use of ‘wedge politics’, the conservatives pitted the debate to be between the laws of (wo)man and the laws of the *Judaeo-Christian* God.

There is nothing that is intrinsically new about the use of religion by money merchants to cloak their unholy exploitative machinations and further their own interest. The current incidence serves to highlight the intractable *problematique* between religion and money.

²¹ Pete Winn (2010) reported recently how more than 850 Orthodox members of the Rabbinical Alliance of America called on the Senate Judiciary Committee not to confirm Supreme Court Jewish nominee Elena Kagan, because she was “not kosher” and that she “turns traditional Judaism on its head” with her record on issues such as “abortion-on-demand, partial-birth-abortion, the radical homosexual and lesbian agenda, the 'supremacy' of the anti-family panoply over religious liberties of biblical adherents .. that she will function as a flame-throwing radical, hastening society's already steep decline into Sodom and Gomorrah.”

Figure 2.2 Casting Out the Money Changers by Carl Heinrich Bloch

Is there a more powerful proclamation about such a *problematique* than the saying attributed to Jesus in the Apostle Paul's First Epistle to Timothy in the New Testament: "For the love of money is a root of all sorts of evil" (1 Timothy 6:10, KJV). Was it not Jesus that cleansed the temple in Jerusalem from the money merchants and their wares?

And Jesus went into the temple of God, and cast out all them that sold and bought in the temple, and overthrew the tables of the moneychangers, and the seats of them that sold doves, And said unto them, It is written, My house shall be called the house of prayer; but ye have made it a den of thieves. (Matthew 21:13, KJV)

It is instructive to observe the obsession of the Church in our modern times with the evils of sex and some, but not all, wars. What is highly disconcerting is its deafening silence about the evils of money and the free market. It seems to me that the social necessity for money has indeed overwhelmed any higher values to a perplexing conclusion.

2.3.2 Prosperity Gospel inhibiting Capitalism

The Prosperity Gospel, which roared in churches throughout²² America, sanctioning wealth as a mark of God's favour, and chastising the poor for having strayed from the path of righteousness, may have played more of a vexing role than was originally thought.

Since the 2007 sub-prime crisis, the demographical connection between foreclosure hotspots and the growth of prosperity gospel churches alongside the sun belt of the United States it has become abundantly clear. This connection has prompted some (Rosin 2009) to argue that this unholy alliance between money and religion may have indeed fuelled the sub-prime crisis and the 2008 financial crisis in the United States.

Jonathan Walton (2008) describes how he had consistently heard narratives like "once I was renting and now God let me own my own home" or "I was afraid of the loan officer, but God directed him to ignore my bad credit and blessed me with my first home", while he was researching a book on African American Televangelists in 2004.

The religious fervour in those testimonials about "what God can do," deflected much needed attention from the more earthly matters, like how the predatory subprime-mortgage industry, was actually targeting²³ African Americans and Hispanics.

²² These were mostly built around the fringe suburban developments of the Sun-Belt (California, Arizona and Florida) in the 1990s and 2000s, which were home to the exurban middle class and the urban poor African American and Latino congregations.

²³ Latinos received 40 percent of all subprime loans, and they were 28% percent more likely to receive a higher-rate subprime loan than whites. Meanwhile, African Americans were 37 percent more likely to receive a higher-rate subprime loan than whites.

There were at least 17 lawsuits accusing various banks of their unfair treatment of racial minorities, before the Supreme Court ruling in June 2009 that State Attorneys General had the authority to sue national banks for predatory lending. Some banks, like the Bank of America's Countrywide division, had already paid \$8.4 billion in an out of court multistate settlement.

It seems that these exploitative lending practices by financial institutions were part of a wider "reverse redlining" practice. The Attorneys Howard and Nassiri (2011) explain that the historically common practice of "redlining" in the United States made it reasonably difficult for minorities to buy property in white neighbourhoods.

By contrast, "reverse redlining", steers minorities into higher-priced loans and racially compatible neighbourhoods. On March 23rd, 2011, Wells Fargo Bank was found guilty in Los Angeles of "reverse redlining"²⁴ in a class action by 880 borrowers.

To add insult to injury, one emerging theme (Sims 2009, Jacobson 2009, Rosin 2009) in those cases is how banks teamed up with pastors to attract customers for their subprime loans. The June 2009 affidavit by Elizabeth Jacobson, the former top subprime loan office at Wells Fargo, detailed the banks' tactics:

I know that Wells Fargo Home Mortgage tried to market subprime loans to African-Americans in Baltimore. I am aware from my own personal experience that one strategy used to target African-American customers was to focus on African-American churches. The Emerging Markets unit specifically targeted black churches. Wells Fargo had a program that provided a donation of \$350 to the

²⁴ Wells Fargo was accused of guiding minorities toward more expensive fees and higher interest rates, by comparison to similar borrowers in whiter areas. Since 2002, Wells Fargo restricted access of their loan officers in minority neighbourhoods' branches to its Loan Economics software, which enabled a loan office to offer discounts to qualified borrowers.

nonprofit of the borrower's choice for every loan the borrower took out with Wells Fargo. Wells Fargo hoped to sell the African-American pastor or church leader on the program because Wells Fargo believed that African-American church leaders had a lot of influence over their ministry, and in this way would convince the congregation to take out subprime loans with Wells Fargo.

The promise of homeownership and living the American dream brought both the banks and prosperity gospel communities together, in what seemed to have been God's manifest destiny for the congregational faithful. Nonetheless, the optimism and entrepreneurialism that brought them together is quintessentially American.

The neoliberal primacy of economic prosperity and individual self-determination²⁵ is in no doubt most compatible with prosperity theology. The fact that neoliberalism privileges an individual's choice of observing a particular religious experience without interference may help explain its appeal and popularity among religious conservatives who feel oppressed by the tyranny of a secular democracy.

The prosperity gospel required a political party that is friendly to both religious conservatism and economic growth to deliver on its promises. Neoliberalism provided a spiritually meaningful platform for Prosperity Gospel believers, with its promise of economic growth, and the primacy of individual freedom and individual-centric policies, while ensuring individual choice for the 'consumption' of a religious experience or any other commodity or service that was on offer.

However, this required the prosperity gospel believers to embrace the neoliberal policies of deregulation, massive cuts to public services, and so on, which were

²⁵ The compelling power of individual choice of all that concerns their life, from 'consuming' socio-economic services, like health, education, banking and insurance, travel and so on, to enjoying a religious experience - is most comforting by comparison to being coerced by a nanny state which knows what is best for us.

prerequisites for neoliberalism to deliver on its promises of economic growth and religious conservatism.

2.4 The MetaCapitalist Ideological Prescriptions

The PwC MetaCapitalism value creation proposition in interconnected global markets is *only* one of several generic “neoliberal” propositions similar to other attempts by the big four fraternity in efficiently designing the connections between the supply and demand chains of organisations from all persuasions, using internet and telecommunication technologies, to drive down their capital and operational costs and create wealth.

For example, KPMG’s focus is on the impact of digitalisation on the interconnectedness of corporations, and Deloitte’s focus is on value creation of its (interconnectedness) transactional applications and systems, whereas, Ernst & Young’s focus is on the security of such interconnectedness. Meanwhile, Booz Allen & Hamilton’s focus is on enterprise resilience against the risks of corporate interconnectedness. But, it was PricewaterhouseCoopers’ clear vision in comparison to its peers, of the b2b e-business interconnected future, which prompted IBM in October 2002 to acquire PwC Consulting and MetaCapitalism.

Means and Schneider (2000:xv) begin with the claim that global capital markets will grow from \$20 to \$200 trillion by 2009, with 2000 to 2002 being the single greatest period of worldwide change. This prediction is based on their observation that Moore’s law of exponential growth in technological power at diminishing cost, now applies broadly to business, given the rapid changes in global economic conditions.

They identify the b2b e-business revolution as the key driver to such change; however, the b2b business revolution would not have been possible without the foundational changes, which have occurred over the past 30 years: free-markets globalisation, corporate restructuring and process standardisation, increased technological reliance, core business focus, exponential growth in business to consumer (b2c) e-business, and the dominance of the internet with e-retail and e-finance.

The efficient interconnected supply and demand chains across the private and public spheres [b2b, b2c, business to employee (b2e), and business to government (b2g)] can only drive faster innovation, increase customer satisfaction and the optimization of markets. This massive business and economic transformation is what the authors' term MetaCapitalism.

2.5 The MetaCapitalist Model

Figure 2.3 The MetaCapitalism Model

[Source: author's analysis]

The MetaCapitalism model (Figure 2.3) evolved out of a disruptive technological change on a global scale - that is the Internet – which presented an unprecedented opportunity to optimise the financial supply chain by leveraging b2b e-business so as to create value for organisations that would embrace those changes.

The MetaCapitalism Model consists of the following stages: change, opportunity, and value creation. In the space below, a brief description of those stages will be provided to contextualise their role in the development of the model.

2.5.1 The MetaCapitalism Model: Change

The disruptive technological change of the Internet was on an unprecedented global scale, which has shifted society from scale capitalism to MetaCapitalist innovation.

2.5.1.1 The Industrial Revolution

The Industrial Revolution gave rise to scale capitalism, where companies required large sums of capital to fund the purchase and construction of production resources (land, buildings and machines), employ large numbers of workers, warehouse inventories and so on, to carry on their business. This meant that a company or a business was often viewed as a physical asset laden organisation that applied its large capital bases to the basic elements of production (capital, technology and labour) in order to achieve economies of scale to drive down unit cost.

And, by running its production activities overtime, it drove throughput to double the capacity of production. This more or less continued until the late 1990s, when most management initiatives (reengineering, Customer Relationship Management or CRM, supply chain management) were focused on improving efficiency and owning as many of the factors of production as possible. Thus, the conventional business model was capital intensive.

2.5.1.2 The Internet Revolution

The Internet Revolution had disrupted the Industrial Revolution business model on a global scale, where with the arrival of electronic business or e-business, a new business model emerged, which required less capital because production could be outsourced and products were made to order.

The MetaCapitalist (or beyond scale Capitalism) innovation was to use the ‘open and free’ Internet to create non-proprietary electronic trade exchanges (unlike EDI or Electronic Data Interchanges in the 1980s), which lowered the transaction and procurement costs for B2B (business to business), B2C (business to customer), B2E (business to employee) and B2G (business to government) interactions.

This enabled corporations not only to connect more quickly and efficiently to their demand and supply chains, but to also decapitalise their capital resources and optimise their capital expenditures (CapEx) and operating expenditures (OpEx), as a result of outsourcing and offshoring their production and non-core operations. This MetaCapitalist innovative business model advocating electronic communication and collaboration can only drive faster innovation across all the B2B, B2C, B2E and B2G electronic exchanges.

2.5.1.3 The MetaCapitalist Transformation

Means and Schneider (2000:1) observed how all chief executives interviewed for their earlier book *Wisdom of the CEO* (John Wiley & Sons 2000) shared a similar perspective about their expectations for more change that was driven by the internet and e-business, and building on the forces of globalisation, capital markets integration, process simplification, and industrial transformation.

Figure 2.4 Traditional Business Model

[Source: Means & Schneider 2000:2]

The prevailing capitalist model (Figure 2.4) for major institutions was characterised by a large physical capital base made up of all sorts of infrastructure assets. To manage those assets effectively, the past 30 years have seen the (a) integration of domestic and global operations to achieve scale economies and align physical capital with markets served, (b) streamlining supply chains, integrating with supplier bases and distribution networks, (c) standardising and improving business processes, installing related technology, and generally (d) improving operating performance and efficiency.

The economic shifts of the 1980s had forced companies in the 1990s to focus on their efficient use of working capital and the responsiveness of their supply chains. The reason being (Means & Schneider 2000:3) was that prior to the 1980s, the real cost of capital tended to be negative or zero for several decades. In essence, the real interest rate of capital (nominal interest rate minus inflation) tended to be zero or negative because of the high levels of inflation.

Figure 2.5 Inflation versus Interest Rates in the United States from 1954 to 2008

[Source: St. Louis Federal Reserve Data and author's analysis]

Under those conditions, with the exception of some amount of product spoilage, obsolescence and storage cost – working capital was virtually free; the carrying charges on raw materials, work in progress, and finished goods were essentially zero or negative.

This gave little incentive for managers to improve productivity or better management of working capital through reducing inventory, improving transportation and distribution, reducing warehousing for finished goods, or any other major initiative of the type launched in the 1990s to better manage and reduce working capital.

The sudden onset of real interest rates (Figure 2.5) in the 1980s and 1990s, confronted companies with real costs to their operations, and the sudden realisation that owning and managing all factors of production within their four walls, may no longer be the preferred economic model.

In short, the financial, operating, and business process model for most companies, which has been based - intuitively or explicitly - on a concept of the enterprise as a physical asset-based pyramid, that is organised to produce and sell products, had become untenable. Companies had to transform into a decapitalised e-business model - with their capital better *leveraged*, by focusing on *core* competencies and outsourcing *non-core* physical activities across the demand and supply chains, as illustrated in figure 2.6.

Figure 2.6 The Transformation to b2b Business Model

[Source: Means & Schneider 2000:6]

The new business model inverted and “decapitalised” the prevailing business model, where capital resources that applied previously to owning production and working capital assets, being instead applied to developing the brand and customer relationship management.

This meant that the need for capital was dramatically reduced, because someone else (who maybe cheaper and/or more efficient) would be making the product instead, so manufacturing and production activities become outsourced to external networks known as Value-Added Communities (VACs). These in turn, do not exist in a business vacuum, but would naturally evolve within a larger framework of the MetaMarket, which consolidates all the different VACs.

Figure 2.7 The Transformation to e-business and the Value-Added Community

[Source: Means & Schneider 2000:6]

The b2b e-business model tends to split companies into brand-owning companies, which are scarcely capitalised, and others, which are clustered around those brand-owning companies in external or outsourced networks. The outsourced networks provide the supply and demand chains as well as the support services, such as financial processing, accounting, information technology, and human resources for brand-owning companies.

The central paradigm shift is brand-owning companies manufacturing nothing at all, and having their finished products delivered by their outsourced networks directly to their customers. To the degree that they do manufacture, they may focus on highly specialised sub-assemblies or focus on simply doing kit assembly of a few large systems and sub-assemblies supplied by their outsourced network. Human capital becomes more focused on customers and leveraged more effectively to drive growth.

Similarly, brand capital is developed more effectively to retain customers and drive far greater revenue from new channels to customers.

This paradigm shift gives rise to a *Value Added Community* (VAC), which comprises the close cooperation between a brand-owning company and the outsourced network. Dynamic relationships among contiguous VACs would help create a *MetaMarket*, which enables not only the outsourcing of non-core capital activities and reducing significantly physical capital, but also lowering the contentious working capital considerably ever since the onset of real interest rates costs in the 1980s and 1990s.

2.5.1.3.1 Value Added Communities (VACs)

Figure 2.8 shows how the Outsourcing Network when accessed by a number of businesses with new business models, creates what is called a value-added community or VAC. They are sometimes referred to as trading communities, e-Markets, electronic marketplaces, infomediaries, e-commerce hubs and so on. They are considered the fundamental enablers of e-business, because they allow an entire network of individual businesses to optimize themselves and adopt the new B2B business model.

VACs can form either (a) vertically, to resolve specific supply-chain inefficiencies, like in automotive, Oil and Gas, financial services and so on, or (b) horizontally, to resolve business inefficiencies, which are common to a number of industries, like Human Resources Management or Accounting.

Figure 2.8 Continuous restructuring and competition among VACs – the formation of a MetaMarket suite of VACs.

[Source: Means & Schneider 2000:35]

On the upside, VACs tend to lower operational and transactional costs, create markets on a network scale, and enhance the levels of service.

Means and Schneider (2000:32) expected that VACs would evolve to optimize the entire network of businesses, rather than just any single business. On the downside, however, each VAC will be in a constant state of flux, with buyers and sellers coming and going constantly. However, when several VACs *exist* and *interact* with each other in a dynamic marketplace, a larger entity is formed, which is called a MetaMarket.

2.5.1.3.2 MetaMarkets

Means and Schneider (2000:34) predicted the evolution of MetaMarkets by the mid 2000s, where a number of Value-Added Communities join together using a common technology platform and shared back-office services, to provide buyers with

convenient portals to make contact with the vast spectrum of purchasing, e.g., Alibaba.com. In this way, MetaMarkets will seek to build and maintain a critical mass of buyers and sellers.

Leveraging the benefits of economies of scale, MetaMarket providers will rapidly develop new VACs on an ongoing basis to complement their offerings for existing members. This continuous process of VAC formation will draw on the established customer base as well as the underlying technology platform and back-office shared services of the MetaMarket, like billing, human resources, customer service and so on. Figure 2.8 depicts the dynamic nature of MetaMarkets, where both buyers and suppliers benefit from membership in a MetaMarket, owing to their greater reach, breadth of offerings, and opportunities for collaboration.

Means and Schneider (2000:11) frame these transformations in Social Darwinist terms, where they claim that they are only part of the “natural evolution of corporate structure over the past 100 years”, with the market rewarding those flexible and value maximising companies with high multiples.

The evolution of the automotive industry over the last century, as illustrated in figure 2.9, is a case in point, where the archetypical automotive manufacturing operation was modelled on Henry Ford’s vertically integrated River Rouge Ford plant. Raw materials (raw steel, timber, leather and so on) entered one end of the plant and new Ford cars came out the other.

The familiar slogan ran something like this: “*Any colour you want, as long as it’s black*”, and it was certainly not due to preferred consumer choice. Black, although one of the most expensive colours, dried the fastest and kept the assembly line moving quickly, thus creating operational efficiencies that were attractive to the

production and distribution divisions. In the century that followed, every industry was *internally* focused on its design and manufacturing, but not so much on consumer responsiveness.

Figure 2.9 Evolution of MetaCapitalism in the Automotive Industry

[Source: Means & Schneider 2000:12]

The evolution of the automotive industry shows that specialisation began to sneak in over the years, and most of the auto companies created a separate parts division (or divisions), to focus on sub-assemblies associated with engines, transmissions, brakes and suspension, bodies, interiors, electronics, and other major subsystems (Means & Schneider 2000:11).

Over time, there has been a shift in the role of original equipment manufacturers (OEMs) to vehicle brand owners (VBOs), as they began to use *external* suppliers systematically, who developed attractive technologies and efficiencies, to compete with or replace their in-house supply base.

This foreshadowed the pattern that is the norm today, with the automotive industry example reflecting events in every other industry, where the vehicle brand owner (VBO) relies on large-scale sourcing and purchasing MetaMarkets, while it focuses

on those parts of its business that earn the highest market rewards and maximise value.

Means and Schneider (2000:13) claimed, that “.. MetaCapitalism will transform the competitive fabric of every major sector of the economy and dramatically change our assumptions about economic growth and value creation”, and purported that Cisco Systems was a persuasive case study example of the indisputable realities, rather than any suppositions, to support the ‘*hyped*’ propositions throughout the book. To illustrate the multiplier effect and power of MetaCapitalism, they resorted to analysing basic balance sheet information.

The following charts 2.10, 2.11 and 2.12 illustrate the relative levels of capitalisation (working capital and physical capital) at Cisco and several competitors as a proportion of the total enterprise. The charts highlight a distinction between Cisco Systems, developed on a MetaCapitalist model, and its three most successful competitors: Not only does Cisco work off a proportionately smaller base of working and physical capital, but it also strives continuously to reduce that base.

Figure 2.10 Net Working Capital / Total Assets

[Source: Means & Schneider 2000:14]

Figure 2.11 PP&E / Total Assets

[Source: Means & Schneider 2000:14]

Figure 2.12 (Net Working Capital + PP&E) / Total Assets

[Source: Means & Schneider 2000:14]

Figure 2.13 shows how financial capital (as well as human capital) is focused at Cisco, which allows it to have a higher proportion of funds flowing to research and development, by comparison to its principal competitors.

Figure 2.13 R&D / operation costs (COGS, SG&A)

[Source: Means & Schneider 2000:15]

The preceding observations were aggregated together in chart 2.14, which captured the degree of MetaCapitalisation by each company in this peer group.

Figure 2.14 Cisco versus competition, 1997-1999

[Source: Means & Schneider 2000:15]

Figure 2.14 recasts the preceding analysis of Cisco systems and its prime competitors as a set of summary balance sheet and income statement triangles. MetaCapitalisation (Means & Schneider 2000:17) tends to generate for Cisco “a very high P/E ratio: its multiple is equal to the sum of the same measure for its three largest competitors”. Cisco leads on every major performance measure (revenue growth, margin, and margin growth), with the exception of the margin growth rate of Nortel, which appears to be Cisco’s most aggressive competitor-convert to MetaCapitalism.

Figure 2.15 Summary balance sheets and income statements

[Source: Means & Schneider 2000:16]

The authors explain that the low P/E ratio for Alcatel appears to be “characteristic of companies participating in the Central European and Asian markets”, which are somewhat constrained in terms of capital and competition. Those markets are still in transition from vertical capital market structures and monopolies, and their companies’ overall multiples and performance levels appear to suffer accordingly.

Means and Schneider (2000:17) recognise that “Cisco has built its model without being hampered by a pre-existing, large capital base”. Companies with large manufacturing operations are traditionally the “dominant manufacturer in their sector, produce very impressive results, and represent highly attractive investments”.

Then, they ask rhetorically how much additional economic growth and value creation will be released, as companies adopt MetaCapitalism: (a) outsource much of the

manufacturing and related activities that are not rewarded by the market, and (b) apply an ever larger proportion of their resource base to customer management and product development.

Means and Schneider affirm their belief in the enormous powers of MetaCapitalism, when they state that their *enormously* positive macroeconomic growth projections, only manifest their confidence in MetaCapitalism, as the best and the inevitable design for companies and markets in the twenty-first century.

The exponential growth in social networks and cooperative internet technologies, such as open source and cloud computing, with their considerable rewards by comparison with the more traditional model of competition over the past few years, provide more than adequate support to the claims of the MetaCapitalist model.

2.5.2 The MetaCapitalism Model: Opportunity

The opportunity comes from leveraging capital infinitely using an options price on virtual capacity, where more people coming through the Internet who are smarter and cheaper (your ‘would be’ outsourced partners) would bid to do the manufacturing and non-core activities, which drives down the Options Cost, as more and more participants join in and innovative ideas are exchanged.

2.5.2.1 Sourcing

The outsourced partners will bid to do things for you then they will collaborate with you on product design over the Internet.

2.5.2.2 Manufacturing

And, when the product designs are ready they (and others) would bid to make some or the whole thing for you.

2.5.2.3 Distribution

Then, you will be able to connect your customers to your networks of providers through portals, which would accelerate value creation and improve throughput.

2.5.3 The MetaCapitalism Model: Value Creation

The MetaCapitalism valuation model assumes that margins, use of fixed assets, control of working capital, revenue and speed of revenue expansion - would all be accelerated by this innovative business model, which gives rise to a higher potential discounted cash flow and markets would reward it with big multiples.

2.6 The MetaCapitalism Leaders

MetaCapitalism had a few ‘miracle’ poster companies to garner support for its ‘scriptures’ in much the same way as a religious cult would enlist a following of faithfuls. Cisco, Ford, General Motors, General Electric and Dell were some of those ‘miracles’ showcased as MetaCapitalist leaders, with outstanding share price performance (a key MetaCapitalism measure) and spectacular market capitalisation. These were the largest and most successful corporations on the Fortune 500 list in the United States, with every other corporation competing for listing privileges, knowing that it would be part of the most triumphant corporate club. How could anyone ignore such a ‘script’ for corporate Valhalla?

Far from the ‘promised land’, the broader economy has not experienced the “exponential accumulation of mass” (Means & Schneider 2000:xx), and all those ‘miracle’ corporations have instead suffered massive spiralling losses to their overall market capitalisations.

For example, from February 29th, 2000 to August 31st, 2008, Cisco, for example, lost more than 83% or 351 billion dollars (from US\$132.19 down to US\$21.6 per share), General Electric lost 89% (from US\$158.81 down to US\$13.9 per share), General Motors lost 99% (from US\$76.06 down to US\$0.81 per share), while Ford lost more than 81% (from US\$41.63 down to US\$7.6 per share) during the same period.

Other companies who have aggressively implemented the strategy to extreme proportions have either failed, or were acquired, or received government bail-outs or fallen out of the Fortune 500 rankings all together. Amongst the fallen are: Lehman Brothers, Bear Stearns, Washington Mutual, Wachovia, Bank of America, AIG, Fannie Mae, Freddie Mac, Citigroup, Compaq, Lucent Technologies, Merrill Lynch and Delphi, to name a few.

How is it that *all* of the ‘poster-children’ of MetaCapitalism over the last decade become the ‘calamities’ of the 2008 global financial crisis and especially when *all* of them were audited by the Big 4 accounting fraternity?

2.7 The MetaCapitalist Predictions

MetaCapitalism seeks opportunities in the Internet as a disruptive technology on a global scale to create value. The perceived change is in the shift from the traditional ‘economies of scale’ business model that relied on driving down the “unit cost” through working overtime and doubling-up capacity, to then ‘push’ the product onto

the market. The new business process model utilises Internet b2b technologies to create and enhance electronic trade exchange relationships across the supply and demand chains, in order to lower 'transaction and procurement costs' which drives innovation faster. This enables better engagement with the demand and supply chain through better electronic communication and collaboration, which allows the customer to 'pull' a customised product.

The strategy advocates a radical outsourcing and downsizing of human capital, decapitalisation of all non-core capital assets and the diminished role of the State in the free market economy. It relies on the creation of Value Added Communities (VAC's), which are on-line exchanges that enable MetaCapitalist firms to form networks and alliances with other companies that focus on key parts of the supply and demand chain. These VACs leverage and diffuse the financial, human, intellectual, technological and brand capital in ways designed to accelerate economic growth.

The strategy is not a novel concept with its focus on downsizing, decapitalisation and quest for efficiency. It does however, develop its revolutionary character as a result of the innovatory effect of the Internet and e-market technology, the radical and fundamentalist nature of its recommendations, and utter disregard for any social or public policy implications.

Promises of 'untold riches', abound: "the period 2000-2002 will represent the single greatest change in worldwide economic and business conditions ever" (Michaels 2000:34), where global capital markets will increase from \$20 trillion to \$200 trillion in less than 10 years (Means & Schneider 2000:xx), while the Dow Jones will rise to

100,000 points²⁶ (Means & Schneider 2000:34). Promises that while irresistible and seductive have proved not only elusive but also illusory.

2.8 Demystifying the Tenets of MetaCapitalism

The triumphant claims of MetaCapitalism about the legendary success of its “poster-child” companies such as Cisco and Ford, backed by the auspicious support of the largest and most influential accounting firm in the world, have no doubt contributed to the mythical tenets of MetaCapitalism and its ability to command trust, belief and faith. This spectacle may help explain the blind and unquestioning *following* of its preaching, and those sermonised by consultants in general.

Naturally, a critical examination of the strategy’s tenets is not what you would expect from a Fortune or Forbes magazine. So, what is important here is to examine whether the ‘reality’ corresponds to the strategy’s proposals, so only a thorough *falsification* of its application would serve this purpose. Thus, there is a need to contextualize the critical examination of its tenets by drawing upon the experience of others, since MetaCapitalism’s inception in March 2000.

2.8.1 In Search of the ‘Holy Grail’

The book by Means and Schneider (2000), that describes the MetaCapitalism Strategy in instructive detail, and which is being examined by this thesis, has no references whatsoever that one could use as a starting point for a literature review to investigate prior research. One may well ask why I, or anyone for that matter, would examine such an unorthodox book in the academic sense.

26 The Dow Jones Industrial average reached 15,520 points on July 31, 2013, which was its highest ever, since its foundation on the 16th of February 1885.

MetaCapitalism: The e-Business Revolution and the Design of 21st-Century Companies and Markets purports to be a manifesto for innovation in the new millennium by the top strategy consulting partners at the largest accounting firm in the world - PricewaterhouseCoopers (PwC). As such, the book warrants a rigorous and critical examination of its claims and predictions, given PricewaterhouseCoopers undeniable and far reaching influence in shaping not only major private institutions, but also government policy on the provision of health, education, and public services on a global scale.

There is no doubt that the most difficult task in a thesis is performing a literature review, due to the apparent logical impossibility of finding *all* the relevant literature, and the fact that data mining library databases or search engines, will never find all let alone the same articles, especially if they were not indexed properly or were unpublished. This task would certainly be further complicated by a novel idea, such as MetaCapitalism, which was unheard of and little if any critical examination of its tenets existed, when I began my analysis of the ideas underlying its premise.

An initial cursory search of the Internet using Google General and Google Scholar Search engines, by enlisting the search engines advanced strategies proved helpful in appreciating the magnitude of this issue, and pointed me in the direction of the literature that was relevant to this review.

A “restricted search to sites where query words appear” was used and queries were run on both the *general search* and the *scholar search*. The queries²⁷ took the following form:

27 Those queries basically interrogated the search engine’s indices to narrow down research pertaining to the accounting scholarly community investigation of metaCapitalism.

1. allintext: metacapitalism
2. allintext: metacapitalism AND accounting
3. allintext: metacapitalism AND Mickhail
4. allintext: metacapitalism AND accounting AND Mickhail

Those queries basically interrogated the search engine's indices to narrow down research pertaining to accounting investigation of MetaCapitalism. The aim of the first query was to identify all publications that referred to MetaCapitalism. The aim of the second query was to narrow down the list of publications to the ones that were related in some way to accounting.

The third query attempted to identify work done to date by myself or referred to my own work in the area of MetaCapitalism. It is unorthodox to quote myself, but it has been necessary to refer to my own work, due to the scarcity of critical studies in this area of research, and this is merely an indication of work that has been done in that particular area. I am aware of the undesirability of referring to one's own work, due to the danger of being self-referential.

However, referring to my published work meant that it carried some credence, but a reference to it was mainly to highlight the nature of my work in offering a rigorous critique and an empirical evaluation of the promise(s) of the MetaCapitalism strategy across a number of sectors and over different time frames, by comparison to others who were mostly unquestioning of the merits of the strategy.

The final query attempted to narrow down and identify the impact of my research into this phenomenon by comparison to others within the accounting scholarly community.

The following diagram provides a summary of the search strategies results in both the general search engine and in Google Scholar.

Figure 2.16 Google General and Scholar Search for Relevant Literature

[Source: author's analysis]

The results seemed to have excluded some of the unpublished theses and working papers that were relevant and critical to the topic. Therefore, I decided to utilise the Google Scholar search on its own to be able to narrow down the results to those that were more academic in nature.

I then utilised the University of Wollongong library search engine: *Summon* to search for the term MetaCapitalism. The resulting list included 65 items that were divided into the following types of publications:

Content type (search on summons)	Results
Book or eBook	5
Book Chapter	1
Book Review	3
Conference Proceeding	2
DissertationorThesis	3
Journal Article	19
Newspaper Article	27
Paper	5
TOTAL	65

Table 2.1 Summon Results for the term MetaCapitalism by Publication Type

[Source: author's analysis]

Those publications were in three main languages: English (63), Italian (1) and Spanish (1), and they were classified by “subject terms” into the following categories:

Subject Terms Classification	Results	Subject Terms Classification	Results	Subject Terms Classification	Results
electronic commerce	11	airlines	1	comerç electrònic	1
business	7	analysts	1	commerce électronique and marché électronique	1
metacapitalism	6	associations	1	communications networks	1
social and behavioral sciences	6	australian	1	company news	1
capitalism	5	automation ; management	1	comparative	1
outsourcing	4	automobile industry	1	computer networks	1
trends	4	banks	1	computers	1
business to business commerce	3	bedrijven	1	connectivity	1
conferences	3	book reviews	1	corporate culture	1
economic conditions	3	books	1	corporate planning	1
information technology	3	business & economics	1	corporate social responsibility	1
strategic planning	3	business & economics or industrial management	1	corporate strategy	1
studies	3	business & economics or management	1	correlation analysis	1
downsizing of organizations	2	business & economics or management science	1	critique	1
contracting out	2	business & economics or organizational behavior	1	customer relationship management	1
business enterprises	2	business & management	1	customer services	1
e-business	2	business conditions	1	decision making corporate responsibility leadership accountability risk	1
economic aspects	2	business ethics	1	direkte markedsføring	1
efficiency	2	business forecasts	1	distributors, distributors - other	1
forecasts	2	business operation ; computer applications	1	e-commerce	1
internet	2	business strategy	1	economic impact	1
internet marketing	2	business, finance	1	economic indicators	1
management	2	canada	1	economic news	1
market strategy	2	capitalisme	1	economic relations	1
organizational change	2	capitalismo	1	economy and finances	1
personal profiles	2	capitalismo industriale	1	effects	1
social aspects	2	capitalismo liberale	1	einundzwanzigstes jahrhundert n. chr	1
social responsibility	2	capitalismo monopolista	1	electronic commerce and electronic markets and digital economy	1
supply chains	2	capitalization	1	electronic information resources	1
telecommunication	2	cellular telephones	1	electronic marketing	1
corporate collapses	1	chief executive officers	1	elektronik ticaret	1
academy	1	claws	1	elektronischer handel and elektronischer markt and digital economy	1
administración industrial	1	comercio electrónico	1	TOTAL	163

Table 2.2 Search on Summon Results of the term: MetaCapitalism Classified by Subject Term

[Source: author's analysis]

This was followed by a word analysis of the most common words in the resulting text of the Summon Search results, and I generated a word cloud of the results, as follows:

Figure 2.19 Word Cloud Generator of Summon Search Results for: MetaCapitalism

[Source: author's analysis]

Obviously, a hybrid approach to my search was warranted, which is why I have conducted my searches using the University of Wollongong library search engine: *Summon*, and *Google Scholar* hoping that I would be able to get a reasonable picture of the literature on the subject of MetaCapitalism.

The resulting list of news, magazine interviews, theses, conference papers, journal articles, books and book chapters had a number of duplicates and irrelevant items, which were eliminated with the detailed list included in appendix A.

I have also summarised the results in a network diagram (figure 2.20) to link the type of publication to its authors and their perspective (positive hype or critique) when discussing a particular domain area (airlines industry, capital markets, education reform, e-Government and so on).

Figure 2.20 Network Analysis of Google Scholar and Summon Search Results for MetaCapitalism

[Source: author's analysis]

The majority of the data available was not an analysis, evaluation or a critical review of MetaCapitalism but rather more or less descriptive in nature:

- (a) the predictions by the authors in their book, or
- (b) of interviews with the authors, or
- (c) a restatement of comments made by Means and Schneider in their book about supply-chain management or eGovernment, and
- (d) overall praise for the model.

This was quite disappointing considering the vast implications of a business strategy that was being promoted by the largest and most powerful accounting firm in the world. The apparent lack of accounting research in evaluating the strategy and its

prescriptions was also obvious, despite the numerous sites and research studies in ICT, e-Government, supply-chain management and marketing that were glorifying the strategy and “*praising the lord*” for its prescriptions!

The only critical accounting and finance studies of MetaCapitalism were mainly those that charted thirteen years of investigation²⁸ of the MetaCapitalist within the undergraduate and postgraduate programs at the University of Wollongong, and the research studies²⁹ within the MetaCapitalism research centre. What follows is an analysis of the fundamental principles of MetaCapitalism.

2.8.2 The MetaCapitalism Tenets

The three core tenets of MetaCapitalism are: decapitalisation (downsizing) and outsourcing through *innovative* value added community (VACs) networks.

2.8.2.1 Downsizing

The MetaCapitalist model assumes that decapitalizing the non-core physical and human capital of corporations will make them more efficient and free up capital for use on their core activities. It has been argued elsewhere (Mickhail 2002:7) that downsizing undermines the need for a loyal and committed workforce. Downsizing coupled with outsourcing and offshoring often results in increased local

²⁸ It all began in the spring of 2000, when the methodology was introduced into a couple of the undergraduate (ACCY231 Information Systems in Accounting) and postgraduate (ACCY936 Management and Information Systems) subjects that I taught within the School of Accounting and Finance. The intellectual exchanges that ensued between the students and staff on the merits of the methodology and its prescriptions, helped articulate a critique and synthesis of the critical performance evaluation methodology of the MetaCapitalism phenomenon and its prescriptions.

²⁹ Those research studies, are: Mickhail (2001), Pirrello (2001), Hirschheim, Pirrello and Mickhail (2002), Mickhail (2003), Ostrovsky (2003), Davis (2004), Mickhail and Pirrello (2004), Mickhail (2005), Ostrovsky and Mickhail (2005), Farrell (2005), Mickhail, Farrell and Murphy (2006), Mickhail (2007), Pupovac (2007), Abdel Fattah (2007), Ostrovsky and Mickhail (2007), Mickhail (2008), Xu (2008), Li (2008), Mickhail (2009), Mickhail (2010), Mickhail (2011), Li and Mickhail (2012), Cangardel (2012), Mickhail (2012), D'Iribarne (2013) and Pupovac and Mickhail (2013), who evaluated the tenets of the MetaCapitalism Strategy in a number of industries and markets, as well as over the short and long terms. For the purposes of this thesis, I will draw upon some of the analysis and results from those studies and especially from the joint papers that were published.

unemployment, which has serious repercussions, such as: social dislocation, increased crime rates and poverty (Moore 2002). This, in turn, may result in the unintended effect of a lower consumption of goods and services by the population, which would lead to an economic slowdown.

Means and Schneider (2000:6) insist in their book that MetaCapitalist leaders will conduct major employee layoffs and outsource their human capital foundations during the earlier part of 2000s. A policy of downsizing (Pirrello & Mickhail 2002:8) is “incompatible with the need for a loyal workforce, and one cannot hope to establish a loyal base of human capital when they face the prospect of being outsourced at any time”. The degree of downsizing (Pirrello and Mickhail 2002) was tested for the period 1999-2001 using the following ratio:

$$\text{Employee Numbers (NoE)} \div \text{Total Assets (TA)} \quad (1)$$

The findings were not unexpected, where all the MetaCapitalist leaders had a large decrease in the number of their employees. These results were compared to the remainder of Fortune 100 firms, where it was established that those mass layoffs were consistent across the board. This only confirmed the belief (Pirrello & Mickhail 2002:72), that “.. the whole spectrum of corporate leaders has been performing some serious downsizing, with the MetaCapitalist leaders being at the forefront of this movement”.

2.8.2.2 Decapitalization

MetaCapitalism holds that decapitalisation enables corporations to have the flexibility to meet the competitive challenges of the 21st century, because they will be able to react quickly to adverse economic consequences given that they are not tied

down by large physical capital bases (Means & Schneider 2000:23). The degree of decapitalization (Pirrello & Mickhail 2002) was tested using the following two ratios:

$$\text{Property, Plant \& Equipment (PP\&E)} \div \text{Total Assets (TA)} \quad (2)$$

$$\text{Net Working Capital (NWC)} \div \text{Total Assets (TA)} \quad (3)$$

The findings confirmed that decapitalised MetaCapitalist firms had smaller capital bases of physical assets and lower net working capital as opposed to firms that did not apply the concept. The problem with decapitalisation is that it allows firms to outsource their services and lose control of their goods, thereby, placing the quality of their services and products in jeopardy. The scarce capitalisation may also leave the firm with insufficient resources to operate at its most efficient level (Ostrovsky & Mickhail, 2005).

The pursuit of efficiency under the MetaCapitalism model is ill considered and based on faulty logic (Mickhail & Farrell 2006). The MetaCapitalism strategy fails to recognise the importance and the role of physical assets within the organisation, which are the lifeblood of a company, in the generation of profits.

In addition to their proposals on decapitalisation and downsizing, Means and Schneider suggested that MetaCapitalist leaders would have higher commitments to research and development (R&D) expenditure, by comparison to other non-metaCapitalised firms. This proposal (Pirrello & Mickhail 2002) was tested using the following ratio:

$$\text{Research \& Development Cost (R\&D)} \div \text{Operating Expenses (OE)} \quad (4)$$

There was the added difficulty of having a small sample, where three out of eight metaCapitalist corporations disclosed their research and development expenditure, but they had a substantially lower R&D expenditure by comparison to their non-MetaCapitalist counterparts. This finding contradicted Means and Schneider's argument that MetaCapitalist firms 'must invest heavily' in R&D.

2.8.2.3 Value Added Communities

Means and Schneider (2000:22) defined Value Added Communities as external networks that address supply chain issues involved in producing and delivering the product. VACs provide interfaces along the entire supply and demand chains, including the brand owning company and its customers with the main benefit being lower transaction and procurement costs. Paisie (2001:67) concurs, that "operating costs will also be reduced because of more efficient operations", and VACs will advance innovation and the creation of newer and larger markets for its members.

Means and Schneider (2000:22) argued that; "the Internet has created unparalleled opportunities for companies to create VAC's, giving them a better quality product, increased efficiencies to the supply chain and most importantly, enabling them to respond to customers far quicker than ever before". The authors proposed that as VACs emerge, even greater market shaping entities called 'MetaMarkets' are expected to arise. MetaMarkets basically consist of portfolios of VACs joined together to provide an integrated suite of services (2000:40).

Under the traditional business model, firms would have to establish relationships with each and every seller; however, e-business has enabled and facilitated the creation of one large network, where all businesses can interact and exchange information together. Means and Schneider (2000:28) argued that, "by creating a

market place of aggregated buyers and sellers, the Value Added Communities provide members with broader access, improved market knowledge, and new sales opportunities for both buyers and sellers”.

The MetaCapitalism model is built on a number of assumptions, with the most optimistic and possibly flawed being the notion Value Added Communities, which may explain the failure of the MetaCapitalist corporate strategy. In order for VACs to be effective, all firms must act efficiently and cooperatively. However, the model does not take into account that there are inherently conflicting commercial interests between these firms, thus preventing the amount of trust and cooperation required for such a strategy to succeed (Ostrovsky & Mickhail 2005:296).

Perhaps the lesson that was not learnt was the commercial failure of the IBM Personal Computer in the 1980s, where IBM outsourced its production and collaborated with a network of providers that spanned the globe, with its monitors being manufactured in South Africa and its microprocessors manufactured in Taiwan. By outsourcing some of its core innovations, such as the microprocessor technology to Taiwan, IBM lost the PC market to the Taiwanese produced PC clones and compatible machines.

It was certainly great for the Taiwanese economy and its rise as one of the Asian Tigers, but it was certainly a costly lesson to IBM and the wider economy of the United States. This seems to have been forgotten or ignored by the authors of MetaCapitalism.

There is also the issue of large players in the VAC who are more dominant than other firms and therefore determine permission of entry by picking and choosing their alliance partners. Soros (2003) also identifies this, as the goal of competitors is to

prevail, not to preserve competition in the market, which creates a natural tendency for monopolies and oligopolies to take place.

The perfect example of such market dominance is Cisco, touted as the ‘poster child’ of MetaCapitalism throughout the whole book. Means and Schneider suggest that Cisco’s enormous power, size and influence in the market have allowed it to connect its contract manufacturers, assemblers, distributors and logistics partners, through its supply chain portal (Manufacturing Connection Online), have effectively positioned Cisco as the ‘VAC manager’.

However, it has been pointed out elsewhere (Ostrovsky and Mickhail 2005:297) that this view may be problematic to the dynamism of the marketplace, because “.. a firm in such a position is then effectively able to pick and choose who to permit entry to its community, and thereby potentially creating anti-competitive behaviour”.

The *prophetic* proclamation of Means and Schneider (2000:xvii), that the “market is not wrong”, and firms that embrace MetaCapitalism would experience unprecedented growth and wealth in their share price performance contradicts the empirical evidence thus far.

Poor market performance of MetaCapitalist firms was a major catalyst for a number of studies (Pirrello and Mickhail 2002, Ostrovsky and Mickhail 2005). The findings were often the same: MetaCapitalist leaders, like Cisco, General Motors, Ford, Honeywell International, General Electric, Chase Manhattan Bank, Dell, Sony, Dupont and UPS – have shown an alarming decline in their market capitalization during the period 2000-2002, which Means and Schneider have proclaimed to be the period that would experience the most ‘significant growth’.

It has been suggested (Pirrello and Mickhail 2002) that significant declines in share price value in the market could be due to the negative signals associated with downsizing, outsourcing, decapitalisation and reductions in R&D. This, raised concerns regarding possible inadequacies with the model, thus prompting a broader analysis to help obtain a clearer understanding of its true prospects.

Findings in all studies (Pirrello and Mickhail 2002, Mickhail 2002, Ostrovsky's 2003, Davis 2004, Farrell 2005, Ostrovsky and Mickhail 2005, Ostrovsky and Mickhail 2007) revealed that firms that aggressively implemented MetaCapitalism, including large and indiscriminate staff layoffs and decapitalization, were adversely affected in the long-term. The promises of untold wealth and unprecedented growth were in fact replaced by corporate failures, dramatic declines in share price and excessive instability.

MetaCapitalism, as its name suggests, is a new, updated, 21st century version of capitalist ideology. The strategy not only presents many ideas that are inherent in the capitalist principle, amongst the obvious being the notion of a *laissez-faire* ideology, "but it then adopts these principles to the e-revolution and globalisation, and takes its emphasis on decapitalisation, outsourcing, monopolisation... and corporate greed to a new extreme" (Ostrovsky, 2003:15).

These characteristics have actually made Michaels (2000:34) declare that the strategy was 'capitalism on steroids'. The rise of *technocapitalism* (Suarez-Villa, 2009:6) hails a new dawn of decisions in society that are "overwhelmingly determined by corporatism and its authoritarian power over technology".

Suarez-Villa (2009) defines corporatism, as the "... hegemonic power of business corporations over society .." with a radical departure from the more traditional

plutocratic “collusion between corporate and government interests” to a more prevailing and comprehensive influence of corporate power on the nature of society and its governance.

In essence, it is corporate colonisation of our social relations, of our identity as humans, and of life itself, which creates crises at all levels of our existence on a global scale, while degrading our emancipative creative qualities into alienated commodities that are far removed from the complexities of the human condition. This cleverer, voracious, and invasive form of corporatism is like no other before, except for the East India Company, with its imperial quest for power and profit as it establishes its control over all aspects of the public domain.

It is not surprising then, that the pursuit of efficiency and profit under such a *hyper form* of capitalism “is being applauded no matter what the cost is, and this can be used to justify or ignore devastating social conditions, such as human rights abuses and social dislocation” (Farrell, 2005:98).

The empirical³⁰ evidence however, suggests that proposals of the model are instead plagued by mass declines in share price, corporate collapses, negative net income results and overall excessive instability and vulnerability (Pupovac & Mickhail 2013; Li & Mickhail 2012; Suarez-Villa 2009; Mickhail & Ostrovsky 2007; Mickhail & Ostrovsky 2005; Mickhail *et al.* 2002; Michaels 2000).

Even the mega-corporations, such as Cisco, Ford, Dell, and General Motors (touted through the book as MetaCapitalist leaders) have experienced significant decrease in the value of their share price (Mickhail & Ostrovsky 2005; Mickhail & Ostrovsky

³⁰ It is to be noted that most empirical analysis of MetaCapitalism in the Fortune 100 and ASX200 companies over the short and long terms, was performed through the MetaCapitalism Research Centre.

2007). Adding to this, many other big firms have since collapsed, been acquired or fallen out of the Fortune 100 rankings (Mickhail & Ostrovsky 2005; Mickhail & Ostrovsky 2007).

In addition Michaels (2000:34) argued that; “global capital markets, and the broader economy, let alone the United States, have not experienced the exponential accumulation of mass as promised”. Rather, markets have remained stagnant, experienced financial crises with many, as I write this thesis, displaying signs of negative growth and recession.

It is perhaps most appropriate to conclude this literature review with the observation of the very first study on MetaCapitalism that “the very firms that were expected to sell MetaCapitalism to the wider economy were in fact moving in the opposite direction,” concluding that “... the model in its broadest sense has undoubtedly experienced teething problems, whose long-term prospects and its social and economic implications seem gloomy.” (Mickhail & Pirrello 2004).

2.9 MetaCapitalism Measurement

The accounting measurement of MetaCapitalism evolved over a number of logical attempts to correlate the fundamentals analysis of the MetaCapitalism indicators to the technical analysis of the market response to the changes in those indicators over time.

The measurement approach was tested and refined in a number of studies (Mickhail 2001; Mickhail & Pirrello 2004; Mickhail 2005; Ostrovsky & Mickhail 2005; Mickhail et al. 2006; Ostrovsky & Mickhail 2007; Mickhail 2009; Mickhail 2010;

Mickhail 2011; Li & Mickhail 2012; Pupovac & Mickhail 2013) that examined a number of markets and industries over the medium and long term.

The measurement approach can be applied to an individual company or a grouping of companies. The most common groupings of companies include: (a) a geopolitical market, such as China; (b) a financial market exchange, such as the ASX200, NYSE and FTSE100; (c) a special listings, such as the Fortune 500; and (d) a particular industry, such as the airlines.

The aim of the measurement approach was to first determine whether companies were MetaCapitalising or not. Secondly, to which extent have they MetaCapitalised their structures over the course of 3 to 5 years. And, finally to determine if the market rewarded, penalised or was neutral to the MetaCapitalisation changes of their structures.

This can be measured by the financial value *changes*³¹ to their MetaCapitalist indicators, such as: networking capital (NWC), plant, property and equipment (PP&E), total assets (TA), number of employees (NoE), capital expenditures (CapEx) and so on. Then, tracing those changes to the changes in the share price of the company to find out if there is any MetaCapitalist correlation³² between them.

2.9.1 Individual Firm Analysis

If the analysis concerns an individual company then only the performance of that company that will be evaluated.

³¹ Change is measured by the percentile change from one period (quarterly, half-yearly or yearly) to the next. It can be either a reduction, or an additional capital investment, or no change in their networking capital, plant, property & equipment and their total assets.

³² The MetaCapitalism theory states that markets would reward the share price, if companies MetaCapitalise their structures through decapitalisation and outsourcing, which can be measured from reductions (over a period of time) in their networking capital, plant, property & equipment and their total assets – and vice versa.

2.9.2 Group Analysis

If the analysis concerns a group of companies then the same individual analysis is performed for each company in the group, followed by a ranking assessment of each company in the group in terms of success and failure. A corporation succeeds when it goes up in the group rankings or retains its own ranking in the group. Signals of failure may include collapse, mergers and acquisitions, going down in the rankings or dropping off the rankings.

2.9.3 MetaCapitalism Measurement Approach

There are *five* main steps to perform in the measurement approach for individual companies, with an additional *sixth* step for ranking the companies if the approach is being used to examine a group of companies.

Step 1 – Calculate the MetaCapitalism indices and Share Price for the period

Step 2 – Calculate the change in MetaCapitalism indices and share price

Step 3 – Graph the change in the MetaCapitalism indices and the share price

Step 4 – Correlational³³ Analysis

Is there any correlation between the change in any (or all) of the MetaCapitalism indices and share price? (Specify if any of those graphs exhibit a correlation between the majorities of points)

Step 5 – Conclusion

³³ The MetaCapitalism theory states that reductions in NWC, PP&E and TA would result in SP gains and vice versa. Hence, there would be a correlation if the changes in the MetaCapitalism indices and share price changes would correspond to the theory.

Which MetaCapitalism indices change(s) are most correlated to the share price change(s)?

Step 6 – Ranking of Companies in a Group

2.9.4 An Example of the MetaCapitalism Measurement Approach

In the space below, I will demonstrate the MetaCapitalism measurement approach using the financial and market information of Qantas Airways Limited (QAN).

The following are the share price, the earnings and the balance sheet summaries of Qantas Airways limited (QAN) for the years ending June 2008 to June 2012.

Date	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12
Share Price Summary (AUD\$)	5.60	3.04	2.01	2.20	1.84	1.08

Table 2.3 Qantas Airways Limited (QAN) Share Price Summary 30 June 2007-12

[Source: cnnfn.com]

EARNINGS SUMMARY (\$millions)	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12
Trading Revenue	14,811	13,017	12,667	13,969	14,612
Expenses	-13,588	-12,933	-12,261	-13,197	-14,069
EBITDA	2,604	1,619	1,511	1,697	1,655
EBIT	1,135	229	312	448	271
Net Interest Expense	46	-22	-75	-113	-176
Pre Tax Profit	1,181	207	237	335	95
Tax Expense	-438	-58	-62	-74	105
NPAT	969	117	112	250	-245

Table 2.4 Qantas Airways Limited (QAN) Earnings Summary June 2008-12

[Source: Qantas Airways Annual Reports]

BALANCE SHEET SUMMARY (\$millions)	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12
Cash	2,599	3,617	3,704	3,496	3,398
Total Current Assets	5,616	5,966	5,832	5,641	5,460
PP&E	20,906	21,628	21,793	23,485	14,139
Intangibles Ex. Goodwill	302	427	449	429	610
Goodwill	147	237	219	164	0
Investments	754	734	483	546	474
Total Assets	19,700	20,049	19,910	20,858	21,178
S/T Debt	587	608	619	577	1,119
Total Current Liabilities	7,604	6,714	6,241	6,235	7,118
L/T Debt	3,573	4,895	5,099	5,454	5,430
Total Debt	4,160	5,503	5,718	6,031	6,549
Total Liabilities	13,965	14,284	13,929	14,707	15,289
Net Assets	5,735	5,765	5,981	6,151	5,889
NTA	5,287	5,101	5,313	5,558	5,279

Table 2.5 Qantas Airways Limited (QAN) Balance Sheet June 2008-12

[Source: Qantas Airways Annual Reports]

Step 1 – Calculate the MetaCapitalism indices and Share Price for the period

Step 2 – Calculate the change in MetaCapitalism indices and share price

Both steps 1 and 2 are combined in the tables below, one for the share prices and one for the MetaCapitalism indices, with the formula to calculate Net Working Capital (NWC) is stated below the table, with a clarification as to the substitute for Notes Payable.

Year	2007	07-08 Change %	2008	08-09 Change %	2009	09-10 Change %	2010	10-11 Change %	2011	11-12 Change %	2012
Share Price	5.60	-45.71%	3.04	-33.88%	2.01	9.45%	2.20	-16.36%	1.84	-41.30%	1.08

Table 2.6 Share Price June 2007-12 Changes

[Source: author's analysis]

MetaCapitalism Indices	2008	08-09 Change %	2009	09-10 Change %	2010	10-11 Change %	2011	11-12 Change %	2012
NWC (Net Working Capital)*	-427	-366.70%	1,138	41.04%	1,605	20.93%	1,941	-23.08%	1,493
PP&E	20,906	3.45%	21,628	0.76%	21,793	7.76%	23,485	-39.80%	14,139
TA	19,700	1.77%	20,049	-0.69%	19,910	4.76%	20,858	1.53%	21,178
NWC/TA	-2.17%	-362.06%	5.68%	42.02%	8.06%	15.44%	9.31%	-24.24%	7.05%
PP&E/TA	106.12%	1.65%	107.88%	1.47%	109.46%	2.87%	112.59%	-40.71%	66.76%
NWC+PP&E/TA	103.96%	9.23%	113.55%	3.49%	117.52%	3.73%	121.90%	-39.45%	73.81%

Table 2.7 MetaCapitalism Indices 2008-12 Changes

[Source: author's analysis]

* **Net Working Capital**

(EQUALS)

[**Total current Assets** (subtract) **Cash** (subtract) **marketable securities**]

(SUBTRACT)

[**Total Current Liabilities** (subtract) **Notes Payable** (subtract) **Current Long Term Debt**
(subtract) **Current Portion Capital Leases**]** Note also that *short-term debt* was treated in the calculation as a substitute for *notes payable*.

Step 3 – Graph the change in the MetaCapitalism indices and the share price

Once the indices and their change values has been calculated, then we are in a position to represent the change effect - if any - of each of the MetaCapitalism indices on the change in share price (SP) from one period to the next. In this example, we were able to obtain information for three main MetaCapitalism indices: networking capital (NWC), plant, property and equipment (PP&E) and total assets (TA). Therefore, there will be six graphs to represent the three main MetaCapitalism indices and the three permutations between those three indices to help us determine if

it was one or a combination thereof that was responsible (or more correlated) for the change in the share price.

Figure 2.21 MetaCapitalism Indices Permutations

[Source: author's analysis]

Step 4 – Correlational Analysis

Figure 2.22 Graphing MetaCapitalism Indices and Share Price June 2007-12 Changes

[Source: author's analysis]

Is there any correlation between the change in any (or all) of the MetaCapitalism indices and share price? (Specify if any of those graphs exhibit a correlation between the majorities of points).

Graph	Interpretation
Graph 1 - SP and NWC	0 arc ³⁴ correlations
Graph 2 - SP and PP&E	2 arc correlations (08/09 to 09/1 AND 09/10 to 10/11)
Graph 3 - SP and TA	2 arc correlations (08/09 to 09/1 AND 09/10 to 10/11)
Graph 4 - SP and NWC/TA	0 arc correlations
Graph 5 - SP and PP&E/TA	2 arc correlations (08/09 to 09/10 AND 09/10 to 10/11)
Graph 6 - SP and NWC+PP&E/TA	2 arc correlations (08/09 to 09/1 AND 09/10 to 10/11)

Table 2.8 MetaCapitalism Indices 2008-12 Correlational Interpretation

[Source: author's analysis]

It should be noted that there are two methods used in the *what-if* correlational analysis of finding a plausible explanation for how the market responds (through the proxy of Share Price movements) to corporate changes (MetaC Indices: NWC,

³⁴ An arc is the line joining two points of change for any of the MetaCapitalism indices or the share price movements. The change between 2008 and 2009 represent a point of change, while the change between 2009 and 2010 represent another point of change. The line linking those two points of changes is an arc. In the Qantas example, the arcs linking the points of change of the NWC are correlated to the arcs linking the points of change of the Qantas share price movements for the same period. The NWC and the SP arcs are compared to see if there is a correlation (meaning that they are going in opposing directions) that satisfies the MetaCapitalism theory.

PP&E, TA, NWC/TA, PP&E/TA, NWC+PP&E/TA) made during any given change period (between two consecutive periods).

The market generally may respond to the MetaCapitalism indices changes that we are examining to corporate changes during the *same* or the *following* change period.

A 'same change period' is when a MetaCapitalism index in one change period (Jun-08 and Jun-09) is correlated to the share price in the same change period (Jun-09). This means that changes in the company in one period tend to affect the share price for the same period.

The 'following change period' is when a MetaCapitalism index in one change period (Jun-08 and Jun-09) is correlated to the share price in the following change period (Jun-09 and Jun-10). This means that changes in the company in one period tend to affect the share price of the following period.

The main rationale for this what-if analysis is that no one can really ascertain for sure, whether the changes within a corporation in one period are reflected in an 'immediate' response by the market, or if the market is more 'conservative' in waiting to see if those structural changes would translate themselves into an attractive market proposition (e.g., higher market share, higher earnings, and so on).

Step 5 – Conclusion

Which MetaCapitalism indices change(s) are most correlated to the share price change(s)?

Graph 2 (SP - PP&E), graph 3 (SP - TA), graph 5 (SP - PP&E) and graph 6 (SP - NWC+PP&E/TA) in the previous step 4, all exhibit a 2 arc correlations out of 3 arcs

– which is 66.66% of the examined change points and their connecting arcs. Naturally, more points (periods) may help provide a more conclusive decision as to whether the market satisfies the proposals of the MetaCapitalist theory or not.

Step 6 – Ranking of Companies in a Group

The following example represents the summary of changes over a twelve years period (1998 to 2011) to the corporations that were part of the Fortune 100. The same individual MetaCapitalism analysis (steps 1 to 5) of each company was undertaken to determine which companies followed the MetaCapitalist prescriptions.

Then, the group of Fortune 100 companies was split to two portfolios: MetaCapitalised companies and non-MetaCapitalised companies over that 12-year period. The ranking analysis of the group of companies in the Fortune-100 list during the 1998 to 2011 period, showed that 89% of the F-100 companies MetaCapitalised their structures, and 11% of those companies did not.

Figure 2.23 Fortune-100 Rankings Change Analysis 1998-2011

[Source: author's analysis]

Of the companies that went to extreme³⁵ forms of MetaCapitalising their structures, 31% showed a positive³⁶ change and 69% showed a negative³⁷ change. The companies that did not MetaCapitalise showed a 20% positive change and an 80% negative change, but with a much smaller number of companies that were affected.

No doubt, that the companies that went to extreme MetaCapitalism measures to change their structures have experiences higher volatility in their share prices, and were adversely affected by comparison to the ones that took a more moderate measures when MetaCapitalising their structures.

The majority (89%) of the Fortune-100 companies, which opted for MetaCapitalisation, had a large number (69%) of that group of companies opting for an extreme MetaCapitalist ‘makeovers’ during that 12-years period. It is inescapable the detrimental result of the extreme changes to the overall performance of those companies, where some have collapsed (23%) and others were subsumed in mergers (20%) and acquisitions (26%).

The aim of using this MetaCapitalism measurement approach was to determine if companies’ MetaCapitalised their structures or not, and to illustrate the impact on their performance and survival in the financial market.

The *responsibility of consulting firms* for promoting structural changes to corporations that proved detrimental to their survival has already been highlighted in the MetaCapitalism studies to date. However, *the responsibility of the auditors* who examined the accounts of these MetaCapitalised corporations and determined that

³⁵ Here, extreme changes were measured in terms of an excess of +/-100% change.

³⁶ Companies either went up in the F-100 rankings, or remained at the same rank for the whole period.

³⁷ Companies either went down in their F-100 rankings or went out of the F-100 rankings altogether. This was due to collapse (23%), merger (20%), being taken over (26%) by another company or underperforming and thus losing their F-100 rank.

they were going-concerns when they failed a few months later, has to date, never been questioned.

2. 10 Chapter Summary

This chapter reviewed the existing literature on the MetaCapitalism phenomenon, described in a book titled: *MetaCapitalism: The e-Business Revolution and the Design of 21st-Century Companies and Markets* by the Strategy Consulting partners at PricewaterhouseCoopers Global in the year 2000, in order to provide the background information necessary for this study.

The book was certainly unorthodox in the academic sense, given that it had no references to draw upon and to use as a starting point to the literature review. However, a book that purports to be a manifesto for innovation in the new millennium by the top strategy consulting partners at the largest accounting firm in the world, PricewaterhouseCoopers (PwC), warrants a rigorous and critical examination of its claims and predictions.

This was due to PwC undeniable and far reaching influence in shaping not only major private institutions, but also government policy on the provision of health, education, and public services on a global scale.

The chapter introduced the new realities of the interconnected global economy, which had increased uncertainties and how those uncertainties were a result of the neoliberal salvation offered by MetaCapitalism. The chapter then reviewed all research to date on the MetaCapitalism model with its ideological prescriptions and predictions, in order to demystify the tenets of the MetaCapitalism strategy.

The hyped promises of MetaCapitalism by PricewaterhouseCoopers Global, as an innovative corporate strategy for the 21st century, which aims to capitalise on the e-business revolution by shaving off all corporate inefficiencies, such as unnecessary resources, running costs and expenditures, and their overall financing commitments – may have been rewarded by the financial markets in the short-term, but much to the detriment of those corporations in the long-term.

A number of studies have examined the MetaCapitalism performance of a number of different industries and markets, and they have ostensibly shared a similar fate: short-term success at the cost of long-term decline for some corporations, and a complete failure for others.

The results revealed that corporations, which followed the extreme MetaCapitalism prescriptions had consistently underperformed in the long-term, with losses to their market capitalizations well above the industry/market averages, and they were more susceptible to increased financial distress and corporate failure. The analytical and measurement method, which was deployed in most of these studies, was illustrated using an applied example at the end of this chapter.

This chapter certainly leaves us with a troubling question that begs an answer and is at the heart of this thesis is: were the MetaCapitalism changes so extreme to the overall structure of the corporations that they made them unstable and amplified their inherent risks (volatility) and overall survival in the financial markets? Accordingly, has MetaCapitalism contributed in some way or another to the corporate failures during the 2008 global financial crisis?

3 METHODOLOGY

"All models are wrong, but some are useful."

George Box (1987)

"All models are wrong, and increasingly you can succeed without them."

Peter Norvig, Google's research director (2012)

3.1 Introduction

The purpose of this chapter is to articulate the complexities associated with model construction and charting the methodological prescriptions necessary for this study. The chapter begins by discussing the paradox of methodological choice and construction. Sections 3.3 and 3.4 raise concerns about our ontological predilections, which confound the objective-subjective divide. Then, sections 3.5 and through to section 3.7 introduce the Society of the Spectacle, Dromology and the deification of Science and Technology, as a platform to examining the techno-hyped transformations proposed by the MetaCapitalism model. Then a comparison between correlational association and causation is discussed in section 3.8 to highlight the relevance of correlation to the new problems of big data. This brings the discussion to sections 3.9 and 3.10 that proceed with the construction of the MetaCapitalism Performance Evaluation Methodology. These sections are then followed by section 3.11, which provides a number of concluding remarks and the chapter summary.

3.2 A Methodological Paradox

... we grace our beliefs by calling them theories, thereby giving them the stamp of cognitive approval. Emmanuel Ghent (1989)

On engaging with the world around us, we make assumptions about its nature and characteristics, which become a ‘model’ (of that observed world) when they (the nature and characteristics) at least *notionally* form a coherent set.

In modelling the world around us, we (as observers) may not necessarily come up with the same exact assumptions and characteristics about that world, which makes the process of articulating an understanding of the different models, their nature and characteristics often fraught with dread.

The reason for this is that *our beliefs and assumptions* are fundamental to our ability to make sense of our world. Heidegger (1962) and Gadamer (1976) argue that we are already operating within an existing set of beliefs and assumptions when we try to understand the assumptions that we make about some world.

Therefore, we are caught in an endless circle of beliefs and assumptions, the so-called hermeneutic circle, which means that we will never be able to make our assumptions about the world completely *explicit*.

In spite of such a fundamental problem, I think that providing descriptions of philosophical models or ‘paradigms’ (Burrell & Morgan 1979) is not only advantageous as a basis for discussion about assumptions, but also useful in understanding the nature of the assumptions we make about the world, and the ways in which we acquire knowledge about the world, which is no doubt helpful in improving our understanding of one another’s positions.

In social science research, there are broadly speaking three dominant philosophies or paradigms: positive, interpretive and critical. They are often seen as mutually exclusive alternatives given their incommensurability. This has often seemed to me, like ‘naïve fundamentalism’ where the complexity of a researcher’s experience had to be reduced and tailored to fit some (predefined) paradigm, be it positivist or interpretive, postmodernist or critical, or ... whatever!

The preoccupation with this ‘obsession’ baffled me and I must say that I have grown resentful over the years with this repressive compulsion that *I must* have some *exclusively defined* intellectual *identity* or *persona*, as if one cannot *exist* without being *defined* in some way or another.

Such an obligation seemed absurd, given my experience in practice, where one engages reflexively in all three paradigms, as well as other paradigms from other disciplines. Logically it is impossible to separate one’s thinking (and actions) into those disparate schools of thought.

It is certainly my belief that any underpinning philosophy that precluded the combination of scientific, conceptual and political thinking in making an argument or policy *must* fail the test of experience.

3.3 Ontological Predilections

Accounting is a social practice, which attempts to construct an *account* for *reality* that is of concern to our practice as accountants. The reality of *competing geopolitical interests* are mostly about *resource allocation tensions*, that are often *articulated* in terms of economic, political, technological, social or ethical *rationales*, to name a few, while accounting practice is *arbitrarily* ‘calibrating’ their parameters,

like ‘useful life’, ‘pension minimum age’, ‘working hours per week’, and so on, to influence the allocation of resources in favour of one party over another.

Yet, professional practice is a contentious issue (Gaffikin 2009: ix), because the theory, that offers our accounting practice (the act to ‘account for’) with its reasoned underpinnings, is anything but a coherent collection of “research trends, existing practice, and regulatory pronouncements”.

Gaffikin believes that the threat of “our ontological predilections” is by far the greatest factor inhibiting our view and understanding of the world around us. He promotes a “spirit of enquiry” that embraces “challenge to and critique of” existing knowledge as well as “interdisciplinary exploration” to resolve some of the issues facing accounting practice. Those range from globalisation, deregulation of global financial markets, business ethics, to climate change. His main concern is that those issues cannot be simply “resolved in purely economic terms”, but rather through a broader vision of those issues.

3.4 The Objective Subjective Divide

On the other hand, *reality* is complex given that some of it, objective facts in the world, are only facts by human agreement, such as: money, financial statements and government, where many facts about them are ‘objective’ in the sense that they are not a matter of preferences, evaluations or moral attitudes.

These contrasts with such facts as that Mount Everest has snow and ice near the summit or the water molecule has two hydrogen atoms and one oxygen atom, which are facts that are totally independent of any human opinions. Our social

constructions of accounts are attempts to reduce uncertainty (seeking certainty or truth?) through model construction in order to expand our knowledge of reality.

However, the language of asset, cost, expense, liability and profit which informs accounting is often less precise; where the objective measurement of what an asset or an expense is, for example; is often dubious. Contestable profit (or loss) measurements have real consequences: share prices may fall, bank branches may be closed down, CEOs may indulge themselves with higher rewards, mass lay-offs of workers, loans may be granted, and so on.

Institutions in the new capitalism are driven by an economic ideal of optimal resource allocation, through information technology, leading to maximised utility, or in short: efficiency. The quest for efficiency is a reality involving private, public and not for profit corporations alike, where an emphasis on control over resource utilisation is done through methods of “bureaucratic accounting technology, which can be coupled to totalitarian and democratic political regimes alike” (Power 1995:293).

The accounting profession can be regarded as a technology that subjects individuals to the 'objectifying' gaze of distant regulators, a system of surveillance that stimulates a style of self-regulatory behaviour (Power 1995:299). Subjects must constantly act and behave as if they are being watched and will at any time be forced to account for themselves.

This technically ambiguous and not so readily transparent practice, with its abstraction from operational detail, can lead to tangible freedoms, or the lack of them. Accounting wields influence over any aspect of society that is subject to

economic calculation, propounding a complex moral technology that expresses and endorses specific models of social and economic relations.

Gaffikin (2009:x) agrees that accounting is reflexively being affected and affecting the socio-economic and political spheres, through its “processes and enabling of technologies of economic control.” He asserts that;

.. by its very nature and appearance, accounting imparts power to those with the knowledge and skill to so employ it. Accounting's claim to professional status necessitates its members working to serve the public interest. Prospective accountants need to be made aware of this and left to accommodate it in the development of their own personal principles and ideals. In order to do this they need to be made fully aware of the issues involved – so that they can draw on notions developed in the many and varied disciplines that make up the stock of human intellectual endeavour.

Accounting research that is focused on understanding accounting in its organisational context is increasingly recognising “subjectivism” as a realm of interest distinct from “objectivism”, which has previously been its predominant concern.

3.4.1 The Mainstream Positivist Approach

The subservience of accounting to economics may help explain why accounting research has followed closely traditional positivist methods that were applied primarily to economics.

Power (2010:197) argues, that fair value accounting “acquired significance prior to 2007 despite widespread opposition”, due to four mutually supportive conditions, that gave its proponents robust institutional support; something which their

opponents lacked. He goes on to elaborate on the four supportive conditions, as follows:

First, fair value enthusiasts could draw on the background cultural authority of financial economics. Second, the problem of accounting for derivatives provided a platform and catalyst for demands to expand the use of fair values to all financial instruments. Third, the transformation of the balance sheet by conceptual framework projects from a legal to an economic institution created a demand for asset and liability numbers to be economically meaningful, a demand which fair value could claim to satisfy. Fourth, fair value became important to the development of a professional, regulatory identity for standard-setters.

In his view, those four conditions, though not adequate in themselves, had reinforced the ideal of fair value as a central precept (Power 2010:198) to financial reporting. No doubt, this view privileges the market as the supreme ‘auditor’ of asset and liability values, supported by institutionally (Wall Street?) credible ‘economic valuation methodologies’.

Thus, it has completely changed the narrative of ‘reliability’ for accounting numbers by appropriating the agency role of independent auditors and trivialised the self-regulatory role of the accounting profession, through its engagement of its members who debate the merits of accounting principles, conceptual framework, accounting measurement problems and the setting of standards.

However, Power was intrigued to find that it was the “visions and dreams of accounting policy-makers”, which were most instrumental behind the change to fair value accounting, and not as one would expect it to be by “real market forces and external demands for change”. Accordingly, Power (2010:208) is not at all hopeful about policymakers giving up on fair value accounting anytime soon, even if its

intellectual foundations has been rattled during the global financial crisis of 2008 and its aftermath, due to the absence of an obvious contender.

It is only reasonable to assume that having an unstable system of 'measurement' (fair value) can only further destabilise any social practice associated with its use. If the social practice itself, like accounting, adheres to a biased methodology in its use of those fair values for assets and liabilities, like the mainstream positivist methodology, then any resulting accounting decisions or information will undoubtedly amplify such methodological bias and the instability of its measurement.

The mainstream positivist research methodology yields results that may not give a full account of what determines and influences the organisational context of a social practice, such as accounting. This mainstream approach gives the perception that the actors within an accounting discourse are objective and rational by nature during the course of their interactions. In addition, the researcher is also perceived to be unbiased and impartial. Such assumptions are not suitable for social science research, because they tend to oversimplify the way that people and organisations behave.

Mainstream research has little concern for social ills, such as unfairness or injustice, and will not attempt to change the institutional structures that are perpetuating those social ills. In that respect, accounting does not have an interest in evaluating or changing institutional structures. Then, it is of no relevance to accountants if they exist in a Capitalist, Communist, State-Capitalist or whether the market is an Oligarchy or in perfect competition (Chua 1986:610).

The neutrality of the researcher ensures their objectivity, but it is not without its problems. In taking a ‘supposedly’ neutral position, the researcher is making a value-judgement about not interfering with the status-quo, and therefore implicitly supporting its conservative agenda and legitimising the market systems of exchange, production, and the debasement of work-life to mechanical routine by ‘repressive’ regimes (Tinker et al. 1982:191).

Chua (1986:623) raised the contentious issue of *rationality*, where goal driven and rational actors tend to coexist within the structured and causal patterns of organisational life, though such utopia is *blemished* with power struggles within and between organisations.

George Soros (2009) articulates his critique of the notion of ‘rationality’ (and the assumed neutrality of the actor) when he argues that ‘*bad mathematics*’ is its fundamental flaw, in his long-held belief that ‘*market fundamentalism*’ is unhealthily focused on speculation and greed.

Soros observed that markets were nurturing and privileging leveraged speculation³⁸ at the cost of investment, with 99% of all trading on the stock markets involving speculators selling pre-existing shares to other speculators.

To Soros, the prevalence of *financial capital* was promoted by market fundamentalism, which became the dominant ideology to solve economic and social problems, when Margaret Thatcher was prime minister of the United Kingdom and Ronald Reagan was president of the United States in the 1980s.

³⁸ Investment which involves a certain amount of a gamble is thinking, ‘This might work as a product.’ Speculation is thinking, ‘The price of the company that makes this is going to go through the roof.’ If you have too much of the latter driving the economy, then what will most certainly happen is leveraged speculation.

This speculative ‘largesse’ has also found its way to a global audience of middle classes in the BRIC countries and elsewhere, with a voracious appetite for the spoiling riches of the West, through peddling promises of unparalleled success in an increasingly unregulated cyberspace.

Speculators from financial institutions and black pools alike, were increasingly operating in the shadowy world of High Frequency Trading (HFT) in cyberspace, where a new technological arms race for market dominance is vigorously being fraught to shave milliseconds off dealing times to make ‘gold dust’ profits from their trades.

Soros has a particular theory about what went wrong in modern economics. His observation that financial markets are inherently unstable and therefore cannot possibly be the *main* platform to fulfill social needs, made him less amenable to the widespread belief in markets as self-correcting and that a global economy can flourish without any need for a global society.

He rejects the naive notion of laissez-faire capitalism, where the common interest is best served by allowing everyone to look out for *their own interests*, and that attempts to protect the common interest by collective decision making only distorts market dynamism. Soros is enraged by how economics has modeled itself on theoretical physics, so as to establish timeless validity to its laws of equilibrium, which can then be used to explain and predict events.

This was the result of advances in computing and the (literal) invasion of refugee mathematicians and physicists or “Quants” of Wall Street and the financial markets, who thought that they could quantify all risks by means of complex mathematical formulae into computer models.

Soros is adamant that this is fundamentally flawed, because of reflexivity (or circularity between thought and action) in economics, which is so different from the physical natural phenomena, where the beliefs people have about what will happen influences what does happen, and, conversely, what does happen influences what people think.

And, since thoughts are unpredictable, and need not correspond to reality, there is no natural tendency towards equilibrium. False beliefs – say about the sustainability of house prices – can appear valid for long periods (if they are shared by others) and thus create bubbles.

Eventually the gap between thought and reality will become evident, but by then it may be too late to prevent disaster – as in 2007. Soros is right to stress the differences in the subject matter of economics and natural science, although his point is hardly new: German philosophers and historians raised precisely this objection during the 19th century.

It also seems likely that bankers would have behaved more prudently if they had realised that risks could not be quantified in a mathematically precise fashion. The truth is that the future is radically unknowable - how would one quantify, for example, the risk of 9/11 occurring?

But Soros is wrong to equate “bad theory” with physics envy. Some of the most committed market fundamentalists – Friedrich Hayek and the “Austrian school” for instance – were skeptical of the use of mathematics in economics. George Stigler, one of the founders of the Chicago School, was not into quantification. Nor was Adam Smith or any of the classical economists. Yet, they all believed in laissez-faire doctrines. Conversely, Paul Samuelson – one of the principal architects of modern

mathematical economics – was a committed Keynesian who rejected free-market ideology.

The truth is that bad theory is the ultimate cause of the financial crisis, because it lay behind the poor decisions of both regulators and bankers. But, the bad theory was simply the notion that *unregulated* markets are *efficient* and tend to produce *optimal* outcomes. Keynesians – whether mathematical or non-mathematical - have been arguing this for decades.

The inadequacy of the mainstream approach with its preoccupation with explaining and predicting social phenomena without the slightest understanding of the phenomenon's social underpinnings, meant that there was a need for an alternative.

Interpretive and critical approaches are the *traditional* alternatives to positivist research, as they both seek to understand the observed phenomenon. Although, critical researchers would also critique the fairness, morality and humane treatment of all concerned parties who may not be privy to, or hold the same power structures. These alternatives have been subject to criticisms about their intensified subjectivity and politicisation of the observed phenomenon.

3.4.2 The Interpretive Approach

Interpretive approaches openly recognise their subjectivity and oppose the positivists' 'objectively' detached approach, in their pursuit to understand human behaviour and interactions. The subjectivity of interpretive researchers (Eco 1990:58) renders any theorisation to be more interesting or less interesting about how they view the world around them, because it is essentially based on their own

personal experience, without any verification that would inhibit their continued interpretations (and over-interpretation?).

Those interpretations are exposed to verbal and written discussion (discourse analysis), in order to test them and elicit a broad variety of value judgements. Tinker and Neimark (1987:86) demonstrated how language and action are intertwined in a social practice such as accounting, where the social interactions in a corporation like General Motors are like a text that is not comprehensible until its meaning emerges upon its interpretation.

One of the major limitations of interpretive approaches is the risk of over-interpretation, which would render it (the interpretive work) ineffective due to its contradictory subjectivity. Another major criticism is that the researcher is unable to pass judgement on their *subjects*, because they are restricted to only reach an understanding about the actors' activities.

3.4.3 The Critical Approach

Critical theory is a school of thought that is preoccupied with the reflective examination and critique of the *social* facet (societal relationships and cultural norms influencing those relationships) of a given problem. Critical theorists make assumptions about how all people have potential to achieve their goals, but they are *inhibited* by the domineering structures of power, which exist in modern society (Burrell & Morgan 1979:17) and influence the inequitable allocation of resources.

It is the contention of the critical theorist to bring to light those injustices tolerated by the oppressed masses and to *empower* (Ellsworth 1992:98) them to *transform* the system that has exploited them for far too long (Laughlin 1987:482). The researcher

prosecutes the status quo through a *critique* of the organisational, societal and historical context, so as to *transform* the plight of the oppressed.

In having fewer limitations placed upon the critical researcher compared to the positivist or interpretivist, then it can provide the social scientist with an *acceptable* means for *understanding* and *changing* our worldly structures and systems (Laughlin 1987:484).

The inter-subjectivity of critical theory means that different researchers have different opinions for the position they take in the theories they evaluate. Like, interpretivism, there is no right position to take, and as a result, many critical theorists openly criticise each other, which is no different to intellectual debates within the *interpretive* and *mainstream* paradigms (Chua 1986:626).

Ellsworth (1992) questions the political agenda of critical theorists who mask their political prejudices behind theoretical jargon such as ‘critical’, ‘social change’ and ‘revitalised public sphere’. It seems that despite the political underpinnings of most critical research, there is little evidence to suggest that it follows up or examines how its own prescriptions have altered the power structures in society.

Another criticism concerns how critical researchers *coerce* participants to take sides on an issue and forcefully question the status quo. There is no correspondence between a socially acceptable solution and social change, which may or may not occur (Dillard 1991).

Gaffikin (2006:10) offers a more positive view of critical accounting researchers such as Prem Sikka, who he describes as “.. somewhat of a political activist in accounting and has taken issue with the profession for not having more forcefully

aided the fight against issues such as money laundering, fraud and transnational crime and professional body insouciance”.

Sikka is not alone, as he comes from a long line of ‘political activists’ in accounting research, like Tinker, Puxty, Hopwood, Cooper, Laughlin, Merino, Neimark, Broadbent, Hopper, Napier, Preston and many others. Indeed, there is a cause for optimism in the aftermath of the 2008 global financial crisis, with more researchers taking exception to the societal injustices exacerbated by an inculpably accounting profession, an amoral banking sector and aloof regulatory authorities.

However, the fundamental problem with the critical accounting literature remain: it does not necessarily appeal to the targeted interest groups, though, it certainly interests those already converted and prepared to question the injustices of our societal structures. This, no doubt, poses a problem of reaching the affected groups to help them with their plight, save for very few researchers.

3.5 Society of the Spectacle

This research argues that although it is a step forward for accounting research to recognise both the “subjective” and the “objective” as valid concerns. It is a mistake to pose a dichotomy between the two or to suggest that there are two different kinds of researchers (objectivist and subjectivist) who focus on one realm of experience or another. This view resonates with that of Gaffikin (2009:x) who believes that all knowledge is:

.. subject to the interlinked elements of language, history and culture. Knowledge is only seen to be knowledge when it is communicated. The dominant media of communication is language, a system of signs and symbols accepted within and by a society and culturally agreed upon. This system evolves through time, not in any

linear fashion but as and when the need arises, which suggests meanings are never absolutely fixed. To be a truly intellectual activity, a discipline must embrace a broad appreciation of human thought and knowledge. Accounting influences decisions made in a great many areas. This is often recognised with some derision – after all, we are merely the ‘bean-counters’. If we are to rid ourselves of this yoke, accountants must take a broader perspective of their profession to advance it beyond simply reflecting economic considerations, although these are undoubtedly important. However, accountants must not hide behind the misguided mantle of merely being there as neutral representors of an economic reality.

In a sense, Gaffikin’s view of accounting, as a complex communicative symbolic exchange, offers a similar interpretation to Debord’s (1967:2) “society of the spectacle” when highlighting the central ontological problem with our accounting role, as “*neutral representors*” in *commodifying* authentic social relationships (*being*) into economic exchanges (*having*) that we account for using financial representations (*represented*).

The significance of this view lies in how the construction of our role, as ‘*neutral representors*’ of economic events and exchanges, obfuscates the potency of our role in the pacification and de-politicisation of resource allocation tensions. For example, the spectacle of international and regional wrangling over economic governments’ bailouts and rescue packages due to the 2008 Global Financial Crisis and the continuing European Debt Crisis, only overwhelms its observers and disconnects them from the *powers* that *control* their *lives*. The spectacle of the Arab spring is another case in point.

The disenfranchised populace are out in force making their discontent heard, but nevertheless are completely oblivious to *who* should be *blamed* for their miserable condition? Some blame the politicians and foreign governments, while others blame

the corrupt institutional structures and the financial institutions, while the spectacle and its euphoria goes on, but away from the perpetrators of exploitation and injustice!

Both Gaffikin and Guy Debord are concerned about the degradation of human life, where authentic social life has been reduced to having (material exchange of goods or services) and replaced with its (accounting) representation. The “decline of being into having, and having into merely appearing” did not only colonise social life (Debord 1967:3) on a global scale due to the onset of globalisation, and supplant actual relationships between people with their (accounting) representation, which in turn may be exchanged and further supplanted by another (accounting) representation, and so on – but, has also obfuscated all those multilayered representations in the complex web of the global electronic market.

For example, take a social relationship between an uninsured mortgagee who took out a loan from a financial institution for \$300,000 in value, before the onset of the 2007 housing bubble crisis in the United States. The financial institution may have exchanged the \$300,000 loan (as with packaging their ‘toxic assets’ and sold them to mutual funds) and supplanted that representation with yet another (derivative) representation.

The mutual funds exchanged the ‘toxic assets’ package representation with an insurance company in return for yet another representation, and so on. In time, those multiple representations bore no relation whatsoever to the original social relationship between the mortgagee and the lender (loan for an asset), which only distorted our perceptions and degraded our knowledge of the risks.

Figure 3.1 Guy Debord's Transformation [Being (social relationship) ==> Having (economic exchange) ==> Appearing (representation)]

This may explain, in part, why the 'house of cards' had to collapse during the 2008 Global Financial Crisis. The attendant impoverishment of the quality of life for billions of people is a testament to the valid concerns by Debord and Gaffikin among others, about the degradation of human life due to the displacement of authentic social relationships by (accounting) representations.

No doubt, that global markets and new information technologies, like algorithmic or high-frequency trading have not only imploded all that once lived into mere representations, but they have also obfuscated those past (socially commoditised relationships into financial) representations and merged them with other future (financial) representations into an indistinguishable continuum, which only confounds individuals into thinking that they are experiencing a kind of never ending

present, and not a moment in time that can be overturned through revolution (Debord 1967: 26).

3.6 Dromology

This perpetual state of movement in an indistinguishable continuum is how the essential nature of our modern technological society is being reconfigured, with that which moves with speed and quickly overwhelms that which is slower. Paul Virilio (1977:47) concurs that dromology³⁹ is the new *logic of speed*⁴⁰ that has become the central foundation of a technological or a technocapitalist⁴¹ society, where possession of the territory signifies control regardless of any laws or contracts, because it is primarily ‘a matter of movement and circulation’.

Outsourcing arrangements, for example, which are usually subject to labour contracts and laws, have given companies much desired control over their operations, because of the speed by which they can move and circulate them from one call centre in Australia to India to the Philippines, all a result of our technologically interconnected global economy.

Jean Baudrillard (1976:31) contends that our interconnected global economy is a model of simulation, where it has become the *real* for us. In a sense, he shares the

³⁹ Dromology had its roots in the Greek word ‘Dromos’, to move fast or to race.

⁴⁰ Bill Gates (1999) pointed out that, “if the 1980s were about *quality* and the 1990s were about *reengineering*, then the 2000s will be about *velocity*.” He argued that the very nature of business would change as velocity increases. The faster a business transacts, the more it will shape the way consumers access its information, and that would alter their life-styles and expectations of business in ways that would force faster quality and business-process improvements. The evolving digital infrastructure is like the human nervous system to corporations, which enables them to “run smoothly and efficiently, to respond quickly to emergencies and opportunities, to quickly get valuable information to the people in the company who need it, and the ability to quickly make decisions and interact with customers. The successful companies of the next decade will be the ones that use digital tools to reinvent the way they work”.

⁴¹ A term coined by Luis Suarez-Villa in a book by the same title that was published in 2009, to indicate a new version of capitalism that is rooted in technological innovation and corporate power.

same view as Debord, that the sign's referential (representation) is preserved through simulation in a 'dialectical' equilibrium. The entire critical discourse on political economy of profit, surplus value, mechanics of capital and class struggle, is 'staged as a *referential* discourse'. He goes on to explain, that:

It is the real and therefore the imaginary, since here again the two formerly distinct categories have fused and drifted together. The mystery of value is enacted on stage (of course, the mystery has simply acquired a new value: the structural law of value has become mysterious): everyone agrees as to the 'determining instance' of economics, and this has become 'obscene'. This is a provocation. Capital no longer looks to nature, God or morality, but strictly to political economy, and its critique of its alibis, and lives through its own denunciation from within itself – feedback or a dialectical stimulus. Hence, the essential role of Marxian analysis in designer capital.

According to Baudrillard, there are two levels of simulation. The *first* is when a commodity must have a use-value in order to sustain the system of exchange-value. The *second* is when a commodity must function as an exchange-value in order to better hide the fact that it circulates like a sign and reproduces the code (representation).

Our world today seems to function at Baudrillard's second-order (or level) simulation, where dialectical materialism (profit, surplus value, mechanics of capital and class struggle), is not being deconstructed by the forces of production, but rather, the relations of production tend to submit to the forces of production (science, technology, etc.) and find a new legitimacy in them.

Baudrillard found that the dramatization spectacle of a political economy and the threat of its symbolic destruction are necessary for maintaining a perpetual

simulacrum of a crisis, like the spectacle of a Global Financial Crisis or a European Debt Crisis. He believes that crises are fundamental to the very existence of a Capitalist system, because they provide it with the ethical meaning, such as that of the perpetual idea of “scarcity of ‘economic’ resources”. Capital can only avoid imploding from the very myths that it propagates (eg. wealth accumulation and job creation?), if it resorts to nostalgia and the need for its great epoch when production had meaning.

This means that we must ‘generate’ or ‘create’ shortages; a certain spectacle about the scarcity of resources so as to reactivate the principles of economics. For, imagination is strongest in anticipation, and the new economy strengthens this kind of ‘self-consuming passion’ (Sennett 2006:136) both in shopping malls and in politics.

Is it any surprise the ecological turn in recent years and the ensuing studies of environmental economics and environmental accounting, where the danger of absolute scarcity and an *ethic* of energy conservation, have given capitalism a renewed legitimacy? Production is no longer the protagonist in this crisis, but rather reproduction (representation), which makes it impossible to know how much truth and how much simulacrum may be in this crisis?

Ecology is too slow to produce and reproduce, to energise the imagination with more anticipation - which may explain why resources like oil and minerals offer the perfect candidates for ‘sudden’ crises, or spectacles that are often associated with the threat of a conflict in the Middle East. The shortage in oil illusion, for example, makes us more aware, and accepting, of the amount of production and reproduction - in terms of its future contracts and higher prices.

The illusion comes from a naïve faith in a reality of shortage and a reality of abundance, which reinforces the illusion of a real opposition between them. When, in reality, both ‘realities’ are quite simply alternatives to neo-capitalism, which swings from a phase of shortage into not a phase of abundance, but rather, a *systematic alternation* between the two states of shortage and abundance. It does this because neither retains a reference, nor therefore an antagonistic reality, while the system is indifferent to their deployment, in so far as preserving its own existence.

This structural alternation serves only to neutralize any dialectical opposition between the shortage-abundance nexus, which leaves us feeling uncertain about the reality of the crisis. The dialectical tensions between scarcity and abundance allow the economy to produce itself. In turn, the mythical operation of the economy allows capitalism to reproduce itself. In essence, then, the transactional exchange on the stock market is all that is required for capitalism to reproduce itself, which is why business reports often discuss the reproduction, taking place on the stock market, as if it is the ONLY reflection of the economy.

In this way, Baudrillard mirrors Debord’s view of the representation becoming the new *real*, while Virilio’s logic of speed (dromology) serves to explain why the faster the movement and circulation of the swings from scarcity to abundance and vice versa, as with High Frequency Trading (HFT) on stock exchanges, the more *enervating* and *believable* the spectacle becomes.

Dromology, then becomes essential not only to the possession of the territory, but to reconfiguring that territory as well. The transition from feudalism to capitalism is a case in point, where the mechanics of war had changed the dynamics of societies,

where siege warfare of feudal fortified cities had shifted to a war of movement because of the increasing sophistication of weapons and possibilities for warfare.

Today, not only governments and militaries around the world are involved in an *online arms race*, but also financial institutions are doing the same thing with billions of dollars earmarked for their High Frequency Trading (HFT) capabilities. If history progresses at the speed of its weapon systems, then could this online arms race spell the end of freedom?

Distance, that once sheltered us from the invasions of the barbarian hordes of afar, is no longer a deterrent with new technologies. The localized physical space that once protected local jobs, for example, ceases to protect workers from the technologically efficient ‘armies’ that are driven by ideologies, economics and speed facilitated by technological innovation. ***Dromocracy*** ensures swift victory if you deploy resources rapidly: money, skill, ideology or weapons. This very idea of speed is at the heart of MetaCapitalism: faster innovation leads to faster revenue expansion.

3.7 Deifying Science and Technology

Mathematical logic, which is integral to information technology spread to other disciplines, such as finance and economics, producing a series of esoteric formulae for manipulating algebraic symbols linking premise to conclusion.

Whilst the majority of people may not understand such mathematical-based disciplines, they still place much faith in the divine ability of ‘scientists’ and ‘economists’ who understand the mathematical complexity of information technology.

Aristotle's age old dilemma, to understand what it is that humans do when they reason, has been further complicated by the competing views of science, pseudo-science and religious belief. Computational technologies yield no understanding when they utilise arcane formulae for processing algebraic symbols that link premise to conclusion.

As a matter of fact, very few of us who believe in gravity, or ocean tides or the four seasons as 'scientific facts' would be able to explain 'rationally' why such beliefs merit credence. The mathematical complexity of 'proof' of those facts prohibits most of us from even pondering a 'scientific' explanation, and so we place our 'trust' in those smart scientists who can provide such an explanation. Fundamentally, then, 'science' has become a matter of faith to most of us, in much the same way as belief in the divine. In a similar way, the MetaCapitalism promise demanded belief in its divine success.

3.8 Correlation Supersedes Causation?

The spectacle of MetaCapitalism evolved out of the prominence⁴² of its 'intellectual' underpinnings: neoliberalism and the efficient market hypothesis that exploited the new technological⁴³ and demographical⁴⁴ realities, and was mediated by the Big 4 accounting firms' supreme monopoly of the global accounting and audit market.

⁴² The economic collapse of the Soviet Union in the late 1980s, bankrupted Socialism of any legitimacy to be seriously considered ever again, as an alternative to Capitalism. The triumphant prevailing system of Free Markets was extolled as a saviour of the human race against the evil Communist Empire. This propelled politicians to embrace Free Markets not only for their economic virtues, but political Freedom as well.

⁴³ The evolutionary rise in Internet and Telecommunication Technologies throughout the 1990s, not only brought the demand and supply chains closer than ever before, but considerably reduced transaction costs.

⁴⁴ The mass labour markets of India and China propelled a major demographic disruption to the global economy, due to not only the size of their highly trained labour force, but also the public investment in infrastructure, cutting red tape and encouraging public-private (foreign) partnerships and investment.

The very absence of serious academic critique of the role of the Big 4 firms made me doubtful of my ability to empirically question their role or venture into discovering any adverse finding(s) as to their stated claims. Then, there was a ‘Google’ moment!

Google conquered the world of advertising and foreign language translation with “nothing more than applied mathematics”. The people at Google did not pretend to know anything about advertising, let alone the rules of grammar and the intricate nuances of foreign language translation — they did it with “better data, and better analytical tools”. For them, it was pure statistics (frequency of access) why one page was more popular than another.

In a sense, it was pure democracy in action, where the masses determined the value of information content, through their high access rates of those webpages. There was “no semantic or causal analysis” required. Theorising about why people do what they do is no longer important, as long as they do it, and we can *trace* it and *measure* it.

It's ‘science’. The ‘neutrality’ of the researcher is no longer a problem. It is not the researchers who hypothesise, model, and test. It is the data patterns that provide the connections on how the world works. Hypotheses are no longer needed to analyse the data in order to tell us what the data may show or mean.

Scientists often dismiss correlations, for they do not provide causation as to why X is correlated to Y. Today, it is possible to recognize a pattern between massive reductions in fixed assets and share price volatility, when one has access to all historical financial and regulatory information for listed companies. Such patterns and correlations are no longer a coincidence. Our understanding is no longer subject to models that connect the data sets with confidence.

Anderson (2008) argues that it was only until recently, that “models from cosmological equations to theories of human behaviour, seemed to be able to consistently, if imperfectly, explain the world around us”.

Google has turned our scientific method (and modeling) on its head, due to massive abundant data available in the Cloud at the petabyte scale. Information available at the petabyte scale is no longer viewed from “a three or a four dimensional taxonomy and order, but of dimensionally agnostic statistics” (Anderson, 2008).

It is my contention that one should not consider the complexities of such MetaCapitalism hype and its associated divine spectacle, as a simple matter of falling into categories and sequences of ‘rapid’ performance. Rather, the focus should be on measuring the dubious short-term indicators of performance that must be viewed *mathematically* first in their longitudinal (historical) entirety to find patterns, and then later, to establish an informed understanding of their *context*.

A correlational approach is more appropriate to an exploratory study of the performance evaluation of MetaCapitalism because it does not make ‘a priori’ assumption about the relationship or dependence of one variable on one, or more, explanatory variables. In assuming, albeit implicitly, that there is a one-way causal effect from the explanatory variable(s) to the response variables, the *reflexive* nature of financial markets, is ignored.

The reflexive nature of the financial markets is at odds with the ‘mathematics’ of how a function is determined. For a function to be uniquely determined, it needs an *independent* variable which determines the value of the *dependent* variable. However, to understand the financial markets and to participate in them involves two different functions: cognition and participative.

Cognition is where people seek to understand the world within which they live. For example, how do financial markets respond (through rewarding or penalizing the share price of a firm) to a firm's change in their net working capital?

The participative, or manipulative function is when people seek to make an impact on the world and *change* it to their advantage. For example, a firm may try to influence the financial markets to reward their share price by making changes to its net working capital.

This circular interchange between thought (cognition) and action (participative/manipulative) is at the heart of George Soros's theory of reflexivity, and his critique of the financial markets. So, if we were to state those functions in algebraic form, then it would look something like this:

Cognition

{ independent (actual state of affairs), dependent (participants views) }

Participative/Manipulative

{ independent (participants views), dependent (actual state of affairs) }

This *inevitable* circular interchange between thought (cognition) and action (participative/manipulative) means that it makes more sense to be concerned with the degree of association (interdependence) between the variables, and thus their correlation, rather than their causation.

3.9 MetaCapitalism Performance Evaluation Methodology

The contemporary nature of MetaCapitalism lends itself to an exploratory approach in its study, so as to clarify and define its problematic nature, while ‘subsequent research will be required to provide conclusive evidence’ (Zikmund 2000:51). Hence, my aim is to develop an exploratory evaluating methodology that can provide a reasoned and logical critique of the subjective-objective complexities of the MetaCapitalism model assumptions.

3.9.1 Development of the Methodology

The proposed *MetaCapitalism Performance Evaluation Methodology* attempts to measure and critically evaluate the *long-term* financial performance of Internet technologies’ transformations of corporations through innovation, outsourcing-offshoring and decapitalisation.

First, it attempts to measure the long-term transformations that are due to the evolving electronic exchanges and collaboration between B2B, B2C, B2G and B2E, while each of those entities (Business, Customer, Governance and Employee) in the 2-way exchanges, affect and is being affected by the others.

Figure 3.2 Key players determining the interrelationship between the MetaCapitalism changes and the market.

[Source: author's analysis]

These transformations affect resource allocation within an organisation⁴⁵, and these resources are represented by specific accounts in the financial statements, which provide the indicators forming the MetaCapitalism evaluating model. The change (allocation) in these indicators over time offers a trend that can be correlated to the organisation's market performance.

For example, the B2G exchange represents a dual interaction, whereby governance, as represented by market governance structures like the International Accounting Standards Board (IASB), influences business decisions with their rules and

⁴⁵ An organisation may be any entity in the exchange, like another business, customer, governance, and employee.

regulations, such as the case with International Financial Reporting Standards (IFRS).

Meanwhile, businesses may influence decisions by market governance structures, like rating agencies with their share price movements or beta volatility movements as can be seen in Figure 3.2.

This method enables us to reduce the tenets of the MetaCapitalism strategy (innovation, outsourcing and decapitalisation) into measurable indices, so that we can measure and correlate the changes in those indices over time with the strategy's 'expected' external market (share-price, ratings and risk exposure) performance.

Secondly, it attempts to critically evaluate the long-term financial performance of MetaCapitalism by examining whether higher MetaCapitalism changes contribute to higher volatility. Additionally, the evaluation scrutinises the role of external auditors by examining whether higher MetaCapitalism changes and higher volatility were adequately reflected in the audit opinion.

For example, did the external auditors issue a qualified opinion, an adverse opinion or a disclaimer of opinion - if the corporations had higher MetaCapitalism changes and/or higher volatility and has been delisted? The aim of such evaluation is to assess the auditor's role and the quality of their work when assessing entities as going-concerns.

Like that, it enables us to contextualise the effect of the internally reflexive MetaCapitalist changes on external market performance (equity-price, ratings and risk exposure by way of stock volatility) by situating them within the market

governance structures, such as accounting standards, audit opinion and ratings by rating agencies that rely on the legitimization of the audited financial statements.

Figure 3.3 Key layers determining the logical order of interrelationships between the MetaCapitalism changes and the market.

[Source: author's analysis]

Fundamentally, the MetaCapitalism changes occur within a market (institutional) context, where the accounts must adhere to IFRS regulatory guidelines, and be audited by an audit firm (mostly a Big 4 firm given that they audit nearly 85% of the global financial markets by market capitalisation) with the audit opinion (unqualified, qualified, etc) communicated to the market.

The share price and volatility levels are determined through the stock exchanges where the shares are listed and against the backdrop of a credit rating that is being determined according to all available analytical (objective and subjective) information to rating agencies. Hence, it is important to determine the key logical relationships informing the MetaCapitalism Performance Evaluation Model.

Figure 3.4 Key Logical Relationships informing the MetaCapitalism Performance Evaluation Model

[Source: author's analysis]

The six key determinants affecting the different entities (B2B, B2C, B2G and B2E) in those 2-way electronic exchanges, are: MetaCapitalism changes (innovation, outsourcing/offshoring and decapitalisation), share price movements, beta volatility, audit opinion, International Financial Reporting Standards (IFRS) and credit ratings.

Those determinants affect one another in direct (solid-line) or indirect (dashed-line) unidirectional (1-way), bidirectional (2-way) or non-directional (0-way depicts association). For example, MetaCapitalisation changes (metaC) tend to affect the share price (SP), but are also affected by the changes in the share price, which represent a 2-way direct relationship. Meanwhile, IFRS affects indirectly MetaCapitalism Changes through the application of Fair Value methods, which represent a 1-way indirect relationship.

	B2C		B2G		B2E	B2B
Relationships	Share Price (SP)	beta	Credit Ratings	IFRS Fair Value (FV)	Number of Employees (NoE)	Audit Opinion
↑ (+ve)	↓	↓	↓	N	↑	Unqualified
MetaCapitalism	B2C, B2G, B2B & B2E relationships RESPONSE to MetaCapitalism Changes					
↓ (-ve)	↑	↑	↑	Y	↓	Qualified

Table 3.1 Key Logical Change and Response of the B2B, B2C, B2G and B2E relationships informing the MetaCapitalism Performance Evaluation Methodology

[Source: author's analysis]

Table 3.1 summarises the resulting effect of the key logical relationships informing the methodology. For example, a negative (-ve) MetaCapitalism change, through reductions in capital and operating expenditures due to outsourcing of non-core activities and the subsequent decapitalisation of resources, is a 'positive signal' to the financial markets.

This positive signal results in rewarding the company's internal changes (due to change of internal strategy either in response to the external market or not) by appreciating its share price (SP) upwards (+ve change), and vice versa. This reflects the MetaCapitalism theoretical claims, which states that the market rewards reductions in the MetaCapitalism indices, and vice versa.

3.9.2 Indicators Forming the MetaCapitalism Methodology

The main tenets of the MetaCapitalism strategy have been reduced to a number of indicators, which inform the methodology, as follows:

(a) Share Price (SP)

Means and Schneider (2000) argued that share prices were the main indicator of MetaCapitalism performance. This indicator is calculated using the year-end prices for each stock used in the portfolio.

(b) Net Working Capital (NWC)

Captures changes in innovation, outsourcing and decapitalisation. This indicator is calculated using the following formula:

[Total Current Assets - Cash - Marketable Securities]

(LESS)

[Total Current Liabilities – Notes Payable - Current Long Term Debt – Current Portion of Capital Leases]

(c) Plant, Property and Equipment (PP&E)

Captures changes in innovation, outsourcing and decapitalisation.

(d) Total Assets (TA)

Captures changes in innovation, outsourcing and decapitalisation. The Total Assets (TA) indicator is used as a common denominator to determine the significance of the changes (Δ) in NWC, PP&E, R&D, OpEx and NoE in relation to Total Assets.

(e) Research and Development (R&D)

Captures changes in innovation.

(f) Operating Expenditures (OpEx)

Captures changes in innovation, outsourcing and decapitalisation.

(g) Number of Employees (NoE)

Captures changes in innovation, outsourcing and decapitalisation.

Composite MetaCapitalism Index (MetaC)

Captures the overall level in the company of MetaCapitalisation changes in innovation, outsourcing and decapitalisation. This may be calculated using the following formula:

$$[(\Delta \text{NWC} + \Delta \text{PP\&E} + \Delta \text{NoE}^* + \Delta \text{R\&D}^* + \Delta \text{OpEx}^*) / \Delta \text{TA}]$$

Means and Schneider (2000) explained that markets would reward corporations for their efficiency changes through share price appreciation for their extensive reductions in PP&E, NWC, NoE, OpEx and TA.

Hence, according to the MetaCapitalist theory, share price movements would inversely respond to the efficient (inefficient) allocation of corporate resources, like NWC, PP&E and NoE and TA. The correlation coefficient used in this thesis ranges from +1 to -1. However, its *interpretation* has been *adapted* in the figure 3.5 below to reflect the MetaCapitalism theoretical claims, which states that the market rewards mass reductions in the MetaCapitalism indices, and vice versa.

* The starred items were not used in this analysis due to the incomplete data available.

Figure 3.5 Interpreting MetaCapitalism correlation coefficient relationships

Accordingly, the closer the coefficient is to -1 the closer the **positive** MetaCapitalist relationship, as one MetaCapitalism variable (NWC, PP&E and so on) decreases, then the share price variable increases and vice versa. In contrast, the closer the coefficient is to +1, the closer it resembles a **negative** MetaCapitalism relationship, as one MetaCapitalism variable increases, then the share price increases as well.

3. 10 Stages of the MetaCapitalism Performance Evaluation Methodology

The stages that comprise the measurement and critical evaluation in the proposed MetaCapitalism Performance Evaluation methodology are as follows:

Figure 3.6 MetaCapitalism Performance Evaluation Methodology

1. **Sample Profile Analysis:** profile the sample of companies to determine their size, country of origin, geopolitical region, accounting standards, audit firm type, listing status, main exchanges, number of subsidiaries, number of employees, and so on.

Indicators: Independence, accounting standards, Bank/company specialisation, main exchanges, number of subsidiaries, number of employees, and so on.

2. **MetaCapitalism Analysis:** to measure the changes in the MetaCapitalism (MetaC) indices, then correlating them to share price changes for the same period, to determine how high or low these changes were. Higher changes indicate higher volatility and increased risk.

Indicators: the MetaC indicators are discussed at length in the next section.

3. **Market Analysis:** to determine if high MetaCapitalism changes resulted in a higher Volatility, by examining a number of indicators. If so, what was the auditor's opinion in their audit report? Has the company been delisted? Or is it an unlisted⁴⁶ company? Have there been any warning signs that were missed by the regulators or the credit ratings agencies?

Indicators: share price history, share price changes, beta coefficient, volatility (standard deviation of all available daily, weekly or monthly prices for a period of at least 3 years), Equity Price Volatility (360 days), Profit Before Tax, Net Income, and so on.

4. **Ratios Analysis:** to determine if there were any adverse signals in the analysis of the conventional ratios that are commonly performed by auditors, but still were missed by the auditors?

Indicators: asset quality (eg. *loan loss provision/net interest revenue*), capital (eg. *equity/total assets*), operations (eg. *net interest revenue/average assets*), liquidity (eg. *net loans/total assets*) and leverage (eg. *debt/equity*).

5. **Final Analysis:** to determine who should be held responsible for corporate failure when (a) corporate MetaCapitalism changes are high, (b) volatility levels are high, and (c) there were adverse signals in the analysis of the conventional ratios that are commonly performed by auditors? In this stage, the analysis will focus on whether the auditors are responsible or not? The reason being is that it is the auditors (not the market analysts, or the credit rating agencies or the regulators), who sanction the legitimacy of the accounts

⁴⁶ Higher MetaCapitalism changes may signal instability and higher investment risk.

for the consumption of investors, market analysts, credit rating agencies, regulators and other stakeholders.

3. 11 Chapter Summary

This chapter articulated the complexities associated with model construction and charting the methodological prescriptions necessary for this study. The chapter began by discussing the paradox of methodological choice and construction, and raised concerns about our ontological predilections, which confounds the objective-subjective divide. The objective-subjective divide is central to resource allocation tensions, which concern the notional measurement and determination of “scarcity” and “abundance” of resources.

The dialectical tensions between scarcity and abundance allow the economy to produce itself. In turn, the mythical operation of the economy allows capitalism to reproduce itself. In essence, then, the transactional exchange on the stock market is all that is required for capitalism to reproduce itself, which is why business reports often discuss the reproduction, taking place on the stock market, as if it is the ONLY reflection of the economy.

The stock market of resources like oil and minerals offer the perfect candidates for ‘sudden’ crises or spectacles associated with the threat of a conflict in the Middle East, to energise the imagination with more anticipation. The shortage in oil illusion, for example, comes from a naïve faith in a reality of shortage and a reality of abundance, which reinforces the illusion of a real opposition between them. When, in reality, both ‘realities’ are quite simply alternatives to neo-capitalism, which swings from a phase of shortage into not a phase of abundance, but rather, a *systematic alternation* between the two states of shortage and abundance.

It does this because neither retains a reference, nor therefore an antagonistic reality, while the system is indifferent to their deployment, in so far as preserving its own existence. This structural alternation serves only to neutralize any dialectical opposition between the shortage-abundance nexus, which leaves us feeling uncertain about the reality of the crisis.

However, the momentum, frequency and speed by which those alternations of crises or spectacles occur in the global financial markets, made it more plausible to bring into the discussion ideas like “Society of the Spectacle”, “Dromology” and the deification of Science and Technology, as a platform to examine the techno-hyped transformations proposed by the MetaCapitalism model.

The discussion then sought to consider big data and its correlational analytical approaches, which has been successfully used to solve complex problems from a wide range of disciplines. The aim was to see if big data correlational approaches compared to causation may be able to offer an alternative analytical solution to examining the MetaCapitalism phenomenon, given the extensive datasets (with comprehensive financials, market and regulatory information) that were used in this thesis. Then, the chapter concludes with the construction of the proposed MetaCapitalism Performance Evaluation Methodology, and discussion of its components.

4 RESULTS AND DISCUSSION

4.1 Introduction

The purpose of this chapter is to examine the results of the study, and contextualize those findings within their neoliberal prescriptions, so as to reconcile the tensions between the ideological promises and the results on the ground. The chapter highlights the key findings in each stage of the five analytical stages of the MetaCapitalism Performance Evaluation Methodology. Section 4.2 represents the first stage of the methodology: Sample Profile Analysis, which sets the context for the analytical results by profiling the key defining characteristics of the sample selected. The detailed analysis of the financial statements, market data, regulatory and audit information of the top 734 global banking institutions (ranked by equity) for the years 1996 to 2009 will be outlined in stages two to four of the methodology. A further detailed analysis of 69,385 global public companies for the years 2000 to 2011 will be included in the final analysis of the fifth stage of the methodology. Section 4.3 represents the second stage of the methodology: MetaCapitalism Analysis, which proceeds with examining whether MetaCapitalism was adopted by any of the institutions in the sample, and if those that applied MetaCapitalism were susceptible to higher volatility levels. Section 4.4 represents the third stage of the methodology: Market Analysis, which begins by discussing the mismatch in the financial markets between reality and its financial representation. It proceeds with deconstructing the validity of the criticisms of the fair-value ideal, and examines the legitimacy of the criticisms about its contribution to higher volatility levels. Then, it critiques the dysfunctional self-regulatory role of Credit Ratings Agencies in intensifying volatility in the market. Section 4.5 represents the fourth stage of the

methodology: Ratios Analysis, which attempts to determine whether the more traditional form of financial analysis, such as ratios analysis of asset quality, capital, operations, liquidity and leverage – have indicated the presence of problems. Section 4.6 represents the fifth stage of the methodology: Final Analysis, which aims to identify who may be to blame for corporate failure. The dysfunctional role of self-regulation points to the undeniable role of the Big 4 audit firms in the crisis. These sections are then followed by section 4.7, which provides a number of concluding remarks and the chapter summary.

4.2 Stage One: Sample Profile Analysis

The first stage of the Methodology is to provide a comprehensive analytical profile of the selected sample of companies. A brief outline of the data collection is followed by an empirical analysis of the companies in the sample to determine their defining characteristics⁴⁷. These represent the *main indicators* to describe the sample profile, in terms of independence, accounting standards, Bank/company specialisation, main exchanges, number of subsidiaries, number of employees, and so on.

4.2.1 Data Collection

There are two different sets of sample data, which I have used to assist with the analysis and critique. They include detailed financial statements, market data, regulatory and audit information of the (a) largest 734 banking institutions (by equity) from 8 geopolitical regions, namely: Africa, Asia, Eastern Europe, Western Europe, Middle East, North America, Oceania, South and Central America. Those were sourced from Bureau van Dijk Bankscope for the period 1996 to March 2009,

⁴⁷ The following are some of the characteristics considered when profiling the sample: (a) size, (b) country of origin, (c) geopolitical region, (d) accounting standards followed in preparing their accounts, (e) audit firm type (whether the firm which audited their last published set of accounts belongs to one of the Big 4 audit firms or a non-Big 4 audit firm), (f) listing status, (g) main exchanges where they are listed, (h) number of subsidiaries, (i) number of employees, and so on.

and (b) 69,385⁴⁸ global public companies that are on the Bureau van Dijk OSIRIS database, of which 47,370 are publicly listed, 17,785 are delisted and 4,230 are unlisted companies for the years 2000 to 2011.

These two datasets offered a comprehensive⁴⁹ search space for patterns that may provide the connections to how the world of MetaCapitalism works. There was no longer a need to hypothesise, model and test in the traditional scientific sense. Hypotheses were no longer needed to analyse the data in order to tell us what the data may show.

As I embarked on this journey of exploration, I had a simple question to answer: Did MetaCapitalism deliver on its promises, especially in the long-term? I wanted to let the reality of what was out there inform us of how companies MetaCapitalised their structures. How did the markets respond? What did the auditors do? And, how did the credit ratings agencies assess those interactions in the market?

Obviously, any empirical representation of reality is incomplete and inaccurate, let alone ideologically undesirable. However, one cannot be entirely dismissive of empirical representations because one cannot examine such a complex reality without a starting point? The simple fact is that this is the ‘best’ reality we have access to at this point in time.

⁴⁸ Those were *all* the available public companies collected on the 29th May 2012 from the BvD Osiris database.

⁴⁹ The datasets comprised 693,850 company-years observations from the OSIRIS database, and 10,500 bank-years observations from the BankScope database of detailed financial statements, market data, regulatory and audit information.

4.2.2 Audit Firms and Listing Status Distribution

Figure 4.1 Audit firms and listing status of the top global banks distribution

[source: BvD Bankscope database and author's analysis]

The Big 4 audit firms had the lion's share in auditing 84% of all the top 400 banks in the 8 geopolitical regions, by comparison to 16% of the banks that were audited by non-big 4 audit firms.

The Big 4 audit firms audited 91% of all listed banks, 96% of all delisted banks and 76% of all unlisted banks. Whereas, non-Big 4 audit firms audited 9% of all listed banks, 4% of all delisted banks and 24% of all unlisted banks.

Generally speaking, unlisted companies, which are far less scrutinised than publicly listed companies, are more likely to engage in profit maximising practices to satisfy their investors predatory hunger for financial returns. No doubt, this makes them prone to higher risks and higher volatility.

The fact that all delisted banks were audited by one of the Big 4 audit firms, who also audited the large majority (76%) of unlisted banks, suggests that Big 4 audit firms had the majority of banks that were prone to higher volatility than non-Big 4 audit firms. Hence, it is to be expected that banks audited by the Big 4 will more likely exhibit a much higher volatility than banks audited by non-Big 4 audit firms.

4.2.3 BvDep Independence Indicator

Figure 4.2 BvDep Company Independence Indicator by audit firms and listing status of the top global banks distribution

[source: BvD Bankscope database and author's analysis]

The BvD Company Independence Indicator is not a rating of a company but rather a classification of the degree of independence of a company. The Indicator 'marks' (BvD 2007:125) are as follows:

Indicator	Description	Sample Distribution
A	No recorded shareholder with more than 25% direct or total ownership.	26%
B	No recorded shareholder with more than 50% direct or total ownership and one or more shareholders are recorded with more than 25% direct or total ownership.	12%

C	One recorded shareholder with more than 50% direct or total. Also given to a company when a source indicates that the company has an ultimate owner.	4%
D	One recorded shareholder with a direct ownership of over 50%.	47%
U	Unknown status of independence. This indicator excludes the following owners from consideration when determining status of independence: <ul style="list-style-type: none"> - Public - Unnamed Private shareholders, aggregated (more than one unnamed individual) - Other unnamed shareholders, aggregated (more than one unnamed shareholder, but containing a mixture of companies and individuals). 	11%

Table 4.1 BvD Company Independence Indicators percentile distribution in the Top Global 400 Banks

[Source: BvD and author's analysis]

The analysis revealed that 47% of all the banks in the sample had ONLY one recorded shareholder with a direct ownership of over 50 percent. The Big 4 audit firms audited 85% of all the banks that were in that Independence 'D' category.

If all the banks in the B, C and D categories were to be grouped together, then 63% of the global top 400 banks had four or less owners for each of those banks. It is to be noted that Big 4 audit firms audited the majority (84%) of the banks in that (B, C and D) grouping, and most of those banks were bailed out during the 2008 global financial crisis by governments all over the world.

This means that 'monopoly capitalism' is sanctioned on a global scale by governments everywhere, while the absolute majority of society (99 per cent?) scrape for crumbs were bailing those bankers out. This calls into question the gullibility of global governments' in socializing the losses of those monopoly capitalists.

4.2.4 Accounting Standards

Figure 4.3 Accounting Standards distribution by audit firms and listing status of the top global banks

[source: BvD Bankscope database and author's analysis]

The Big 4 firms audited 90% of all the banks that adopted IFRS, 75% of all the banks that adopted local GAAP and 100% of all the banks that adopted regulatory standards. Of all the banks that adopted IFRS standards, the Big 4 firms audited 93% of the listed banks, 100% of the delisted banks, and 85% of the unlisted banks.

Of all the banks that adopted local GAAP, the Big 4 firms audited 85% of the listed banks, 93% of the delisted banks, and 67% of the unlisted banks. Of all the banks that adopted Regulatory standards, the Big 4 firms audited 100% of the listed banks, and 100% of the unlisted banks.

Of course, the Big 4 firms dominance is not only limited to auditing the majority of the global top 400 banks, but also their prominence in influencing IFRS standards, and in particular; fair value accounting. It is inescapable the perpetual undue influence of the Big 4 fraternity and their lobbyists over the accounting standard

setting process, which is often concealed from any pronouncements subject to public scrutiny of the process (Hopwood 1994; Arnold 2009). For example, the FASB (McCarthy 2004) is inherently biased when advancing the fair value agenda in favour of the international accounting firms. McCarthy (2004) argues that the

AICPA Chair Scott Voynich pointed out at NASBA's 2003 annual meeting, that there are some 45,000 accounting practice units in the United States, 700 of which serve public clients, then it follows that there must be some 44,300 practice units not serving public clients. If it also is true, as it is according to Voynich, that 80% of new jobs created in the United States are created by nonpublic companies, then one must ask, Why is the tail wagging the dog? Why are accounting principles being set to accommodate the multinational entities that continually export their manufacturing activities and employment opportunities to the Third World?

The adoption of fair value accounting principles by the FASB in the spirit of *compliance* with international standards, is only self-serving bias for the Big 4. It is his belief that, “the reliability offered by historical financial reporting is infinitely more valuable to the vast majority of financial report users than the collective accumulation of statistical probabilities offered by fair value” (McCarthy, 2004).

The 2008 global financial crisis is a case in point, where it highlighted the dysfunctional nature of fair value accounting in the measurement, recognition and disclosure of asset classes that became all of a sudden depressed in value.

In particular, banks argued that transient depressions in the fair values of certain classes of assets that are usually held for long-periods of time, like mortgage-based assets, should not affect bank balance sheets. The banks sought a reclassification of these assets that were accounted for using fair values, in order to have them accounted for on a historical cost basis.

These brief remarks offer some insight into the contentious issue of fair value accounting (which will be expanded upon in stage three of the analysis), and the Big 4 firms role in the lead up to the 2008 crisis.

4.2.5 Bank Specialisation

Figure 4.4 Top 400 banks specialisations distribution by audit firm and listing status

[source: BvD Bankscope database and author's analysis]

The Big 4 firms' dominance of bank audits in all listing categories, and across all bank specialisations was not unexpected. However, it should be noted that Banks Holdings and Holding Companies, Commercial Banks and Savings Banks represented collectively 70% in all listing categories of the banks audited by the Big 4 firms.

Of those, 35% were in the listed category and 29% were in the unlisted category. Generally speaking, a large unlisted group of banks may mean higher risks and higher volatility for Big 4 firms to contend with. Unlisted banks are more likely to engage in profit maximising behaviour, and are less scrutinised than publicly listed banks.

4.2.6 Main Exchanges

Figure 4.5 Top 400 regional banks distributed by the Geopolitical Location of their Listing on Stock Exchanges/Trading Systems/Stock Indices as at 13 March 2009

[source: BvD Bankscope database and author's analysis]

There were more European, North American and Asian banking institutions, that have listed themselves for trading on a larger number of stock exchanges, trading platforms and stock indices than any other geopolitical region.

Most of those institutions were being traded on Western European stock exchanges, trading platforms and stock indices. The trading on a larger number of diverse markets may contribute to higher risks due to the complexity of interrelated party transactions, and foreign currency translations.

This was evidenced by the higher volatility that those institutions from those three regions (Asia, Europe and North America) have experienced by comparison to any other region. This suggests that banks that were traded in more markets were

susceptible to higher volatility due to the amplified trading choices by a larger number of participants.

4.2.7 Number of Employees

Figure 4.6 Number of Employees Distribution by audit firms and listing status of the top global banks as at 13th March 2009

[source: BvD Bankscope database and author's analysis]

The fact that PricewaterhouseCoopers audited 30.7% of all *listed* banks (and 28% of all banks) across all regions only increased the *inherent* risk of MetaCapitalisation in those institutions.

The inherent risk of MetaCapitalisation (in relation to the number of employees) is the risk that a PwC audit firm will *not see anything wrong* with any MetaCapitalism changes, such as high decapitalisation and outsourcing/offshoring changes, given that the over arching philosophy of the firm (PwC) is a shared value proposition among all its members.

4.3 Stage Two: MetaCapitalism Analysis

The second stage of the analysis tests the MetaCapitalism theoretical claim that financial markets *reward* (or *penalise*) corporations for their *efficiency* (*inefficiency*) changes, when they engage in extensive reductions of their fixed assets, networking capital, long-term liabilities and expenses.

Their share price, which is a proxy for the response to corporate performance by the financial markets, would either *appreciate* (when rewarding the reductions in assets, liabilities and expenditures) or *depreciate* (when penalising the accumulation of assets, liabilities or expenditures).

The share price movements would *inversely* respond to the efficient or inefficient allocation of corporate resources. The change⁵⁰ in each MetaCapitalism indicator (NWC, PP&E, TA, OpEx and NoE) is measured and compared to the changes in share price (SP).

This would enable the determination of whether there is any correlation (association) between the indices changes and share price performance over the same period. If there is a correlation, then the question is which one of those indices draws the highest response from the market.

4.3.1 The Correlation between MetaCapitalism and the Market

The correlation coefficient used in this discussion ranges from +1 to -1. However, its *interpretation* has been *adapted* as can be seen in figure 3.5, whereby the closer the

⁵⁰ A negative (–ve) change in an index from one period to the next indicates that the strategy prescriptions are being implemented through the reductions in NWC, PP&E, OpEx, NoE and TA indices. A positive (+ve) change in an index from one period to the next indicates that the strategy prescriptions are not being implemented through the increments in any or all of the indices.

coefficient is to -1 the closer the *positive*⁵¹ MetaCapitalist relationship. As one MetaCapitalism variable (NWC, PP&E and so on) decreases, the share price variable increases and vice versa.

In contrast, the closer the coefficient is to +1, the closer it resembles a *negative*⁵² MetaCapitalism relationship, as one MetaCapitalism variable increases, the share price increases as well. The yearly changes in the composite MetaCapitalism index $[(NWC+PP\&E)/TA]$ for the years 2000 to 2009, were correlated to the share price changes for the same period.

The choice of that long range of years (2000-09) is to chart the period from when the MetaCapitalism ‘prescriptions’ of the strategy became widely available on a global scale when the book was published, and throughout the period of its implementation and leading to the global financial crisis 2008.

The distribution of the banks according to the correlation between their changes in MetaCapitalisation levels over the 2000-09 period and their share price changes (as a proxy for the financial markets response to those MetaCapitalism changes) for the same period highlights a number of interesting observations.

The banks were more or less divided equally between the ones that their MetaCapitalism changes *reflected* (in terms of the financial markets response) the MetaCapitalism theoretical claims, and the ones that did not over the long-term. It must be noted, however, that all banks followed the MetaCapitalism prescriptions, in

⁵¹ Positive MetaCapitalism relationship means that the relationship manifests the MetaCapitalism theoretical claims.

⁵² Negative MetaCapitalism relationship means that the relationship does not satisfy the MetaCapitalism theoretical claims.

varying degrees over those years, but the markets responded only to the extreme changes.

Therefore, it was possible to split them into two portfolios: portfolio I, comprised all the banks that had a negative correlation, and portfolio II, comprised all the ones that had a positive correlation.

Figure 4.7 Global Banks Distribution by the Correlation Coefficient between their MetaCapitalisation and Share Price Changes during 2000-2009

[source: BvD Bankscope database and author's analysis]

4.3.1.1 Portfolio I – Negative Correlations Group

The banks in this group represented 46.15% of all banks, and their changes reflected the MetaCapitalism theoretical claims. Of those, 6.2% were in perfect negative correlation, 19.2% were in strong to perfect negative correlation, and 20.8% were in weak to moderate negative correlation.

4.3.1.2 Portfolio II – Positive Correlations Group

The banks in this group represented 53.85% of all banks, and their changes failed to reflect the MetaCapitalism theoretical claims. Of those, 6.9% were in perfect

positive correlation, 20.8% were in strong to perfect positive correlation, and 26.2% were in weak to moderate positive correlation.

4.3.2 The Audit Firms Share of Portfolio I and II

Figure 4.8 Correlation between the Cumulative MetaCapitalism Indices and Share Price Changes by Audit firm for the period 2000-09

[source: BvD Bankscope database and author's analysis]

The Big 4 firms audited 90.77% of all the banks in the sample (PwC 20.0%, EY 31.5%, D 15.4%, KPMG 23.9%), while non-big 4 firms audited the remaining 9.23% in the sample. The results will be contextualised by audit firm type as follows.

4.3.2.1 Big 4 Firms

The banks audited by one of the Big 4 firms were somewhat equally divided across the two portfolios, with 43% of all banks in Portfolio I and 48% in Portfolio II.

Of all the banks in Portfolio I (-ve correlation group), the Big 4 firms audited 93%, and 89% of all the banks in Portfolio II (+ve correlation group).

This may suggest that the majority of their banks reflected the MetaCapitalism theoretical claims.

4.3.2.2 Non-Big 4 Firms

The banks audited by one of the Non-Big 4 firms were split unevenly across the two portfolios, with 3.08% of all banks in Portfolio I and 6.15% in Portfolio II.

Of all the banks in Portfolio I (-ve correlation group), the non-Big 4 firms audited 6.67%, and 11.43% of all the banks in Portfolio II (+ve correlation group).

4.3.3 MetaCapitalism, Risk and Volatility

The MetaCapitalism theoretical claims of rewarding efficiency changes imply a higher volatility in the share price (fluctuations in response to those changes) due to the frequency and extent of the MetaCapitalist changes.

The critical examination of the MetaCapitalism theoretical claims raises the question as to whether banks that have reflected those efficiency claims had higher volatility levels. To answer this question, the average beta (360 days) and Equity Price Volatility (360 days) for all banks were correlated to their average MetaCapitalisation for the same period.

4.3.3.1 beta coefficient (360 days)

Bureau van Dijk defines *beta values*, as “a measure of market risk that shows the relationship between the volatility of the stock compared to the volatility of a reference index over a given period.” (BvD 2007:101)

Figure 4.9 Average MetaCapitalism Indices and Beta (360 days) Correlation by Audit firm and Listing status

[source: BvD Bankscope database and author's analysis]

The average 2-year⁵³ change in the MetaCapitalism index: PP&E/TA (Plant, Property & Equipment / Total Assets) for the majority of the banks in the sample had a strong to perfect negative correlation with the beta coefficient (360 days). This signifies the strong association between the beta coefficient (360 days)⁵⁴ for the share prices and any inverse changes in PP&E and Total Assets.

Hence, markets reward efficiency signals such as reductions in PP&E and Total Assets, by incremental changes in the share price, and vice versa. This suggests that MetaCapitalisation changes result in increased volatility of the share price by comparison to the overall volatility in the market (a reference index).

⁵³ The banking data covered the period preceding and post the global financial crisis of 2008 period from 1996 and up to the 13th March 2009. Most banks had their financial statements data as at the end of 2008. It was logical then that any MetaCapitalism yearly changes that would be relevant to the 2007/08 crisis, would be in the period (2006/07, 2007/08, and 2008/09 if data was available) preceding the crisis and leading to the 13th March 2009.

⁵⁴ This is a measure of how the share price movements correlates to the movement of overall share prices in the market during the preceding 360 days, which is in this case was from 13th March 2008 to the 13th of March 2009. In a sense, the timing of the data collection was crucial, as it has captured the evolution of the market from before September 18, 2008, when the crisis hit the global financial markets with Lehman's collapse and the 6 months that followed that moment in time.

This strong association is also indicative of the state of the market during 2008 and leading to 13/03/2009, where the sub-prime mortgage crisis in the United States had spread and adversely affected global financial markets. During the 2008 crisis, many banks decapitalised their structures, namely their plant property and equipment (PP&E). The decapitalisation of their PP&E may have been due to downsizing operations, declining asset prices, fire sale of their assets due to failure, and so on.

4.3.3.2 Equity Price Volatility (360 days)

Bureau van Dijk states that *equity price volatility* “measures the volatility of the stock, not compared to a reference index as the beta value, but compared to the fluctuations of the stock price itself (BvD 2007:101).

Figure 4.10 Average MetaCapitalism Indices and Equity Price Volatility (360 days)
Correlation by Audit firm and Listing status

[source: BvD Bankscope database and author's analysis]

The average 2-year change in the MetaCapitalism index: PP&E/TA (Plant, Property & Equipment / Total Assets) for the majority of the banks in the sample had a strong to perfect negative correlation with the Equity Price Volatility (360 days).

This signifies the strong association between the fluctuations of the banks share prices themselves and any inverse changes in PP&E and Total Assets. Hence, volatility in share prices increase as markets reward efficiency signals such as reductions in PP&E and Total Assets, and vice versa.

The result of higher volatility in the share price when compared to its own fluctuations is similar, if not consistent, with the higher risk levels in the share, when compared to a reference index. The near perfect correlations of the changes in share price over a decade with the change in the MetaCapitalism indices especially PP&E, which suggests that changes in this particular index seem to draw a consistent market response.

4.3.4 Portfolios Performance during the GFC 2008

MetaCapitalism is a corporate performance strategy, which purports to enhance corporate performance and resilience to survive the financial markets. There is a need then, to find out if MetaCapitalised corporations performed better in weathering the global financial crisis.

This can be done by examining the distribution of the total dollar value of bailouts and market capitalisation losses, between banks that reflected the theoretical claims of MetaCapitalism (Portfolio I, which exhibited negative correlations) and the ones that did not (Portfolio II, which exhibited positive correlations).

Figure 4.11 Banks Performance in the 2008 Global Financial Crisis classified by their 10-year MetaC and SP Correlation Strength (Portfolio I: [-ve] negative correlation signifies the adoption of MetaC, and Portfolio II: [+ve] positive correlation signifies NO adoption)

[source: BvD Bankscope database and author's analysis]

The performance of the banks in the sample when the Global Financial Crisis hit the markets, in terms of loss to their market capitalisation and the bailout funding received, reveal an unexpected result for a strategy that purported 'immortal' survival for its adherents.

The results clearly shows that banks in Portfolio I received the lion share of bailout funding (84%) and lost the majority share (64%) of market capitalisation lost during the crisis, by comparison to Portfolio II banks which did not reflect the MetaCapitalism theoretical claims over the 10-year period. This suggests that Portfolio I performed far worse in terms of performance and resilience to survive the Financial Markets.

Figure 4.12 Banks Performance in the 2008 Global Financial Crisis by their 10-year MetaC and SP Correlation Strength (-ve Negative correlation indicates the application of MetaC)

[source: BvD Bankscope database and author's analysis]

This warranted a closer look at the distribution of the bailout money, which was approximately 1,529 billion US dollars in 2008 for the banks in sample, and their market capitalisation losses of approximately 1,378 billion US dollars.

4.3.4.1 Portfolio I Distribution

4.3.4.1.1 Bailout Funds

The bailout funds allotted to this group were 8% of the total bailout funds allotted to the banks in the strong to perfect negative correlation group, and 76% were allotted to the banks in the weak to moderate negative correlation group.

4.3.4.1.2 Market Capitalisation Losses

Meanwhile, 43% of the market capitalisation losses were shared by the strong to perfect negative correlation group, and 21% were shared by the banks in the weak to moderate negative correlation group.

4.3.4.2 Portfolio II Distribution

4.3.4.2.1 Bailout Funds

The bailout funds allotted to this group were 6% of the total bailout funds allotted to the banks in the strong to perfect positive correlation group, and 10% were allotted to the banks in the weak to moderate positive correlation group.

4.3.4.2.2 Market Capitalisation Losses

Meanwhile, 6% of the market capitalisation losses were shared by the strong to perfect positive correlation group, and 30% were shared by the banks in the weak to moderate positive correlation group.

4.3.5 Concluding Remarks

In conclusion, it is clear that the banks that reflected the MetaCapitalism theoretical claims over the long-term by comparison to the ones that didn't, have exhibited more volatility, higher risk and poorer performance, where they claimed higher bailout funding and incurred higher market caps losses.

4.4 Stage Three: Market Analysis

The aim of the third stage of the methodology is to determine the effect of MetaCapitalism on market performance. In particular, the analysis is concerned with examining if high MetaCapitalism changes resulted in higher volatility levels, by examining a number of market indicators.

If so, what was the auditors' opinion in the audit report? Have there been any warning signs that were missed by the regulators, or the credit ratings agencies? Did the credit ratings reflect the high levels of volatility and risk?

This section begins by examining if high MetaCapitalism changes resulted in higher volatility levels. Then the discussion will focus on the root cause of financial and economic crises, namely: the mismatch in the financial markets between reality and its financial representation.

It proceeds with deconstructing the validity of the criticisms of the fair-value ideal, and examines the legitimacy of the criticisms about its contribution to higher volatility levels. Then, it critiques the dysfunctional self-regulatory role of Credit Ratings Agencies in intensifying volatility in the market.

4.4.1 MetaCapitalism and the Market

The top 400 banks from 8 geopolitical regions were divided into two portfolios: banks audited by a Big 4 firm and the ones audited by a non-Big 4 firm. The MetaCapitalism indices changes were correlated to the market performance of the banks, to see (a) if there were any association between those changes, and (b) if such association reflects the MetaCapitalism theoretical claims that the market rewards mass reductions in the MetaCapitalism indices, and vice versa.

There were several market indicators that were used to reflect market performance, like price trends (52 weeks and 3-years), equity price volatility (360 days), beta coefficient (360 days) and volatility.

The analysis of the MetaCapitalism changes was undertaken over two timeframes: short-term (2006-2009) and long-term (1996-2009). The aim of using two timeframes is to find out if the current market (1 to 3 years) reflects short-term MetaCapitalism changes, or if it reflects the cumulative long-term effect of MetaCapitalism changes to institutional structures.

Figure 4.13 Market Indicators negative (-ve) correlation to MetaCapitalism Indicators during 2006-09 and 1996-09 years by Firm type

[Source: BvD Bankscope, author's analysis]

A negative (-ve) correlation, between MetaCapitalism indices changes and the Market indicators, is indicative of the correlation (association) between the two. In other words, it is indicative that the market reflects the MetaCapitalism theoretical claims that the market rewards mass reductions in the MetaCapitalism indices, and vice versa.

For example, if a bank outsources their call centres and decapitalised (reduces) their fixed assets, then this would give a positive signal to the market, so it will reward that action by the bank by rewarding its share price. Hence, the more frequent and the higher the MetaCapitalism changes (say reductions in capital expenditures or operating expenditures) will attract a *recurring* positive response by the market, which would increase the volatility of the share price.

The percentage (%) is indicative of how many in the sample had a correlation between their Market changes and their MetaCapitalism changes. For example, 82% of the banks that were audited by a Big 4 firm had a correlation between their Price Trends during 2006-09 and their MetaCapitalism changes during the same period

(2006-09). This percentage (82%) improved marginally to 85% when we correlate the price trends during 2006-09 to the MetaCapitalism changes during 1996-09.

All indicators exhibited correlational levels of well above 50 per cent for banks audited by the Big 4 audit firms, while it was far less for banks audited by a non-Big 4 audit firm. The MetaCapitalism analysis has revealed that banks audited by Big 4 audit firms were more MetaCapitalised and volatile than banks audited by non-Big 4 audit firms.

4.4.2 The Mismatch and Financialisation

Since the unfolding of the 2008 financial crisis, there has been much debate and discussion by pundits, media commentators, and politicians about the increased misalignment in recent years between “Wall Street” and “Main-Street”.

The domineering role of “Wall Street” as a proxy for the myopic interests and outrageous lifestyles of big business and their entourage of investment bankers, research analysts (or Quants, as they are ‘affectionately’ called) and shareholders against those of small business and working middle class has often been idolized and stigmatized in popular culture.

Arnold (2009:806) argues that the prominence of Wall Street in the 2008 global financial crisis had its roots in *financialisation*, which was the result of the transformation of the US economy in the last quarter of the twentieth century.

The economic downturn of the 1970s as a result of global overproduction and declining rates of profit (the real economy) prompted the “US to adopt a host of monetary, fiscal, regulatory, and trade policies to promote the growth and global expansion of the financial sector”.

This radical shift had the unintended (?) effect of a surge in finance capital and unity between economic and political interests on a global scale more than ever before, and which is often referred to as “financialization” (Arnold 2009:806; Arrighi 2007:118; Bartlett 2013; Greenwood et al. 2013:25; Kripner 2005:173; Nitzan et al. 2009). She explains that Giovanni Arrighi argued in his acclaimed book “Adam Smith in Beijing” that

financialization, which is characterized by the “capacity of finance capital to take over and dominate, for a while at least, all the activities of the business world” provided a temporary “fix” to the problem of overproduction. Profitability was restored in the mid-1990s – albeit an unsustainable profitability built on financial speculation and successive financial bubbles first in the stock market and later in the housing and credit markets. (Arnold 2009:806)

The recent socialization of big businesses spectacular losses through governments’ bailouts around the world has underscored the misalignment of interests between “Wall Street” and the larger society as a plausible cause for the crisis.

This represents the core idea of the “mismatch thesis”, where “most observers blame the ongoing turbulence in the global political economy on finance – or more precisely, on a mismatch between finance and reality.” (Nitzan et al. 2009)

The dual nature of capital in the market place, with some of it “real” such as plant, property and equipment used in production, and some of it “financial” tokens, or *representations* such as equity and debt claims over real capital, gives rise to the mismatch thesis.

Essentially, a corporation owns in assets what it owes in liabilities and owners equity. Hence, the dollar value of equity and outstanding obligations of a corporation MUST match its productive capacity.

However, such a theoretical perfection is not possible with imperfect information whereby a quasi-mystical ideology attributes magical powers to the markets (Saul 1997:80; Stiglitz 2002:138; Glyn 2006:77).

Since the collapse of the Soviet Union, this ideology has gone far towards establishing a hegemonic hold in the form of neo-liberal regimes in the UK, USA, Australia, and elsewhere. It has manifested a centrist political platform, which enabled economic development friendly to globalisation, flexibility and meritocracy (Arnold 2009; Sennett 2006:163; Stiglitz 2002:53).

Markets are thought to be correcting government malfunctions (rather than vice versa). No matter that, in so many instances of infrastructure privatisation, such as electricity and water, the most convoluted socio-economic reengineering can only produce “a market which is artificial, rigged, imperfect and imperfectable” (Rosenhead 1995:313).

For the uncritical mind that dwells with fervour for intelligent design, the market is a ‘pseudo-natural’ phenomenon, which substitutes for the exercise of collectively rational choice. The elevation of the market to almost divine, omnipotent, omniscient status has been at the expense of the downgrading of rational choice based on analysis.

This catastrophic retreat from reason in public affairs since the 1980s, in favour of unequivocal deregulation and greed, led to derailing finance from its “fair-value”

ideal. The current crisis was the inevitable outcome of this distortion, where finance has been inflated into a bubble – or boom - that went far beyond any fair representation of its underlying ‘real’ assets. The current deflationary process - or bust - can only shrink finance back to its “par value” (Nitzan et al. 2009).

These very notions of “par-value” and (its displacement of) “fair-value” are problematic in nature, as they seem to legitimise a recognition and measurement practice with the veil of objectivity.

The “neutral” image of accounting, in being a set of unproblematic empirical data, that has to be shared and communicated to make financial statements and economic information reliable guides for business activities and policy decisions, is a far cry from its influential harmonizing socio-economic effect in globalizing corporations and economies.

The international standardisation of accounting, a proxy for a neoliberal global self-regulatory mechanism of recognition, measurement and disclosure, was rolled out in the form of IFRS in order to advance its fair-value agenda. This, begs the question if IFRS and its fair-value agenda might have had any effect on the 2008 global financial crisis?

4.4.3 “Fair Value” and International Financial Reporting Standards (IFRS)

The contentious issue of fair-value reporting has surfaced again with the current crisis especially when 68% of nearly 200 global jurisdictions conformed (in varying degrees) to the International Financial Reporting Standards (Deloitte 2009).

The banking sector sample of 400 banks (top 50 banks ranked by equity in each of the 8 geopolitical regions) mirrors this in Figure 4.14, which reflects the overall

distribution of IFRS, local GAAP and other local regulatory standards adoption by the top 50 banks in every geopolitical region. Fifty per cent of the banks adopt IFRS, and 48% adopt their local GAAP, while the remaining 2% adopt their local regulatory standards.

Figure 4.14 Standards adoption of the top 50 banks in each region

[source: BvD Bankscope database and author's analysis]

Fair-Value has been the controversial centrepiece of the dominant IFRS global reporting presence. However, other countries such as the United States, which makes up 94% of the North American region, also adopts a Standard on Fair Value Measurements (FAS-157) which was introduced in September 2006 by the American Financial Accounting Standards Board (FASB). The Statement summary says, in part, under the heading of differences between this Statement and current practice:

This Statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability... Therefore, the definition focuses on the price that would be received to sell the asset

or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). (FASB 2008:FAS 157-2)

This recent adoption of fair-value in the United States coupled with increased volatility in the financial markets may explain why blame for the financial crisis was levelled at “fair-value”. There are, however, two competing views as to the role of fair-value in this crisis: that of the regulators and the bankers.

The regulators view can be summed up by the U.S. Securities and Exchange Commission study of fair-value for Congress’ \$700 billion bailout package, which exonerated fair-value from “playing any meaningful role” in the 2008 bank failures:

.. the Staff believes that it is important to recognize what many believe to be the larger problem in the financial crisis that led to the financial distress at financial institutions other than banks, including The Bear Stearns Companies, Inc., Lehman Brothers Holdings Inc., and Merrill Lynch & Co., Inc. Rather than a crisis precipitated by fair value accounting, the crisis was a “run on the bank” at certain institutions, manifesting itself in counterparties reducing or eliminating the various credit and other risk exposures they had to each firm. This was, in part, the result of the massive deleveraging of balance sheets by market participants and reduced appetite for risk as margin calls increased, putting enormous pressure on asset prices and creating a ‘self-reinforcing downward spiral of higher haircuts, forced sales, lower prices, higher volatility, and still lower prices’. The trust and confidence that counterparties require in one another in order to lend, trade, or engage in similar risk-based transactions evaporated to varying degrees for each firm very quickly. What would have been more than sufficient in previous stressful periods was insufficient in more extreme times. (U.S. SEC 2008:3)

This view is in stark contrast to Bankers’ industry groups, especially American banks, who argue that fair-value is a flawed practice because of market volatility that

distorts the economics of transactions. The question is did American banks and others in 'fair-value' jurisdictions really experience a much higher volatility?

4.4.4 High Volatility

Volatility in the stock market (Black 1976) is often caused by a leverage effect, when stock prices decrease, the debt to equity ratio increases, leading to high volatility of equity returns, and vice versa. I have used the beta coefficient (Levinson 2006:145), which measures the relative volatility of a particular stock to the market, in order to evaluate the volatility of the different top-50 banks in the different geopolitical regions.

According to Forbes Investopedia (2009), a beta coefficient "approximates the overall volatility of a security's returns against the returns of a relevant benchmark", such as the S&P500, which is commonly used in practice. For example, a stock with a beta value of 1.1 has its share price historically moving 10% more for every price level movement in the benchmark. In other words, it will move on average 1.1 times the market return. Conversely, a stock with a beta of .9 has historically moved 10% less for every price-level movement in the underlying index.

The 1-month, 3-months and 1-year beta coefficient values that were provided by BankScope to compare volatility of the top 50 banks in each region against their respective market indices (60% of the 400 top-50-banks in all regions were listed on European Stock Exchanges, which implies that their financial reporting practices had to conform to IFRS and its fair-value requirement).

Beta	Africa	Asia	Europe (E)	Europe (W)	Middle East	North America	Oceania	South & Central America
beta - 3 months :	1.21	1.10	1.22	1.72	0.77	2.66	1.04	0.84
beta - 1 months :	0.87	1.05	1.31	1.78	0.52	2.68	0.92	1.13
beta - 1 year :	0.91	0.82	0.98	1.33	0.78	1.83	1.21	0.68

Table 4.2 Average beta coefficients of the top 50 banks in each region

[source: BvD Bankscope database and author's analysis]

As expected, banks in geopolitical regions where “fair-value” was in use, such as North America and Western Europe, exhibited a much higher volatility by comparison to other regions. Figure 4.15 confirms that the top 50 North American banks group (with American banks representing 94% of that group) have experienced the highest volatility levels by comparison to any other region.

Figure 4.15 Average beta coefficients of the top 50 banks in each region

[source: BvD Bankscope database and author's analysis]

The volatility levels across the “fair-value” regions, were as follows:

3-months beta coefficient

The average beta coefficient for the North American group of banks was 2.66 by comparison to 1.32 for the 3-months average beta coefficient for all regions, which means that the North American region was 201% more volatile than the average volatility in all regions. The Western European region followed in second place with 1.72 for its average 3-months beta coefficient, or being 130% more volatile than the average volatility in all regions.

1-month beta coefficient

The average beta coefficient for the North American group of banks was 2.68 by comparison to 1.28 for the 1-month average beta coefficient for all regions, which means that the North American region was 209% more volatile than the average volatility in all regions. The Western European region followed in second place with 1.78 for its average 1-month beta coefficient, or being 138% more volatile than the average volatility in all regions.

1-year beta coefficient

The average beta coefficient for the North American group of banks was 1.83 by comparison to 1.07 for the 1-year average beta coefficient for all regions, which means that the North American region was 171% more volatile than the average volatility in all regions (including the North American region). The Western European region followed in second place with 1.33 for its average 1-year beta coefficient, or being 125% more volatile than the average volatility in all regions.

Figure 4.16 beta - 1 month coefficient of the top 10 banks in North America

[source: BvD Bankscope database and author's analysis]

To illustrate the significance of volatility in the North American top 50 group of banks, it is interesting to consider the beta values in the top 10 banks on that list against the Dow Jones, NYSE, S&P100 and S&P500 indices. The beta coefficient, as a measure for volatility, provides a reasonable indication of how volatile the stocks are for those banks in regions where “fair-value” was widely used.

The Equity Price Volatility measure supports the volatility patterns reflected in the beta values (against the different indices above) of those “fair-value” regions. Figure 4.17 shows how the top 50 North American and top 50 Western European banks have experienced the highest equity price volatility on average across all regions.

Figure 4.17 Average Equity Price Volatility of the top 50 banks in each region

[source: BvD Bankscope database and author's analysis]

The volatility of the North American and European markets can be confirmed by the CBOE Volatility Index (VIX) and NYSE Euronext volatility indices: AEX Volatility (VAEX), BEL20 Volatility (VBEL), CAC 40 Volatility (VCAC), and the FTSE 100 Volatility (VFTSE). The Chicago Board Options Exchange (CBOE 2009) describes its Volatility Index (VIX) as “a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices” and claims that since its introduction in 1993, VIX has quickly become the world’s “barometer of investor sentiment and market volatility”.

Figure 4.18 CBOE Volatility Index (VIX) for Feb 1992 - Jun 2009

[source: Chicago Board Options Exchange (CBOE) and author's analysis]

The assumed trading range for VIX (from its historical trading information in Figure 4.18), before the 2008 crisis was between 10 and 50, where VIX would bottom out at around 10 without ever reaching zero, as the underlying S&P 500 index naturally has daily movement. It was not conceivable that the VIX would go above 50, as that would have required large changes over an extended period of time. Such conventional truths in the marketplace were debunked by the 2008 crisis.

4.4.5 Credit Rating Agencies (CRAs)

Credit rating agencies, like Moody, Standard & Poor (S&P) and Fitch play a *self-regulatory* role in the financial markets, despite their repeated denials that they are only *publishers* of financial information, when assigning credit ratings for the issuers of debt obligations, debt instruments and the servicers of the underlying debt.

The conflict between their perceived 'self-regulatory' role and what they deem as their 'publishing' role is heightened by the fact that research into credit spreads is showing that markets often lead a downgrade – which brings into question their perceived utility to the financial markets and society.

Nonetheless, it is undeniable that they play a crucial role in the financial markets, when their ratings upgrade or downgrade of a sovereign debt held by a country, such as Spain or Greece, or indeed regional jurisdictions, like the European Union which may bring not only economic growth and prosperity, but financial distress to institutions, countries and ominous mayhem to society.

4.4.5.1 The Credit Ratings Profile of the Sample

The sample consisted of the top 50 banks from each of the main 8 geopolitical regions, and they were split into two portfolios: 80.49% audited by the Big 4 firms and 19.51% audited by non-Big 4 firms. There are about 20 categories of long-term credit ratings that were associated with the banks in the sample, as can be seen in the figure below.

Figure 4.19 Credit Ratings of the Top 400 Banks by Audit Firms and Listing Status

[source: BvD Bankscope database and author's analysis]

The large number of credit ratings' categories made the analysis rather cumbersome, especially if one includes the political regions in the analysis to make it more meaningful. The twenty credit ratings' categories were reclassified in terms of their investment grades, into three main categories: Prime and High investment grade, Medium investment grade, and Low grade (which included the non-investment, highly speculative and in-default grades), as can be seen in table 4.3 below:

Prime/High	Prime	High Grade	High Grade	High Grade						
	AAA	AA+	AA	AA-						
Medium	Upper Medium Grade	Upper Medium Grade	Upper Medium Grade	Lower Medium Grade	Lower Medium Grade	Lower Medium Grade				
	A+	A	A-	BBB+	BBB	BBB-				
Low	Non-Investment Grade Speculative	Non-Investment Grade Speculative	Non-Investment Grade Speculative	Highly Speculative	Highly Speculative	Highly Speculative	Substantial Risks	In Default	In Default	In Default
	BB+	BB	BB-	B+	B	B-	CCC	DDD	DD	D

Table 4.3 Reclassification of the Credit Ratings into three main categories

[source: BvD Bankscope database and author's analysis]

This reclassification of the Credit Ratings distribution enabled the inclusion of the geopolitical regions, which would assist in the analysis of the two portfolios: banks that were audited by Big 4 firms and the ones that were audited by non-Big 4 firms.

Figure 4.20 Reclassification of Credit Ratings of the Top 400 Banks by Audit Firms, Listing Status and Geopolitical Regions

[source: BvD Bankscope database and author's analysis]

The Big 4 Firms audited 31.71% of all the Prime and High grades investments, 40.85% of all Medium grade investments and 7.93% of all the lower (non-investment, highly speculative and in-default) grades. Whereas, non-big 4 firms audited 7.72% of all the Prime and High grades investments, 9.76% of all Medium grade investments, and 2.03% of all the lower grades.

However, it should be noted that both portfolios had a similar share of credit ratings assigned to their audit clients in the sample. The Big 4 portfolio was divided into 39.39% of Prime/High grades investments, 50.53% of Medium grade investments, and 9.85% of lower grades. Whereas, the non-Big 4 portfolio was divided into 39.57% of Prime/High grade investments, 50.03% of Medium grade investments, and 10.41% of the lower grades.

Having outlined the sample's credit ratings profile, the question now is whether those credit ratings *reflect* the risk and volatility associated with the fluctuations and

distortions of the results, asset and equity prices of the sample, or whether they have simply failed their self-regulatory role in the market?

4.4.5.2 The Mismatch between Credit Ratings and Market Volatility

To answer this question, the credit ratings of the top 400 global banks were compared to a number of indicators that denote the sample's market risk and volatility: price trends, equity price volatility and beta (360 days).

4.4.5.2.1 Price Trends

The price trends over 52 weeks as at 13th of March 2009 and its average change over a three-year period from 2006 to March 2009 were examined.

Figure 4.21 Price Trends over 52 weeks of the Top 400 Banks by Audit Firms

[source: BvD Bankscope database and author's analysis]

It is clear that the price trends over 52 weeks of *all* Listed banks in all 8 geopolitical regions that were audited by the Big 4 audit firms exhibited a significant negative

trend, which did not *match* the credit ratings of “Prime and High grade investments and Medium grade investments” assigned to 90.15% of the same group of banks.

Credit Ratings Agencies may be somewhat ‘excused’ for not matching the reality in the markets in the short-term, given their stipulated role of being publishers of financial information and the assumption that they may not provide ‘live’ information updates and ratings assessments.

Figure 4.22 Average Price Trends over a 3-year period (2006-09) of the Top 400 Banks

[source: BvD Bankscope database and author’s analysis]

Figure 4.23 Cumulative Price Trends over a 3-year period (2006-09) of the Top 400 Banks

[source: BvD Bankscope database and author's analysis]

However, on examining the average (figure 4.22) and cumulative⁵⁵ (figure 4.23) price trends of the same sample over a 3-year period (2006-09), it was rather obvious that there was still a consistent mismatch between the credit ratings of all the Listed companies audited by the Big 4 audit firms, and their negative price trend. The question is how they missed such a mismatch, or were they using another indicator?

4.4.5.2.2 Equity Price Volatility

The equity price volatility measures the volatility of the stock, not compared to a reference index as the beta value, but compared to the fluctuations of the stock price itself. All Listed banks that were audited by Big 4 audit firms exhibited higher volatility levels except for banks in the Middle East region.

⁵⁵ A cumulative price trend entails adding up all the changes for the selected 2006-09 period.

Figure 4.24 Equity Price Volatility over a 360 days period (13/03/2009) of the Top 400 Banks

[source: BvD Bankscope database and author's analysis]

Banks in the North American region exhibited the highest volatility levels with more than four times their stock prices on average. Meanwhile, the Western European banks exhibited the second highest volatility levels of more than three times their stock prices on average. (This may explain why those regions had higher risks of failure than other regions by comparison.)

Higher volatility levels indicate higher risk in the stocks, which surprisingly was not reflected in the credit ratings of 90.15% of the Listed group of banks that were audited by Big 4 audit firms, that were assigned a “Prime and High grade investments and Medium grade investments” credit ratings.

4.4.5.2.3 Beta

The third indicator to measure market risk is the beta value. The beta value shows the relationship between the volatility of the stock compared to the volatility of a reference index over a given period. There were five reference indices that were used in the analysis of risk and volatility of the top 400 banks in the sample.

Figure 4.25 Beta (360 days) for 5 Reference Indices as at 13/03/2009

[source: BvD Bankscope database and author's analysis]

All Listed banks that were audited by Big 4 audit firms, exhibited higher volatility of their stocks compared to the volatility of all five reference indices over a 360 days period. Asian, Eastern European, Western European, North American and Oceania's Listed banks that were audited by Big 4 firms have all had beta levels in excess of more than *four* times the volatility of all five-reference indices.

These high volatility levels of the Listed banks that were audited by Big 4 audit firms certainly did not *match* (again!) the credit ratings of 90.15% of the same group of

banks, that were assigned a “Prime and High grade investments and Medium grade investments” credit ratings.

The preceding empirical analysis shows that credit ratings *failed to reflect* the risks and volatility signalled by any of the three risk and volatility indicators: price trends (52 weeks and a 3-year period), equity price volatility and beta values. The question is why there is such disconnect between credit ratings and reality?

4.4.5.3 Major Criticisms of the Credit Rating Agencies

The failure of credit ratings to reflect reality in the financial markets may not be explained through a technical examination of their practices, but rather through a broader critique of their rather contentious economic and political role in the financial markets.

4.4.5.3.1 Conflict of Interest

Their (the credit rating agencies) familiar relationship with the debt issuers who pay for their services instead of the investors, places much doubt about the objectivity of their ratings, due to possible undue influence or the vulnerability of being misled by company management of those debt issuers.

4.4.5.3.2 Hustling for Business

Some CRAs have resorted to heavy-handed "blackmail" tactics in order to solicit business from new clients, and lowering ratings for those firms that do not pay. The international reinsurance firm, *hannover re* is a case in point, where year after year Moody's gave “unsolicited” downgrades in the company's ratings, while demanding payment for their “unsolicited” services which were rebuffed by hannover re. Moody ultimately cut its debt to junk

status in 2004 (despite *hannover re* receiving a clean bill of health from the other rating agencies), which cost the company 175 million dollars in market capitalization, which was wiped out within hours due to shareholders panic worldwide.

4.4.5.3.3 Ratings Shopping

The Collateralized Debt Obligations (CDO) fiasco in the United States with credit rating agencies rating many of those CDOs that had poor underlying loans as AAA is one example of ratings shopping. The close relationship between financial institutions and the credit agencies, meant that banks were able to leverage the credit ratings off one another and 'shop' around amongst them for the best ratings for their CDOs, through a process by which they would add and remove loans of various quality until they met the minimum 'leveraged' standards for a desired (AAA) rating, with fees ranging from \$300,000 to \$500,000, but which often reached a \$1 million dollars (Wayne 2009).

4.4.5.3.4 Ratings Errors

The ratings fiasco of CDOs has shown that credit rating agencies have made serious errors of judgment when rating structured securities, particularly in assigning AAA ratings to CDOs, which has been widely blamed for aggravating the financial crisis in the United States.

4.4.5.3.5 Downgrade Timeliness

Credit rating agencies do not downgrade companies promptly enough. For example, Enron's rating remained at investment grade four days before the

company went bankrupt, despite the fact that credit rating agencies had been aware of the company's problems for months (Wyatt 2002).

4.4.5.3.6 Ratings Triggers

Ratings downgrades of a company can cause its interest rates to go up and may affect some of its contracts with financial institutions. Large loans often contain a clause (called a rating trigger) about payment in full, if and when a company's credit rating would be downgraded to "speculative" or "junk" status, so as to ensure that the financial institution would be able to lay claim to the company's assets before the company declares bankruptcy. Rating triggers may be devastating, where companies in liquidity strife would not be able to pay their loans in full, which forces them into bankruptcy.

4.4.5.3.7 Oligopoly

S&P and Moody's have a combined market share of 80%, and together with Fitch would have over 95%, which raises legitimate questions, about competition and their oligopoly - given the type of returns one might associate with industries, which have high barriers to entry. (The Economist, 2007)

4.4.5.3.8 Sovereign Debt Ratings Conflict

There is a political incentive for CRAs to be more severe in their credit ratings of sovereign debt, so as to counter governments' desire for stricter regulation of their activities.

Since the onset of the 2008 global financial crisis and the 2010 European sovereign debt crisis, the Credit Rating Agencies contentious role has come under increased

scrutiny by both markets and regulatory authorities, with more than 60 cases worldwide (Armitstead 2012) having been filed - without much success - against the agencies.

The most recent case is in Italy, where Italian prosecutors filed charges on the 12th of November 2012, against the former president of Standard & Poor's, and six other credit rating officials for issuing downgrades that destabilised the country and fuelled the debt crisis.

The tide may indeed be turning against those rating agencies with the Australian Federal Court ruling on the 5th of November 2012, which found Standard & Poor and investment bank ABN Amro, liable for advice and distribution of complex financial products. S&P's AAA rating was given to complex and risky derivatives created by ABN Amro, which imploded less than two years after they were sold to 13 councils from the state of New South Wales (Federal Court of Australia 2012).

4.5 Stage Four: Ratios Analysis

The fourth stage of the methodology attempts to determine whether the more conventional forms of financial analysis, that are commonly performed by auditors, such as ratios analysis of asset quality, capital, operations, liquidity and leverage – have pointed out to the presence of problems. Have the auditors missed any adverse signals in the analysis of those conventional ratios? Was there any association between market volatility levels and the more conventional ratios (indicators)?

Market Indicators Correlation to Ratios Indicators

The top 400 banks from 8 geopolitical regions were divided into two portfolios: banks audited by a Big 4 firm and the ones audited by a non-Big 4 firm. The ratios

analysis of asset quality, capital, operations, liquidity and leverage of the banks were correlated to the banks market performance.

There were several market indicators that were used to reflect market performance, like price trends (52 weeks and 3-years), equity price volatility (360 days), beta coefficient (360 days) and volatility.

The analysis of the ratios was undertaken over two timeframes: short-term (2006-2009) and long-term (1996-2009). The aim of using two timeframes was to find out if any association was evident in either the short-term or the long-term, between the ratios and market indicators.

Figure 4.26 Market Indicators negative (-ve) correlation to Ratios Indicators during 2006-09 and 1996-09 years by Firm type

[Source: BvD Bankscope, author's analysis]

A negative (-ve) correlation between changes in market indicators and most ratios is indicative of an adverse correlation between the two. The percentage (%) is indicative of how many in the sample had a negative correlation between their market and their ratios changes. For example, 86% of the banks that were audited by a Big 4 audit firm had a negative correlation between their Price Trends during 2006-09 and changes in their ratios during the same period (2006-09). Whereas, 14% of

the banks that were audited by a non-Big 4 firm had a negative correlation between their Price Trends during 2006-09 and changes in their ratios during the same period (2006-09).

The MetaCapitalism changes (reductions in capital and operating expenditures) will initially attract a positive response by the market. However, banks are unable to infinitely reinvent themselves and quickly change their corporate structures, in order to match the relentless predatory appetite for more returns by the financial markets.

This can only result in a weak corporate structure and a decline in rewards of any changes that are less in their intensity and frequency than the ones before them. This will not only increase the volatility of the share price, but places a considerable strain on the allocation of corporate resources (assets, liabilities and equity).

For example, if a bank outsources their call centres to the Philippines, then they will probably decapitalise their fixed assets and its associated liabilities (loans to finance the plant, property and equipment) and operational expenses (like salaries expense, leasing expense, electricity expense, maintenance expense and so on). However, share price appreciation in the market will not go on indefinitely due to those changes alone.

More changes will be required to match their predecessors, but once the resource infrastructure is gone, then what other options are there for growth? It is not possible to decapitalise something else and demonstrate the same agility one more time. This is when the predatory nature of the markets will prevail and we inevitably witness a decline in the share price and Equity over time. Capital ratios, such as Equity to Total Assets ratio, Equity to Liabilities portrays the aforementioned decline in equity, assets and liabilities.

All market indicators exhibited adverse correlational levels of well above 50 per cent for the ratios of the banks audited by the Big 4 audit firms, while it was far less for banks audited by non-Big 4 audit firms. To conclude, the conventional ratio analysis has revealed that the banks audited by Big 4 audit firms were far more MetaCapitalised and highly volatile than banks audited by non-Big 4 audit firms.

4.6 Stage Five: Final Analysis

The aim of the fifth and final stage of analysis is to determine who should be held responsible for corporate failure, when (a) corporate MetaCapitalism changes are high, (b) volatility levels are high, and (c) there were adverse signals in the analysis of the conventional ratios that are commonly performed by auditors?

In this thesis, the analysis will focus on whether or not the auditors are responsible? The reason being is that it is the auditors (not the market analysts, or the credit rating agencies or the regulators), who sanction the legitimacy of the accounts for the consumption of investors, market analysts, credit rating agencies, regulators and other stakeholders.

4.6.1 Markets, MetaCapitalism and Ratios

Figure 4.27 Market Indicators negative (-ve) correlation to MetaCapitalism Indicators and Ratios Indicators during 2006-09 and 1996-09 years by Firm type

[Source: BvDEP Bankscope database and author's analysis]

An adverse (negative -ve) correlation between changes in market indicators and the composite changes in MetaCapitalism indices and most ratios has been consistent over the short-term (2006-09) and the long-term (1996-09).

All market indicators for the majority of banks audited by one of the Big 4 audit firms exhibited adverse correlational levels of well above 50 per cent, while it was far less for banks audited by non-Big 4 audit firms. This confirms the adverse association between MetaCapitalism changes and the predatory response from the financial markets.

The analysis of MetaCapitalism indices and the conventional ratios indicators, that was undertaken in the previous two stages of analysis, highlighted the undeniable fact that banks audited by Big 4 audit firms were far more MetaCapitalised, which played into the predatory machinations of the financial markets to render them highly volatile, by comparison to banks audited by non-Big 4 audit firms.

4.6.2 Who Is To Blame, If Anyone?

The Bankers' industry groups, especially American banks, have long argued that fair-value is a flawed practice, because of market volatility that distorts the economics of transactions. Having established some validity to the volatility claims by the Bankers, then it is time to turn to the three major criticisms (Economist 2008; Magnon 2009) by the bankers of fair-value accounting.

First, procyclicality where recognition of losses in a downturn by all banks at the same time, leads to impairment and triggers a fire-sale of their assets, which drives down market prices further. Secondly, the contentious valuation of illiquid assets, with their large balances by comparison with many of their institutions' deflated market values.

Thirdly, and most importantly, is the blatant inconsistency of fair-value rules, especially FAS 157 in the United States, which allows *different banks* to hold the *same assets at different values*. It treats financial assets differently, depending on whether they are "actively traded", or "available for sale". Both will be marked to market on the balance sheet, but their losses will differ in their treatment.

Only the losses of an "actively traded" financial asset will be recognised in the income statement. If the financial asset is "held to maturity" then it can be carried at cost and be subject to impairment. Magnon (2009) argues that such differential treatment can only distort further the imprecise (and often difficult to verify) valuation process, which is often marred by questionable assumptions and privileges managers with too much discretion in the preparation of financial statements.

The competing views between the regulators and the bankers can only underscore the facts that IFRS or local GAAP standards on fair value accounting may have intensified the crisis due to the lack of understanding by market participants. This resulted in considerable fluctuations in the results, asset and equity prices, which exacerbated the distortions of the results, asset and equity prices.

4.6.3 The Big 4 Monopoly

Markets are generally the best form of resource allocation, and market participants, such as investors, lenders, insurance companies, rating agencies, stock exchanges, regulators, and many others *rely considerably* – if not exclusively - on the auditors' endorsements (blessings) of the financial statements, where they attest in their audit reports to the true and fair 'going-concern' valuation of those resources that comprise companies.

Complacency on the part of the auditors can only lead to inaccuracies in the audited accounts, which would in turn lead to inaccurate valuations by the market of the companies' assets and results of operations.

It is not unreasonable then to assign some, *if not most*, of the blame to the auditors, if those companies exhibit or experience signs⁵⁶ of "going-concern" valuations distress or failure as with the delisted companies, and especially in the 12 months following an unqualified audited report attesting to their "going-concern" (ability to carry on their operations for at least 12 months).

⁵⁶ Signs may include less than optimal performance over time by comparison to the market. Some common signs may include lower change in: market capitalization, operating revenue, net income, and Total Assets. Total Assets change over time may indicate stagnant expansion due to decline in sales and market share.

This is due to the fact that *most*⁵⁷ of them were often delisted due to either: (a) being acquired by another company, or (b) having merged with another company, or (c) they had solvency problems.

The Big 4 audit firms, in particular, have come under increased scrutiny after the global financial crisis of 2008, for their role in issuing all those unqualified audit opinions and rubber-stamping the financial statements of banks as going-concerns, when they were near collapse and the subsequent government bailouts, which have contributed to the on-going sovereign debt crisis.

There is a concern that there may have been “a degree of complacency and an insufficient level of professional scepticism by the auditors of some overseas banks and other financial institutions that failed or had to be bailed out” (AGFRC 2011).

4.6.3.1 The Global Reach of the Big 4

The Big Four accounting firms audit the accounts of most blue-chip companies in the world. Their total revenues in 2012 were US\$ 110.2 bn, placing them in the top 30% of the world (61st place out of 200 countries) or the equivalent to the combined total GDP of the bottom 50 countries.

Of the 69,385 global public companies that are on the BvD Osiris database: 47,370 are publicly listed, 17,785 are delisted and 4,230 are unlisted companies respectively. Together the Big 4 firms audit approximately 56 per cent (38,842 companies⁵⁸) of

⁵⁷ Over the thirty-year period in a study by Lew and Ramsay (2006), there were 5,952 delistings on the ASX. The most common reasons for delisting over that period were: 8.1% failure to pay listing fees, 18.8% company was acquired, 19.3% capitalisation changes, and 40.4% for name or company code change.

⁵⁸ The Total Assets of all companies examined is US\$ 243 trillion dollars, with US\$ 182 trillion dollars or 75% of that pool of listed, delisted and unlisted companies - being audited by Big 4 firms.

the global public companies available on the OSIRIS Bevdep database, and 85 per cent by market capitalization (US\$ 43 trillion dollars) of the 69,385 entities.

Figure 4.28 Big 4 and Non-Big 4 Firms Market Share of the 69,385 Public Companies Classified by the Companies Total Assets, Operating Revenue, Net Income, Market capitalization and Number of Employees

[source: BvD Osiris database and author's analysis]

It was no surprise, then, that when the UK House of Lords Economic Affairs Committee completed its inquiry into the financial crisis, it called for an anti-trust investigation (Bloomberg, 2011) by the British competition authorities, the Office of Fair Trading, into the dominance of the world's "Big Four" accounting firms (PwC, Deloitte, Ernst & Young and KPMG) and their failure to flag up the state of banks' finances before the global financial crisis in 2008.

There were three main findings in the review: (a) the Big Four auditors' domination of the large firm audit market limits competition and choice, (b) the breakdown of

Together, the Big 4 audit 84% by operating revenue, 87% by net income, and 83% by number of employees of all companies.

dialogue between bank auditors and regulators made the financial crisis worse, and
(c) audit standards are slipping.

4.6.3.1.1 The Big 4 Dominance Limits Competition and Choice

The House of Lords report highlighted the Big 4 unfettered monopoly in the UK, where they audit all but one of the companies (99%) that are listed on the FTSE 100, In 2010, they audited 99 of the FTSE 100 largest listed companies which change auditors every 48 years on average, and 240 of the companies (96%) in the FTSE 250⁵⁹.

Figure 4.29 The House of Lords based its figures on market share on the Financial Reporting Council's Choice in the UK Audit Market Progress Report in June 2010

In bank audit in the UK, only three of the Big Four are active, and the potential failure by one of the Big Four audit firms may provide a systemic risk to the market, because a failure could result in a widespread, substantial delay in the production of audited financial statements leading to a loss of confidence in the market.

⁵⁹ The FTSE 250 is a capitalisation-weighted index consisting of the 101st to the 350th largest companies on the London Stock Exchange, with the index calculated in real-time and published every minute, while the ranking placements taking place quarterly.

There are a number of proposals from Australia⁶⁰, EC⁶¹, UK and the U.S. to address the threat to auditor independence through long association between the audit firm and the audit client, like the

- (i) mandatory rotation of audit firms (in addition to the existing requirements for the rotation of audit partners of five and seven years),
- (ii) placing a limit on the proportion of fees an audit firm can receive from a single audit client compared to the total revenue of the firm,
- (iii) restricting market power and concentration by the Big 4, as market concentration might entail an accumulation of systemic risk and the collapse of a 'systemic firm' could disrupt the whole audit market, while the present concentration of market power may limit client choice in some industry sectors and restricting the ability of mid-tier audit firms to enter the top-tier audit market,
- (iv) a tightening of the existing requirements in relation to the provision of non-audit services to an audit client (the European Commission Green

⁶⁰ In October 2011, the Audit Quality Task Force of the Australian Government Financial Reporting Council has put forward the following proposals in their review of market concentration by the Big Four audit firms in relation to the audits of large entities: (a) imposing mandatory rotation of audit firms or at least having a mandatory audit tendering requirement after a prescribed period; and (b) introducing mandatory joint audits by one of the Big Four firms and a mid-tier audit firm.

⁶¹ The European Commission in its Green Paper Audit Policy: Lessons from the Crisis in October 2010, has indicated that it will be exploring whether engagement, duration and remuneration of the auditor should be the responsibility of a third party, perhaps a regulator, rather than the company. However, the UK Government has called on other European Union (EU) Member States to lobby the EC into dropping controversial proposals in the Green Paper on joint audit, audit-only firms and mandatory audit firm rotation.

paper proposes a complete ban on audit firms providing non-audit services), and

(v) improving the early warnings that external auditors may be able to provide publicly to investors and other users of public reports. However, this may be a contentious issue as it may instigate panic in the market with investors doing a “run on the bank” should such information become available.

4.6.3.1.2 The Breakdown of Dialogue between Bank Auditors and Regulators made the Financial Crisis Worse

Auditors were either unaware of the mounting dangers in the banks or, if they were aware, failed to alert the supervisory authority. The House of Lords Economic Affairs Committee (Larson 2011) found that the scarcity of meetings between bank auditors and the supervisor was a “*derelection of duty*” by both auditors and regulators.

The Committee recommended legislation to re-establish mandatory two-way confidential dialogue between bank auditors and supervisors to help avoid a similar crisis in the future.

I am, however, reasonably sceptical about the practical application of such legislation, despite it satisfying the self-interests of all parties concerned. My concerns stem from the fact that:

- (i) the exact “parameters” that caused the crisis are not yet clear,

- (ii) is the regulator going to “parameterize” the critical range(s) of those identified risks, so auditors would be able to alert the regulator when a particular threshold has been crossed,
- (iii) auditors are not trained to assess banks exposure to market trading risks, and
- (iv) will there be a change to audit procedures, so that auditors would perform sophisticated market based analysis to assess the exposure of the banks audited financial statements to market risks?

No doubt, such legislation would change the very nature of auditing and its educational and training requirements.

4.6.3.1.3 Audit Standards are Slipping

The House of Lords Economic Affairs Committee has also heard that International Financial Reporting Standards (IFRS), which became mandatory for EU listed companies in 2005, and are intended to pave the way towards common accounting standards around the world, had lowered audit standards. The Committee maintained that the adoption of IFRS had encouraged box-ticking and reduced scope for auditors to exercise judgment to reach a true and fair view.

The Big 4 were the auditors who signed-off ‘Unqualified audit (opinions) reports’ on the accounts of 86% of the bailed-out banks and 76% of the failed banks in the top 400 Global Banks in the last financial year leading up to the Global Financial Crisis 2008.

Figure 4.30 Big 4 Firms share of the Failed and Bailed-out Banks in the Top 400 Global Banks

[source: BvD BankScope database and author's analysis]

A much smaller study by Prem Sikka (2009) traced some of the distressed banks to their auditors and their associated audit opinions in the audited reports for the financial year 2007. These are listed in table 4.4 below.

Auditors and distressed Banks

Company	Country	Year end	Auditor	Date of audit report	Audit opinion	Fee (millions)	
						Audit	Non-audit
Abbey National	UK	31 December 2007	D and T	4 March 2008	Unqualified	£2.8	£2.1
Alliance and Leicester	UK	31 December 2007	D and T	19 February 2008	Unqualified	£0.8	£0.8
Barclays	UK	31 December 2007	PwC	7 March 2008	Unqualified	£29	£15
Bear Stearns	USA	30 November 2007	D and T	28 January 2008	Unqualified	\$23.4	\$4.9
Bradford and Bingley	UK	31 December 2007	KPMG	12 February 2008	Unqualified	£0.6	£0.8
Carlyle Capital Corporation	Guernsey	31 December 2007	PwC	27 February 2008	Unqualified	N/A	N/A
Citigroup	USA	31 December 2007	KPMG	22 February 2008	Unqualified*	\$81.7	\$6.4
Dexia	France/ Belgium	31 December 2007	PwC + Mazars and Guérard	28 March 2008	Unqualified	€10.12	€1.48
Fannie Mae	USA	31 December 2007	D and T	26 February 2008	Unqualified	\$49.3	–
Fortis	Holland	31 December 2007	KPMG + PwC	6 March 2008	Unqualified	€20	€17
Freddie Mac	USA	31 December 2007	PwC	27 February 2008	Unqualified*	\$73.4	–
Glitnir	Iceland	31 December 2007	PwC	31 January 2008	Unqualified	ISK146	ISK218
HBOS	UK	31 December 2007	KPMG	26 February 2008	Unqualified	£9.0	£2.4
Hypo Real Estate	Germany	31 December 2007	KPMG	25 March 2008	Unqualified	€5.4	€5.7
Indymac	USA	31 December 2007	E and Y	28 February 2008	Unqualified*	\$5.7	\$0.5
ING	Holland	31 December 2007	E and Y	17 March 2008	Unqualified	€68	€7
Kaupthing Bank	Iceland	31 December 2007	KPMG	30 January 2008	Unqualified	ISK421	ISK74
Landsbanki	Iceland	31 December 2007	PwC	28 January 2008	Unqualified	ISK259	ISK46
Lehman Brothers	USA	30 November 2007	E and Y	28 January 2008	Unqualified	\$27.8	\$3.5
Lloyds TSB	UK	31 December 2007	PwC	21 February 2008	Unqualified	£13.1	£1.5
Northern Rock	UK	31 December 2006	PwC	27 February 2007	Unqualified	£1.3	£0.7
Royal Bank of Scotland	UK	31 December 2007	D and T	27 February 2008	Unqualified	£17	£14.4
TCF Financial Corp	USA	31 December 2007	KPMG	14 February 2008	Unqualified	\$0.97	\$0.05
Thornburg Mortgage	USA	31 December 2007	KPMG	27 February 2008	Unqualified	\$2.1	\$0.4
UBS	Switzerland	31 December 2007	E and Y	6 March 2008	Unqualified	CHF61.7	CHF13.4
US Bancorp	USA	31 December 2007	E and Y	20 February 2008	Unqualified	\$7.5	\$9.6
Wachovia	USA	31 December 2007	KPMG	25 February 2008	Unqualified	\$29.2	\$4.1
Washington Mutual	USA	31 December 2007	D and T	28 February 2008	Unqualified	\$10.7	\$4.3

Notes: Data as per financial statements and statutory filings shown on the respective company's website.

Audit fee also includes 'audit related fees'.

* Denotes that audit report draws attention to some matters already contained in the notes to financial statements.

Table 4.4 Auditors and Distressed Banks

[source: Sikka 2009]

The inability of auditors to reach a *true and fair* view may represent the reason (cause?) why banks manifest (effect?) higher instability and volatility in the market, when inaccuracies in the audited accounts go unchecked, as this leads to inaccurate valuations by the market of the banks' assets and result of operations. This can be seen in figures 4.31 and 4.32.

Figure 4.31 Accounting Standards Employed in 2007/8 at the Top 50 Banks in each of the following countries: Australia, France, Germany, Iceland, Switzerland, UK and USA.

[source: BvD Osiris database and author's analysis]

Figure 4.32 Beta of the Top 50 Banks in each of the following countries: Australia, France, Germany, Iceland, Switzerland, UK and USA in 2007/08.

[source: BvD Osiris database and author's analysis]

Whilst, it is true that British banks adopt mostly IFRS standards, this is not the case for U.S. banks, where IFRS were not applied, as can be seen in figure 4.31. Furthermore, U.S. banks had the highest average beta volatility by comparison to any other country in the sample of selected countries, as can be seen in figure 4.32.

This higher than average market volatility is obviously for reasons other than adopting IFRS reporting standards, given that US banks were not adopting the IFRS reporting standards. However, it must be noted that 98% of the top 50 US banks in the sample were audited by one of the Big 4 firms.

There is a growing sentiment that there may have been a degree of complacency and an insufficient level of professional scepticism by Big 4 auditors. This was succinctly framed by the Irish Director of Corporate Enforcement (Oliver 2011), when he said in February 2011, auditors "report surprisingly few types of company law offences to us", with the so-called "big four" auditing firms reporting the *least often* to his office, at just 5% of all reports.

4.6.3.2 Delisted Companies and Unqualified Audit Opinion

One way to assess the complacency and the insufficient professional scepticism proposition is to examine the proportion and magnitude of delisted companies that have been audited by one of the Big 4 firms and compare it to Non-Big 4 firms. One might ask why delisted companies reflect a degree of complacency and an insufficient level of professional scepticism?

Figure 4.33 Big 4 and Non-Big 4 firms audit market share of the number of Listed, Delisted and Unlisted Global 66,189 Public Companies

[source: BvD Osiris database and author's analysis]

The number of delisted public companies in the sample (69,385 global public companies) examined that were audited by one of the Big 4 firms was 9,801 companies with US\$ 38 trillion dollars in market capitalization and US\$ 143 trillion dollars in total assets, compared to the 7,392 companies audited by Non-Big 4 firms with US\$ 8 trillion in market capitalization and US\$ 28 trillion in total assets.

Thus, the Big 4 firms were responsible for the audit of 84% of the delisted public companies or five fold the share of Non-Big 4 firms of delisted companies by market capitalization and by total assets. The Big 4 firms were not only responsible for auditing 84% (by comparison to 16% audited by Non-Big 4 firms) of the delisted

companies, but they have also issued unqualified audit reports to 95% (by comparison to 97% issued by Non-Big 4 firms) of their delisted companies by market capitalization in their last year before being delisted.

The issue here is whether the Big 4 audit firms overlooked any signals of risks associated with the market performance of their delisted companies by comparison to Non-Big 4 firms.

One way to assess the relative risk of a company (an investment) is to calculate the standard deviation of financial information that is easily accessible to auditors, such as (a) equity value or market capitalization, and (b) economic income streams, such as: P/L before tax and Net Income. Theoretically, the higher the standard deviation of an investment's returns, the greater the relative riskiness, because of the uncertainty in the amount of return.

Figure 4.34 Standard Deviation of a 10-year cumulative change in Market Capitalisation, Profit/Loss before Tax and Net Income of the Big 4 and Non-Big 4 firms audit market share of the Delisted Companies that received an Unqualified Audit Report in their last year before delisting

[source: BvD Osiris database and author's analysis]

The question is whether delisted companies that received unqualified audit reports from Big 4 firms were more or less risky than delisted companies that were audited by Non-Big 4 firms.

To answer this question, delisted companies that received an unqualified opinion in their last year before delisting, were split into two groups: ones audited by a Big 4 firm (Portfolio I), and ones that were audited by a Non-Big 4 firm (Portfolio II).

Figure 4.34 charts the standard deviation of the 10-year cumulative⁶² change in Market Capitalisation, P/L before Tax and Net Income of delisted companies that received an unqualified audit report in their last year before delisting, by Big 4 and Non-Big 4 firms.

The following result is inescapable: the relative riskiness (measured by the standard deviation) of Portfolio I of delisted companies that received an Unqualified audit opinion from one of the Big 4 firms was markedly higher in all three asset-based and market-based measures (Markets Caps, P/L before Tax and Net Income) by comparison to Portfolio II of delisted companies that received an Unqualified audit opinion from one of the Non-Big 4 firms.

One cannot escape the fact that delisted companies ‘going-concern’ valuations that had been sanctioned by an unqualified audit opinion by one of the Big 4 audit firms, had experienced more exposure to market risks than the corporations audited by Non-Big 4 audit firms, which makes you wonder how did “they” not notice it?

⁶² *Cumulative* simply means the sum of all increments and decrements in percentile changes from one year to the next over the nominated period. For example, the change in Market Capitalisation between year 1 and year 2 was 7% and the change in Market Capitalisation between year 2 and year 3 was -2%. Hence, the cumulative change between years 1 and 3 in Market Capitalisation is 5%.

Perhaps, the answer lies in the fact that the vast majority of public companies are audited by no less than the Big 4 firms, and so the market exhibits a similar level of risk to their group of companies. However, this does not absolve the Big 4 firms from their responsibility in providing “going-concern” valuations, which should contribute to decreasing not increasing information risk.

4.6.4 The Big 4 To Blame

The question is how did the Big 4 audit firms, with their superior expertise and vast network of resources, provided less than adequate “going-concern” valuations, which have resulted in the corporations they audited being delisted within less than a year from the provision of their unqualified opinion of the financial statements. Was it sheer incompetence or blatant complacency?

It is no wonder, then, that the House of Lords Economic Affairs Committee has recommended that prudence be reasserted as the guiding principle of audit given the growing sentiment about a degree of complacency by the Big 4, and that the UK should take the lead in examining the monopolistic role of the Big 4, given that London is a major global financial centre where the Big 4 are particularly prominent⁶³.

The preceding discussion is part of a wider growing debate about why no financial executives, or should I say the conveniently ‘invisible hand’ of the market, have been jailed for their role in the worst global economic crisis since the Great Depression. The revolving door between academia and Wall Street, as well as the key role successive governments from all persuasions have played in deregulating the

⁶³ The Headquarters of PricewaterhouseCoopers and Ernst & Young are based in London, while Deloitte’s is based in the United States and KPMG in the Netherlands.

financial industry - only points to a "predatory elite" that has "taken over significant portions of economic policy and of the political system, and also, unfortunately, major portions of the economics discipline." (Ferguson 2012)

4.7 Chapter Summary

This chapter examined the results of the study, and attempted to contextualize some of those findings within their neoliberal prescriptions, so as to reconcile the tensions between the ideological promises of MetaCapitalism and the results on the ground. The chapter highlighted the key findings in each stage of the five analytical stages of the MetaCapitalism Performance Evaluation Methodology.

Stage One

The Sample Profile Analysis, which is the first stage of the methodology, set the context for the analytical results by profiling the key defining characteristics of the sample selected from the BvD BankScope and OSIRIS databases. The BvD BankScope dataset, which included the financials, market and regulatory data of the top 734 global banking institutions (ranked by equity) for the years 1996 to 2009 was used in stages two to four of the methodology. The BvD OSIRIS dataset, which included the financials, markets and regulatory data of the 69,385 global public companies for the years 2000 to 2011 was used in the final analysis of the fifth stage of the methodology. The key defining characteristics of the sample included the audit firms and listing status distribution, the ownership profile of institutions in the sample, accounting standards adopted, institutional specialization, main exchanges listing distribution and the number of employees. Perhaps, one of the significant findings in stage one analysis was the fact that Big 4 firms monopolized the banks' audit market, and the banks were owned by a very limited number of owners (47% of

the banks were owned by less than 4 owners each). It is interesting to note that the auditors and their clients were both monopolists, by way of the bank owners and audit practice, exhibiting ‘monopoly capital’ in action.

Stage Two

The MetaCapitalism Analysis, which is the second stage of the methodology, examined whether MetaCapitalism was adopted by any of the institutions in the sample. The banks that adopted the MetaCapitalism prescriptions were assigned to Portfolio I, and the ones that did not adopt the prescriptions were assigned to Portfolio II. Then both portfolios were tested for their susceptibility to risk (beta) and volatility (price trends and equity price volatility). The findings have clearly showed that those institutions that reflected the MetaCapitalism theoretical claims over the long-term by comparison to the ones that did not, have exhibited more volatility, higher risk and poorer performance, where they claimed higher bailout funding and incurred higher market caps losses.

Stage Three

The Market Analysis is the third stage of the methodology, which began by discussing the mismatch in the financial markets between reality and its financial representation. It proceeded with deconstructing the validity of the criticisms of the fair-value ideal, and examined the legitimacy of the criticisms about its contribution to higher volatility levels. Then, it critiqued the dysfunctional self-regulatory role of Credit Ratings Agencies in intensifying volatility in the market with their ratings of banking institutions that did not correspond at all to the risk and high volatility levels of those institutions. The two portfolios again exhibited similar results to the stage two analysis when tested for their susceptibility to risk (beta) and volatility (price

trends and equity price volatility) over the short-term (2006-09) and the long-term (1996-09). The findings had shown that MetaCapitalised institutions (Portfolio I) were more susceptible to higher risk and volatility levels in the short and long terms by comparison to institutions that did not adopt MetaCapitalism.

Stage Four

The Ratios Analysis is the fourth stage of the methodology, which attempted to determine whether the more traditional forms of financial analysis, like ratios analysis were able to point to the presence of problems. The different ratios were correlated to market risk (beta) and volatility (price trends and equity price volatility). All market indicators exhibited adverse correlational levels of well above 50 per cent for all ratio categories like asset quality, capital, operations, liquidity and leverage ratios of the banks audited by the Big 4 audit firms. The adverse correlational levels were quite minimal for banks audited by non-Big 4 audit firms.

Stage Five

The Final Analysis is the fifth stage of analysis, which aimed to identify who may be to blame for corporate failure. The findings from the first dataset (734 banks) sample had shown that MetaCapitalised institutions (Portfolio I) audited by one of the Big 4 firms were more susceptible to higher risk and volatility levels in the short and long terms by comparison to institutions that were audited by a Non-Big 4 firm. The following result from the second dataset (69,385 companies) is inescapable: the relative riskiness (measured by the standard deviation) of Portfolio I of delisted companies that received an Unqualified audit opinion from one of the Big 4 firms was markedly higher in all three asset-based and market-based measures (Markets Caps, P/L before Tax and Net Income) by comparison to Portfolio II of delisted

companies that received an Unqualified audit opinion from one of the Non-Big 4 firms. It is not unreasonable then to assign some - *if not most* - of the blame to the Big 4 auditors, when their audited clients exhibited signs of “going-concern” valuations distress or failure, as is the case with the delisted companies.

5 THE HEGEMONY OF THE EFFICIENCY DOCTRINE

We've arranged a global civilization in which most crucial elements profoundly depend on science and technology. We have also arranged things so that almost no one understands science and technology. This is a prescription for disaster. We might get away with it for a while, but sooner or later this combustible mixture of ignorance and power is going to blow up in our faces... I worry that, especially as the Millennium edges nearer, pseudoscience and superstition will seem year by year more tempting, the siren song of unreason more sonorous and attractive. Where have we heard it before? Whenever our ethnic or national prejudices are aroused, in times of scarcity, during challenges to national self-esteem or nerve, when we agonize about our diminished cosmic place and purpose, or when fanaticism is bubbling up around us - then, habits of thought familiar from ages past reach for the controls. The candle flame gutters. Its little pool of light trembles. Darkness gathers. The demons begin to stir. (Sagan 1996:32)

5.1 Introduction

The purpose of this chapter is to explore how society is opting out of debate through the machinations of a *neoconservative credo* that purports *reason*. Under the guise of the spectacle of freedom and democracy, such dogma often exploits the public disorientation following massive collective shocks to achieve control, by imposing *economic shock therapy* to affect change. The resulting profiteering bubble of a few private hands appropriating public wealth is often accompanied by exploding debts. The threat of a disenfranchised populace left outside the 'profiteering bubble' prompts the need for aggressive surveillance to protect the interests of the profiteers. This chapter begins by exploring the first challenge facing our increasingly fearful society: the deification of scientific faith and the degeneration of rationality. Section 5.3 proceeds with charting the second challenge to our global society with the rise of

“*mauvais*” capitalism and its shock doctrine. Meanwhile, section 5.4 examines the third challenge to our global society with the precarious evolving national security culture. Section 5.5 attempts at framing a conclusion within those three challenges to our global society, where deifying scientific faith and the degeneration of rationality into subservience to commercial interests have resulted in the rise of a fundamentalist brand of global capitalism that thrives on the corporatisation of national security, and which is giving rise to a new security world order. Section 5.6 provides a number of concluding remarks and the chapter summary.

5.2 Misology and Misanthropy

The evolution of computing did not only result in the disengagement of the populace from its technological complexity, but also their submission to the divine ability of ‘scientists’ who understand the mathematical complexity of information technologies.

Socrates argued that both ‘*misanthropy*’ and ‘*misology*’ stem from ‘faith’ placed in unreliable people and unsound arguments. Such misplaced faith in surveillance technologies and their protractors, for example, often results in disengagement from debate, which to Socrates was the antithesis to truth and wisdom.

Mathematical logic, which is at the heart of information technology, has spread to other disciplines, such as, finance and economics, producing a series of esoteric formulae for manipulating algebraic symbols, linking premise to conclusion.

Whilst the majority of people may not understand such *mathematical-based* disciplines, they still place much faith in the *divine* ability of ‘scientists’ and

‘economists’ who understand the mathematical complexity of information technology.

Idolising information technology contributes to what Socrates referred to as ‘*misology*’ and ‘*misanthropy*’. Misanthropy comes from having faith in people, such as politicians, who make decisions to implement a new surveillance technology on false pretences.

Misology comes from relying on unsound surveillance information. Eventually, both make us sceptical as to whether anyone or any information can be trusted. Socrates understood the propensity for people disillusioned with their world to disengage from debate, when for him debate was the ultimate road to truth and wisdom (Harris 2008).

This thesis draws upon Socrates’ idea, in how society is opting out of debating issues that threaten its very existence, by the exploitative machinations of the ‘*economic shock therapy*’ *credo* that purports to be *reason*. The neoconservative doctrine espouses such fundamentalist *credo* with the purported promises of more freedom and democracy.

For over three decades, Milton Friedman and his apostles *dictated* this dogma globally during many a time of crisis, because they understood very well that the public’s disorientation following massive collective shocks, such as wars, terrorist attacks or natural disasters, could be used to achieve control by imposing economic shock therapy, and affect real change from the failed social welfare doctrine.

The resulting global profiteering bubbles, due to the huge transfers of public wealth to fewer private hands, were not only accompanied by exploding debts but also

aggressive nationalism, that justified bottomless spending on security. The overshadowing threat of a disenfranchised populace left outside the ‘profiteering bubbles’ prompts evolving corporatist states to adopt the following: aggressive surveillance, mass incarceration and shrinking civil liberties and often, though not always, torture. (Klein 2007)

5.3 Scientific Faith and the Degeneration of Rationality

Computational Finance adherents yield no understanding when they utilise arcane formulae for processing algebraic symbols that link market movements to profits or losses. As a matter of fact, very few of us who believe in markets, or currency exchange arbitrage, or the global economic system, as ‘scientific facts’ would be able to explain ‘rationally’ why such beliefs merit credence.

The mathematical complexity of ‘proof’ of those facts prohibits most of us from even pondering a ‘scientific’ explanation; however, we certainly trust the bankers and finance analysts who can provide such an explanation. Fundamentally, then, ‘science’ has become a matter of faith to most of us, in no less a way than belief in the divine.

The evolution of institutions of higher learning and disciplines on such a mass scale over the past fifty years has only contributed to the degeneration of ‘rational inquiry’ into a much more feeble synonym: that which is considered ‘reasonable’.

Harris (2008) argues “reasonable, in turn was allowed to mean *able to give reasons*. And the problem with that - as any fool can see - is that any fool can find reasons for foolishness”. Such folly has only downgraded institutions of higher learning into mere ‘factories’ producing *en masse* graduates, who can barely give plausible

reasons for their own understanding of their discipline - all in the interests of serving the market place.

The corporatist devaluation of reason has not only left educational institutions presiding over a chaos of claims that lack any common 'rational' ground for devoting resources to their pursuit, but also left 'scientifically' illiterate populations. Seventy-five per cent of adults in the United States failed a National Science Foundation survey, which had 10 questions, eight of which were simple true-false or multiple choice questions (Scientific News 1996).

It is not surprising that the absence of a workforce possessing general knowledge and capable of understanding scientific thought processes, left high-tech and biotechnology companies no option but to leave Silicon Valley and California.

Indeed, scientific illiteracy plagues not only the USA but also the rest of the world. The populace votes and decides about critical scientific issues, such as global warming or energy resources or water supplies, which affect each and every one of us without any understanding of science. However, those decisions should be scientific, not political or economic ones.

5.4 The Agora-Pnyx Paradox

The avatars of the new capitalism are decreeing how the larger economy should evolve, and follow their efficient reconfigurations of human, technological and physical resources because it adds up to more freedom. This presented the political space with the opportunity to converge with the economic space.

Plato believed in separating the Agora (economic space) from the Pnyx (political space) because he believed that need and greed enervates people's capacity for what is just and right.

It is interesting to observe Plato's idea of how society is being weakened by the machinations of need and greed that seem to expand their sphere of influence over almost all aspects of our lives.

It is particularly instructive when discussing how economic rationalism, not political idealism, is shaping the debate over almost every public policy issue. The result has been the corporatisation of government that is inherently neo-liberal (or neo-conservative), which often produces analysis-free policies. Coupled with that is the evolution of the passive consumer-citizen.

These three challenges facing our transparent society bring into question the legitimacy of a democratic process that seems to be driven by cultural forms which celebrate personal change and indifference, but not collective progress.

This section concludes that freedom is not just an individual matter, given the complexity of the issues, such as with surveillance and privacy. A collective response backed by intellectual analysis can effectively confront the totalising discourse of the powerful, and force its own version of reality on the public agenda.

5.4.1 The Agora-Pnyx Liaison

Technology that lowers the cost of capital for a firm is an attractive value proposition, and naturally results in reconfiguring the capital and labour resources within the firm, in favour of the technology. Airline travel had to rely on technological developments, such as X-Ray machines and metal detectors, when

labour intensive methods of searching through the luggage and long queues of passengers were not compatible with the rapid growth in global travel and airline schedules.

The rapid expansion of airline hubs with airlines taking control of terminal buildings and airports meant that airline security was also part of their business, although, a *non-core* function. This meant that airline companies would seek the lowest bidder on their security contracts, who would also seek the minimum wage person, in order to make a little profit for themselves (CNN 2001).

Comprehensive screening during peak periods often presented a conflict of interest, between profit-driven airlines trying to minimise flight delays and the responsibility the companies carry to provide security.

Airlines, like most businesses, attempt to influence federal oversight through their *contributions* to political candidates in both major parties. The Air Transport industry in the United States contributed approximately \$140 million dollars in the 1990-2012 election cycles, with 41% going to the Democrats and 59% going to Republicans (OpenSecrets 2012). Over the 1990-2012 election cycles, the airline industry was ranked in 27th place in total campaign donations⁶⁴ by comparison out of more than 80 other industries in the United States.

⁶⁴ The figures are based on contributions of \$200 or more from Political Action Committees (PACs) and individuals to federal candidates and from PACs, soft money (including directly from corporate and union treasuries) and individual donors to political parties and outside spending groups, as reported to the Federal Election Commission.

Figure 5.1 Air Transport Contribution Trends by Political Party for 1990–2012

[Source: OpenSecrets.Org and the US Federal Electoral Commission]

Coupled with their powerful trade organisations and direct representation, election donations from airlines ensured their sway over much of the Federal Aviation Authority (FAA) policies. For example, following the TWA-800 disaster in 1996, the commission delayed the immediate implementation of the recommended baggage matching measures, because the airlines argued that it was too costly and would enrage passengers.

The diminished power of the FAA in relation to the airlines continued over the decade preceding September 11th, 2001. The FAA would fine the airlines for security incidents and violations and the airlines would negotiate their fines and often end up paying 10 cents in a dollar for their fines, which was far cheaper than making the necessary expenditure on security enhancements recommended by the FAA (CNN 2001).

On September 11th, 2001 the two carriers whose jets were hijacked were at the top of the list of airlines with security incidents and violations over a decade (1991-2000). American Airlines was the highest offender with 1,949 security incidents and 3,769

security violations, and United Airlines was the third highest, with 1,539 incidents and 3,556 violations. This perhaps highlights the *dysfunctional* nature of a system that was levying the same fines year after year.

Figure 5.2 Total Airline Security Incidents and Violations caption for 1991-2000

(Source: U.S. Bureau of Transportation Statistics)

Interestingly enough, American Airlines and United Airlines were the fourth and sixth largest donors to political parties in the 1998-2000 elections cycle, and they collectively contributed 20% or one fifth of all political campaign finance by the air transport industry during the 1990-2000 election cycles period. Meanwhile, the air transport industry was ranked in 19th place in total campaign donations during the 1998-2000 election cycles in comparison to more than 80 other industries.

This may explain why the industry (and American Airlines in particular) was successful in lobbying against legislation that would have slowed further consolidation in the industry, and lobbying Congress following the September 11 terrorist attacks for bailouts to stay out of bankruptcy. It is not surprising that

Congress would come to the rescue and establish the victims' compensation fund two weeks after September 11th attacks, to not only help the families of those killed and the injured survivors, but also *discourage* lawsuits against American and United Airlines.

Those who accepted payment from the fund waived their rights to sue individual companies (CNN 2007). However, 90 families (of which 14 decided to settle out of court on September 19th, 2007 with terms of the settlement not disclosed) did not accept payment from the fund and sued instead the airlines and the private airline security company, Argenbright Security was released from its contract in 2002 by the Department of Transport amid allegations of inferior security standards, and for their failure in their duty of care (wrongful death).

The passengers' families were not the only '*unpatriotic*' ones in raising 'the issue of suing' the airlines. The World Trade Center developer Larry Silverstein who had signed 99-year leases for the space just two months before the attack, had a long running battle with AMR Corp. and its American Airlines subsidiary "*over claims that the carrier failed to prevent the hijacking of Flight 11 during the Sept. 11th terrorist attack*" (Palank 2012).

The AMR Corp. filing for bankruptcy in November 2011 did not completely halt pending litigation relating to the long running Silverstein lawsuit, with its claims about the failure of AMR Corp. and American Airlines to put safeguards into place — such as securing the cockpit — to prevent terrorists from seizing control of its airplane.

Silverstein also named additional defendants, including Boeing Co., the airplane manufacturer "defectively designed the aircraft operated as Flight 11 by failing to

install a system that would lock out unauthorized persons from the aircraft controls.”

Incidentally Boeing Co. is one of the largest contributors to political campaign finance, with 12% of the total contributions over the 1990-2012 election cycles.

Is there any doubt that those powerful institutions with the backing of their political beneficiaries were able to obfuscate their opponents for the last decade? I have no doubt that they will continue to do so successfully in the following decade.

The rhetorical question is whether airlines, or other corporations, finance political campaigns of major parties, in order to wield ‘some’ influence over political oversight, as politicians are left with no option but to offer ‘protection’ to their benefactors at the expense of the citizenry? Thus, the problem is with this unholy union between the economic (agora) and political (pnyx) space, which seem to privilege their (big business as a proxy for the economic space) interests, with the *unintended result* of a political oversight that sanctions the interests of the economic space to the detriment of the political space.

5.4.2 Citizen as Consumer

The global boom in the hi-tech industry, financial services and media service organisations, which represent the new cultural ideal of the new capitalism despite being only a small part of the whole economy, exerts a profound moral and normative force as a cutting edge standard for how the larger economy should evolve. Avatars of the new capitalism proclaim that their reconfigurations of work, talent and consumption add up to more *freedom* (Saul 1997:82; Sennett 2006:10). This is perhaps the *nexus* that brings both the economic (agora) and political (pnyx) space together.

Institutions in the new capitalism are driven by an economic ideal of optimal resource allocation through the use of information technology, leading to maximised utility, or in short: efficiency. The quest for efficiency (Mickhail & Ostrovsky 2005:290) is a reality involving both private and public corporations; where an emphasis on control over resource utilisation is achieved through methods of “bureaucratic accounting technology, which can be coupled to totalitarian and democratic political regimes alike” (Power 1995:293).

Power (1995:299) argues that accounting can be regarded as

a technology that subjects individuals to the 'objectifying' gaze of distant regulators, a system of surveillance that stimulates a style of self-regulatory behaviour. Subjects must constantly act and behave as if they are being watched and will be forced to account for themselves.

The language of asset, cost, expense, liability and profit which informs accounting is often *less precise*; its *objective* measurement of what an asset or an expense is, for example, is often highly contestable. Dubious profit (or loss) measurements have real consequences: share prices may fall, bank branches may be closed down, CEOs may indulge themselves with higher rewards, mass lay-offs of workers, loans may be granted, and so on. This technically ambiguous and not so readily *transparent* practice, with its abstraction from operational detail, can lead to tangible *freedoms*, or the lack of them.

Accounting wields influence over any aspect of society that is subject to economic calculation, propounding a complex moral technology that expresses and endorses specific models of social and economic relations. Surveillance technology, like accounting is chiefly used for its perceived *economic* efficiency, and while driven by

ideals of procedural fairness and impartiality, both are dubious in terms of their accuracy and precision. The ambiguous nature of their practice leaves room for misinformation and misinterpretation, which can result in material freedoms, or a lack thereof.

The social implications of such a reality have been widely discussed, with a bleak warning about the erosion of privacy in the “transparent society” due to the technological efficiency of low-cost surveillance. David Brin (1998) argues that despite the loss of true privacy, we will still have the choice between one that offers the illusion of privacy by restricting the power of surveillance to authorities, or one that destroys that illusion by offering everyone access (including the ability to observe the observers). He favours an egalitarian access to surveillance, with the public having the same access as those in power, because corrupt abuses of power would prevail without accountability and transparency.

The prevalence of the agora over the pnyx has gone one step further with not only state sponsorship of private accounting practices, but with the re-internalisation of private sector norms of business conduct (Power 1995:298). This, to my mind, has exacerbated another shift in society - the shift from citizen to consumer.

The dominance of the economy in our daily life may help us understand how people learn to consume the new. In the past, economic inequality furnished the economic energy for politics. Strains on the economic system during the age of social capitalism produced “ressentiment” (Sennett 2006:132). This cluster of emotions principally described the belief that ordinary people who have played by the rules have not been dealt with fairly. This intense social emotion tended to stray from its economic origins to produce resentment of old orders of patronage and privilege or

minorities, such as Jews or immigrants – who seem to ‘steal’ the social prizes to which they had no right. Under the sway of resentment, religion and patriotism were weapons of revenge.

Today, inequality is being reconfigured in terms of work experience, where symbolic analysts (Reich 1994) are at the top. The middle is fearful of being displaced, sidelined or under-used, while the bottom comprises two distinct groups. The first is the traditional working class, who was once protected by the unions and now have less room to manoeuvre. The second is the immigrant class who find themselves room in a fluid and fragmented economy (Glyn 2006:102). Resentment may explain why so many workers moved from the centre left to the far right, translating material stress into cultural symbols.

However, Sennett (2006) argues that *ressentiment* is too narrow a way to relate economics and politics, because material insecurity prompts more than ways to demonise those who herald unsettling change. So, instead of thinking of citizens as an angry voter, we might consider the citizen a consumer of politics faced with pressures to buy.

Walmart and Carrefour are examples of the megastore that draw upon the use of advanced technology, fast-developing Chinese manufacturing practices, concentrated power at the top, disempowered unions, and have dealt with their mass workforce as if they were provisional and temporary labourers (McKinsey 2004). Consumers experience mirror centralisation of command, where everything is available instantly.

Sales personnel are stripped out of the consumption process as there is no need for mediation or persuasion, which as Saul (1997:79) points out, is somewhat similar to other cutting-edge bureaucracies that have stripped out their middle interpretative

layer of staff, including government departments after public sector reforms in the 1980s and 1990s.

The question then becomes whether people shop for politicians the way they shop at megastores? Has the centralised grip of political organisations become greater at the expense of local and mediating party politics? If political leaders become instantly recognisable brands, like car models, then the crux of politics becomes marketing, which is not good for political life. The very idea of democracy requires mediation and face-to-face discussion. It requires deliberation rather than packaging. While, the political version of the megastore may repress local democracy, it may stimulate the imagination for change.

Imagination is strongest in anticipation, but it grows ever weaker through use. The new economy strengthens this kind of ‘self-consuming passion’ (Sennett 2006:136) both in shopping malls and in politics. During much of the 20th century, consumption was considered to be driven by the motor of fashion and planned obsolescence.

However, both of those views assumed that the consumer was passive. The new institutions (Glyn 2006:133) have changed their work bureaucracies from being a *possession* with fixed content, to a *position* in a constantly changing network, so that work identities and institutions are continually reinvented, so they would never get used up. Hence, consumption in the 21st century thrives on the self-consuming passion.

This self-consuming passion is stimulated through active engagement in imaging (where the consumer perceives the gold-plating instead of the production-platform as the object’s real value) and arousal by potency. Branding deploys platform

construction on a global scale to produce the common chassis, and gold-plating to produce the small material differences, which are inflated in value.

Potency is when the consumer's desires become mobilized even though they are divorced from practice. For example, how many song titles can you possibly remember from your collection of 10,000 songs on your 30GB iPod? Similarly, we buy computer software and hardware that are beyond our utilitarian needs, but it is the 'dramatisation of their potential' (Sennett 2006:151) that leads us to desire them even if we cannot fully utilise them.

Sennett (2006:157) poses the question: "aren't people set free when they transcend in spirit what they directly know, use or need?" To him, the self-consuming passion might be just another name for liberty.

Arendt (1998:231) concurs that in a truly democratic forum, every citizen should have the right to think aloud and debate with others, no matter their expertise. Furthermore, the test of utility and practicality should not rule either, as this test emphasizes what is, rather, than what might be. Her argument is similar in a sense, to Sennett's view of the consuming passion, as a precondition for freedom and democracy.

The consuming passion brings focus on what is really missing in the hope for progressive change: an understanding of the profoundly 'enervating' role that illusion plays in modern society. The illusion (Brin 1998) of giving the power of surveillance to either the authorities or everyone is perplexing, because we do not limit what we want from surveillance to what we can actually do with it.

Similarly, we do not limit what we want from the illusion of privacy or accountability, to what we can actually do with them. Angell (1995:331) observes that it is rather difficult to establish what exactly constitutes an infringement of privacy, let alone how it constitutes an attack on freedom.

These confounding illusions may actually contribute to our own passivity. Sennett (2006:161) identifies five ways in which the consumer-citizen is turned away from progressive politics (the belief that citizens are bound together in a common project, such as privacy, limiting surveillance, accountability, and so on) and toward this more passive state:

1. Consensus politics, where we are offered political platforms which resemble product platforms (generally, they tend to be business friendly, socially inclusive and immigrant ambivalent). For example, wider surveillance powers of immigrants from Muslim countries may be a shared political platform for either side of the political spectrum. After all, either side of the spectrum are immigrant ambivalent, especially from the Muslim world after September 11th, 2001. Similarly 'rationalised' reasons, have subjected minorities of the Jewish or Christian faith in Muslim countries to wider surveillance powers, despite being born and bred in those countries. Unfortunately, many minority groups in the world are subject to such surveillance prejudice: Baha'i communities in Iran, Romani gypsies in France, Chinese communities in Indonesia, people with HIV/AIDS in China, Africans in Italy and so on.
2. Gold-plated differences, where a re-contextualisation of the fact may take place. For example, making Muslims in their totality a *terror* threat, despite the fact that the majority are law-abiding citizens. This may justify the expansion of

surveillance powers given the increased presence of Muslims in our society. The same can be said of the Jewish communities in Tunisia and Morocco, the Bahá'í communities in Iran, and the Shi'ite Muslim communities in Arab countries, who are predominantly Sunni Muslim.

3. We are often asked to discount the “twisted timber of humanity”, a phrase coined by Kant. For example, surveillance technology discounts our individual complexity, where Muslims from the Middle East may speak Arabic but the dialects are quite different within each country, let alone between the different countries. Imagine the number of computerised Arabic interpreters to decipher taped phone conversations.
4. We tend to credit more user-friendly politics, where consumer-citizens disengage from difficult issues by comparison to politics, which nurtures craftsmen-citizens who would like to understand how things work, and engage with difficult and resistant issues. Democracy requires citizens to be willing to make an effort to find out how the world around them works. The consumer-citizen tends to disengage from difficult and complex issues, such as privacy and transparency. Additionally, technological overload prompts disengagement, so one can imagine the cognitive impact of the technological jungle of surveillance.
5. We continually accept new political products on offer. For example, modelling reform on advanced business practices breeds’ anxiety (psychoanalysts call it ontological insecurity: fear of what will happen even if no disaster looms. It is also called: *free-floating* to indicate that someone keeps worrying even if s/he has nothing to fear in a specific situation). Another example is the anti-terror

warning around cities such as with the slogan: “*if you see something, say something*”, which is plastered around train stations and billboards.

This shift in our role from an engaging citizen to a passive consumer-citizen is a product of the convergence of both the economic and political space, with the former dominating the latter. This brings into question the legitimacy of a democratic process that seems to be driven by cultural forms which celebrate personal change and indifference, but not collective progress. The question, then, should we be at all concerned about this malaise of the consumer-citizen phenomenon?

5.4.3 The Analytics of Complexity

The convergence of both the economic and political space has brought another malaise to bear on society and the democratic process, namely; the corporatisation of the public service (Saul 1997:76). There has been a calculated assault on the independence of public servants, which has hindered any meaningful analysis on policy, regardless of whether it is contrary to the policy line of the government of the day, or not.

It is instructive to reflect on the Thatcher years of public reform to understand the machinations of public policy ‘reform’. David Willetts (1987:445) provides an illuminating account of such change, while he was a member of the Prime Minister’s Policy Unit. Mrs Thatcher disbanded the *fifteen* members of the Central Policy Review Staff (CPRS) and replaced them with *eight* members who comprised the Prime Minister’s Policy Unit in 1983.

Unlike the CPRS, the Policy Unit did not undertake long-term or large-scale studies, but rather offered policy advice on ‘current’ matters of concern, with deadlines

ranging from an hour to few days. More importantly, the advice did not go to Cabinet for rebuttal or debate by departmental ministers. It was for Thatcher's eyes and ears only, given that the Prime Minister's Policy Unit was not a Cabinet Office body serving all of Cabinet, like the CPRS.

The composition of the Policy Unit in 1986 was at eight or nine, with at least three members on secondment (Willett 1987:546) from large private sector organisations, such as McKinsey's, Consolidated Gold Fields and Shell, advising on their respective specialisations (and possibly their corporations' interests). A fourth was a retired senior partner from Coopers & Lybrand. The rest were civil servants and a university professor.

Rosenhead (1995:309) argues that Thatcher's Policy Unit "did not, could not, originate the flood of radical but untested policy ideas" which reached Cabinet, as many emerged from right-wing think-tanks, and the Policy Unit was simply the messenger. Rosenhead (1995:311) explains the 'robust simplicity' by which those think-tanks justified their policies.

It starts with strong value assertions and then proceeds directly to detailed prescriptions. Argumentation is intuitive (with a 'public choice' flavour), and proposals are not costed or quantified. There is appeal at most to anecdotal evidence, but certainly not to research.

One very 'unpopular' policy, which was announced in a glare of publicity, and without advanced notice to the relevant departments, was the Poll Tax.

The preceding account of events seems hauntingly familiar, not just in federal or state governments in Australia, but wherever economic rationalism is dominating public policy discussion. There has been a catastrophic retreat from reason in public

affairs, in which a quasi-mystical ideology attributes magical powers to the markets (Saul 1997:80; Stiglitz 2002:138; Glyn 2006:77).

Since the collapse of the Soviet Union, this ideology has predominated, being the key contributor to the establishment of a hegemonic hold in the form of neo-liberal regimes in the UK, USA and Australia, which manifests a centrist political platform. It is this context, which has enabled economic development friendly to globalisation, flexibility and meritocracy (Sennett 2006:163; Stiglitz 2002:53).

Rosenhead (1995:313) is amazed that markets are thought to be correcting government malfunctions, rather than the other way around. No matter that, in so many instances of infrastructure privatisation, such as electricity and water, the most convoluted socio-economic reengineering can only produce

a market, which is artificial, rigged, imperfect and imperfectable.

For the uncritical mind that fervently pursues intelligent design, the market is seen as a ‘pseudo-natural’ phenomenon, which substitutes for the exercise of collective rational choice. The elevation of the market to almost divine, omnipotent, omniscient status has been at the expense of rational choice based on analysis. It is of no surprise then, that hyper debate concerning public policy issues such as surveillance is taking on similar omniscient status, inflating surveillance into überveillance (Michael & Michael 2006:361).

Setting public policy is a complicated business. Porter (1987:87) outlines the difficulty facing the US President and others in positions of comparable authority:

They are expected to make a large number of decisions about issues on which they themselves are not expert, and therefore they are going to rely on the other

people for information, for analysis, for structuring alternatives and for an assessment of the advantages and disadvantages associated with the alternatives. Many of the issues coming at them, and on which they are expected to decide, are interrelated, in the senses that what they decide on issue A today will affect the choices, and the relative attractiveness of those choices, on issue B, C and D that they are going to be considering two weeks, three months or a year from now.

Rosenhead (1995:316) poses the following rhetorical question: how can diversely interested parties, many of them largely excluded from influence, become active and effective advocates in public debate when analysis-free policy is on offer? He believes that in order to maintain power over one's life in such an information-rich and complex world, data and information are no longer sufficient.

Instead, what is needed is 'analytic capability' (Rosenhead 1995:308) in order to help us shape, discard and manipulate information and thereby understand our situation. With this capability, we can devise an appropriate strategy, and convincingly advance our own *problematique*, or garner support for our causes, or undermine and/or demolish competing propositions.

For Rosenhead (1995:319), freedom is not just an individual matter. The complexity of issues in our world, no longer merely affect social life details but increasingly, its structures and opportunities. Individualised responses are ineffectual, for it is only collective responses backed by critical analysis, which can effectively confront the totalising discourse of the powerful, and force its own reality on the public agenda.

Thus far, I have outlined three challenges facing the transparent society, when discussing some of the issues associated with public policy issues. First, the unholy union between the economic and political space is problematic because the

unintended effect of this alliance is often political oversight, which sanctions the interests of the economic space to the detriment of the political space.

Secondly, the evolution of the *passive consumer-citizen* shaped by their experience of the new institutional structures. The shift in this role is a direct product of the convergence between the economic and political spaces, with the former dominating the latter. Surveillance (including accounting) technologies, among other issues of public concern, chiefly used for their perceived *economic* efficiency (accounting controls), are nevertheless questionable in terms of their accuracy and precision, given their ambiguous practice within society. This anomaly leaves room for misinformation and misinterpretation.

Thirdly, the corporatisation of government and analysis-free policy is yet another malaise due to the economic-political convergence. In order to be involved in the democratic process, one needs to be able to *analyse* the information that may affect one's own interests. Obviously, this is quite problematic in an information-rich society, given the information quagmire that we have to sift through. Hence, the right to information is by itself, of little use for any effective involvement in the democratic process.

The discussion of these challenges brings two issues to the fore, namely, the right to analysis, and the passive citizen-consumer. Having the right to information about our privacy or the lack thereof, for example, is not sufficient for us to be involved in any discussion concerning its potential use. Having the right to analysis enables us to do so, but we must be *willing to seek that right*. Today, we have access to better analytical tools through the Internet, but the paradox of our time is whether the

passive citizen-consumer will be ‘bothered’ enough to seek the right to analysis, so as to be able to actively engage in the democratic process.

5.5 “Mauvais” Capitalism and its Shock Doctrine

The unholy alliance between the Agora (economic or market space) and the Pnyx (political space) has seen the rise of a neoconservative doctrine that espouses the exploitative machinations of an ‘*economic shock therapy*’ credo, with the promise of more freedom and democracy (Mickhail 2007:177).

Milton Friedman, its chief architect, understood very well that the public’s disorientation following massive collective shocks, such as wars, terrorist attacks or natural disasters, can be used to achieve control by imposing economic shock therapy, to affect real change from the failed social welfare doctrine.

Naomi Klein (2007:7) argues that it was Milton Friedman who introduced economic shock therapy to Chile when he advised General Augusto Pinochet on economic reforms in 1973 following the aftermath of his violent coup, and when the country was reeling from hyperinflation.

The profiteering bubble had an 83% increase in their income due to the huge 50% cut in public spending, and transferring it over to them. The exploding debts left 45% of the population in poverty; however, this was accompanied by aggressive nationalism that justified Pinochet’s bottomless spending on security.

Friedman believed that “the speed, suddenness and scope of the economic shifts would provoke psychological reactions in the public that facilitate the adjustment” to such necessary reforms. Meanwhile, anyone who did not adjust was met with the full force of the security apparatus, with mass incarcerations (approximately 80,000)

and torture (approximately 50,000) – let alone the ones that simply disappeared (approximately 70,000).

In 1980, Ronald Reagan forged ahead with Friedman's economic shock doctrine in reforming the U.S. government and liberalising the financial markets. At the end of his second term, and according to the Federal Reserve, in 1990 the richest 1% owned 40% of its wealth and the richest 20% owned 80% of America - the worst distribution level of wealth inequality in U.S. history, since the roaring 1920s.

Sarah Bloom Raskin, from the US Federal Reserve board, pointed out recently that this inequitable distribution of wealth from the Reagan years seemed to continue to our present day. She claimed that the distribution of wealth inequality is far worse than the disparity in incomes, with the top 20% of the population owning 72% of the nation's wealth, while the bottom 20% barely owns 3% of the wealth. (Lenzner 2013).

In the UK, Thatcher was quick to capitalise on the surge in her popularity following the Falklands war victory in 1982. She privatized gas, steel, airlines, and telecommunications, while declaring an open war on the unions, which resulted in tripling unemployment and a hundred per cent increase in the number of the poor.

In Russia, Yeltsin's ambitious "shock therapy" of privatisation was too sudden for the country to adapt, especially when Western-style banking or corporate rules did not exist. Kampfner (2007) argues that, "Yeltsin did it partly because Russia was broke, partly because he was intoxicated by the end of the Cold War and gullible towards many of the Western economic advisers who had invaded the Kremlin .." In 1993, he sent in the tanks to abolish a parliament that was in defiance of his extreme

economic reform. The Parliament burned down with hundreds killed, the opposition arrested, 72 million impoverished and 17 new billionaires created.

The terrorist attacks on the USA in 2001, prompted a privatised war on terror with US spy agencies outsourcing between 50 to 60 percent of their budgets to private contractors. But, it was not until 2003, that the Friedman ideology became official U.S. policy in Iraq, thirty years after it was first introduced in Chile – with the largest privatisation of a war in modern history. The common themes of the ideology were fully enacted: the Iraqi ‘government’ was forced to privatise 200 corporations, there were mass incarcerations and the Abou Gharib torture chambers, hundreds of thousands were killed and 4 million people were displaced.

The Tsunami disaster in 2004 was one natural disaster that truly galvanised the compassion of the world, but this did not stop the profiteering entrepreneurs in Sri Lanka, where 35,000 died and one million people were displaced, from quickly claiming the coastline and forbidding the Sri Lankan government to rebuild the fishing villages by the sea.

Unfortunately, there are so many more examples of this fundamentalist model of capitalism, which had found fertile ground in the South American continent, the Middle East and some other parts of the world – where the same corrupt scenario is repeated over and over again.

The real-world laboratories of Stalin’s gulags and Mao’s re-education camps forever taint authoritarian Communism. But is not the socio-economic experimentation of the neoconservative crusaders to liberate the global financial markets of a similar ilk? Klein (2007:20) poses the question: why is it that the violent coups and wars to install pro-corporate regimes have never been treated as capitalist crimes?

5.6 Demo(Klepto)cracy, Militarism and Imperialism

Security has become a central focus of social, economic and political initiatives. The OECD (2008), for example, launched an *'in-country security system reform consultations'* in 2007 to ensure that the benefits from development assistance would not be reversed by the outbreak of violent conflict. This encourages the development of a *'culture of security'* mindset, to respond to the threats and vulnerabilities of information and communication technologies.

The security frenzy clutching our world raises age-old questions regarding *dissent, resistance and autonomy* – especially, that security *per se* is not bound by ideology: Communist China, Al-Qaeda and the U.S.A. are all alike in maintaining strict security arrangements. The French theorist Paul Virilio (1977:47) recognised this frenzied obsession with security when he coined the term “Dromology” from “Dromos” the Greek word to race, to describe how speed restructures society in favour of what moves fast to dominate, that which is slower

.. whoever controls the territory possesses it. Possession of territory is not primarily about laws and contracts, but first and foremost a matter of movement and circulation ..

He argues that a dromological state of crisis results in a culture obsessed with security and speed; on who can protect themselves best and fastest. In essence, a technological arms race. This presented global capital with a new opportunity, namely investment in technological production of weapons, security tools and security provision.

The composite experiences of security in a modern society are not only institutional, but also a personal subjective experience. The complexity of personal feelings of

fear and safety intensifies with anti-terror security warnings, such as those plastered around train stations and billboards. In Sydney in recent times; “if you see something, say something”. Naturally, this breeds anxiety or ontological insecurity (Sennett 2006:161). It is the fear of what will happen even if no disaster looms. This is also referred to as ‘free-floating’, to indicate that someone keeps worrying even if s/he has nothing to fear in a specific situation.

Ulrich Beck (1992:129) recognised that ontological insecurity is due to our heightened awareness of risk in society, and divided modern civilization into pre-industrial, industrial, and a "global risk society", suggesting that today we feel powerless to minimise those risks.

Lasch (1984:23) described the mental state that we adopt to cope with this ‘insecure’ world, as a 'survivalist mentality'. In a world hijacked by fear and impending catastrophe, individual survival requires safety, thus one becomes risk averse, which ingrains passivity as a desired state of existence, and dissent becomes a security concern.

David Garland (2001:139) predicts a future where our control, through a surveillance culture becomes an ‘iron cage’ for us all. The result is a dark age of fear that serves the informational ‘*datalords*’ controlling the security zones. He argues that in the USA, the Global Positioning System (GPS) technology enabled the possibility of ‘virtual prisons’, where more than 2 million people were incarcerated in mostly privatised prisons and two executions took place every week. Europe’s prison population is growing faster than ever, as are the numbers of surveillance cameras on city streets, such as the quarter of a million surveillance cameras in London alone.

Surveillance technology, commonly perceived in terms of privacy has a more sinister side, in terms of the discrimination resultant from socio-economic and political ‘sorting and exclusion’. In the past, Orwellian and Foucauldian perspectives provided a largely centralized understanding of surveillance, but new technologies and the networked social organisation, has given rise to a loose and flowing *rhizomatic* set of processes, rather than a centrally controlled and coordinated system (Deleuze et al. 1980:31). The controlling centre, in this networked decentralized system, has become an Occult, which “is not occupied by a known leader or a clear ideology” (Debord 1997:54).

Figure 5.3 Modern Pyramid of the Capitalist System

(Source: unknown)

The question is whether surveillance and the evolving hegemony of security technology is a direct result of the neoliberalisation of markets? The neoliberal prescriptions engender strict monitoring and control of resources in order to *optimise* resource allocation in society, and to *protect* the profiteering bubble from the

disenfranchised populace that has been subjugated to inequity and unfair distribution of wealth.

First, the optimisation of resource allocation will inevitably polarise the world along a profiteering bubble and a *controlled* pacified populace, under the guise of, say, the spectacle of global economic crises and economic austerity programs. Crises are essential to the very existence of the Capitalist system, because they provide it with the ethical meaning, such as that of the perpetual idea of “scarcity of ‘economic’ resources”. The *systematic alternation* between the two states of shortage and abundance makes neither retain a reference, nor therefore an antagonistic reality (dissent), while the system is indifferent to their deployment, in so far as preserving its own (Capitalist) existence.

Secondly, the monitoring of resource allocation (‘scarcity-abundance limits’ on say food, water and energy), and the control of consumption (limiting the consumption of food, water and energy through resource price manipulation?) will take place at an individual level, not only to promote productivity and efficiency, but to also prompt compliance in the individual (especially the dissenting disenfranchised populace) through economic deterrence.

One must then ask if the evolving hegemony of security technology is also due to a *networked* security-industrial complex on a global scale, which threatens to polarise the world along a profiteering bubble and a controlled pacified populace, under the guise of an international security threat such as the war on terror. If so, then are we witnessing the rise of a new world order propelled by the polarising effect of militarising information and telecommunication technologies?

If history progresses at the speed of its weapon systems, then could this online arms race spell the end of freedom? Distance, that once sheltered us from the invasions of the barbarian hordes of afar, is no longer a deterrent with new technologies. The localized physical space that once protected local jobs, for example, ceases to protect workers from the technologically efficient ‘armies’ that are driven by ideologies, economics and speed facilitated by technological innovation. Swift victory, or efficiency, is ensured if you deploy resources rapidly: money, skill, ideology or weapons in a world that may be described as MetaCapitalism.

5.7 Chapter Summary

This chapter outlined three challenges facing our ontologically insecure society, when discussing some of the issues associated with surveillance and accounting technologies. First, the deifying of scientific faith is problematic because the *unintended effect* of this misplaced faith in technology is disengagement from trying to understand the effect of the technology on our lives. This often results in the pacified submission to the divine ability of the scientific faithful.

Secondly, the exploitative machinations of the neoconservative ‘shock economic therapy’ credo, purports more freedom and democracy. They *imposed* their dogma globally on a disoriented public, following massive collective shocks, to affect real change from the failed social welfare doctrine. The resulting profiteering bubble, due to the huge transfers of public wealth to a few private hands was not only accompanied by exploding debt, but also aggressive nationalism which justified bottomless spending on security. The threat of a disenfranchised populace left outside the ‘profiteering bubble’ has prompted the need for aggressive surveillance.

Thirdly, an evolving global security culture has intensified our ontological insecurities. To cope with this 'insecure' world, we adopt a 'survivalist mentality' seeking safety, which implicitly ingrains passivity. In contrast to this desired state of existence (passivity), dissent, resistance and autonomy have become security concerns that have warranted surveillance and control on an unprecedented scale.

Finally, the discussion of these challenges brings two points to the fore: (a) a new economy of fear that fuels an emerging security culture, and (b) an intensified ontological insecurity that fuels the need for more security.

The new global economy (Glyn 2006:133) with its dynamic change from fixed geopolitical conflicts to a constantly changing *war on terror*, ensures that our demand for security is continually reinvented, where the supply of fear and security are continually changing, and thus self-perpetuating and inexhaustible.

This paradox of a new global economy that is powered by the neoliberal prescriptions of MetaCapitalism ensures that the supply of the security technology, or any other technology for that matter, can never satisfy the 'self-consuming passion' for its demand. Hence, Capitalism will forever be preserved in our existence.

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter offers a summary of the analytical critique of the MetaCapitalism phenomenon as a device of neoliberalism, with its blunt instruments of deregulation, agency and self-regulation. It will highlight the purpose of the research, its findings, implications and its limitations.

6.2 General Overview

The new realities of the interconnected global economy have increased uncertainties, and those uncertainties are a result of the neoliberal salvation offered by MetaCapitalism.

The hyped promises of MetaCapitalism by PricewaterhouseCoopers Global, as an innovative corporate strategy for the 21st century, which aims to capitalise on the e-business revolution by shaving off all corporate inefficiencies, such as unnecessary resources, running costs and expenditures, and their overall financing commitments – may have been rewarded by the financial markets in the short-term, but much to the detriment of those corporations in the long-term.

A number of studies have examined the performance of different industries and markets utilising MetaCapitalism strategies, and have reached similar conclusions: short-term success at the cost of long-term decline for some corporations, and a complete failure for others.

The loss to the MetaCapitalised corporations have been such that losses to their market capitalizations are well above the industry/market averages, and they are more susceptible to increased financial distress and corporate failure.

MetaCapitalism, then, has presented us with a troubling question that begs an answer and is at the heart of this thesis is: have the MetaCapitalism changes been so extreme to the overall structure of corporations, that it has made them unstable and amplified their inherent risks (volatility) and threatened their survival in the financial markets, especially during the 2008 global financial crisis?

To answer this question, the research articulated the complexities associated with the paradox of methodological choice and construction, and raised concerns about our ontological predilections, which confound the objective-subjective divide. The objective-subjective divide is central to resource allocation tensions, which concern the notional measurement and determination of “scarcity” and “abundance” of resources.

The dialectical tensions between scarcity and abundance allow the economy to produce itself. In turn, the mythical operation of the economy allows capitalism to reproduce itself. In essence, then, the transactional exchange on the stock market is all that is required for capitalism to reproduce itself, which is why business reports often discuss the reproduction, taking place on the stock market, as if it is the ONLY reflection of the economy.

The stock market of resources like oil and minerals offer the perfect candidates for ‘sudden’ crises or spectacles associated with the threat of a conflict in the Middle East, to energize the imagination with more anticipation. The shortage in oil illusion, for example, comes from a naïve faith in a reality of shortage and a reality of abundance, which reinforces the illusion of a real opposition between them. When, in reality, both ‘realities’ are quite simply alternatives to neo-capitalism, which

swings from a phase of shortage into not a phase of abundance, but rather, a *systematic alternation* between the two states of shortage and abundance.

It does this because neither retains a reference, nor therefore an antagonistic reality, while the system is indifferent to their deployment, in so far as preserving its own existence. This structural alternation serves only to neutralize any dialectical opposition between the shortage-abundance nexus, which leaves us feeling uncertain about the reality of the crisis.

However, the momentum, frequency and speed by which those alternations of crises or spectacles occur in the global financial markets, has made it more plausible to bring into the discussion ideas like “Society of the Spectacle”, “Dromology” and the deification of Science and Technology, as a platform to examine the techno-hyped transformations proposed by the MetaCapitalism model.

The discussion then sought to consider big data and its correlational analytical approaches, which has successfully been used to solve complex problems from a wide range of disciplines. The aim was to see if big data correlational approaches compared to causation, may be able to offer an alternative analytical solution to examining the MetaCapitalism phenomenon, given the extensive datasets (with comprehensive financials, market and regulatory information) that were used in this thesis.

The contemporary nature of MetaCapitalism lent itself to an exploratory approach in its study, so as to clarify and define its problematic nature. Hence, my aim was to develop an exploratory evaluating methodology that can provide a reasoned and logical critique of the subjective-objective complexities of the MetaCapitalism model assumptions.

There are five stages that comprise the measurement and critical evaluation in the proposed MetaCapitalism Performance Evaluation methodology: sample profile analysis, MetaCapitalism analysis, market analysis, ratios analysis and final analysis.

Those five stages were applied to the top 400 global banks, and the results were used to contextualize the findings within their neoliberal prescriptions, so as to reconcile the tensions between the ideological promises of MetaCapitalism and the results on the ground. There were a number of key findings in each of the five analytical stages of the MetaCapitalism Performance Evaluation Methodology.

Stage One

The Sample Profile Analysis, which is the first stage of the methodology, set the context for the analytical results by profiling the key defining characteristics of the sample selected from the BvD BankScope and OSIRIS databases. The BvD BankScope dataset, which included the financials, market and regulatory data of the top 734 global banking institutions (ranked by equity) for the years 1996 to 2009 was used in stages two to four of the methodology. As for the BvD OSIRIS dataset, which included the financials, markets and regulatory data of the 69,385 global public companies for the years 2000 to 2011 was used in the final analysis of the fifth stage of the methodology.

Key defining characteristics

- Audit firms and listing status distribution: The Big 4 firms had a monopoly over the audit of the top 400 global banks. They audited 91% of all listed banks, 96% of all delisted banks and 76% of all unlisted banks. This meant that they audited most of

the banks that were prone to higher risk and volatility, namely, delisted and unlisted banks.

- BvDep Independence Indicator: The analysis revealed that 47% of all the banks in the sample had one recorded shareholder with a direct ownership of over 50 percent, while the Big 4 firms audited 85% of all the banks that were in that category. In grouping banks that had four or less owners together, then 63% of the global top 400 banks would fall into that category with the Big 4 firms auditing 84% of that grouping. The large majority from that grouping were bailed out during the global financial crisis 2008. This means that ‘monopoly capitalism’ did not only apply to the Big 4 firms with their monopoly of the audit market, but also applied to their clients. This raises the question of why global governments socialized the losses of those monopoly capitalists.

- Accounting Standards: The Big 4 firms audited 90% of all the banks that adopted IFRS, 75% of all the banks that adopted local GAAP and 100% of all the banks that adopted regulatory standards. Of all the banks that adopted IFRS standards, the Big 4 firms audited 93% of the listed banks, 100% of the delisted banks, and 85% of the unlisted banks. Of course, the Big 4 firms dominance is not only limited to auditing the majority of the global banks, but also in influencing IFRS standards, and in particular; fair value accounting. The 2008 global financial crisis is a case in point, where it highlighted the dysfunctional nature of fair value accounting in the recognition, measurement and disclosure of asset classes that became all of a sudden depressed in value.

- Main Exchanges: The European, North American and Asian banking institutions, had experienced higher volatility than other regions, because they were listed for

trading on a larger number of stock exchanges, trading platforms and stock indices that were mostly in Europe. Does that mean that listing on more exchanges would amplify those markets volatilities?

- Number of Employees: PricewaterhouseCoopers audited 30.7% of all *listed* banks (and 28% of all banks) across all regions, which only increased the *inherent* risk of MetaCapitalisation in those institutions. The inherent risk of MetaCapitalisation (in relation to the number of employees) is the risk that a PwC audit firm will *not see anything wrong* with any MetaCapitalism changes, such as high decapitalisation and outsourcing/offshoring changes, given that the over arching philosophy (MetaCapitalism) of the firm (PwC) is a shared value proposition among all its members.

Stage Two

The MetaCapitalism Analysis, which is the second stage of the methodology, examined whether MetaCapitalism was adopted by any of the institutions in the sample. The banks that adopted the MetaCapitalism prescriptions were assigned to Portfolio I, and the ones that did not adopt the prescriptions were assigned to Portfolio II. Both, portfolios were tested for their susceptibility to risk (beta) and volatility (price trends and equity price volatility). The Big 4 firms audited 94% of all the banks that reflected the MetaCapitalism theoretical claims over the long-term (2000-09) by comparison to the ones that did not. The results reveal that the MetaCapitalised banks, have exhibited more volatility, higher risk, and poorer performance during the 2008 global financial crisis where they claimed higher bailout funding (84%) and incurred higher market caps losses (64%).

Stage Three

The Market Analysis is the third stage of the methodology, which began by discussing the mismatch in the financial markets between reality and its financial representation. It proceeded with deconstructing the validity of the criticisms of the fair-value ideal, and examined the legitimacy of the criticisms about its contribution to higher volatility levels. Then, it critiqued the dysfunctional self-regulatory role of Credit Ratings Agencies in intensifying volatility in the market with their ratings of banking institutions that did not correspond at all to the risk and high volatility levels of those institutions. For example, higher volatility levels indicate higher risk in the stocks, which surprisingly was not reflected in the credit ratings of 90.15% of the Listed group of banks that were audited by Big 4 audit firms and which were assigned a “Prime and High grade investments and Medium grade investments” credit ratings.

Credit Ratings Agencies may be somewhat ‘excused’ for not matching the reality in the markets in the short-term, given their stipulated role of being publishers of financial information and the assumption that they may not provide ‘live’ information updates and ratings assessments. However, on examining the average and cumulative price trends of the same sample over a 3-year period (2006-09), it was rather obvious that there was still a consistent mismatch between the credit ratings of all the Listed companies audited by the Big 4 audit firms, and their negative price trend. The question is how did they miss such a mismatch, or were they using some other indicator(s)?

The two portfolios I and II again exhibited similar results to stage two analysis when tested for their susceptibility to risk (beta) and volatility (price trends and equity

price volatility) over the short-term (2006-09) and the long-term (1996-09). The findings again shown that MetaCapitalised institutions (Portfolio I) were more susceptible to higher risk and volatility levels in the short and long terms by comparison to institutions that did not reflect MetaCapitalism.

Stage Four

The Ratios Analysis is the fourth stage of the methodology, which attempted to determine whether the more traditional forms of financial analysis, like ratios analysis were able to signal the presence of a problem or not. The different ratios were correlated to market risk (beta) and volatility (price trends and equity price volatility). The conventional ratio analysis also confirmed that the majority of the banks audited by Big 4 audit firms were far more MetaCapitalised and highly volatile than banks audited by non-Big 4 audit firms.

All market indicators exhibited adverse correlational levels of well above 50 per cent for all ratio categories like asset quality, capital, operations, liquidity and leverage ratios of the banks audited by the Big 4 audit firms. The adverse correlational levels were quite minimal for banks audited by non-Big 4 audit firms. For example, 86% of the banks that were audited by a Big 4 audit firm had a negative correlation between their Price Trends during 2006-09 and changes in their ratios during the same period (2006-09), by comparison to 14% of the banks that were audited by non-Big 4 firms.

Stage Five

The Final Analysis is the fifth stage of analysis, which aimed to identify who may be to blame for corporate failure. The findings from the first dataset (734 banks) sample

had shown that MetaCapitalised institutions (Portfolio I) audited by one of the Big 4 firms were more susceptible to higher risk and volatility levels in the short and long terms by comparison to institutions that were audited by a Non-Big 4 firm. The following result from the second dataset (69,385 companies) is inescapable: the relative riskiness (measured by the standard deviation) of Portfolio I of delisted companies that received an Unqualified audit opinion from one of the Big 4 firms was markedly higher in all three asset-based and market-based measures (Markets Caps, P/L before Tax and Net Income) by comparison to Portfolio II of delisted companies that received an unqualified audit opinion from one of the Non-Big 4 firms.

Markets are generally the best form of resources allocation, and market participants, such as investors, lenders, insurance companies, rating agencies, stock exchanges, regulators, and many others *rely considerably*, if not entirely, on the auditors endorsements (blessings) of the financial statements, where they attest in their audit reports as to the true and fair ‘going-concern’ valuations of those resources that comprise companies. It is not unreasonable, then, to assign some - *if not most* - of the blame to the Big 4 auditors, when their audited clients exhibited signs of “going-concern” valuations distress or failure.

The Hegemony of the Efficiency Doctrine

The analytical results of the MetaCapitalism Performance Evaluation Methodology linking corporate structural changes to market performance, linking auditors reports to credit rating agencies .. and findings signifying high/low risk, high/low volatility and so forth .. are all spectacles associated with the threat of efficiency (MetaCapitalisation) and inefficiency. The dialectical tensions between distress and

relief, failure and success, higher and lower volatility levels, higher and lower market caps losses and higher and lower bailouts .. simply allow the economy to produce itself. In turn, the mythical operation of the economy allows capitalism to reproduce itself. The results and findings certainly energise the imagination with more anticipation .. and anticipation enervates our ontological insecurity. There are three challenges facing our ontologically insecure society.

First, the deifying of scientific faith is problematic because the *unintended effect* of this misplaced faith in technology is disengagement from trying to understand the effect of the technology on our lives. This often results in the pacified submission to the divine ability of the scientific faithful, in much the same way we submit to the notions of risk and volatility.

Secondly, the exploitative machinations of the neoconservative ‘shock economic therapy’ credo, purports more freedom and democracy. They *imposed* their dogma globally on a disoriented public, following massive collective shocks, to affect real change from the failed social welfare doctrine.

The resulting profiteering bubble, due to the huge transfers of public wealth to a few private hands was not only accompanied by exploding debt, but also aggressive nationalism which justified bottomless spending on security. The threat of a disenfranchised populace left outside the ‘profiteering bubble’ has prompted the need for aggressive surveillance.

Thirdly, an evolving global security culture has intensified our ontological insecurities. To cope with this ‘insecure’ world, we adopt a 'survivalist mentality' seeking safety, which implicitly ingrains passivity. In contrast to this desired state of

existence (passivity), dissent, resistance and autonomy have become security concerns that have warranted surveillance and control on an unprecedented scale.

Finally, the discussion of these challenges brings two points to the fore: (a) a new economy of fear that fuels an emerging security culture, and (b) an intensified ontological insecurity that fuels the need for more security. The new global economy (Glyn 2006:133) with its dynamic change from fixed geopolitical conflicts to a constantly changing *war on terror*, ensures that our demand for security is continually reinvented, where the supply of fear and security are continually changing, and thus self-perpetuating and inexhaustible.

This paradox of a new global economy that is powered by the neoliberal prescriptions of MetaCapitalism ensures that the supply of the security technology, or any other technology for that matter, can never satisfy the ‘self-consuming passion’ for its demand. Hence, Capitalism will forever be preserved in our existence.

6.3 Research Summary

6.3.1 Purpose

This thesis is an attempt to critically unveil the fallacy lurking beneath the neoliberal prescriptions of MetaCapitalism such that the deregulation, agency and self-regulation of markets would result in efficiency and untold wealth for corporations and society.

The spectacle of neoliberal *crises*, such as the enforced privatisation of public resources and mass-layoffs, and the speed by which these crises overwhelm their

observers to disorient them, and disconnect them from the powers that control their lives – is worthy of consideration when examining the MetaCapitalism phenomenon.

The illusion of crises and the speed by which they appear and disappear has become so fundamental to the very existence of the new Capitalist system, which is rooted in technological innovation and corporate power.

This necessitated a new research approach that would improve our practical knowledge of corporate performance, and to help provide an analytical underpinning for why society and its institutions, both public and private, should be motivated by long-term aspirations, and not just by the fleeting short-term instantaneous gratifications.

Critical accounting research is a prime contender to examine ideas like that of MetaCapitalism, but it has to engage practitioners using their own analytical language of ‘numbers’, even if those ‘numbers’ are ideologically undesirable and imprecise.

In this thesis, an exploratory critical analytical methodological approach was developed, so as to define MetaCapitalism’s accounting parameters, examine the long-term implications of its efficiency claims for banking institutions, its impact on, and reaction to the financial markets, and finally to establish who is to blame when institutions underperform or fail with plausible provability.

The research sought to answer four pertinent questions to the examination of the MetaCapitalism phenomenon posed by this thesis:

Figure 6.1 MetaCapitalism Research Questions Decision Tree

(Source: author's analysis)

1. How widely adopted were the MetaCapitalist prescriptions?
2. Did the MetaCapitalist adopters experience more volatility by comparison to the ones that did not adopt the MetaCapitalist prescriptions?
3. Did the MetaCapitalist adopters outperform the ones that did not adopt the MetaCapitalist prescriptions?
4. Who is to blame, if any, for the underperformance of the MetaCapitalist adopters?

6.3.2 Findings

The main analytical findings are chapter specific and were summarized within the respective analytical chapters: Chapter 4 Results and Discussion. This section will

provide a synthesis of the analytical findings to answer the thesis's four research questions:

6.3.2.1 How widely adopted were the MetaCapitalist prescriptions?

Most, if not all, banks in the sample applied the MetaCapitalist prescriptions: of innovation, outsourcing and decapitalisation to their capital structures in varying degrees. *Half of the sample reflected the MetaCapitalist theoretical claims* as proposed by PricewaterhouseCoopers over the long-term (2000-09).

6.3.2.2 Did the MetaCapitalist adopters experience more volatility by comparison to the ones that did not adopt the MetaCapitalist prescriptions?

The MetaCapitalised banks were tested for their susceptibility to risk (beta) and volatility (price trends and equity price volatility). They had consistently exhibited a much higher risk profile and elevated volatility levels over the period of the analysis, by comparison to the banks that did not adopt the MetaCapitalist prescriptions. Table 6.1 highlights the MetaCapitalised banks volatility profile using a number of volatility indicators.

Indicator Auditor	Price Trends (%) Average 52 weeks	Price Trends (%) Average 2006-09	Price Trends (%) Average 1996-09	Equity Price Volatility (360 days) Average	Beta (360 days) for 5 reference indices Average
Big 4 firm	-189.78	-8.0	39.86	3.10	5.68
Non-Big 4 firm	-8.92	-0.43	0.09	0.23	0.64

Table 6.1 Risk and Volatility Indicators

[source: BvD Bankscope database and author's analysis]

The MetaCapitalised banks that were audited by the Big 4 firms demonstrated higher volatility levels than the banks that were audited by the non-Big 4 firms in terms of their:

- (i) **Price Trends average over the short term: -189.78** (52 weeks) and **-8.0** over the mid-term (2006-09). Note that the price trends over the long term (1996-09) reflected a positive result that was associated with the largest expansion in the capital markets in history.
- (ii) **Equity Price Volatility (360 days)** average for Big 4 firms was **3.10**, which was almost **14 times** the average for banks audited by non-Big 4 firms.
- (iii) **Beta (360 days)** average for 5 reference indices was **5.68**, which was **9 times** the average for banks audited by non-Big 4 firms.

6.3.2.3 Did the MetaCapitalist adopters outperform the ones that did not adopt the MetaCapitalist prescriptions?

Performance was examined using a number of indicators, such net income, earnings per share and resilience.

Net Income - MetaCapitalised banks may have exhibited a positive performance in terms of Net Income average change (%) over the **2006-09 period**, which was **72.11 for banks audited by the Big 4 firms** by comparison to **2.70 for banks audited by non-Big 4 firms**. Their net income performance average in the **long term (1996-09)** was **33.93 for banks audited by the Big 4 firms** while it was **2.85 for banks audited by non-Big 4 firms**. The long-term result showed a slight positive change (**5.56%**) for **banks audited by non-Big 4 firms**, and a decline (**-52.95%**) for **banks audited by Big 4 firms**.

Earnings Per Share - However, this was in stark contrast to their Earnings Per Share (EPS) average over the **2007-09 period**, where the **average EPS was -26.63 for banks audited by the Big 4 firms**, and **-2.95 for banks audited by non-Big 4 firms**.

Resilience - MetaCapitalism purported to enhance corporate performance and resilience to survive the financial markets. Then, there was a need to test if MetaCapitalised corporations performed better in weathering the global financial crisis.

The performance of the banks in the sample when the Global Financial Crisis hit the markets, in terms of loss to their market capitalisation and the bailout funding received, revealed an unexpected result for a strategy that purported ‘immortal’ survival for its adherents.

The results clearly showed that MetaCapitalist banks received **most of the bailout funding (84%)** and lost the majority share **(64%) of the market capitalisation lost** during the crisis by all the banks in the sample. This suggests that MetaCapitalist banks performed far worse in terms of performance and resilience to survive the Financial Markets.

The overall poor performance of the MetaCapitalised banks during the 2008 global financial crisis was a logical conclusion to their overall appetite for higher risks and volatility levels over the long-term and going into the 2008 global financial crisis.

6.3.2.4 Who’s to blame for the poor performance by the MetaCapitalist banks?

The **invisible hand** has long been blamed for financial instability and crises, but not anymore. It is no longer undetectable when (a) corporate MetaCapitalism changes are extreme, (b) risk and volatility levels are high as a result of those extreme MetaCapitalist changes, and (c) there were unmistakable adverse signals in the analysis of conventional ratios, which are commonly performed by auditors.

Credit Ratings Agencies

The analysis shows that credit ratings *failed to reflect the significant risks and volatility* signalled by any of the commonly used risk and volatility indicators (Price Trends [52 weeks and 3-year period], beta and Equity Price Volatility), when they assigned “**Prime and High grade investments and Medium grade investments**” **credit ratings to 90 per cent** of all the listed MetaCapitalised banks in all eight geopolitical regions that were audited by the Big 4 firms. The question is why there is such disconnect between credit ratings and reality?

International Financial Reporting Standards

The international standardisation of accounting, a proxy for a neoliberal global self-regulatory mechanisms of recognition, measurement and disclosure, rolled out in the form of IFRS rules advancing its own fair-value agenda, certainly have contributed to the 2008 crisis, but not without the machinations of the Big 4 firms.

The dominance of the **Big 4 firms was not only monopolistic in nature for auditing 90 per cent of all the banks that adopted IFRS rules**, but more so for their extensive machinations in **influencing the adoption of fair value accounting in certain jurisdictions** like the United States, which had the highest volatility levels.

This may explain why those banks struggled with higher volatility and poorer performance during the 2008 global financial crisis when the dysfunctional nature of fair value accounting in the recognition, measurement and disclosure of asset classes became all of a sudden depressed in value.

The Big 4 Audit Firms

The Big 4 audit firms, who monopolise **85 per cent of the global audit market (out of a total of 69,385 corporations)**, failed their agency role within the financial markets. So, it was not a surprise that the Big 4 firms also had a monopoly over the audit of the top 400 global banks.

They audited **91% of all listed banks, 96% of all delisted banks and 76% of all unlisted banks**. This meant that they audited most of the banks that were **prone to higher risk and volatility, namely: delisted and unlisted banks**.

The bottom line is that the Big 4 firms were the auditors who **signed-off ‘Unqualified audit (opinions) reports’** on the accounts of **86% of the bailed-out banks and 76% of the failed banks** in the top 400 Global Banks in the last financial year leading up to the Global Financial Crisis 2008.

There is no doubt that the Big 4 firms monopoly of the global audit market is central to the machinations of the global financial markets, and this is why their role was further scrutinised in this thesis with a comprehensive empirical examination of the institutional, financial and market information of nearly 70,000 publicly listed corporations.

The aim was to compare their role with the largest global banks against their role with all the other publicly listed corporations in the world, to see if they were consistent in their professional incompetence to recognise the impact of market risk and high volatility on the going-concern of their clients.

It seems that there is a serious disconnect between the (a) auditors and their ‘methods’, who evaluate the recognition, measurement and disclosure of financial

information for the consumption of financial markets, and the (b) market response to that information let alone other information throughout the financial year, in terms of increased market risk and volatility.

The auditors seem **unable to recognise the ‘reflexivity’** that exists between corporate financial information and the financial markets, which may explain in part their failure to recognise the menace of the MetaCapitalism changes in the accounts.

6.3.3 Implications

MetaCapitalism, Neoliberalism and Banking This is the first longitudinal critical analysis of the global banking industry, which examined the MetaCapitalism strategy, while offering a critique of its neoliberal prescriptions.

Big 4 Firms’ Responsibility for (some of) 2008 Global Financial Crisis It is also the first study to propose a systematic analytical methodology to examine not only performance, but also to attempt to discover who may be to blame for poor performance. This study has successfully assigned some of the blame to the auditors, and especially the Big 4 audit firms, for the spectacular failure of the largest global banks during the 2008 global financial crisis.

Big 4 Monopoly and Audit Quality The extensive empirical evidence has confirmed not only the contentious monopolistic role of the Big 4 firms on a global scale, but also the fallacy of supreme audit quality when companies are audited by one of the Big 4 firms. The Big 4 firms are not only maintaining their monopoly on the audit market, but their undue influence on the regulatory bodies and accounting profession as well. There are policy considerations for market regulators, such as

ASIC in Australia or the SEC in the USA, to break the Big 4 monopoly on the audit of large banks, so as to ensure a higher competitiveness and quality.

6.3.4 Limitations

This research is exploratory in nature, and somewhat unorthodox in the use of some of the methods and techniques. Some of the ideas, especially ones from outside the discipline of accounting, may have enjoyed a more thorough discussion, but that would have meant a lengthier thesis.

The proposed MetaCapitalism Performance Evaluation Methodology warrants further examination, testing and probably refinement. However, the ideas and methods deployed in this research were sufficient to provide a coherent analytical critique of MetaCapitalism and its menacing prescriptions.

6.4 Closing Comments

The end of the Cold War in 1989 left us with an ideology flaunting its financialization chain of spectacle triumphantly so as to exalt its dominance and silence any would be challengers.

The perpetual ‘procreation’ of spectacle from business process reengineering and best practice models, to ERP and CRM systems, then to MetaCapitalism, with its “poster-child” companies like Cisco and Ford, only consumed a lot of workers sacrificed on their decadent ‘business’ altars.

All are like any other corrupt mythology that demands trust, blind faith and human sacrifice - just like that of the Aztecs. The problem is that the god of Manon is never satiated and the extreme triumphalism continues because there is simply no

competing ideology, let alone the power of a democratic state that emboldens social stability and national solidarity, and tempers the extremities.

The MetaCapitalism efficiency doctrine is seductive and continues to live on as some absolute truth, where everyone in the private, public and not-for-profit sectors are not only competing against others - but also attempting to surpass themselves, by being driven in their pursuit of ultra-efficiency, so as to meet the predatory nature of market expectations.

However, although the financial markets reward those value creation prescriptions in the short-term, this is not necessarily the case in the long term, especially when companies are unable to attain the same level of efficiency gains year in and year out.

MetaCapitalism amplifies volatility due to its frequent large unmeasurable (as to their effect) changes. The MetaCapitalism Performance Evaluation Methodology proposed by this thesis posed questions that unveiled the complex issues with the MetaCapitalism phenomenon.

Have the auditors, especially the Big 4 monopoly, who signed off on audited financial reports with unqualified opinions in their audit reports been blind to these complexities? If they perhaps are unable to understand the complexities of fair value and unable to appreciate the effect of amplified volatility on increasing inherent risk, then have they missed other signals in their more conventional methods, such as ratios analysis?

If they have not missed those then why did they offer an unqualified opinion to clients who had failed, were bailed out or were delisted? The analysis of nearly

70,000 global publicly listed companies formed the basis for testing the proposed Methodology, and the findings were conclusive as to the spectacle of MetaCapitalism and the role of the Big 4 audit firms in the pacification and de-politicisation of resource allocation tensions.

The spectacle of socio-economic and political upheaval in the world today only overwhelms its observers and disconnects them from the *powers* that *control* their *lives*. The disenfranchised populace may be out in force making their discontent known, but nevertheless, are completely oblivious to *who* should be *blamed* for their miserable condition?

The spectacle and its euphoria, continues to go on unchecked, but away from the perpetrators of exploitation and injustice. This thesis is only a small step to focus attention on some of those injustices of a provincial and xenophobic economic ideology and its complicit perpetrators, because ..

Global exploitation is possible and made viable by the misnomer that nobody is responsible. Indeed, that nobody is fully aware of the consequences of these actions allows the 'invisible hand' to be even more invisible. People's conscience becomes dispossessed, if it were ever possessed in the first place. And the invisible hand is forgotten. And it can be denied. [Catherine Davis (October 23, 2003)]⁶⁵

⁶⁵ It may seem unorthodox to leave the reader with a final thought that is not mine, but it is one that certainly echoes my closing sentiments so succinctly, and written by no less than the closest person to my heart, my partner Catherine Davis. She has shared this long journey with me from its very beginning, and I am eternally indebted to her generous, passionate and inquisitive debates over the ideas that I have considered here and elsewhere, which helped sharpen my thoughts and articulate them into this body of work. It is out of a deep sense of respect and appreciation to seek a shared closure to our journey that we began together.

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APPENDIX A - LITERATURE REVIEW SEARCH RESULTS

Record No	Type	Last	First	Coauthors/Supervisor	Title	Journal	Date	Publisher
1	book	Means	G.	D. Schneider, J. J Schiro	MetaCapitalism: the e-business revolution and the design of 21st century companies and markets		2000	John Wiley
2	news	Anonymous			Read up on the e-revolution	Irish Times	2000	Irish Times
3	journal	Anonymous			Metacpaitalism	Growth Strategies	2000	FutureScan
4	news	Anonymous			BUSINESS READING: Millionaire in the next cubicle	The Globe and Mail	2000	The Globe & Mail division of Bell Globemedia Publishing Inc
5	news	Anonymous			WILEY: B2B drives economic explosion in Internet revolution; Massive capital market growth to \$200 trillion predicts PricewaterhouseCoopers	M2 Presswire	2000	M2 Communications Ltd.
6	news	Anonymous			Reading, anyone?	Computerworld	2000	Computerworld, Inc
7	news	Anonymous			Want Relief From the Dot-Com Blues?	The Salt Lake Tribune	2000	The Salt Lake Tribune
8	news	April	C	Grygo E	The time is nigh	InfoWorld	2000	Infoworld Media Group
9	news	Business Editors			Worldwide Capital Market Value Could Explode from \$20 Trillion to \$200 Trillion by 2010	Business Wire	2000	Business Wire

10	journal	Dholakia	N.	R. R Dholakia, M. Laub, Y. S Hwang	Electronic commerce and the transformation of marketing	Internet- Marketing: Perspektiven und Erfahrungen aus Deutschland und den USA, Stuttgart	2000	
11	news	Evans	B		Basic questions stay the same	Information Week	2000	United Business Media LLC
12	news	Ferron	J		Automotive Trend Forecaster Examines the 'e' in Auto's Future; PricewaterhouseCoopers' Automotive Partner J Ferron Available at OSAT's Management Briefing Seminars	PR Newswire Association LLC	2000	PR Newswire
13	news	Fisher	A		Many markets set for macroeconomic shock: ECONOMIC IMPACT by Andrew Fisher: Economists expect B2B marketplaces to affect business practices, and in the process radically transform the process of innovation and productivity growth: Surveys edition	Financial Times	2000	F.T. Business Enterprises Limited (FTBE)
14	news	Hall	M		Long live B2B	Computerwo rld	2000	Computerworld, Inc
15	news	Hall	M		ASPs in the catbird seat	Computerwo rld	2000	Computerworld, Inc

16	journal	Lambin	J. J	S. M Brondoni	Ouverture de „ÀMarket-Driven Management,À	Symphonya. Emerging Issues in Management (www.unimib.it/symphonya)	2000	
17	journal	Michaels	J. W		METACAPITALISM: AN ECONOMY ON STEROIDS.	Forbes	2000	
18	news	Schwartz	E	Davis J	Interweaving exchanges	InfoWorld	2000	Infoworld Media Group
19	news	Stern	S		A guru aims high on Prozac	New Statesman	2000	New Statesman Ltd
20	news	Taylor	D J		Riches lie buried amid the jargon: 1GB Edition	Sunday Times	2000	
21	news	Turner	C		REVIEW: MetaCapitalism - The e-business revolution and the design of 21st-century companies and markets	Telecomworldwire	2000	Normans Media LTD
22	news	Walker	L		The Bigger Boom to Come: FINAL Edition	The Washington Post	2000	The Washington Post Company

23	news	Anonymous			Electron Economy CEO Jon Slangerup to Share Supply Chain Insights On the Next Wave Television Program	PR Newswire	2001	PR Newswire Association LLC
24	news	Anonymous			2001 FPA Broker/Dealer Conference held in January	Journal of Financial Planning	2001	Financial Planning Association
25	news	Anonymous			The PricewaterhouseCoopers Endowment Releases New Book, E-Government 2001	PR Newswire	2001	PR Newswire Association LLC
26	news	Anonymous			Over 4000 Delegates Flock to Inaugural Oracle(R) AppsWorld Conference	PR Newswire	2001	PR Newswire Association LLC
27	news	Burrell	S		Flips not flops the key to joining a high-tech society: Late Edition	Sydney Morning Herald	2001	John Fairfax Publications Pty Limited.
28	book	Delcourt	J.	P. de Woot	Les dv©fis de la globalisation: Babel ou Pentecv¥te?		2001	Presses univ. de Louvain
29	journal	Feng	H.	J. Froud, S. Johal, C. Haslam, K. Williams	A new business model? The capital market and the new economy	Economy and Society	2001	

30	news	ForesheW	J		the world according to . . . Michael Boberschmidt: 1 Edition	The Australian	2001	News Limited
31	journal	Hubbard	C		The value of partnerships	Technology in Government	2001	Plesman Publications Ltd
32	news	Means	G		Global Strategist Grady Means Kicks Off the E-Business Network's April Author Series With MetaCapitalism		2001	
33	journal	Orr	J.		STRATEGIC OPTIONS FOR CRM.	Vital Speeches of the Day	2001	
34	journal	Paisie	J		'E-transformation' of oil companies offers unprecedented value-creation opportunities	Oil & Gas Journal	2001	PennWell Corporation
35	journal	Paisie	J. E		Oil, Gas, and the Internet	Oil & Gas Journal. London,. Special Report	2001	
36	paper	Pirrello	Danie I	Mickhail	An Evaluation of the Recent Performance of MetaCapitalism		2001	University of Wollongong

37	news	Reuwee	B		Industry veterans Stallkamp, Ferron on World Congress roster	Automotive News	2001	Crain Communications, Incorporated
38	journal	Rich	T.		E-learning futures: Report of an AUA study group		2001	
39	journal	Scholl	H. J	S. Belardo	Reporting on e-business: What's so new? Where is it going	E-business management	2001	
40	journal	Stace	D	Holtham, C and Nigel, C	E-Change: Charting a path towards sustainable e-strategies	Strategic Change	2001	
41	journal	Stace	D.	C. Holtham, N. Courtney	E-Change: Charting a path towards sustainable e-strategies	Strategic Change	2001	
42	news	Terceiro	J	Matias G	Poder y tecnologia	Reforma	2001	Infoshare Communications Inc.
43	news	Yew	C T		Transformation of the financial services industry--Singapore banks respond	Asiamoney	2001	Euromoney Trading Limited
44	journal	Zingale	N		E-business in the e-environment	Industrial Heating	2001	BNP Media
45	journal	Brunn	P.	M. Jensen, J. Skovgaard	e-Marketplaces:: Crafting A Winning Strategy	European Management Journal	2002	

46	news	Business/Technology Editors			Centra Summit 2002 Draws Over 650 Attendees to Boston for eLearning Industry's Largest International User Conference	Business Wire	2002	Business Wire
47	journal	dei Saperi	I. C	S. Latino, W. und Networking, Z. K.M em Portugu ^v ™s, P. Sector	LIDERAZGO EN ORGANIZACIONES BASADO EN EL CONOCIMIENTO (Conclusiones)		2002	
48	journal	Donini	A.		The Geopolitics of Mercy: Humanitarianism in the Age of Globalization	The Prevention of Humanitarian Emergencies	2002	
49	journal	Formica	P.		Entrepreneurial universities: the value of education in encouraging entrepreneurship	Industry and Higher Education	2002	
50	news	Levinson	M		New links in the chain		2002	CXO Media, Inc
51	journal	Lewis	C.		Driving factors for e-learning: An organisational perspective	Perspectives: Policy & Practice in Higher Education	2002	

52	book	Mvðller	K.	S. Svahn, A. Rajala, M. Tuominen	Network management as a set of dynamic capabilities		2002	Citeseer
53	journal	Mickhail	George	Rudy Hirschheim, Daniel Pirrello	MetaCapitalism: The Future of Industry or the Bane of Our Existence	Accountancy Business and the Public Interest Journal	2002	
54	book	Mickhail	George		Empowerment of the learner		2002	Lang
55	book	Mickhail	George	Nikitin, M	Modeliser Le Fonctionnement Des Organisations?		2002	
56	conference	Mickhail	George	Daniel Pirrello	MetaCapitalism and the Consulting Cult		2002	
57	conference	Mickhail	George		MetaCapitalism, Politics and the New Academy		2002	
58	conference	Mickhail	George	Doede Nauta, Martin Kolkman	Intellectual Capital Indexation in Accounting: A Critical Approach Based on Semiotic Theory		2002	
59	journal	Snyder	D. P	G. Edwards, C. Folsom	The strategic context of education in America		2002	
60	news	Songini	M		Recession? What recession?	Computerworld	2002	Computerworld, Inc

61	journal	Van der Vorst	J. G.A.J	S. Van Dongen, S. Nougier, R. Hilhorst	E-business initiatives in food supply chains; definition and typology of electronic business models	International Journal of Logistics	2002	
62	journal	Winning	C. A		e-Marketplaces	European Management Journal	2002	
63	journal	Heiduk	G.	N. Pohl	E-service Hubs: Paradox or Local Advantage?	Asian Business & Management	2003	
64	journal	Leem	C. S	H. S Suh, B. Y Kim, N. Park	A study on e-Transformation effectiveness analysis with cases in manufacturing and retail industries	Production planning & control	2003	
65	journal	Mvøller	K.	S. Svahn	Managing strategic nets a capability perspective	Marketing Theory	2003	
66	book	Mvøller	K.	S. Svahn	Role of knowledge in the value creation in business nets		2003	Citeseer
67	book	Mvøller	K.	S. Svahn	Managing in emergence: Capabilities for influencing the birth of new business fields		2003	Citeseer
68	journal	McFarlane	A.	A. Bradburn, A. McMahon	E-learning for Leadership: Emerging indicators of effective practice		2003	

69	paper	Ostrovsky	Arsen	Mickhail	MetaCapitalism: Salvation or Despair		2003	University of Wollongong
70	conference	Palma	A. M.L	L. S. Bv°rcena, T. P PV©rez	La Gestiv≥n de la Producciv≥n y del Conocimiento. Sinergias para una Estrategia Empresarial	V Congreso de IngenierV#a de Organizaciv≥n	2003	
71	book	Targowski	A.		Electronic enterprise: strategy and architecture		2003	Irm Press
72	conference	Tsigkas	A.	A. Papantoniou, S. A. Cosmoline, A. Constantino u, V. Loumos, I. Politechniou	Towards Knowledge-Based Mass Customization: A Framework for On Demand Design (ODD)	Proceedings of the 2nd World Congress on Mass Customization and Personalization MCPC	2003	

73	journal	Van Leeuwen	M.		The Impact of the Knowledge Economy on Leadership in Organisations	Knowledge and Business Process Management	2003	
74	journal	Blanche	M. T		Learning to do social science research in the knowledge economy: A manifesto		2004	
75	paper	Davis	Kirk	Mickhail	MetaCapitalism A Positivist Fantasy		2004	University of Wollongong
76	news	Mickhail	G	O'Neil	Ready for Revolution?		2004	
77	news	Mickhail	G	O'Neill	Virtual twin always happy to chat: First Edition	The Age	2004	The Age Company Limited.
78	journal	Mickhail	G.	D. Pirrello	The Consulting Cult	Universite'D' Orleans, France	2004	

79	journal	Mickhail	G.	D. Pirello	The MetaCapitalism Cult	Laboratoire Orlv©anais de Gestion- universitv© d'Orlv©ans Working Papers	2004	
80	journal	Palacios	J. J		Corporate citizenship and social responsibility in a globalized world	Citizenship Studies	2004	
81	journal	Salmela	E.	A. Lukka	Value added logistics in supply and demand chains. Smile. Part 1. eBusiness between global company and itslocal sme supplier network	Tutkimusrap ortti/Researc h report- Lappeenrann an teknillinen yliopisto, Tuotantotalo uden osasto	2004	
82	journal	Session	H.		HOW TO INFLUENCE THE BIRTH OF NEW BUSINESS FIELDS,ÄiNETWORK AND KNOWLEDGE PERSPECTIVES		2004	

83	conference	Shoniregun	C. A		Classification and taxonomy of TEISMES	Proceedings of the 6th international conference on Electronic commerce	2004	
84	journal	Snyder	D. P	G. Edwards	The strategic context of education in America, 2000 to 2020, Äipart 3	On the Horizon	2004	
85	journal	Tsigkas	A.		For a new society of citizen: the state, the citizen, the market and the value of knowledge in the MetaCapitalism	unpublished book written in Greek	2004	
86	book	Collin	S M H		E-marketing	John Wiley	2005	
87	paper	Farrell	Eime ar	Mickhail	MetaCapitalism Exploring the Efficiency Myth		2005	University of Wollongong
88	journal	Mvðller	K.	A. Rajala, S. Svahn	Strategic business nets, Ätheir type and management	Journal of Business research	2005	
89	journal	Mickhail	G.	A. Ostrovsky	The MetaCapitalism Quest	American Academy of Business Journal	2005	

90	conference	Mickhail	G.		The Imperialist Claws of MetaCapitalism	Available at SSRN 1017505	2005	
91	conference	Mickhail	George	Kirk Davis	The Positivist Fantasy of MetaCapitalism		2005	
92	journal	Salmela	E.	A. Lukka	Value added logistics in supply and demand chain. Smile. Part 2. eBusiness in a service business. Case: A maintenance and operations network in forest industry	Tutkimusraportti/Research report-Lappeenranta teknillinen yliopisto, Tuotantotalouden osasto	2005	
93	book	Shoniregun	C. A		Impacts and Risk Assessment of Technology for Internet Security: Enabled Information Small-medium Enterprises (TEISMES)		2005	Springer
94	journal	CUSTOMER	C. O.F		Information Integrity for CRM in a Virtual World	Encyclopedia of Virtual Communities and Technologies	2006	
95	book	Dockès	P		Metacapitalismo e trasformazioni dell'ordine produttivo		2006	

96	journal	KARADIMAS	N. V	A. TSIGKAS	SELF ORGANISING STRUCTURES OF AD-HOC COOPERATIONS FOR CUSTOM MADE PRODUCTS AND SERVICES		2006	
97	journal	KARADIMAS	N. V	V. LOUMOS, A. TSIGKAS	MOBILE AGENT ASSISTED VALUE-ADDING COMMUNITIES FOR MASS CUSTOMISATION		2006	
98	journal	Mickhail	George	Eimear Farrell	The Airlines Efficiency Myth	Available at SSRN 1016103	2006	
99	book	Bhimani	A.	P. Frantz, M. Ncube	Entering and exiting collaborative purchasing relationships		2007	Economic Research Southern Africa
100	journal	Mickhail	G.	A. Ostrovsky	MetaCapitalism: The dialectics of impoverishment	Critical Perspectives on Accounting	2007	
101	book	Mickhail	George	Katina Michael	From dataveillance to UÅàberveillance and the realpolitik of the transparent society		2007	
102	news	Mickhail	Giuseppe	Pennisi	Alitalia e l'intervista "sbagliata" di Prato sul Corsera		2007	
103	paper	Pupovac	Sanja	Mickhail	MetaCapitalism and Free Market Theory: Reality or Proposed Fantasy		2007	University of Wollongong

104	journal	Tsigkas	A.	R. J Freund	Intelligent Agents assisted Value Adding Communities for Mass Customization		2007	
105	paper	Abdul Fattah	Hoda	Mickhail	Satanic Wallets: The Accounting of Guns vs Butter		2008	University of Wollongong
106	news	Anonymous			Hope from Silicon Valley	The Jakarta Post	2008	Financial Times Information Limited - Asia Africa Intelligence Wire.
107	journal	Bhimani	A.	P. Frantz, M. A Gulamhussein, M. Ncube	Collaboration, competition and strategic costing: knowing when to start learning	International Journal of Accounting, Auditing and Performance Evaluation	2008	

108	conference	Bonina	C. M	A. Cordella	The new public management, e-government and the notion of public value: lessons from Mexico	Proceedings of SIG GlobDev, 1st Annual Workshop, Paris, France	2008	
109	paper	Li	Feng	Mickhail	Comparative Critique of the Performance Evaluation Methods in the Australian Energy Industry		2008	University of Wollongong
110	book	Mickhail	George	Katina Michael	Australia and the New Technologies: Evidence Based Policy in Public Administration		2008	University of Wollongong Press
111	conference	Mickhail	George		The Corrupting Influence of the Agora-Pnyx Paradox		2008	

112	conference	Spremic	M.	H. Brzica	E-government and its application in the Republic of Croatia	Proceedings of the 7th WSEAS International Conference on Applied Computer and Applied Computational Science	2008	
113	paper	Xu	Geyi	Mickhail	An Empirical Research of MetaCapitalism Efficiency in the Australian Telecommunications Industry		2008	University of Wollongong
114	journal	Ashta	A.		A Minimum Wage Solution to Halving World Poverty by 2015: A Stakeholder Approach	Available at SSRN 1433089	2009	
115	journal	Ashta	A.		Corporate social responsibility in the dynamic information age of inter-systems connectivity	Journal of Electronic Commerce in Organizations (JECO)	2009	

116	journal	Mvøller	K.	S. Svahn	How to influence the birth of new business fields,ÄNetwork perspective	Industrial Marketing Management	2009	
117	conference	Mickhail	George		MetaCapitalism and the Misology-Misanthropy Paradox		2009	
118	journal	Shaw	R.		Politics and the Internet: the New Zealand Research	Political Science	2009	
119	journal	Sturdy	A.	T. Clark, R. Fincham, K. Handley	Between innovation and legitimation,Äboundaries and knowledge flow in management consultancy	Organization	2009	
120	conference	Mickhail	George		MetaCapitalism Research in Perspective	The 2nd World Accounting Frontiers Conference	2010	University of Western Sydney Press
121	journal	Angelopoulos	S.		Ancient Greek Values as a Paradigm for E Government		2011	
122	journal	Ashta	A.		Co-creation for impact investment in microfinance	Strategic Change	2012	
123	journal	Mickhail	G.		Qantas the Limping Kangaroo	Available at SSRN 2089845	2012	

124	conference	Mickhail	George		The Big 4 Global Monopoly		2012	MetaCapitalism Research Centre
125	journal	Mickhail	George	Sanja Pupovac	MetaCapitalism versus Healthcare	International Journal of Management Research and Business Strategy	2012	
126	journal	Mickhail	George	Feng Li	Comparative Critique of the Performance Evaluation Methods in the Australian Energy Industry	Academy of Taiwan Business Management Review	2012	
127	journal	Pereda	J T		Contabilidad y desarrollo económico/Accounting and economic development	Contabilidad y Negocios	2012	Pontificia Universidad Católica del Perú

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