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The Market

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The Market: International Journal of Business

The Market: International Journal of Business is a scholarly, peer-reviewed research journal published annually by the Cyprus Centre for Business Research at The Cyprus Institute of Marketing (CIM).

We seek to promote new and productive interaction between various business disciplines and fields. We consider articles that express new and innovative ideas in Business, paying particular attention to developments in Cyprus and the broader Eastern Mediterranean area.

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CONTENTS

Dear readers,

We are delighted to welcome you all to the first issue of The Market: International Journal of Business. The Market is a scholarly (peer-reviewed) research journal published annually by the Cyprus Centre for Business Research and funded by The Cyprus Institute of Marketing (CIM).

More precisely, the journal considers articles that express new and innovative ideas in Business, paying particular attention to developments in Cyprus and the broader Eastern Mediterranean area. It publishes the results of research endeavors that show strong future prospects and articles that address the betterment of human life as well as business practices. Moreover, it welcomes articles from major business disciplines with a domestic and/or an international outlook.

The Market aims to provide opportunities for the promotion of new dynamic business ideas to enhance research in all business fields – from management, strategy, accounting and finance to HR, marketing and shipping, among others. Its goal is to create awareness of important scholarly achievements in the aforementioned fields, both locally and internationally.

Therefore, one would naturally expect the scope of this issue to be broad in nature. And, indeed, it becomes evident from early on that we have ensured coverage of a plethora of contemporary and pressing topics; for instance, linking business with cyber security in an effort to keep ahead of change. Other wide-ranging issues include the African perspective vis-à-vis academic job performance and the hotel industry in the United Kingdom.

To remain within the EU context and that of sustainable international development, we also look into new trends in the Romanian education and training system. Then transcending Europe's borders, we delve into the shipping industry by proposing a strategy to trade a portfolio of listed shipping companies in the US market. Not to mention, exploring what the world of shipping practically entails through a personal account from someone in the industry.

To bring the discussion back home, we examine the theories on foreign direct investments here in Cyprus as we enter a new era. Then other salient issues are analysed, such as the interrelation between IFRS Conceptual Framework's Fundamental Qualitative Characteristics and Financial Reporting Quality across fifteen European countries, in addition to gender discrimination in the workplace.

In synopsis, we hope that you will enjoy reading the following pages as much as we have whilst creating this very first issue. To be sure, it merely represents the first stepping stone towards yet more and ever better issues in the near future.

Thank you and we shall look forward to reading your research paper next time!

The interrelation between the IFRS Conceptual Framework's Fundamental Qualitative Characteristics and Financial Reporting Quality; An Empirical Investigation of 15 European Countries

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Abstract

The International Accounting Standards and the Conceptual Framework have been adopted in an attempt to create higher quality financial statements. The article examines the extent to which this objective has been achieved in 15 European countries. The main contribution of this research is that the quality of financial statements is examined in the light of the Conceptual Framework. Secondly, the article highlights the conflict between the existing methods for measuring reliability and the definition of reliability given by the Conceptual Framework. Lastly, the relationship between quality and the level of corruption is tested.

Key words:

Adoption of IFRS
Financial Reporting quality
Conceptual Framework
Qualitative Characteristics
Relevance
Faithful Representation (Reliability)
Corruption

1. Introduction

Following a decision taken in March 2002, the European Parliament adopted the International Accounting Standards (IAS). Specifically, since 2005 all listed companies have been required to prepare and present consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). The decision regarding the implementation of the IFRS comprises a significant and unprecedented change concerning the way financial statements are prepared and presented.

The ultimate purpose of the Committee of the International Accounting Standards Board (IASB) is to create high quality standards in order to create quality financial statements. To achieve this objective, the Commission establishes standards that lead to an increase in the degree of relevance, faithful representation, comparability, timeliness, verifiability and understandability in financial statements. The Commission stresses that the financial statements must reflect specific characteristics, as defined by the Conceptual Framework, so that the information which is provided is useful.

In particular, the qualitative characteristics that are found in the Conceptual Framework are divided into fundamental and enhancing. The two fundamental characteristics include relevance and faithful representation (i.e. an alternative definition of reliability), and enhancing comparability, timeliness, understandability and verifiability. The main difference between the fundamental and enhancing characteristics is that the enhancing characteristics cannot single-handedly generate useful information.

As already mentioned, the IFRS creates the standards as well as the Conceptual Framework, essentially aiming to produce higher quality financial statements. The critical question that arises is whether this goal has been achieved; that is, whether the financial statements following the IASB adoption are, in fact, of higher quality.

Based on existing literature, quality is measured using different methods, or a combination of them, such as by calculating discretionary accruals, conservatism, relevance and predictability of earnings. In antithesis, this research examines the quality of financial statements, as defined by the Conceptual Framework and the findings are expected to show whether the Commission actually achieved its initial objectives of enhancing the quality and usefulness of financial statements.

A typical example that highlights the conflict between existing methods for measuring quality and the degree of quality, as defined by the Conceptual Framework, is the measure of reliability. Literature supports the idea that the degree of reliability is measured by the ability of current earnings to predict future earnings[1]. The problem arising with this way of measurement is that it contradicts the definition of reliability/faithful representation as defined by the Conceptual Framework. This conflict can be readily understood through the following example. Suppose a company makes use of fair value as the valuation method, which essentially introduces variability in the results by reducing their predictability. Given that the fair value is reflected without error, presenting the economic reality faithfully, the level of faithful representation based on the definition derived from the Conceptual Framework is very high, whereas based on the measure of predictability, in contrast, it is very low (Riedl, 2010).

Another element that highlights the conflict between existing methods for measuring quality and the degree of quality, as defined by the Conceptual Framework, relates to the measure of conservatism. The high degree of conservatism in the literature[2] is presented as an indication of high-quality financial statements. In contrast, this feature is not considered desirable by the new Conceptual Framework, since it conflicts with the feature of neutrality, and is therefore not included in it.

The research findings constitute a useful tool, both for the Commission and for users of financial statements. On the one hand the Commission will be able to ascertain the degree of achievement of the objectives set initially and take the necessary actions/improvements wherever it is deemed appropriate. Furthermore, the wide range of the sample, comprising the 15 countries that are examined in this research, enables the identification of potential problems with the application of IAS in specific countries (e.g. in countries where low levels of law enforcement are noted) and to take the necessary measures.

On the other hand, users who know about the relevance and reliability of different countries with respect to financial statements, are more equipped to make favorable decisions on their part. For instance, a bank would lend more readily to a company that is headquartered in a country where the reliability of financial statements is high (if the borrower is creditworthy). Conversely, an investor would rely for the design of their investment policies to a greater extent on the financial statements of a company that is headquartered in a country where the degree of relevance and reliability of

[1] Bandyopadhyay, Chen, Huang, and Jha, 2010, Kirschenheiter 1997, Richardson, Sloan, Soliman and Tuna, 2005

[2] Anwer, Neel and Wang, 2010, Ball, Kothari and Robin, 2000, Ball and Shivakumar 2005, Barth, Landsman and Lang, 2008, Chen, Tang, Qingliang, Jiang and Lin, 2010.

2. Literature Review

The adoption of International Accounting Standards (IAS) in 2005 constituted an important and unprecedented change regarding the way financial statements are prepared and presented. The decision was taken in March 2002 when the European Parliament decided on the adoption of IAS for all listed companies based in the European Union (EU). Specifically, listed companies are required to prepare and present consolidated financial statements in accordance with IAS, for the financial years beginning on January 1, 2005. It should be noted that aside from the mandatory adoption of IAS, there were businesses that adopted and implemented IAS voluntarily for years prior to 2005. Moreover, countries that do not belong to the EU, such as Australia, Hong Kong, Singapore, etc., have adopted IAS voluntarily or use accounting systems that are essentially equivalent to IAS.

2.1 Conceptual framework

The conceptual framework of IAS essentially defines the general principles which should characterize the process of preparing and presenting financial statements. In no case does it have the power of a standard and its basic purpose is to help and guide the IASB to develop or review existing and future IAS. Furthermore, it directs those preparing the financial statements to correctly apply the standards and is an additional tool for handling accounting issues not covered by existing standards. At this stage it should be noted that if an existing standard conflicts with the conceptual framework, then the standard prevails. Finally, it helps auditors and users to understand whether the financial statements and the information provided are consistent with IAS.

As Figure 1 depicts, the qualitative characteristics are divided into fundamental and enhancing. The fundamental features are designed to separate the information provided to users into the following parts: useful information or non-useful and/or misleading information. The two fundamental characteristics include relevance and faithful representation (KPMG, 2010). The conceptual framework (paragraph 17) highlights that in order for the information to be useful, it must be characterized by both of the aforementioned characteristics, i.e. relevance and faithful representation.

The first fundamental characteristic is relevance, meaning that financial statements can and do influence the decisions of users. In other words, they can be used as predictive values and/or confirmatory values. In addition, relevance may be affected by whether a piece of information is essential, i.e. whether its omission or incorrect portrayal affects the economic decisions taken by users.

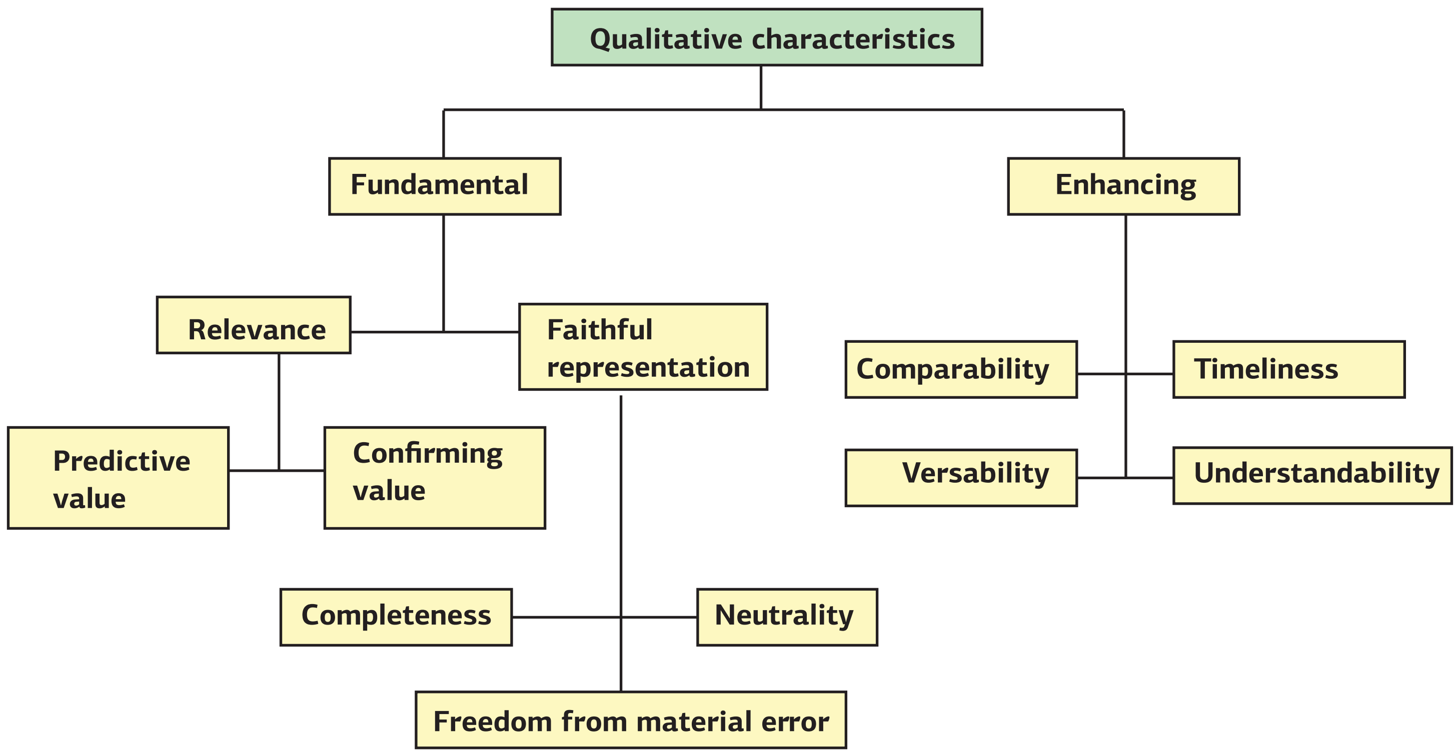

Figure 1, KPMG, October 2010, 13

The second fundamental feature is the faithful representation/reliability of financial statements. Financial statements are considered to be reliable when they do not incorporate substantial errors or bias and reliably reflect those economic events that should be portrayed. The conceptual framework focuses on three specific features which should be reflected on the financial statements for them to be considered as reliable. First, the financial statements must be neutral and the second and third features constituting completeness and freedom from material error.

In addition, the IASB also defines four enhancing qualitative characteristics considered complementary to the fundamental characteristics. The main difference between these enhancing qualitative characteristics and the fundamental characteristics is that if financial information is not characterized by the fundamental characteristics, then the enhancing characteristics alone cannot generate useful information for users. Specifically, the enhancing characteristics are comparability, timeliness, understandability and verifiability.

2.2 Relevance and Adoption of IAS

Extensive literature has dealt with the subject of relevance of financial statements. At this point it is noteworthy to mention that the first researchers who wrote about this subject were Ball and Brown, in 1968. They examined the relationship between performance and accounting profit, thus stimulating future research.

Over the past few years, and following the adoption of IAS, researchers have extended the literature concerning relevance, assessing the relevance of financial statements prepared in accordance with national accounting standards and those prepared in accordance with IAS. This research can be divided into two major parts; one focusing on the studies using as samples the firms adopting IAS voluntarily and those that use companies whose adoption of the standards in question is mandatory.

In the first category several research articles are identified. More specifically, Hung and Subramanyam (2007) examine 80 German companies. Comparing the financial statements prepared under IAS/IFRS to those drawn up using the German standards and using the relative degree of relevance, they do not detect any change in the relevance of earnings and of the book value of equity. Furthermore, measuring relevance using the incremental approach, they found that the adjustments to the balance sheet data generated due to the adoption of IAS were relevant, while adjustments to the earnings were not. In contrast, Bartov, Goldberg and Kim (2005) and Jermakowicz, Kinsey and Wulf (2007), identify an increase in the degree of relevance of earnings of companies adopting the IAS voluntarily. Barth, Landsman and Lang (2008), using a larger sample than previous research by examining 319 companies from 21 countries that voluntarily adopted IFRS, identify, inter alia, that the degree of relevance of firms adopting IAS is higher.

More recent studies dealing with the second category examine the change in relevance of the financial statements of those companies that mandatorily adopted IAS. Horton and Serafeim (2007) study the relevance of the financial statements of companies in the United Kingdom, France, Italy and Spain, using accounting adjustments arising from the reconciliation statements. Their findings suggest that adjustments in the earnings increase relevance in the UK, France and Italy, while this is not the case in Spain. The same researchers in 2010 examined relevance once more, only this time exclusively for the UK. Their findings again suggest that the adjustments regarding earnings make a positive contribution to the degree of relevance. In contrast, adjustments in the book value of equity have no positive contribution to the degree of relevance, since the calculation of the book value of equity through both IAS and by the standards applied in the UK is similar (Horton, 2010). The same results with respect to the UK were reached in 2008 by Capkun, Cazavan-Jeny, Jean and Weiss. The same researchers in their article incorporate eight other European countries besides the UK, identifying once again that adjustments regarding the earnings contribute to relevance whilst, this does not apply to adjustments in the book value of equity. Christensen, Lee and Walker in 2009, also identify an increase in relevance of the earnings regarding the case of the UK. The findings of Wang, Young and Zhuang (2008) concerning Australian companies as well as some 14 European countries follow the same pattern with respect to the relevance of the earnings.

The literature that examines the change of relevance of the financial statements of companies that necessarily adopted IAS, but also based on two independent samples - financial statements before and after the adoption - and not on reconciliation statements, is almost non-existent. Chalmers, Clinch and Godfrey (2009) identify through this methodology that the earnings (book value of equity) of Australian businesses that adopted mandatory IFRS for the period 2006-2007 reflect a higher (the same) degree of relevance in relation to the degree of relevance reflected by Australian businesses using the Australian standards during the period 1990-2004.

Although IAS gives equal emphasis to the feature of relevance and reliability through their conceptual framework, the same does not apply as far as the literature is concerned. On one side, a significant proportion of literature has dealt extensively with the feature of relevance and how this is reflected in financial statements. In antithesis, the emphasis of the characteristic of reliability is very limited (Richardson, Sloan, Soliman and Tuna, 2005).

The vast majority of the literature deals with the feature of reliability of accruals identified by finding the discretionary (DA) and non-discretionary accruals (NDA). Several researchers have created models for measuring the degree of reliability using this methodology (Healy 1985, De Angelo 1986, Jones 1991, Dechow and Sloan 1991, Dechow, Sloan and Sweeney, 1995), which are then used as tools for further research. Moreover, the concept of reliability of accruals has been identified with the concept of quality of accruals directly related to the literature that deals with the quality of earnings.

Healy (1985) defines the amount of NDA as the average total accruals (divided by the total assets of the previous period). The average total accruals are calculated for the period specified as the estimation period. Then, it compares the NDA with total accruals (divided by the total assets of the previous year) for the period which is under examination (event period). Finally, it defines the difference as DA.

De Angelo (1986) agrees that NDA in year t, are equal to total accruals of the previous year (t-1). Thus, the difference between the NDA (accruals in time t-1) and the total accruals in year t equals the DA of year t. This method is similar to that developed by Healy, with the difference being that the assessment period for identifying NDA is limited to the last period. Both these models are based on the assumption that the NDA remains constant.

Jones (1991) creates a new model by controlling certain economic characteristics that affect the NDA, aiming to relax the hypothesis that NDA remain constant. Specifically, she defines the independent variables DREV and PPE in order to identify changes in NDA generated by these variables. Through regression 1 the calculation of a_1, a_2 and a_3 estimators of coefficients α_1, α_2 and α_3 respectively is achieved.

$$\mathrm{TA}_t/A_{t-1} = \alpha_1\,(1/A_{t-1}) + \alpha_2\,(\Delta\mathrm{REV}_t/\,A_{t-1}) + \alpha_3\,(\mathrm{PPE}_t/\,A_{t-1}) + \mathrm{e}_t \qquad (1)$$

TA = Total Accruals
ΔREV = growth in total revenues
PPE = Level of property, plant and equipment
A = Total Assets

Then, using a1, a2 and a3 estimators, the NDA is calculated for the period under consideration:

$$\mathrm{NDA}_t = \mathrm{a}_1\,(1/A_{t-1}) + \mathrm{a}_2\,(\Delta\mathrm{REV}_t\,/A_{t-1}) + \mathrm{a}_3\,(\mathrm{PPE}_t/A_{t-1}) \qquad (2)$$

Finally, DA is equal to TAt/At-1 minus NDAt. A basic assumption of Jones is that revenues are not affected by the management, resulting in the introduction of error in the measurement of DA and NDA. For this reason, Dechow et al. (1995) created a modified model, the 'Modified Jones Model'. The only difference between the two is that the modified model for the calculation of the NDA for the period under concern does not take into consideration only the ΔREV but removes from them the change in receivables (ΔREC).

$$\mathrm{NDA}_t=\alpha_1\,(1/\mathrm{A}_{t-1}) + \alpha_2\,[(\Delta\mathrm{REV}_t - \Delta\mathrm{REC}_t)/\mathrm{A}_{t-1}] + \alpha_3\,(\mathrm{PPE}_t/\mathrm{A}_{t-1}) \qquad (3)$$

Essentially, in this way, it is assumed that changes vis-à-vis credit sales related to the period which is to be examined, may be the result of manipulation and therefore comprise DA and not necessarily NDA.

Kothari, Leone and Wasley (2005), while aiming to control the factor of performance of a company, claiming the latter associates with the amount of accruals, proceed to a further modification regarding the Jones model by adding another independent variable; that is return on Assets (ROA).

Another model that relaxes the assumption that the NDA is constant is the 'Industry Model' used by Dechow and Sloan (1991). The basic assumption in this model is that, variations in the factors that determine the NDA are common for firms in the same industry. The NDA are identified under regression 4. Specifically, the independent variable of the median is introduced, defined as the median amount of total accruals for firms in a particular industry.

$$NDA_t = \alpha_1 + \alpha_2 \text{ median } (TA_t) \qquad (4)$$

Escaping from the basic idea of the above researchers to identify the DA and NDA, recently some researchers have identified the quality of accruals and earnings by measuring the amount of error that arises from the relation between accruals and cash flows (Dechow και Dichev 2002, McNichols 2002).

Dechow and Dichev (2002) examine to what extent successive cash flows from operating activities (CFO) explain the amount of ΔWC. The variable ΔWC is calculated as the change in receivables plus the change in inventory minus the change in payable and taxes payable together with the change in other assets.

Specifically, researchers create regression 5, arguing that the larger the standard deviation of the residuals, the lower the quality of accruals.

$$\Delta WC_t = \alpha_1 + \alpha_2\ CFO_{t-1} + \alpha_3\ CFO_t + \alpha_4\ CFO_{t+1} + \varepsilon_t \qquad (5)$$

McNichols (2002) creates a new model, which is a combination of Dechow and Dichev (2002) and Jones (1991). First, by introducing the change in sales (ΔSales) as the independent variable the business performance is integrated in the model and second, by including the change in property, plant and equipment (PPE) the model is extended with the accruals also containing depreciation. Essentially, through the new combinatorial model, McNichols aimed at creating a superior model that is characterized by a lower degree of error. The generated model is as follows:

$$\Delta WC_t = \alpha_1 + \alpha_2\ CFO_{t-1} + \alpha_3\ CFO_t + \alpha_4\ CFO_{t+1} + \alpha_5\ \Delta Sales + \alpha_6\ PPE_t + \varepsilon_t \qquad (6)$$

The main disadvantage of the above model, recognized by Dechow, Dichev and McNichols, is that the models define as independent variables the total operating cash flows in order to explain the dependent variable (accruals) instead of calculating only the operating cash flows (of the three consecutive years), which is directly related to accruals. Therefore, error is introduced in both, the estimators and the residuals of the model.

In 2007, White, departing strongly from the methodology of Dechow and Dichev (2002) and McNichols (2002), creates a new model that examines the extent to which the accruals at time t are converted into cash flow in year t +1. The model which is proposed is as follows:

$$CFO_{t+1} = a_0 + a_1\ ACCR_t + a_2\ CPCF_t + a_3\ DEF_{t+1} + u_{t+1} \qquad (7)$$

The variable CFOt+1 is defined as cash flows from operating activities in t+1, the variable ACCRt is defined as net accounts Receivables, minus other current liabilities, minus inventory accruals, the variable DEFt+1 as the sum of other current assets and inventory deferrals. Finally, the variable CPCFt is defined as the operating earnings at time t minus ACCRt plus DEFt-1.

In comparison to the previous models, significant differences lie in that the calculation of accruals is not based on their changes, but on the balances of the accounts. Moreover, and in antithesis to Dechow and Dichev (2002) and McNichols (2002), the model does not have as independent variables the overall operating cash flows as mentioned earlier, which acts as the cause for the introduction of error.

The method developed by Kim and Kross (2005) is directly related to the methodology of White (2007). Researchers create model 8 in an attempt to identify the ability of the earnings to predict future cash flows.

$$Cfo_{it+1} = a_0 + a_1\, Cfo_{it} + a_2\, E_{it} + u_{it+1} \qquad (8)$$

Cfo_{it+1} = Cash flow from operations (t+1)
Cfo_{it} = Cash flow from operations (t)
E_{it} = Earnings per Share
u_{it+1} = residuals

In order to identify the incremental explanatory power of earnings and current cash flows on future cash flows, they break down regression 8 into two separate regressions, 9 and 10.

$$Cfo_{it+1} = a_0 + a_1 Cfo_{it} + u_{it+1} \qquad (9)$$

$$Cfo_{it+1} = a_0 + a_1 E_{it} + u_{it+1} \qquad (10)$$

They identify the incremental explanatory power of the current cash flow by subtracting the R2 of regression 10 from the R2 of regression 8. Additionally, to identify the incremental explanatory power of earnings, they subtract the R2 of regression 9 from the R2 of regression 8.

In view of the fact that the accounting earnings are equal to the current cash flows plus the accruals of the same period, regression 10 can also be presented as follows:

$$Cfo_{it+1} = a_0 + a_1\, Cfo_{it} + a_2\, Acc_{it} + u_{it+1} \qquad (11)$$

$Cfoi_{t+1}$ = Cash flow from operations, $t+1 / TA_t$
Cfo_{it} = Cash flow from operations, $t+1 / TA_{t-1}$
Acc_{it} = $(\Delta WC_{it} - DEP_{it}) / TA_{t-1}$
DEP_{it} = Depreciation and amortization
ΔWC_{it} = Change in net accounts Receivables plus change in inventory plus change in other current assets minus change in accounts payable minus change in taxes payable minus change in other current liabilities minus change in deferred taxes.
TA = Total Assets
u_{it+1} = residuals

Regression 11 follows an approach that is similar to the methodology of White (2007), however, with one important difference. In this case, the accruals are estimated using a 'traditional' way without first, distinguishing between accruals and deferrals and secondly, the calculation of accruals is based on changes in accounting figures and not on the closing balances.

Beyond the research dealing with the reliability of accruals, only a very small part of the literature deals with the reliability of specific accounting items or financial statements as a whole.

Cotter and Richardson (2002), in order to identify the reliability of Asset Revaluations, compare the valuation of intangible assets arising from independent appraisers, with estimates arising from the board of the company. The findings identified that the valuations of plant and equipment that have been made by independent appraisers, are more reliable. For other non-current assets, no difference in the degree of reliability of valuations was detected.

Cotter and Richardson identify the degree of reliability by examining the write-downs of an upward revaluation that took place in the past. They claim that the greater the reversal, the lower the reliability, as it implies that there was greater error in the initial revaluation.

In 2007, Lanito detects the degree of reliability - through questionnaires to mangers and auditors - of Finnish companies that adopt IAS. The findings resulting from the responses, both for managers and auditors, recognize as reliable the information provided by several standards whilst, nevertheless, the findings regarding those reliability standards requiring the exercise of judgment, are characterized as neutral.

Richardson et al. (2005) and Bandyopadhyay, Chen, Huang and Jha (2010), measure the degree of reliability through the ability of current earnings to predict the earnings of the following period. This is based on the argument that the error arising from accruals is incorporated into the process of calculating the earnings, consequently weakening the relationship between successive earnings. In other words, the larger the error in the current earnings, the lower the correlation to future earnings, leading to a lower degree of persistence/predictive power. An important problem that arises is that this way of measuring reliability is not consistent with the definition of reliability, as it emerges from the conceptual framework of IAS. It is alleged that this method may lead to conflicting findings concerning the degree of reliability, especially when the revaluation model is used. In particular, it is argued that the use of fair value introduces additional variation in earnings while reducing their predictive ability. Therefore, based on the empirical model of Richardson et al. (2005), the degree of reliability would be characterized as low whilst by the definition derived from the conceptual framework, the reliability is high (as long as the fair values are portrayed without error, presenting the economic reality faithfully).

Finally, findings associated with the reliability and adoption of IAS were identified in 2005 by Van Tendeloo and Vanstraelen, discovering, while using the model of Jones (1991), that the financial statements of German firms that voluntarily adopt IAS are characterized by higher degree of DA, compared with companies that do not adopt IAS. In addition, Chen, Tang, Qingliang, Jiang and Lin (2010) examined 15 European countries and applying inter alia the modified model of Jones and Kothari et al., discover the opposite results than the findings of Van Tendeloo and Vanstraelen (2005). Particularly, they find that the degree of DA is lower in firms adopting IAS, which supports an increase in the quality of their financial statements. In addition, the same researchers examine the quality of accruals through the model proposed in 2002 by Dechow and Dichev, identifying a reduction in standard deviation of the residuals of the model, which again supports a rise in quality.

3. Hypothesis development

3.1 Relevance of Financial Statements and IAS Adoption

Financial statements may be characterized by a high degree of relevance either when used to predict future events or when they confirm the predictions and actions of the past.

Accounting regimes of several countries that adopted IFRS were stakeholder-oriented, with the main purpose to inform stakeholders (state, creditors, banks, etc.). As a natural consequence, the financial statements were prepared with the basic aim of providing information mainly to creditors and the state rather than to the shareholders/investors, thereby reducing the degree of relevance of financial statements for shareholders. Various accounting options that were identified prior to the adoption of IAS and reinforce this case made use of historical values, which in many cases had nothing to do with the current economic prices. Then we have an excessive emphasis on particular accounting principles, such as the matching concept and principle of prudence. These principles restricted the degree of relevance in the financial statements as they impeded the immediate recognition of economic events in the financial statements.

In contrast, the purpose of the Committee of the International Accounting Standards Board has been the creation of standards, mainly oriented to the needs of shareholders; giving them, through financial statements, more relevant information. The above has been achieved through: a) the use of fair value and the less frequent use of historical cost; b) through the weakening of the principle of the matching concept and; c) through the reduction of the degree of conservatism. As a result, the accounting numbers reflected in the financial statements converge with the current economic prices and the information that is integrated to financial statements is reflected in a more timely manner. All of these features lead to an increase in the degree of relevance, since most financial statements reflect current economic events more directly which helps investors in making timely investment decisions.

Apart from the above partial changes, the case for increasing the relevance of financial statements is enhanced by the fact that the ultimate purpose of the IAS Committee was to create standards that will be characterized by high quality. This higher quality results in the strengthening of the degree of relevance, since financial statements then better present the economic reality of a company, with shareholders/investors being able to make better investment decisions. At the same time, the higher quality of accounting statements involves a lower degree of manipulation on behalf of the management as well as a lower degree of non-discretional error - again, having the effect of increasing the degree of relevance in the financial statements.

Finally, by increasing the degree of comparability between the financial statements at both national and international level, investors are able to identify more easily investment opportunities arising from the comparison of the financial statements of two or more companies in the same industry. The degree of comparability at the international level is enhanced, as most financial statements are based on common accounting standards. Indeed, prior to the adoption of IAS, because of the differing accounting systems of each country, this comparison was more difficult to achieve and produced higher costs as users had to make the necessary adjustments between different accounting systems. In contrast, after the adoption of IAS, comparison is achieved a lot easier and at a lower cost. In addition, comparability at the national level is also enhanced, since the use of fair value as the valuation method facilitates users performing better comparisons. Business items that are measured at fair value are easier to compare, given that all are calculated for the current period (i.e. there is a common basis for comparison for all businesses). Instead, when the historical cost of the assets of each company is based on a different point in time, this results a priori in an incorrect comparison. In conclusion, increasing the degree of comparability both at national and international level creates an additional source of information for users, helping them in making investment decisions and increasing the usefulness of financial statements.

In summary, following the adoption of IAS, investors will be able to gather more relevant information from the financial statements more quickly and with greater ease which will aid them in making better investment decisions. The hypotheses which arise are as follows:

Hypothesis 1: The relevance (for shareholders/investors) of the financial statements of firms adopting IAS is greater for the period following the adoption of IAS as compared with the period before the adoption.

3.2 Adoption of IAS and the degree of Faithful Representation/Reliability of Financial Statements

Based on the definition of faithful representation/reliability as defined by the conceptual framework, the financial statements are said to be reliable when they do not contain any material error or bias and reliably reflect the economic events that they present. In particular, the financial statements should be governed by five partial characteristics, to qualify as reliable. First, to faithfully present the economic events; second, they should not be the product of any prejudice whatsoever, i.e. be neutral; third, to present the economic substance of economic events unconstrained by legal aspects; fourth, decisions taken by the management regarding uncertain events which require the exercise of judgment must be taken with caution and finally, the financial statements to be complete.

The purpose of the IAS Committee was the creation and provision, especially to investors, of augmented levels of relevance in the financial statements. Given the interaction between the characteristics of relevance and reliability, increasing the degree of relevance will be attained by increasing the reliability of financial statements. To achieve this objective, the IASB has taken the following actions: First, reduction of alternative accounting methods (e.g. abolition of the LIFO method), which aims to reduce the degree of manipulation of results and thus, increase in their reliability. Second, give focus to the economic substance of events, giving in many cases the option to management to choose the accounting treatment (e.g. introduction of fair value as the valuation method) resulting in the better reflection of economic reality in financial statements. Finally, the detailed presentation of the principles relating to valuation, recognition and publication of the financial statements, suggests that the degree of manipulation by management is reduced and at the same time a rise in terms of completeness is observed.

Additionally, with the adoption of IAS and the increase of the degree of comparability, especially at international level, investors are able to compare the financial statements at a lower cost, identifying omissions and/or errors in accounting statements more easily. This leads to both management and audit firms responsible for auditing the financial statements to be more careful in the drafting and auditing of accounts, resulting in more reliable financial statements.

On the other hand, in some cases, the use of fair value and the exercise of judgment by the management may result in the rise of the degree of manipulation. Moreover, the difficulty of calculating the fair value can introduce an additional estimation error. These elements can cause loss of reliability but are not considered likely to lead to a reduction in the reliability of financial statements in the period following the adoption of IAS.

If one relies on the definition of reliability developed in the first paragraph of this section, it can be concluded that before the adoption of IFRS financial statements were governed by a lower degree of reliability since, due to the use of historical costings, the accounting data did not adequately describe economic reality, because the book values of a firm deviated significantly from the economic values. The deviation from economic reality - an indication of low-level reliability - resulting from the use of historical costs is expected to be greater than the deviation caused by the use of fair value, upon adoption (which as mentioned above, in some cases can be manipulated or can be inaccurate). The fact that the elements that seem to reduce the reliability of financial statements, such as those outlined in the previous paragraph, seem unlikely to prevail and lead to the reduction of the degree of reliability in the period following the adoption of IFRS, combined with the actions taken by the International Accounting Standards Board to increase the reliability, lead to the creation of the following hypothesis:

Hypothesis 2a: The faithful representation/reliability of the financial statements of firms adopting IAS is higher during the period following the adoption of IAS in relation to the period before adoption.

3.2.1 Interaction between Corruption and the Degree of Reliability

The high degree of corruption, among other things, indicates the non- implementation of laws, weaker enforcement of legal sanctions and the existence of non-transparent economic transactions. Therefore, the expected increase in reliability (hypothesis 1a) resulting from the adoption of IAS, does not depend solely on the adoption of IAS, but is also influenced by the degree of corruption in each country.

In many cases, the choice of accounting treatment by the management is allowed by IAS in order to better reflect economic reality. But in countries where corruption is high and the imposition of legal sanctions and law enforcement weaker, this option enables management to manipulate the results with greater ease and without fear of legal sanctions, thus reducing to some extent the reliability of financial statements.

The conclusion is that the proper application of IAS and the reliability of financial statements are directly dependent on the degree of corruption that prevails in each country. The hypothesis which therefore arises is:

Hypothesis 2b: The improvement of the degree of reliability of the financial statements of companies adopting IAS is higher in countries with low corruption.

4. Methodology

4.1 Relevance and Adoption of IAS

The relevance of financial statements is measured using two alternative methods. The first method examines relevance through a linear model that has earnings and the book value of equity as independent variables, with the share price six months after the end of the fiscal year as a dependent. The second method examines relevance through a linear model that has the total assets and total liabilities as independent variables and the share price six months after the end of the fiscal year as the dependent.

4.1.1 Measuring Relevance - First Method

The first method for measuring the relevance examines the relationship between accounting and market data. Specifically, we study the simultaneous relationship between both, the market price of a share at time t+6 months and also the accounting results along with the book value of equity at time t (Francis 1999, Barth et al., 2008, Kim, 2005). Furthermore, following a similar methodology to Bartov, et al. 2005, (an incremental approach), the dummy variable Post is introduced in the model, in an attempt to identify the changes (resulting from the transition of countries in IAS) of the two independent variables of the model. The model developed is the following:

$$P_{it+6} = a_0 + a_1 Post + a_2\ Bvps_{it} + a_3\ Eps(1)_{it} + a_4\ Post{*}Bvps_{it} + a_5\ Post{*}Eps_{it} + u_{it+6} \qquad (1)$$

P_{it+6} = Market share price at time t +6 months,
$Bvps_{it}$ = Book value of equity per share,
$Eps(1)_{it}$ = Income (before extraordinary items) per share,
Post = Dummy - variable equals to 1 for the period after the adoption of IAS and to 0 for the period prior.
U_{it+6} = residuals

Essentially, the ability of earnings and the book value of equity to explain future stock prices are identified using the model (1). The higher this ability is, the higher the degree of relevance of specific accounting data, since users are able to make better investment decisions. Moreover, the change in relevance of financial statements prepared according to IFRS (period after the adoption of IFRS) is revealed through the Post dummy variable. Specifically, for the period after adoption, the coefficient of the book value of equity is equal to a2 plus a4 and the coefficient of earnings is equal to a3 plus a5. Thus, if the coefficients a4 and a5 are positive (negative) and statistically significant, it implies that the relevance of the book value of equity and earnings respectively, are larger (smaller) in the period following the adoption.

Finally, the relative approach is also used to detect the change of relevance. Specifically, the R^2 of regression (2) is identified for each period separately (before and after adoption).

$$P_{it+6} = a_0 + a_1\ Bvps_{it} + a_2\ Eps(1)_{it} + u_{it+6} \qquad (2)$$

If the coefficient of determination (R^2), after the adoption of IAS, is larger (smaller) we then conclude that the explanatory ability of the two independent variables on future stock prices is higher (lower), suggesting the increase (decrease) of the degree of relevance of book value of equity and earnings. The statistical significance of the difference between the two R^2 results is examined through a test used by Van der Meulen, Gaeremynck and Willekens in 2007, which was based on the analysis of Crammer (1987) (appendix1).

4.1.2 Measuring Relevance - Second Method

The second method for measuring relevance examines the relationship between balance sheet information and market data. The methodology that is being followed is similar to the previous one. In this case, the simultaneous relationship between the market price of one share at time t +6 months and the total assets and total liabilities at time t, is examined (Francis, 1999). The variable Post is introduced again to identify differences between the periods ex antes and ex post the adoption. The model developed is as follows:

$$P_{it+6} = a_0 + a_1 Post + a_2\ TA_{it} + a3\ TL_{it} + a_4\ Post*TA_{it} + a_5\ Post*TL_{it} + u_{it+6} \qquad (3)$$

Pit +6 = Market share price at time t +6 months,
TA it = Total assets per share,
TL it = Total liabilities per share,
Post = Dummy-variable equals to 1 for the period after the adoption of IAS and to 0 for the period prior.
Uit+6 = residuals

Through the model (3), the ability of the total assets and total liabilities to explain the future stock prices is revealed. As in the previous model, the higher that ability is, the higher the degree of relevance of specific accounting items. To detect the change of relevance between the two periods - before and after the adoption – the variable Post is reentered. So, for the period after the adoption the coefficient of total assets is equal to a2 plus a4, while the coefficient of total liabilities equals a3 plus a5. Unlike the first model, the signs of the coefficients are not expected to be all positive. The fact that an increase in total assets is expected to result in an increase in the stock price, while an increase in total liabilities is expected to reduce the stock price, results in the coefficient a2 to be expected as positive, whereas the a3 to be expected as negative. For this reason, in case of increase (decrease) of relevance of total liabilities upon adoption, a5 is expected to be negative (positive) and statistically significant. Conversely, when total assets are more (less) relevant after the adoption, a4 is predicted to be positive (negative) and statistically significant.

To detect the change of relevance (as in the first method), the relative approach is used interchangeably. Specifically, the R of regression (4) for each period separately (before and after adoption) is identified.

$$P_{it+6} = a_0 + a_1\ TA_{it} + a_2\ TL_{it} + u_{it+6} \qquad (4)$$

If the coefficient of determination (R^2), after the adoption of IAS, is larger (smaller) the conclusion drawn is that the explanatory ability of the two independent variables on future stock prices is higher (lower), suggesting the increase (decrease) of relevance of the total assets and total liabilities.

4.2 Reliability/Faithful Representation and Adoption of IAS

The reliability of financial statements is measured by two alternative methods. The first method examines the degree of reliability through a linear model with cash flows from operating activities and accruals at time t acting as independent variables, while cash flow from operating activities in t + 1 is designated as the dependent variable. The second method examines the degree of reliability through a linear model that defines the following independent variables: 1) accruals (amounts recognized in year t and which are disbursed to the next), 2) Cpcf, amounts recognized in year t and disbursed in it and 3) deferrals (amounts relating to the fiscal year t+2 and disbursed to t +1) and the cash flow from operating activities in t +1 as the dependent variable.

4.2.1 Measuring reliability - First Method

The first model used to measure reliability was developed by Kim (2005). Specifically, cash flows from operating activities and accruals at time t are set as the independent variables, whilst cash flows from operating activities in t +1 are the dependent variable. The model which emerges is the following:

$$Cfo_{it+1} = a_0 + a_1\, Cfo_{it} + a_2\, Acc_{it} + u_{it+1} \qquad (5)$$

Cfo it +1 = Cash flows from operating activities in t + 1 / Total assets at t,
Cfo it = Cash flows from operating activities in t / Total assets at t-1,
Accit = DWC - DEP,
DEP = Depreciation / Total Assets at t-1,
DWC = change in net accounts Receivables / total assets at t-1, plus change in inventory / Total assets at t-1, plus change in other current assets / total assets at t-1, minus change in accounts payable / Total assets at t-1, minus change in taxes payable / total assets at t-1, minus change in other current liabilities / Total assets at t-1, minus change in deferred taxes / Total assets at t-1.
Uit+1 = residuals

Reliability is defined as the ability of the two independent variables to explain the cash flows from operating activities in t +1. This ability is identified by the coefficient of determination of the model (R^2). In other words, the identification of higher R^2 indicates a higher degree of reliability of the financial statements and, vice versa. The comparison of reliability between the two periods - before and after the adoption - is performed by comparing the R^2 of two independent samples. The statistical significance of the difference between the two R^2 results is examined through a test used by Van der Meulen et al, in 2007, which was based on the analysis of Crammer (1987) (appendix1).

4.2.2 Measuring reliability - Second Method

The second model used to measure reliability is based on the model developed by White in 2007. The two important properties of the model are that the calculation of accruals is not based on changes in the accounting items ('traditional' approach), as older models (Dechow and Dichev, 2002, McNichols, 2002, Kim and Kross, 2005 etc.), but on their closing balances. Furthermore, a distinction between accruals and deferrals is made, departing from the previous definition of accruals that integrated the cumulative accruals and deferrals.

The underlying logic of the model is to isolate the amounts recognized in year t and which are disbursed to the next (t +1) (payable/accruals), the amounts recognized in the year t +1 and disbursed to it as well as the amounts disbursed in fiscal year t +1 and related to upcoming year (prepaid/deferrals). Finally, White (2007) examines the ability of these three variables to explain cash flows at t +1. The basic assumption of the model is that short-term assets and liabilities are recovered or settled within twelve months.

The higher the capacity of the three independent variables in explaining the dependent variable, the higher the degree of reliability of the financial statements. In other words, when the accruals (payable/accruals at time t and prepaid/deferrals at time t+1) explain the operating cash flows at time t+1, then the management estimates relating to accruals can be regarded as reliable. Finally, the explanatory ability of the independent variables is measured by the coefficient of determination of the model (R^2). The higher the R^2, the more reliable the financial statements, and vice versa. As in the previous model, the comparison of reliability between the two periods - before and after the adoption - is performed by comparing the R^2 of two independent samples. Again, the statistical significance of the difference between the two R^2 is examined through the test used by Van der Meulen et al, in 2007. The model which emerges is the following:

$$Cfo_{it+1} = a_0 + a_1\, Accr_{it} + a_2\, Cpcf_{it} + a_3 Def_{it+1} + u_{it+1} \qquad (6)$$

Cfo_{it+1} = Cash flows from operating activities in t + 1 / Total assets at t,
$Accr_{it}$ = Net accounts receivables / Total assets at t-1, minus other current liabilities / Total assets at t-1, minus inventory accruals / Total assets at t-1,
$Cpcf_{it}$ = operating income before depreciation at time t minus $Accr_{it}$ plus Def_{it-1}.
Def_{it+1} = other current assets / Total assets at t, plus inventory deferrals / Total assets at t,
U_{it+1} = residuals

A further assumption made by White (2007) that is required for the calculation of variables $Accr_{it}$ and Def_{it+1} is associated with inventory. Specifically, he supposes that when the closing balance of inventory is larger than the accounts payable, the difference between the two is inventory purchased with cash during the current year. So, this difference comprises inventory deferral, since, while paid in the current year, it will be nevertheless recognized as an expense in the next year through the cost of sales. On the other hand, if inventory accounts are less than the accounts payable, the difference between the two is supposed to be inventory that has not been paid (inventory accruals).

Finally, White (2007) argues that the introduction of the independent variable Cpcfit+1 introduces systematic measurement error in the regression (White, 2007: 18). Hence, he uses a proxy variable; the $Cpcf_{it}$.

5. Sample

The sample of this study consists of listed companies from 15 European countries, which according to the classification published by the FTSE Group in September 2009 (FTSE, Country Classification, 2009) are characterized as developed. The countries considered are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the UK. To categorize the country the FTSE takes into account the characteristics of each country related to: 1) market and regulatory environment, 2) custody and settlement, 3) dealing landscape and 4) the derivatives market. More detailed information on the classification criteria are provided in Appendix 2.

The period considered for this research is 10 years and consists of the period prior to (2000-2004) and the period after (2005-2009) the adoption of IAS. Given that there is an examination of the effects of IFRS on the financial statements of companies that are mandatory IAS adopters, firms which are either voluntary adopters of IAS or adopted them after 2005 (as listed on the London Stock Exchange Alternative Investment Market - AIM) – these are excluded from the sample. In other words, any firms whose first publication of their financial statements under IAS was from 2005 or after are not included.

The data for the sample was provided by DataStream database. In addition, other than the aforementioned exceptions, firms in the financial sector are also excluded (so that the findings can be directly compared with previous research), since the exclusion of financial firms from samples of previous research that are related is almost ubiquitous. Additionally, according to the existing literature, companies with capital of negative book value are excluded. Among others, Collins, Maydew and Weiss (1997) and Collins, Pincus and Xie (1999) and Brown, Lo and Lys (1999) argue that the samples used for the measurement of relevance should incorporate only positive observations of book value of equity. In addition, 2% of the extreme values are deleted.

The process of the creation of the final samples, as discussed in the previous paragraphs, is summarized in Tables 1 and 2. In Table 1, where we sum the observations of all countries, the steps of the sample creation are presented in detail, while Table 2 shows the final number of observations in each country and each period (before and after adoption), separately.

Table 1 – Sample selection for IFRS mandatory adopters

	(N) 2000 - 2009
Original sample	49923
Minus:	
Observations for companies / fiscal year different from 1/1-31/12	13996
Observations for companies in the financial sector	3074
Observations for companies with negative book value of equity	1153
Voluntary adopters	14397
Data not available	886
Outliers (2%)	327
Final sample	**16090**

The final sample that consists of 16090 observations, has been derived from the relevance measure resulting from regression Pit +6 = a0 + a1Post + a2 Bvpsit + a3 Epsit + a4 Post * Bvpsit + a5 Post * Epsit. The total number of observations arising from other models used throughout this paper vary since the data, that are unavailable, are not the same for each model.

Table 2 - Final sample per country for the periods prior to and post the adoption of IAS

Country	2000 -2004	2005 – 2009	Total 2000 - 2009
Austria	56	30	86
Belgium	218	215	433
Denmark	374	232	606
Finland	404	400	804
France	1611	1453	3064
Germany	619	418	1037
Greece	908	890	1798
Ireland	117	84	201
Italy	703	796	1499
Luxembourg	40	29	69
Netherlands	410	399	809
Portugal	196	150	346
Spain	433	427	860
Sweden	928	891	1819
UK	1645	1014	2659
Total Observations	8662	7428	16090

The final sample that consists of 8662 and 7428 observations relate to the periods before and after the adoption correspondingly, has been derived from the relevance measure resulting from regression Pit +6 = a0 + a1Post + a2 Bvpsit + a3 Epsit + a4 Post * Bvpsit + a5 Post * Epsit. The total number of observations arising from other models used throughout this paper vary since the data, that are unavailable, are not the same for each model.

6. Results

6.1 Descriptive Statistics

In Table 3 the descriptive elements of the sample are presented. Specifically, it presents the descriptive elements of the 15 countries examined (cumulative) and involves the period before and after the adoption of IAS. A detailed description of the variables used is presented in the table. It is observed that in the period following the adoption of IAS there is a statistically significant increase in both the averages and the median book value of equity and earnings. In contrast, the average of total assets and total liabilities do not appear to differ between the two periods.

Table 3 – Descriptive statistics

	2000-2004					2005-2009				
Variable / Model	**Mean**	**Median**	**Q1**	**Q3**	**Sd**	**Mean**	**Median**	**Q1**	**Q3**	**Sd**
Relevance 1										
Pt+6	15.43	4.49	1.58	12.80	43.36	19.63***	6.17***	2.00	17.6	50.12
Bvps t	10.61	2.46	0.93	7.20	50.83	12.60***	3.26***	1.29	9.17	42.14
Eps(1) t	0.52	0.14	-0.04	0.68	5.49	1.12***	0.28***	0.016	1.1	4.65
Relevance 2										
Pt+6	14.14	4.55	1.62	12.90	32.52	17.32***	6.10***	2.00	17.30	35.66
TA t	35.46	8.48	2.51	27.09	101.15	33.67	9.24***	3.46	26.94	89.89
TL t	21.66	4.49	1.07	16.17	65.65	20.58	5.01***	1.75	15.92	61.42
Reliability 1										
Cfot+1	0,07	0,08	0,03	0,12	0,15	0,07	0.07***	0,03	0,12	0,11
Accr t	0,08	0,08	-0,01	0,18	0,2	0,08	0,08	-0,01	0,18	0,17
Cpcf t	0,07	0,06	-0,05	0,17	0,27	0.08***	0.08***	-0,05	0,19	0,22
Def t+1	0,07	0,03	0,01	0,1	0,11	0.06**	0.02***	0,00	0,1	0,1
Reliability 2										
Cfot+1	0,09	0,09	0,05	0,13	0,09	0.08***	0.08***	0,04	0,12	0,08
Cfo t	0,08	0,08	0,05	0,12	0,09	0.09***	0.09***	0,05	0,13	0,08
Acc	-0,05	-0,06	-0,09	-0,02	0,09	-0.04***	0.03***	-0,07	0,00	0,08

The model Relevance 1 refers to the regression: Pit +6months = a0 + a1Bvpsit + a2Eps (1) it + a3Post * Bvpsit + a4Post * Eps (1) it. The model Relevance 2 refers to the regression: Pit +6months = a0 + a1TAit + a2TLit + a3 Post * TAit + a4 Post * TLit. The model Reliability 1 refers to the regression: Cfoit +1year = a0 + a1Accrit + a2Cpcfit + a3Defit +1year, and model Reliability 2 refers to the regression : Cfoit +1year = a0 + a1Cfoit + a2Accit.

Variables : Pit +6 months = Market share price at time t +6, Bvps it = Book value of equity per share , Eps (1) it = Income (before extraordinary items) per share , Post = dummy-variable that takes the value 1 for the period after the adoption of IAS and the value 0 for the period prior , TA it = Total assets per share , TL it = Total liabilities per share , Cfo it +1 = Cash flows from operating activities in t + 1 / Total assets at t, Cfo it = Cash flows from operating activities in t / Total assets at t-1, Accr it = Net accounts receivables / Total assets at t-1, minus other current liabilities / Total assets at t-1, minus inventory accruals / Total assets at t-1, Def it +1 = Other current assets / Total assets at t, plus inventory deferrals / Total assets at t, Cpcf it = operating income before depreciation at time t minus Accr it plus Def it-1, Accit = DWC - DEP, DEP = Depreciation / Total Assets at t-1, DWC = change in net accounts Receivables / total assets at t-1, plus change in inventory / Total assets at t-1, plus change in other current assets / total assets at t-1, minus change in accounts payable / Total assets at t-1, minus change in taxes payable / total assets at t-1, minus change in other current liabilities / Total assets at t-1, minus change in deferred taxes / Total assets at t-1, *** = 1% statistically significant , ** = 5% statistically significant , * = 10% statistically significant , T-test and Wilcoxon rank sum test have been used to test for differences means and median, respectively.

The correlation tables are presented in the third appendix. Specifically, two tables have been created. More specifically, the first correlation matrix concerns the period before the adoption of IAS and the second regards the period after the adoption.

With regards to the correlation tables, above (according to Pearson) and below (according to Spearman) the diagonal of correlations are shown. It is observed that the positive correlation between the earnings and stock prices (Pt+6) is strengthened significantly after the adoption (from 0.5693 to 0.7595), a finding that is consistent with the hypothesis of increases in relevance of financial statements, namely of the earnings. Also, the negative correlation of the variable of accruals (Accr) - as calculated in the first measurement reliability model and which concerns amounts to be disbursed within a year - and the cash flows from operating activities at t+1 is becoming statistically significant at the 1% level after the adoption, a relationship which is consistent with the hypothesis of increases in the reliability of financial statements.

6.2 Empirical Findings

6.2.1 Degree of Relevance and Adoption of IAS

According to the first hypothesis, the degree of relevance of the financial statements is expected to be higher during the period following the adoption of IAS, as compared with the period before.

Table 4 illustrates the degree of relevance of earnings and the book value of equity, with respect to the stock price six months after the end of the year. The degree of relevance is tested both through the incremental approach as well as the relative approach.

In order to detect the change of the degree of relevance through the incremental approach, the dummy-variable Post is used. Specifically, in cases of increase of the degree of relevance after the adoption of IFRS, the signs of the coefficients a4 and a5 of regression 1 are expected to be positive, since the dummy-variable takes the value 1 for the period following the adoption. The earnings seem to be more relevant in the period after the adoption – concerning the sample containing all 15 countries surveyed – since the coefficient a5 is positive (2.272850) and statistically significant at the 1% significance level. Looking at individual countries it is observed that the coefficient a5 is positive in most countries and in many cases, statistically significant. More specifically, Denmark, the Netherlands, Sweden and the UK[3], relevance of earnings seems to be growing at a significance level of 1% after the adoption, in Finland, France[4] and Italy[5] at the 5% level and finally, in Portugal at 10%. As for Austria, Germany, Ireland, Luxembourg and Spain[6], although the coefficient a5 is found to be positive, which implies an increase of the degree of relevance, it is not however statistically significant. Belgium and Greece are the only exceptions to the findings, with the coefficient a5 being negative, but once again not statistically significant.

Regarding the variable of the book value of equity and the degree of relevance, the findings[7] that are identified are not as strong as those of earnings but remain in the same direction which further supports the first hypothesis. For the sample containing the aggregate of the 15 countries, the coefficient a4 is positive (0.222278), but not statistically significant. More specifically, Belgium and Greece[8] have increased the degree of relevance of the book value of equities in the period following the adoption of IAS, at a significance level of 1%, while a statistically significant decrease in the coefficient a4 is not observed in any country

The results obtained from the relative approach are consistent with the findings obtained through the incremental approach, again indicating an increasing degree of relevance. Specifically, through the relative approach, the R^2 of regression (2) is detected separately for each period (before and after adoption). The results found indicate a statistically significant increase in the coefficient of determination at the level of 5% in Belgium and Sweden and at 10% in France and Ireland. Finally, the coefficient of determination of the total sample (which incorporates all 15 countries) is higher for the period after the adoption at a significance level of 5%. The findings suggest that the explanatory ability of the two independent variables on future stock prices (t+6) is higher in the period after the adoption of IAS, suggesting an increase in the degree of relevance of book value of equity and earnings.

3 Similar results were found by Horton and Serafeim (2007 & 2010).
4 Similar results were found by Horton and Serafeim (2007).
5 Similar results were found by Horton and Serafeim (2007).
6 Similar results were found by Horton and Serafeim (2007).
7 Horton and Serafeim (2010) and Capkun et al. (2008) identify similar results regarding the degree of relevance regarding equities in the UK. Specifically, a change in equity relevance is not detected.
8 Similar results were detected by Iatridis and Rouvolis (2010).

Table 4 - Relevance 1

	Incremental Approach							Relative Approach		
	$P_{it+6} = a_0 + a_1Post + a_2\ Bvps_{it} + a_3\ Eps(1)_{it} + a_4\ Post{*}Bvps_{it} + a_5\ Post{*}Eps(1)_{it} + u_{it+6}$ (1)							$P_{it+6} = a_0 + a_1 Bvps_{it} + a_2\ Eps(1)_{it} + u_{it+6}$ (2)		
Country	a_0	a_1	a_2	a_3	a_4	a_5	2000-2009 Ad.R^2	2000-2004 Ad.R^2	2005-2009 Ad.R^2	Difference Ad.R^2
Austria	12.16***	15.66*	0.43***	1.35	-0.07	2.84	76%	88%	65%	-23%
Belgium	40.27***	-35.13**	0.31	4.50***	0.81***	-1.97	84%	61%	96%	35%**
Denmark	6.54***	5.73***	0.78***	1.37**	-0.14	3.022***	69%	72%	65%	-7%
Finland	2.32***	0.19	0.79***	3.18***	0.20	1.77**	64%	61%	64%	3%
France	18.38***	-1.25	0.60***	2.28***	-0.06	2.32**	52%	45%	57%	12%*
Germany	0.13	-0.70	1.95***	1.91***	-0.34	1.87	61%	61%	60%	-1%
Greece	1.73***	-0.71***	0.25**	6.24***	0.47***	-0.67	50%	43%	53%	10%
Ireland	2.77***	0.33	0.25	4.95***	0.26	2.92	58%	35%	67%	32%*
Italy	1.41***	0.04	1.18***	1.46***	-0.07	1.29**	61%	67%	57%	-10%
Luxembourg	25.71*	7.41	0.59***	-0.19	0.05	1.79	63%	31%	79%	48%
Netherlands	6.27***	1.35	0.81***	0.81***	-0.04	2.50***	57%	53%	57%	4%
Portugal	1.32***	1.05*	0.68***	0.62**	-0.01	1.05*	41%	48%	30%	-18%
Spain	2.49***	2.516***	0.66***	7.08***	-0.33	1.68	68%	73%	63%	-10%
Sweden	2.50***	0.21	0.74***	1.14***	0.18	1.77***	49%	40%	54%	14%**
UK	0.70***	0.24**	1.24***	0.43**	0.01	2.80***	46%	40%	47%	7%
All countries	3.81***	-2.98*	0.33**	1.82***	0.22	2.27***	55%	52%	67%	15%**

Variables: Pit +6 = Market share price at time t +6 months, Bvps it = Book value of equity per share, Eps (1) it = Income (before extraordinary items) per share, Post = Dummy - variable equals to 1 for the period after the adoption of IAS and to 0 for the period prior. The technique bootstrapping (Van der Meulen et. al 2007 and Crammer 1986) is used to control the statistical significance of differences in R2. *** = 1% statistical significance, ** = 5% statistically significant, * = 10% statistically significant.

Table 5 illustrates the degree of relevance of balance sheet items. More specifically, it examines the relevance of total assets and total liabilities with respect to the stock price six months after the end of the year. The degree of relevance is tested once again through both the incremental approach and relative approach. Where there is an increase in relevance after the adoption of IAS and since the dummy-variable Post takes the value 1 for the period following the adoption, the coefficient a4 of regression 3 is expected to be positive, while the coefficient a5 for the same regression is expected to be negative (incremental approach). The difference in signs stems from the fact that an increase in total assets is expected to result in an increase in the stock price, while an increase in total liabilities is expected to reduce the stock price. At a significance level of 1% - of the total sample of 15 countries - the degree of relevance of both total assets and total liabilities increased in the period after the adoption. More specifically, the coefficient a4 which reflects the change in the degree of relevance of the total assets is equal to 0.357285 and coefficient a5, which reflects the change of relevance of all liabilities, is equal to -0.437955. With regards to the results of each individual country, the relevance of total assets seems to grow at a significance level of 1% in France, the Netherlands and the UK, at 5% in Belgium, Luxembourg and Sweden and at 10% in Denmark, Ireland and Portugal. Moreover, the relevance of total liabilities seems to be growing in terms of significance level at 1% in France, the Netherlands and the UK, at 5% level in Belgium and Portugal and, 10% level in Denmark and Luxembourg. It is worth mentioning the fact that there are no statistically significant results that are not in line with the hypothesis which relates to the increase in relevance.

At the same time, the results obtained from the relative approach (Table 5, regression 4) indicate a statistically significant increase in the coefficient of determination (during the period following the adoption of IAS) at 5% in Sweden and at 10% level in France, Germany, Luxembourg and the Netherlands. Finally, the coefficient of determination of the total sample (which incorporates all 15 countries) increases in the period after the adoption, at a significance level of 1%. The findings suggest that the explanatory ability of the two independent variables on future stock prices (t+6) is higher in the period after the adoption of IAS, suggesting an increase in the degree of relevance of total assets and total liabilities.

Table 5 - Relevance 2

	Incremental Approach							Relative Approach		
	$P_{it+6} = a_0 + a_1 Post + a_2 TA_{it} + a3\ TL_{it} + a_4 Post*TA_{it} + a_5 Post*TL_{it} + u_{it+6}$ (3)							$P_{it+6} = a_0 + a_1 TA_{it} + a_2 TL_{it} + u_{it+6}$ (4)		
Country	a_0	a_1	a_2	a_3	a_4	a_5	2000-2009 Ad.R^2	2000-2004 Ad.R^2	2005-2009 Ad.R^2	Difference Ad.R^2
Austria	9.20**	18.41**	0.58***	-0.85***	-0.06	-0.02	77%	75%	75%	0%
Belgium	13.93***	4.28	0.43***	-0.23	0.37**	-0.62**	52%	57%	53%	-4%
Denmark	8.59***	4.58*	0.44***	-0.395***	0.26*	-0.38*	43%	40%	44%	4%
Finland	4.07***	1.55**	0.19**	-0.10	0.26	-0.16	31%	27%	30%	3%
France	15.99***	7,17***	0.57***	-0.55***	0.31***	-0.53***	41%	35%	46%	11%*
Germany	0.75	-0.42	1.37***	-1.30***	0.16	-0.23	71%	57%	79%	22%*
Greece	-0.03	0.67	1.12***	-1.05***	-0.15	0.16	57%	47%	61%	14%
Ireland	1.10**	0.31	1.09***	-0.87*	1.17*	-1.54	46%	49%	41%	-8%
Italy	1.63***	0.49	1.11***	-1.19***	-0.06	0.15	41%	43%	40%	-3%
Luxembourg	75.53***	14.63	0.20**	-0.45***	0.30**	-0.45*	48%	11%	67%	56%*
Netherlands	7.39***	0.63	0.21**	-0.02	0.50***	-0.55***	33%	18%	40%	22%*
Portugal	0.66	2.28***	0.33***	-0.22	0.43*	-0.67**	39%	22%	22%	0%
Spain	4.12***	1.49	0.53***	-0.41**	0.32	-0.32	34%	28%	36%	8%
Sweden	3.06***	1.08	0.47***	-0.46***	0.22**	-0.10	31%	22%	36%	14%**
UK	0.91***	-0.02	0.50***	-0.07	0.54***	-0.58***	33%	26%	35%	9%
All countries	2.59***	0.45	0.29***	-0.22**	0.35***	-0.43***	44%	33%	46%	13%***

Variables: Pit +6 = Market share price at time t +6 months, TA it = Total assets per share, TL it = Total liabilities per share, Post = Dummy - variable equals to 1 for the period after the adoption of IAS and to 0 for the period prior. The technique bootstrapping (Van der Meulen et. al 2007 and Crammer 1986) is used to control the statistical significance of differences in R2. *** = 1% statistical significance, ** = 5% statistically significant, * = 10% statistically significant.

6.2.2 Adoption of IAS and the degree of Reliability of financial statements

According to the second hypothesis, reliability of financial statements is expected to increase in the period following the adoption of IAS. Moreover, this increase is expected to be larger in countries with a low degree of corruption. Tables 6 and 7 illustrate the findings on this matter.

The change of the degree of reliability is detected by the linear models 5 and 6 and, more specifically, by examining the change of the coefficient of determination (R^2). In case of increasing reliability, the R^2 of each regression is expected to be higher in the period after the adoption than the period before. The results from both methods demonstrate a marginal increase in the degree of reliability but are not statistically significant whatsoever. Specifically, with regards to the total sample, the change of R^2 regarding both regression 5 and 6, shows a marginal non-significant increase in reliability at the rate of 3% and 2%, respectively (Table 5, 6). Moreover, the vast majority of countries show a marginal increase in terms of reliability through both regressions 5 and 6, without however being statistically significant. Instead, what is noteworthy is the significant reduction in the reliability of financial reporting in Greece. Both methodologies lead to similar conclusions. Through regression 6 (Table 7) a statistically significant reduction in reliability (-14%) at 10% is observed, while through regression 5 (Table 6) a decrease (-12%) is noticed, however, without being statistically significant. This finding suggests that there is a weakness vis-à-vis the conversion of accruals to future cash flows (t+1). This finding may be due to manipulation of existing accruals and, therefore, lacks the ability to predict future cash flows.

Table 6 – Reliability 1

$$Cfo_{it+1} = a_0 + a_1\, Cfo_{it} + a_2\, Acc_{it} + u_{it+1} \qquad (5)$$

Country	a_0	a_1	a_2	Ad.R^2	Dif.R^2
Austria prior IAS	N/A	N/A	N/A	N/A	
Austria post IAS	N/A	N/A	N/A	N/A	N/A
Belgium prior IAS	0,023408***	0,700531***	-0,155962*	57%	
Belgium post IAS	0,009965	0,766495***	0,036283	57%	0%
Denmark prior IAS	0.045572***	0.527018***	-0.047108	32%	
Denmark post IAS	0.010500	0.674692***	-0.121262	40%	+08%
Finland prior IAS	0.063284***	0.616493***	0.293893***	40%	
Finland post IAS	0.023441*	0.621581***	-0.039133	42%	+02%
France prior IAS	0.011875	0.803262***	-0.102594***	56%	
France post IAS	0.012475***	0.717867***	-0.151535***	55%	-01%
Germany prior IAS	0.015722	0.785695***	-0.033442	55%	
Germany post IAS	0.005208	0.765234***	-0.051882	57%	+02%
Greece prior IAS	0.020470	0.664418***	-0.163557***	49%	
Greece post IAS	0.017109**	0.408962***	-0.068595*	37%	-12%
Ireland prior IAS	0.007922	0.870381***	0.124664	54%	
Ireland post IAS	-0.011680	0.838488***	-0.003336	75%	+21%
Italy prior IAS	0.016764**	0.723616***	-0.098881*	62%	
Italy post IAS	0.007150*	0.740341***	0.029687	57%	-05%
Luxembourg prior IAS	N/A	N/A	N/A	N/A	
Luxembourg post IAS	N/A	N/A	N/A	N/A	N/A
Netherlands prior IAS	0.023324**	0.630556***	-0.156781**	41%	
Netherlands post IAS	0.012953	0.755618***	0.009196	43%	+02%
Portugal prior IAS	0.062338***	0.393428***	0.210283*	23%	
Portugal post IAS	0.034780***	0.614675***	0.062435	25%	+02%
Spain prior IAS	0.024523***	0.746020***	-0.101890*	53%	
Spain post IAS	0.011698	0.647847***	-0.024353	50%	-03%
Sweden prior IAS	0.032465***	0.774999***	0.150639	56%	
Sweden post IAS	0.004670	0.809670***	-0.050508	62%	+06%
UK prior IAS	0.029257***	0.678014***	-0.053255	48%	
UK post IAS	0.022877***	0.717410***	0.022448	55%	+07%
All countries prior IAS	0.023369***	0,698654***	-0,093846***	51%	
All countries post IAS	0,014563***	0,679640***	-0.052264**	54%	+03%
Countries with low corruption-prior IAS	0.026736***	0.738618***	0.012380	52%	
Countries with low corruption-post IAS	0.007895	0.756328***	-0.038646	56%	+4%
Countries with moderate-corruption prior IAS	0.027605***	0.710540***	-0.048811**	52%	
Countries with moderate corruption-post IAS	0.019246***	0.684983***	-0.049401**	52%	0%
Countries with high corruption-prior IAS	0.017454*	0.680636***	-0.146830***	53%	
Countries with high corruption-post IAS	0.019981**	0.509181***	-0.050729	43%	-10%*

Variables : Cfo it +1 = Cash flows from operating activities in t + 1 / Total assets at t, Cfo it = Cash flows from operating activities in t / Total assets at t-1, Accit = DWC - DEP, DEP = Depreciation / Total Assets at t-1, DWC = change in net accounts Receivables / total assets at t-1, plus change in inventory / Total assets at t-1, plus change in other current assets / total assets at t-1, minus change in accounts payable / Total assets at t-1, minus change in taxes payable / total assets at t-1, minus change in other current liabilities / Total assets at t-1, minus change in deferred taxes / Total assets at t-1. The technique bootstrapping (Van der Meulen et. al 2007 and Crammer 1986) is used to control the statistical significance of differences in R2. *** = 1% statistical significance, ** = 5% statistically significant, * = 10% statistically significant. Countries with low corruption: Denmark, Finland, Sweden, Holland, Germany, Ireland. Countries with moderate corruption: United Kingdom, France, Belgium, Spain, Portugal. Countries with high corruption: Greece, Italy

Table 7 – Reliability 2

$$Cfo_{it+1} = a_0 + a_1\,Accr_{it} + a_2\,Cpcf_{it} + a_3 Def_{it+1} + u_{it+1} \quad (6)$$

Country	a₀	a₁	a₂	a₃	Ad.R^2	Dif.R^2
Austria prior IAS	N/A	N/A	N/A	N/A	N/A	
Austria post IAS	N/A	N/A	N/A	N/A	N/A	N/A
Belgium prior IAS	0.053841***	0.458294***	0.491071***	-0.488781***	35%	
Belgium post IAS	0.031848**	0.435261***	0.455288***	-0.446718***	37%	+02%
Denmark prior IAS	0.053486***	0.276663***	0.311016***	-0.258504***	26%	
Denmark post IAS	0.013817	0.405450***	0.491272***	-0.298439**	30%	+04%
Finland prior IAS	0.046618***	0.446586***	0.434642***	-0.384064***	31%	
Finland post IAS	0.025091**	0.420719***	0.420765***	-0.387396***	34%	+03%
France prior IAS	0.013893***	0.490413***	0.543300***	-0.405532***	41%	
France post IAS	0.035769***	0.405287***	0.424838***	-0.429485***	37%	-04%
Germany prior IAS	0.049738***	0.391306***	0.358156***	-0.311784***	18%	
Germany post IAS	0.044549***	0.377510***	0.350319***	-0.304601***	20%	+02%
Greece prior IAS	0.051675***	0.317424***	0.411615***	-0.319937***	34%	
Greece post IAS	0.026932***	0.262231***	0.310442***	-0.267125***	20%	-14%*
Ireland prior IAS	0.008520	0.623473***	0.695307***	-0.825284***	68%	
Ireland post IAS	-0.005167	0.765669***	0.873684***	-1.281223***	80%	+12%
Italy prior IAS	0.035218***	0.504746***	0.574944***	-0.471676***	43%	
Italy post IAS	0.015524***	0.453534***	0.495183***	-0.394627***	42%	-01%
Luxembourg prior IAS	0.108182***	0.399818*	0.159990	-1.994322**	08%	
Luxembourg post IAS	0.084120	-0.060655	0.071180	1.663460*	14%	+06%
Netherlands prior IAS	0.050278***	0.255492***	0.362896***	-0.285793***	23%	
Netherlands post IAS	0.024451	0.396806***	0.522251***	-0.321675***	25%	+02%
Portugal prior IAS	0.032597***	0.309625**	0.421276***	-0.295064*	18%	
Portugal post IAS	0.011993	0.567541***	0.631984***	-0.515863***	33%	+15%
Spain prior IAS	0.055666***	0.353621***	0.400445***	-0.317989***	28%	
Spain post IAS	0.023976***	0.391285***	0.454414***	-0.341716***	39%	+11%
Sweden prior IAS	-0.010660	0.510484***	0.608274***	-0.324371	46%	
Sweden post IAS	-0.016441*	0.561365***	0.591229***	-0.255437***	50%	+04%
UK prior IAS	0.001830	0.360608***	0.512062***	-0.283804***	42%	
UK post IAS	0.019924***	0.467115***	0.487702***	-0.396173***	41%	-01%
All countries prior IAS	0.025848***	0.442617***	0.459280***	-0.295475***	35%	
All countries post IAS	0.016293***	0.450523***	0.489532***	-0.333095***	37%	+02%
Countries with low corruption-prior IAS	0.027127***	0.487748***	0.484303***	-0.356328***	38%	
Countries with low corruption-post IAS	0.001231	0.497264***	0.533139***	-0.304032***	42%	+04%
Countries with moderate-corruption prior IAS	0.022311***	0.423948***	0.439616***	-0.291573***	38%	
Countries with moderate corruption-post IAS	0.028847***	0.423866***	0.454805***	-0.394640***	37%	-01%
Countries with high corruption-prior IAS	0.032389***	0.526987***	0.606710***	-0.506074***	35%	
Countries with high corruption-post IAS	0.018746***	0.389937***	0.419146***	-0.346933***	31%	-04%

Variables : Cfo it +1 = Cash flows from operating activities in t + 1 / Total assets at t, Accr it = Net accounts receivables / Total assets at t-1, minus other current liabilities / Total assets at t-1, minus inventory accruals / Total assets at t-1, Def it +1 = Other current assets / Total assets at t, plus inventory deferrals / Total assets at t, Cpcf it = operating income before depreciation at time t minus Accr it plus Def it-1. The technique bootstrapping (Van der Meulen et. al 2007 and Crammer 1986) is used to control the statistical significance of differences in R2. *** = 1% statistical significance, ** = 5% statistically significant, * = 10% statistically significant. Countries with low corruption: Denmark, Finland, Sweden, Holland, Germany, Ireland. Countries with moderate corruption: United Kingdom, France, Belgium, Spain, Portugal. Countries with high corruption: Greece, Italy.

The degree of manipulation of accruals is detected to be stronger in states with a high degree of corruption where the non-implementation of laws, the weaker enforcement of legal sanctions and the lack of transparent transactions are characteristic. The findings resulting from further investigation into the reliability of countries as in relation to the latter's degree of corruption, support this position. In particular, the findings that are identified suggest that countries with a low degree of corruption (Appendix 4 - Denmark, Finland, Sweden, Holland, Germany, Ireland and Luxembourg) have increased the degree of reliability but are not yet statistically significant. In countries with a moderate degree of corruption (Annex 4 - United Kingdom, France, Belgium, Spain and Portugal), the degree of reliability is at the same level as the transition countries with IAS, while countries with a high degree of corruption (Annex 4 - Greece and Italy) presented a reduction in the degree of reliability. This reduction based on the first measure is identified to be statistically significant at 10% (Table 6 – part b).

7. Conclusions

The IASB has created the standards and the conceptual framework in an attempt to create higher quality financial statements. Through this article, the extent to which this objective has been achieved is examined. Specifically, whether the quality of the financial statements of firms adopting IAS is superior to the period after the adoption of IAS, as compared to the period before the adoption, is examined.

An important characteristic and the remarkable contribution of this research is the fact that the quality measurement methodology used varies greatly from other existing methodologies that are identified in the existing literature. We examine the quality of financial statements in light of the Conceptual Framework. Specifically, the two fundamental qualitative characteristics set by the IAS Committee through the Conceptual Framework are examined in considerable detail.

The sample with respect to the specific research question consists of listed companies of fifteen European countries that have adopted IAS mandatorily. The countries included in the sample include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the UK. Finally, the time period that is considered is 10 years, from 2000 until 2009. Specifically, the period between 2000 and 2004 is defined as the period before the adoption, while the period between 2005 and 2009 is defined as the period after the adoption.

Generally, the findings that have been obtained support an increase in the quality of the financial statements of firms adopting IAS and are summarized as follows:

First, the increase of the degree of relevance regarding the financial statements for the period following the adoption is identified. That increase is detected through the use of two alternative measures concerning relevance. These findings suggest an increase in the quality of financial statements.

Second, a marginal increase in the reliability of the financial statements is identified but cannot be categorised as being statistically significant. These results suggest that the degree of reliability of the financial statements did not change during the IAS transition of the countries under study.

Appendix 1

Statistical significance of the differences of Factor Determination (R^2)

The methodology carried out in order to identify the statistical significance of the difference between two Coefficients of Determination (R^2) was conducted in two steps. Initially, the standard errors as well as variations of the coefficients of determination for each sample were calculated using the 'bootstrapping' technique. Then, following the statistical test used by Van der Meulen et al, in 2007, which was based on the analysis of Crammer (1987), the statistical significance concerning the differences in terms of R^2, was identified.

Specifically, the comparison of R^2 between the two samples (prior and post the adoption), is performed through the following statistical test:

$$T = \frac{|R^2_{IFRS} - R^2_{LOCAL}|}{SE(R^2_{IFRS} + R^2_{LOCAL})} \quad (1)$$

Moreover, the standard error (SE) is equal to:

$$SE(R^2_{IFRS} + R^2_{LOCAL}) = \sqrt{VAR(R^2_{IFRS} + R^2_{LOCAL})} \quad (2)$$

Therefore, given that the two samples are independent, the following applies:

$$SE(R^2_{IFRS} + R^2_{LOCAL}) = \sqrt{VAR(R^2_{IFRS}) + VAR(R^2_{LOCAL})} \quad (3)$$

QUALITY OF MARKETS CRITERIA

Markets are assessed against the criteria outlined below. Inclusion as Developed status requires that all criteria are met, Advanced Emerging requires that the specified 14 criteria are met, inclusion as Secondary Emerging requires that the specified 8 criteria are met, while inclusion as Frontier requires that the specified 5 criteria are met. Assessment of markets included in FTSE Global Equity Index Series against these criteria can be found at www.ftse.com/country.

Market and Regulatory Environment	DEV	ADV EMG	SEC EMG	FRONTIER
Formal stock market regulatory authorities actively monitor market (e.g., SEC, FSA, SFC)	X	X	X	X
Fair and non-prejudicial treatment of minority shareholders	X	X		
Non or selective incidence of foreign ownership restrictions	X	X		
No objections or significant restrictions or penalties applied on the repatriation of capital	X	X	X	X
Free and well-developed equity market	X	X		
Free and well-developed foreign exchange market	X	X		
Non or simple registration process for foreign investors	X	X		
Custody and Settlement				
Settlement - Rare incidence of failed trades	X	X	X	X
Custody-Sufficient competition to ensure high quality custodian services	X	X	X	
Clearing & settlement - T +3 or shorter, T+7 or shorter for Frontier	X	X	X	X
Stock Lending is permitted	X			
Settlement - Free delivery available	X			
Custody - Omnibus account facilities available to international investors	X	X		
Dealing Landscape				
Brokerage - Sufficient competition to ensure high quality broker services	X	X	X	
Liquidity - Sufficient broad market liquidity to support sizeable global investment	X	X	X	
Transaction costs - implicit and explicit costs to be reasonable and competitive	X	X	X	
Short sales permitted	X			
Off-exchange transactions permitted	X			
Efficient trading mechanism	X			
Transparency - market depth information / visibility and timely trade reporting process	X	X	X	X
Derivatives				
Developed derivatives market	X			

Appendix 3 - Correlation matrixes

Sample prior to adoption

	Pt+6	Bvpst	Epst	TAt	TLt	Cfo t	Cfo t+1	Accrt	Cpcf t	Def t+1
Pt+6	1	0.792***	0.5693***	0.5113***	0.4464***	0.0985***	0.0858***	-0.0871***	0.1152***	-0,013
Bvpst	0,8399	1	0.4855***	0.5481***	0.4381***	-0,0006	-0,0199	-0.0447**	0,0302	-0,0046
Epst	0.639***	0.5308***	1	0.2986***	0.2356***	0.2421***	0.194***	-0,005	0.1395***	0,0225
TAt	0.757***	0.8306***	0.4848***	1	0.9478***	-0,0116	-0,0143	-0.0693***	0.0607***	0.0326*
TLt	0.694***	0.745***	0.4312***	0.9736***	1	-0,0255	-0,0284	-0.0791***	0.0465**	-0,0033
Cfo t	0.284***	0.0901***	0.5165***	0.0654***	0,027	1	0.6909***	0.054***	0.3787***	0.0449**
Cfo t+1	0.2439***	0.0348*	0.3809***	0.0337*	-0,0005	0.7421***	1	-0,0012	0.3765***	0.049**
Accrt	-0.149**8	-0.0844***	-0,0144	-0.1311***	-0.1446***	0.0577***	0,0262	1	-0.6944***	0.058***
Cpcf t	0.2526***	0.1311***	0.2608***	0.1836***	0.1823***	0.3988***	0.3686***	-0.6352***	1	0.4152***
Def t+1	-0.0655***	0,0106	0,0078	-0,0017	-0,0169	0.0427**	0.0332*	0.2098***	0.2567***	1

Above the diagonal, Pearson's correlations are illustrated, while below the diagonal Spearman's correlations. Variables: Pit +6 months = Market share price at time t +6, Bvps it = Book value of equity per share , Eps (1) it = Income (before extraordinary items) per share , Post = dummy-variable that takes the value 1 for the period after the adoption of IAS and the value 0 for the period prior , TA it = Total assets per share , TL it = Total liabilities per share , Cfo it = Cash flows from operating activities in t / Total assets at t-1, Cfo it +1 = Cash flows from operating activities in t + 1 / Total assets at t, Accr it = Net accounts receivables / Total assets at t-1, minus other current liabilities / Total assets at t-1, minus inventory accruals / Total assets at t-1, Def it +1 = Other current assets / Total assets at t, plus inventory deferrals / Total assets at t, Cpcf it = operating income before depreciation at time t minus Accr it plus Def it-1. *** = 1% statistically significant, ** = 5% statistically significant, * = 10% statistically significant, T-test and Wilcoxon rank sum test have been used to test for differences means and median, respectively.

Sample post to adoption

	Pt+6	Bvpst	Epst	TAt	TLt	Cfo t	Cfo t+1	Accrt	Cpcf t	Def t+1
Pt+6	1	0.7218***	0.7595***	0.4741***	0.3874***	0.1502***	0.1782***	-0.1087***	0.1737***	0,0054
Bvpst	0.8482***	1	0.61***	0.6104***	0.4851***	0,0162	0.0325*	-0.0719***	0.074***	0,0227
Epst	0.7721***	0.6827***	1	0.3794***	0.2904***	0.224***	0.1886***	-0.0481**	0.1685***	0,0125
TAt	0.8172***	0.9079***	0.6473***	1	0.9808***	-0,0049	0,0152	-0.1081***	0.0704***	-0,0167
TLt	0.7489***	0.8212***	0.5888***	0.9726***	1	-0,0202	-0,0008	-0.1073***	0.0608***	-0,0215
Cfo t	0.3734***	0.2063***	0.5316***	0.1547***	0.1038***	1	0.7059***	-0,0044	0.4387***	0.0346*
Cfo t+1	0.3953***	0.192***	0.4414***	0.1526***	0.1086***	0.7402***	1	-0.0618***	0.3834***	0,0141
Accrt	-0.1631***	-0.1128***	-0.0687***	-0.1511***	-0.1486***	-0,0069	-0.0586***	1	-0.7327***	0.1226***
Cpcf t	0.3137***	0.2093***	0.3206***	0.2071***	0.1762***	0.4134***	0.3594***	-0.7076***	1	0.284***
Def t+1	-0,0252	0.0329*	0,0174	0,0002	-0,023	0.0379*	-0,0082	0.1865***	0.1971***	1

Above the diagonal, Pearson's correlations are illustrated, while below the diagonal Spearman's correlations. Variables: Pit +6 months = Market share price at time t +6, Bvps it = Book value of equity per share , Eps (1) it = Income (before extraordinary items) per share , Post = dummy-variable that takes the value 1 for the period after the adoption of IAS and the value 0 for the period prior , TA it = Total assets per share , TL it = Total liabilities per share , Cfo it = Cash flows from operating activities in t / Total assets at t-1, Cfo it +1 = Cash flows from operating activities in t + 1 / Total assets at t, Accr it = Net accounts receivables / Total assets at t-1, minus other current liabilities / Total assets at t-1, minus inventory accruals / Total assets at t-1, Def it +1 = Other current assets / Total assets at t, plus inventory deferrals / Total assets at t, Cpcf it = operating income before depreciation at time t minus Accr it plus Def it-1. *** = 1% statistically significant, ** = 5% statistically significant, * = 10% statistically significant, T-test and Wilcoxon rank sum test have been used to test for differences means and median, respectively.

Corruption Perceptions Index 2010 European Union and Western Europe

RANK	REGIONAL RANK	COUNTRY / TERRITORY	CPI 2010 SCORE
1	1	Denmark	9.3
4	2	Finland	9.2
4	2	Sweden	9.2
7	4	Netherlands	8.8
8	5	Switzerland	8.7
10	6	Norway	8.6
11	7	Iceland	8.5
11	7	Luxembourg	8.5
14	9	Ireland	8.0
15	10	Austria	7.9
15	10	Germany	7.9
20	12	United Kingdom	7.6
22	13	Belgium	7.1
25	14	France	6.8
26	15	Estonia	6.5
27	16	Slovenia	6.4
28	17	Cyprus	6.3
30	18	Spain	6.1
32	19	Portugal	6.0
37	20	Malta	5.6
41	21	Poland	5.3
46	22	Lithuania	5.0
50	23	Hungary	4.7
53	24	Czech Republic	4.6
59	25	Latvia	4.3
59	25	Slovakia	4.3
67	27	Italy	3.9
69	28	Romania	3.7
73	29	Bulgaria	3.6
78	30	Greece	3.5

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Cybersecurity – An Integral Part of Every Business.

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ABSTRACT

Cybersecurity is an integral subject for every business. Businesses across the EU are losing vast amounts of money each year due to the nefarious use of cyberspace. This is a matter which is best addressed by changing organisational structures, rather than an Information Technology-based approach.

Despite what your IT department might tell you, cybersecurity is not a technical matter. Far from it. Cybersecurity affects all companies and organisations, as well as everyone working within them - employees, contractors, suppliers and customers. Indeed, cybersecurity threats can undermine the economic foundations of countries by destroying the companies that comprise their business community. Cybersecurity is certainly not just about the security of computers and networks.

So, what actually is cybersecurity? Cybersecurity is about preventing and responding to the nefarious use of cyberspace - the online environment in which all of us now live. There is no one on earth whose life is not directly affected by what happens online.

Nefarious use of the internet can take many forms.[1] Criminals, terrorists, hostile states and other nefarious actors utilise cyberspace, achieving their goals in a way that would have been considered impossible just 20 years ago. Cyberspace is used by terrorists for recruitment and to execute atrocities. Encrypted messages in cyberspace are used by those involved in human trafficking or for the trade in people for forced labour. States can even use cyberspace against their own people as the Myanmar government have done to stir-up and facilitate the ongoing violence, war crimes and genocide against the Rohingya population.[2]

'Hacktivists' use cyberspace to bombard companies and governments with coordinated attacks to bring down their websites. 'Ransomware' locks down computer systems until a payment is made. And fraudulent online activity – targeting banks' customers and employees – costs vast amounts each year. 'Authorised push payment' fraud is just one example of how cyberspace can be manipulated in this way. Criminals pretending to be suppliers or creditors fake invoices by exploiting cyberspace vulnerabilities of employees across an organisation.

Our critical infrastructure – including banks, our water supply, our electricity and fuel, our telecommunications, transport and health services – is becoming increasingly 'smart' and interconnected. This ‘Internet of Things' makes everything from monitoring your heart rate to running a power station much more efficient and productive. But it also produces cybersecurity vulnerabilities for those who want to cause harm.[3]

'Social engineering' is used for a vast number of cybersecurity breaches. It can be used by hostile actors to create false profiles luring anyone to give up highly personal information with which they can be blackmailed. What we post online - photos of our families, our address, children's schools, our type of work, photos of our house, information about our partners - can be used by hostile actors to create a complete picture of us. This background can then be used to threaten us into doing something that facilitates the hostile parties’ intentions. Moreover, emails and texts are easy to fake. Simply clicking on a link in a text or email can cause our phones or smartwatches to be used as a microphone, camera or location tracking device wherever we are. Such 'phishing' messages are highly convincing, appearing to be from someone you know and trust, but are actually sent by someone completely different who is trying to access everything about their target.[4]

Cyberspace can be used by those within a company or organisation who might have a vendetta. It is very easy for just one person to cause a disaster with long-lasting consequences. Of particular concern is the cyber theft of intellectual property, happening right now "on an industrial scale", according to the UK's National Cyber Security Centre (NCSC).[5] (NCSC's view on this is supported by Europol's cybercrime unit EC3[6], the US Dept. of Justice and the US National Security Agency.[7] All of these organisations in the UK, EU and the US are working tirelessly to help prevent the nefarious use of cyberspace).

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1 See: D. Kerigan-Kyrou: "Defining Our Approach to Cybersecurity," *An Cosantóir*, Irish Defence Forces, (January 2018).
2 See: D. Kerigan-Kyrou: "Protecting Cyberspace - A Hybrid Threat Requires a Hybrid Response," *An Cosantóir*, Irish Defence Forces, (May 2019).
3 See: D. Kerigan-Kyrou: "Applying the NATO/PfPC Generic Reference Curriculum in an Increasingly Interconnected Environment," *Vox Collegii, Journal of the NATO Defense College*, XVII no.2 (2018): 6-10. See also: Kerigan-Kyrou: "The NATO Cybersecurity Curriculum: Application to the Maritime Environment", *NMIOTC: Journal of the NATO Maritime Interdiction Operational Training Centre.* 15, no.2, (2017).
4 See: D. Kerigan-Kyrou "Breaching Defence Forces Through Social Engineering," *An Cosantóir*, Irish Defence Forces, (February 2019).
5 See: Director of NCSC Ciaran Martin, Speech to the UK CBI https://www.ncsc.gov.uk/speech/ciaran-martins-speech-cbi-cyber-conference.
6 See: https://www.europol.europa.eu/crime-areas-and-trends/crime-areas/intellectual-property-crime.
7 See: https://www.justice.gov/iptf. See also John P. Carlin, Garrett M. Graff, *Dawn of the Code War* (New York: PublicAffairs 2018).

But raising awareness of the problem, particularly with business at the board level, is an ongoing challenge. The damage to the EU economy is incalculable, but consider this example. That IP costing 15 billion Euros can be stolen in an instant – but the company won't see it as the intruder doesn't want to be spotted.

Failure to understand what cybersecurity is enables cyberspace to be used by those that wish to cause such harm - without detection, prevention or consequence.

This has the potential to wreck multi-billion Euro enterprises, ruin hundreds of thousands of jobs, and even to crash entire economies. It is a particular concern to the European Union where IP theft is undermining the EU's economy and hence its security. A corporation such as a pharmaceutical company may invest up to Euro 15 billion in the development of a new drug. A company, individual, organised criminal or even a country can manipulate the system at such a company with a fake communication, known as a spear phishing email. Once the hostile actor is in the victim's system it aims to remain hidden. This is why IP theft is such a concern. There's no flashing monitor, no demand for a ransom payment: the goal is to hide and watch what's going on, stealing data, development and critical information at will. Even worse, there is also increasing evidence that criminals are manipulating data, especially research and development information. Research for a new drug or for a new car engine is increasingly stored, not in a lab or workshop, but in ones and zeros. This data can be manipulated in subtle yet massively destructive ways. Small changes to the victim's data can destroy years of work and billions of Euros worth of research. Manipulation of that data can sink an entire multibillion Euro project.

But raising awareness of the problem, particularly with business at the board level, is an ongoing challenge. The damage to the EU economy is incalculable, but consider this example. That IP costing 15 billion Euros can be stolen in an instant – but the company won't see it as the intruder doesn't want to be spotted.

Failure to understand what cybersecurity is enables cyberspace to be used by those that wish to cause such harm - without detection, prevention or consequence.

The vast majority of cybersecurity breaches are caused by 'people and process, not technology'. according to Adrian Leppard, former Commissioner of the City of London Police.[8] Modern cybersecurity fraud is far more about social engineering and deception that it is about a smart 'hacker' penetrating into systems.

Of course, the technical jobs of patching, firewalls and updating virus checks will always remain vital. But they are simply not enough. Security needs to be central to every single business decision and process by every employee. It's not only an IT issue – it's an every person, every department issue.

Indeed, the solution to this problem may be found back in the late 1960s in the business studies of Leonard R. Sayles of Columbia University.[9]

Professor Sayles was hugely critical of the classic, hierarchical company structure, arguing that silos and isolated departments can wreck business performance and potential. Most companies have a very hierarchical structure; a CEO with directors, all responsible for various departments with senior and junior manager below them. Each person is rewarded for how they perform for 'their own' manager. Indeed, there is no incentive for an employee to help the company/organisation as a whole - quite the reverse. Fast forward to today: Prof Sayles's observations are equally applicable to cybersecurity. The company or organisation that divides into silos, functions and sectors is at much greater risk of a cybersecurity breach. Conversely, a company that is organised and behaves holistically, where every employee is responsible for the company as a whole rather than 'their' individual sector is vastly more resilient and prepared.

This is because a criminal or hostile actor attempting to breach a company can target anyone in that organisation. Therefore, everyone within an organisation needs to become part of the organisation's defence. But that cannot happen in the classical hierarchical and 'siloed' structure of organisation identified by Prof Sayles.

Unfortunately, most businesses and organisations persist in leaving the protection of critical information and data solely to their technical departments.

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[8] Speech by Adrian Leppard CBE QPM, to CSARN, London, JP Morgan, 2014.

[9] Leonard R. Sayles *The Working Leader* (New York: Touchstone, Reprint 2010) and, *Sayles Managing Large Systems* (Philadelphia: Routledge, 2017).

So we need to think about how we structure our organisations and how we share information. If criminals, terrorists, hostile states or even someone within our organisation wants to cause harm they presently have a near infinite number of ways to do so in cyberspace; they will find some way or someone to breach your organisation's security. So the battle is lost? Not at all. If every member of your organisation becomes part of a system that can alert possible breaches and misuses of cyberspace as early as possible, then we flip the advantage from them to us. By enabling cybersecurity to become everyone's responsibility we help secure cyberspace and thereby our own security, our organisations' security and ultimately the security of the security of Cyprus and the EU.

Cmdt Frank Byrne, of the Irish Defence Forces Air Corps, writes about the Just Safety Culture in aviation where the reporting of errors is encouraged and honest mistakes are never penalised. This approach, which is very similar to that identified by Prof Sayles, is precisely what is needed by all businesses and organisations in the new cybersecurity environment. Moreover Cmdt Byrne argues that the Just Safety Culture has to be continually maintained and promoted; it is not something that is automatically in place forever once started.[10] Likewise, organisations and companies need to continually develop and progress their approach to management to enable the early identification of cybersecurity challenges. Companies need to act holistically; they have to eliminate the idea of 'blame' or 'fault' for a cybersecurity breach and ensure that every employee is empowered, indeed rewarded, for identifying problems and anomalies at as early a stage as possible. If not, they are going to find it impossible to address the new and ever developing cybersecurity risks we all face.

About the Author

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[10] Comdt Frank Byrne "Trust Me, Trust Me, I'm A Pilot. The Journey Towards a Just Culture in the Irish Air Corps," Defence Forces Review (2017): 199. Available at: https://www.military.ie/en/public-information/publications/defence-forces-review/

Trends in the Romanian education and training system in the context of international sustainable development

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ABSTRACT

In the context of sustainable international development, new trends in education and training in Romania promote smart growth, achieved through major innovations in education, research, and inclusive growth, focusing on job creation and poverty reduction. These are in line with European principles for proper cooperation in education and training. The education and training strategy focuses on strengthening training systems so that they become more attractive, relevant, career-oriented, innovative, accessible and adaptive to the needs of the labour market.

Keywords: sustainable development, education, innovation,inclusive growth, success

INTRODUCTION

The processes of social transformation in recent years have presented many challenges for the education and training system in Romania, with access to education, a higher level of skill acquisition, relevance and the quality of training becoming significant. In this context, quality assurance involves new institutional roles.

Education for sustainable development (ESD) is not a particular program, but a focus on existing forms of education and those that need to be created. Education for sustainable development programs support efforts to re-think the educational system [1] in terms of methodology and content in less developed societies. It affects all parts of the education system: legislation, policy, finance, curriculum instruction and learning assessment. ESD appeals to life-long learning and the recognition of the changing educational needs of people throughout their lives.

The adoption of the quality assurance of education nr.87/2006 has created a legal-institutional framework for developing and implementing quality assurance mechanisms in education at a system level and provider level. This has been an important development in the regulatory framework, as it extends the legal and operational aspects by creating tools in evaluation and quality assurance. In this respect, the quality assurance system in education is not only a form of an applied system of quality management (ISO-International Organization for Standardization) in schools. The new national education law does not bring significant improvements: it establishes the role of ARACIP (Romanian Agency for Quality Assurance) in pre-university education as a tool for evaluating the ability of schools to provide education, subject to certain working procedures and separates them from the perimeter role. ARACIP is not charged with administering a national assessment system similar to that carried out by the PISA (Programme for International Student Assessment) study initiated by the OECD (Organization for Economic Cooperation and Development). Such an assessment system should be made uniform nationwide.

1. Analysis of the education and training system of Romania

The study of the current education and training system by M.Stanef shows some weaknesses in the quality and relevance of the system to the knowledge economy, which may affect present and future generations. Romanian education focuses more on theory and less on practical application, leading to insufficient research and innovation. In Romania, the education system has undergone significant changes in the last 22 years. [2]

The performance of the system is unsatisfactory in terms of both national and international standards. According to rankings created by PISA, Romania is among the countries with a below average performance, equivalent to number 2 on a scale of 5 steps made by McKinsey and Co.

2. The education and training approach in terms of the labour market perspective for sustainable development.

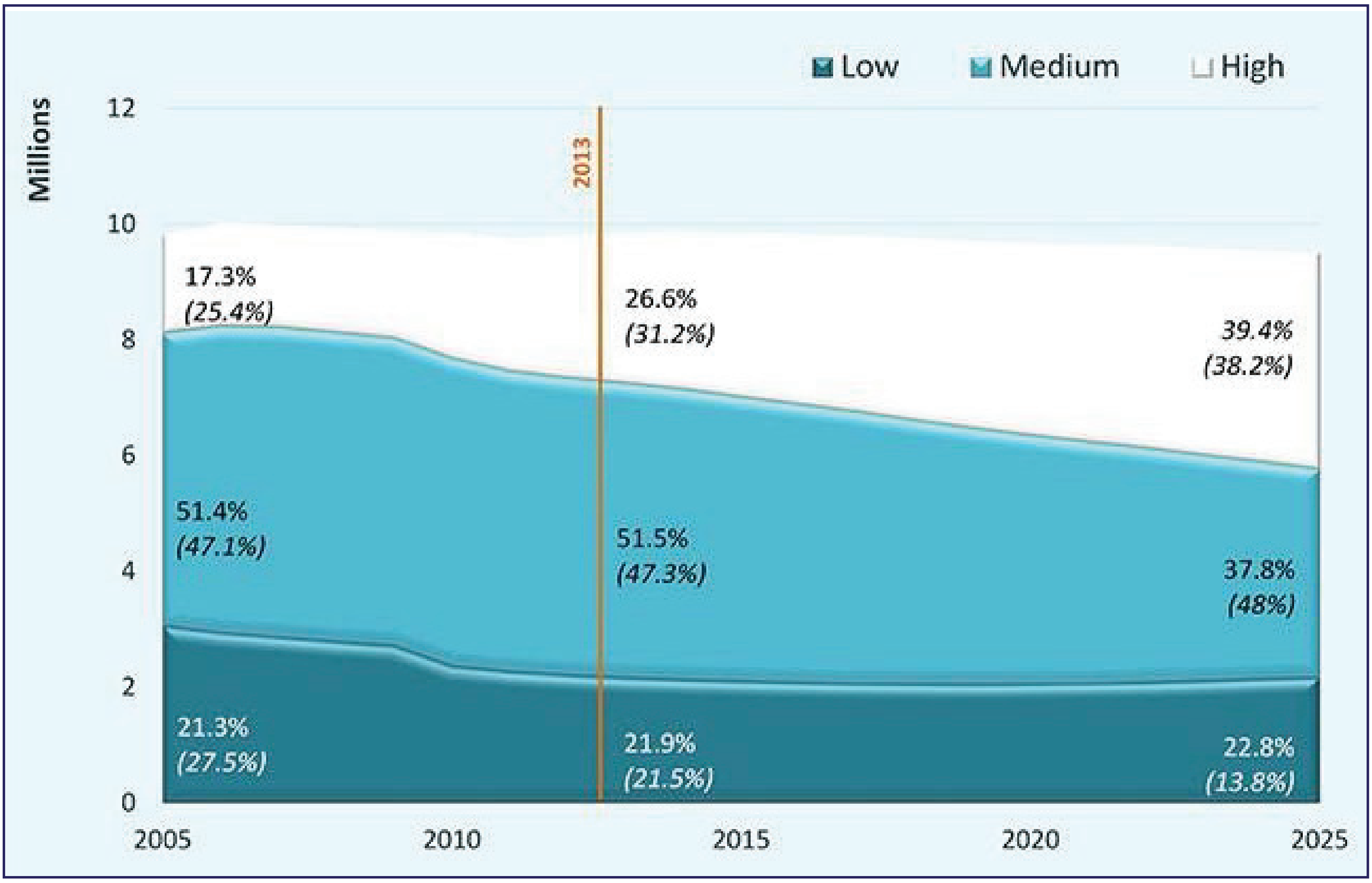
The education and training strategy in Romania proposes a coherent approach to initial training and continuing vocational training leading to the development of an accessible, competitive and relevant training system for labour market requirements.

Opening up the education and training system to all young people and ensuring legal access to education, especially for groups at particular risk, can only be achieved by implementing the education and training strategy for year 2016 – 2017, which proposes a global vision for the development of the whole system addressed to participants in lifelong learning. From the perspective of qualifications and competencies, the strategy proposes an approach related to the strategies developed by the Minister of Labour, Social Protection, Family and Elderly people in the field of employment and social equity.

In order to implement the strategy, it will be necessary to change the approach to defining the sectoral action plans of the education and training system, so that the system can plan its own fundamental development on the forecasting needs of the economy.

Initial cooperation is a fundamental element in implementing the ET (education and training) strategy. In order to ensure coherence, it is necessary to build opportunities, dialogue and an exchange of information and opinions. The practices already present at the level of vocational and technical education units can be an inspiration for all educational units. They can be adapted or developed in accordance with the specific institutional context of each of them.

The Romanian labour force is becoming increasingly skilled. This is explained by the fact that many older people who are less qualified are leaving the job market and being replaced by qualified young people. By 2025, the share of the qualified workforce should increase to 39.4% compared to 26.6% in 2013 and only 17.3% in 2005. People with an average qualification in 2015 will represent 37.8% of the workforce compared with 51.5% in 2013. The share of those with low or no qualifications is likely to still be 22% in 2025. Conformable CEDEFOP by the year 2020 around 50% of the labour force aged 30-40 years will have high qualifications, higher than the EU target. Based on current trends, around 60% of the workforce aged 30-34 will have a high-level qualification by the year 2025.



(Data source: CEDEFOP - Romania Country forecasts - Skill supply and demand up to 2025)

The Romanian education and training strategy will have to ensure the continuation of the processes of modernising vocational training, connecting it to the needs of a European labour market and responding to the priorities of national economic and social development through the efficient and constructive use of the allocations budget and by accessing any European funds available. [8]

3. The importance and role of education and training for sustainable development

Education, besides being a human right, is a prerequisite for achieving sustainable development and an essential tool for good governance, informed decision-making and the promotion of democracy. That is why education for sustainable development can help transform our vision and aims into reality. Education for sustainable development develops and improves the capacity of individuals, groups, communities, organisations and countries to think and act in favour of sustainable development. It can generate a change in people's mentalities, potentiating their ability to create a safer, healthier and more prosperous world, thus improving the quality of life. Education for sustainable development offers a critical approach, increased awareness and the power to explore and develop new concepts, visions, methods and tools.

Education for sustainable development requires a reorientation of the current system, which is based solely on providing information, to one based on problem-solving as well as identifying possible solutions.

Formal education institutions play an important role in developing capacities at an early age, providing knowledge and influencing attitudes and behaviour. It is important to ensure good knowledge of sustainable development (DD) for all pupils and students. They also need to be aware of the effects of decisions that run counter to a process of sustainable development. An educational institution in its entirety, including students, teachers, directors and parents, should follow the principles of sustainable development.

CONCLUSIONS

In our opinion, the education and training system in the context of sustainable development needs a different, more constructive approach to teaching, encouraging the formation and/or development of competences through motivational teaching techniques such as:

- Starting the lesson by giving students a reason to be motivated, explaining the opportunities to obtain personal satisfaction by following the task they have.
- Clear expectations in terms of giving appropriate data on the tasks to be performed and the expectations of the teacher, the way of evaluation and the consequences of the different actions that can be taken.
- Judicious use of notation, using all the functions of the scoring system: evaluation, feedback and mobilisation.
- Stimulating discovery, exploration and epistemic curiosity through new, surprising, complex or ambiguous stimuli creates the premises of motivation to seek new ways of understanding and solving a problem.
- Using familiar example material.
- Minimising unpleasant consequences such as physical discomfort and/or diminishing self-esteem.
- Facilitating networking and stakeholder collaboration in sustainable development education.

The degree of convergence between pupils’ skills and labour market expectations; the students' ability to practice, to use knowledge, to develop the skills necessary to adapt to adult life; the chances for different social groups to assimilate such skills are some of the many aspects that should concern the education and training system.

Based on Albert Einstein's statement, “...we can not solve tomorrow's problems using today's methods”, the sustainable education strategy brings together pupils of different nationalities, ethnicities and socio-economic backgrounds, promoting and developing partnerships that can be supported, and working with school units to help them meet international environmental quality standards. Taking into account the special needs of children with special skills in specialized education, the current legislative framework allows new conditions of study in schools and kindergartens capable of responding effectively to their needs. "Gifted Education" respects the divine nature of man and not man-commodity, the consuming man, promotes the creative man, the man capable of developing his potentials.

Education for and in the spirit of sustainable development must provoke society and adopt new behaviours in addition to measures in order to ensure a decent future. This requires new approaches based on values, critical thinking and analysis. In this way education can reduce the risk of political, commercial and religious manipulation, strengthening democracy and civic involvement.

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FACTORS AFFECTING ACADEMIC JOB PERFORMANCE IN NIGERIAN UNIVERSITIES; A CASE STUDY OF DELTA STATE UNIVERSITY and IGBINEDION UNIVERSITY OKADA

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ABSTRACT

This study critically evaluates the factors affecting employees' job performance among academics between the private and public Higher Educational Institutes (HEIs) in Nigeria. Two universities were selected as case studies; one public, Delta State University Abraka (DELSU), and the other private, Igbinedion University Okada (IUO). A mixed method was adopted for this research. The sample size was 96 questionnaires that were statistically analysed using SPSS, including Pearson's correlation and MS-Excel. A further eight individual interviews were also conducted and thematically analysed.

The findings revealed four key factors: Firstly, increased teaching load and the high demand on teaching has a significant effect on academic job performance. Secondly, the pressure to publish papers has an effect on academics' morale. Thirdly, academics feel that the pressure to engage in third stream activities is eroding their professional identity. Finally, changes in government policy and a lack of funding have had a negative effect on academic performance.

INTRODUCTION

How much a nation advances often correlates with the quality of human resources and the educational achievement of its citizens. Universities, just like any other organisation, depend on the performance of their employees to achieve their strategic goals, which in education are predominantly about imparting knowledge to its students (Ali et al., 2014). The fulcrum of an organisation's success hinges on how management utilises their employees' capabilities in achieving organisational goals and objectives. Those employees who are generally happy in their employment invariably help and sustain organisational growth (Armstrong and Taylor, 2014).

In the 21st century, job performance is a constant challenge for any organisation. It acts as a barometer to gauge employee efficiency and effectiveness in carrying out their roles. By definition job performance is the extent to which an organisational employee contributes to the realisation of the organisational goals and objectives (Davouidi and Allahyari, 2013). Rees and French (2010) defined job performance as the skills that an employee possesses in performing the job required by the employer. Javed et al. (2013) further explain that the management of the organisation, the job itself or even the employee's own behaviour influences their job performance. In essence, good job performance does not just drive productivity in organisations but it directly influences employee extrinsic and intrinsic self-accomplishment.

RATIONALE FOR RESEARCH

A report by the Nigerian Universities Commission (NUC, 2011) highlighted that whilst there has been a planned strategic expansion in Nigerian universities, there has been a contraction in the morale of academic staff which has eroded job performance in both private and public educational institutions (Obhineli, 2013). In order to control and manage this trend, there is a need to find out the contributory factors that have led to the decline in job performance.

The aim of this research is to investigate the internal and external pressures affecting academic staff job performance in two selected Nigerian universities, namely Igbinedion University Okada (IUO) and Delta State University Abraka (DELSU).

The objectives are as follows:

1. To investigate the factors creating low morale amongst academics in universities.
2. To investigate if academics' participation in third-stream activities could affect their job performance.
3. To investigate if salaries and incentives affect the job performance of academics.

The study will be based on the following hypothesis:

Hypothesis 1: Increased teaching load and the high demand on teaching has a significant effect on academic job performance.
Hypothesis 2: High demand for research affects the morale and job performance of academics.
Hypothesis 3: The increased pressure of 'third stream' or 'third mission' activities significantly affects teaching and academic morale.

CONTEXT OF STUDY

Nigerian HEIs can be grouped into three categories, namely federal universities, state universities and the private or individually owned universities (NUC, 2011). They can be further classified according to their year of establishment. First generation universities were established in the country before the 1970's. Second generation universities are those established in the 1970's. Third generation universities are those established either by the federal or state governments in the 1980's and 1990's. Finally, fourth generation universities are those established in the late 1990's and 2000's mainly by private individuals or organisations (Obineli, 2013). Furthermore, the Nigerian University Commission (NUC) funds the federal institutions while the state-owned universities receive funds through the state ministries of education or the governors' office (Akindojutimi et al., 2010).

Established in 1999, the fourth generation Edo-state IUO in Okada was the first premier private university in Nigeria. Operating on a collegiate system of tertiary education (IUO, 2012), it has 5000 students. Its founder provides 70% of funds and the remaining 30% is sourced from companies and agencies (IUO, 2012). Whilst DELSU is a government-funded institution, historically recorded as a centre of education, this university is one of the third generation universities established in 1970s, as a College of Education and awarded a Certificate of Education (N.C.E.). However, in 1992 it was converted into a state university and is funded by the state government (NUC, 2011).

CHANGE IN NIGERIAN GOVERNMENT POLICIES THAT AFFECT ACADEMIC STAFF

Nigerian universities recognise three prominent unions. They are the Academic Staff Union of Universities (ASUU), the Senior Staff Association of Nigerian Universities (SSANU) and (NASU) the Non-Academic Staff Union (Osakwe, 2014). It is the major objective of these unions to protect the interests of their members against government policies and changes. However, one needs to be mindful that these unions are all under the umbrella of the Nigerian University Commission (NUC) which oversees the affairs of all institutes whether private or public.

The issues of funding and changes in policies have always been a source of crisis in the Nigerian educational system (Obineli, 2013). The aforementioned unions have regularly expressed their concerns to the Nigerian government concerning the poor funding of the educational system. Amusa et al. (2013) reported in 2012, that 5.1% of the federal government's national budget was spent on education. When related to the GDP, Federal government expenditure on education averages 1.1%. Furthermore, UNESCO (2012) stated that Nigeria spends 1.1% of its GDP/GNP on education while other African nations like Ghana spend 3.6%, Kenya 6.2% and Zimbabwe 9.5 %.

The effect of poor funding has resulted in the low morale of academics, especially those in the federal and state universities (Gbenu, 2013). The issue of government funding has led to several stand-offs between the federal government and the various academic unions and this has subsequently led to numerous strikes in Nigerian HEIs. Osakwe, (2014) stated that, at an institutional level, university management/authorities and academics staff unions have not had a cohesive relationship.

Nigerian vice chancellors have often been in dispute with unions, predominantly concerning payment of outstanding allowances, salaries and the funding of various university projects. For instance, when government funding is allocated, there are occasions when university management apportion those funds to projects that have no bearing on teaching and learning (Ifedili and Ifedili, 2012). Olagunju, (2014) suggested that the vice chancellors' inability to successfully manage the limited resources available to their institutions is because management had acquired unrestricted power to manipulate university funds to their own gains.

Nigerian policy changes have historically been influenced by the disagreement between the government and the unions. There are many examples in which the Nigerian government has passed polices to counter ASSU strike actions. Such policies have included the seizure of salaries under the pretext of 'no work no pay', ejection of academics from government quarters, etc. (Arikewuyo, 2010). Osakwe (2014) noted that such governmental action leads to further job dissatisfaction among academics.

LITERATURE REVIEW

Universities produce a valuable knowledge input for innovation and they disseminate this knowledge into the social and economic arena. They strive to accomplish this aim in carrying out three missions, referred to as first stream teaching, second stream research and interaction with the social-economic environment, commonly referred to as third stream (Teichler and Höhle, 2013). Whilst, there is a major debate surrounding these three missions in higher education, such dialogue continues to remain vague (Bianchini et al., 2013) and many universities are challenged in effectively integrating and embedding such strategies (Watson and Hall, 2016).

In response to increased competition and governmental interference, universities are undertaking radical structural and functional realignments to maintain their competitiveness (Watson and Hall, 2015). The collateral changes have affected academics, who in many cases are struggling with the pace of change (Nadeem et al., 2011). Subsequently, the academic capacity to consistently deliver effective teaching has been compromised and many feel under pressure and question their once cherished professional identity (Teichler and Höhle, 2013).

The Organisation for Economic Co-operation and Development commissioned Henard (2011) to lead a national survey of academic staff to examine trends in teaching and to determine the factors affecting the quality of work and capacity for effective job performance. The outcome of the survey revealed that "fundamental work motives" were being compromised by confusion of purpose and the competing demands placed on academics (Hildebrandt and Eom, 2011). Furthermore, according to Law and Fiedler (2012) academics have been demotivated by imposed management practices. This 'new managerialism' involves managing institutes in a manner that is similar to many of the practices and values of the private-for-profit sector (Watson, 2014). This new regime has further resulted in academics questioning their initial academic 'calling' into the profession (Hughes et al., 2011).

First Stream (Teaching) Affecting Academics' Job Performance

Academic communities of practice play a critical role in any society in the sense that academics are the source of the transformation of knowledge, and as such, academics are expected to be the dynamo of any educational system (Razzak, 2011). However, internal pressures such as additional work-loading models, demands for research and becoming involved participants in external engagement are among the core factors which adversely affect job performance and morale (Nadeem et al., 2011). Shaheen et al. (2013) further support the view that the consequences of excessive workloads on academics have an adverse effect on their professional identity thereby leading to a reduction in job performance level.

A survey carried out by the York University Faculty Association (YUFA) postulates that in the last five years the teaching loads of academics have increased globally (YUFA, 2013). Table 1 shows the responses from 430 academic survey respondents. The outcome of the survey shows that 62% of the respondents ranked workload as significant factor. 65% of the respondents said that their workload had increased in the last five years and, most importantly, 42% of the respondents stated that it is very difficult to achieve a balance between teaching, research and external engagement. However, research is contentious as Teichler and Höhle (2013) hold the view that class size has a substantial influence on academic schedules. Whilst alternative studies highlight that even when there is an effect, it is not significant (Machado-Taylor et al., 2011).

YUFA survey respondents (n=430) who say...	**%**
Workload is an important priority	**62**
My workload has increased in the last 5 years	**67**
Overall, email from students has significantly icreased my teaching load	**51**
My class sizes are too large for optimal learning	**43**
Other aspects of workload are so heavy that few members in my unit want to do committee work or fill chairs and programme directore positions	**43**
It is very difficult to achieve a balance among teaching, research and service	**42**
I receive no teaching load credit for graduate supervision	**39**

Table 1 Source: (YUFA, 2013).

Second Stream (Research) Affecting Job Performance

Institutions in Nigeria and all over the world are placing more pressure on research activity (Obineli, 2013). Even liberal art colleges and professional fields such as business and law have been increasingly devoting resources to research activity (Shan et al., 2011). However, it is still acknowledged that for many non-traditional universities teaching is the primary goal/cash cow of a university, (Watson and Hall, 2016).

In response to the continuing global economic recession which began in 2008, the Nigerian government has reduced state funding for universities. This has resulted in universities having to 'do more with less'. In response, universities have placed increased pressure on academics to improve their research output. This is very beneficial for the institution in terms of reputation and funding, but inversely affects academic job performance (Obineli, 2013). It is perceived by many academics that they must 'publish or perish' (Ali et al., 2014). However, there is general agreement that the sourcing for funds through research activities is a viable avenue to keep institution's solvent and relevant (Teichler and Höhle, 2013). In consequence of the shifting of boundaries within the academic profession (Kogan and Teichler, 2009), many traditional academics are experiencing a culture shock whilst new academics entering the profession know no other environment (Shaheen et al., 2013). Such perceived polarisation has resulted in academics further questioning their professional identity (Hughes, 2011).

The number of hours academic staff dedicate to teaching is fairly homogenous (Wong, 2010). In Nigeria, most academics spend between 14 and 20 hours on research, in comparison to 13 to 18 hours on teaching (Obineli, 2013). Shin et al. (2013) explains that the increased pressure to research without a reduction in teaching will ultimately hinder student support. A number of critics (Basak, 2014, Bennis and O'Toole 2005 and Boyer 1990,) contend that universities are neglecting teaching in favour of research (Kogan and Teichler, 2009).

Woods (2012) states that professional status is being "loosened and broadened" and scientific careers are becoming too risky or unwarranted. Academic identities are increasingly becoming more amalgamated with functions and tasks outside academia, which are seen by many academics as an "ultra-virus" to their profession (Watson, 2014). Hakala (2009) explains that most academics feel their once valued profession is "just another job", with no more motivational currency (Vorely and Nelles, 2008).

Third-Stream (External Engagement) Affecting Academic Job Performance

Bianchini et al. (2013), refer to 'third stream or third mission', as activities that are coordinated towards knowledge transfer in order to establish relationships with the commercialisation of university research and teaching, such as consultancies, business start-ups and entrepreneurial incubators. Leydesdorff (2012), utilising the "Triple Helix" model (see figure 1), identifies three integrated missions, namely teaching, research and external engagement. Other authors, such as Montesinos et al. (2008) further clarify the activities of the third stream into three missions. The first mission is called 'social third mission', which involves universities offering services that do not generate revenue, e.g. voluntary and social responsibilities. The second mission is called 'enterprising third mission' that is an avenue for universities to generate revenue, such as consultancies, advisory work and outsourcing services. Finally, the third mission is called 'innovative third mission' and this involves utilising university services to aid networking within society, such as joint ventures and technology transmission.

Sliskovic and Sersic (2011) states that academics are being pressurised by their institutions to provide advice outside academia. Teichler and Höhle (2013) hold the view that third stream involvement may hinder academic first stream teaching and the availability to support students. Watson and Hall (2016) further stated that the increased expectation on academic staff to source additional revenues for the institution via third stream engagement causes further academic job performance frustrations, primarily due to a lack of training, recognition, reward and adequate work loading allowances.

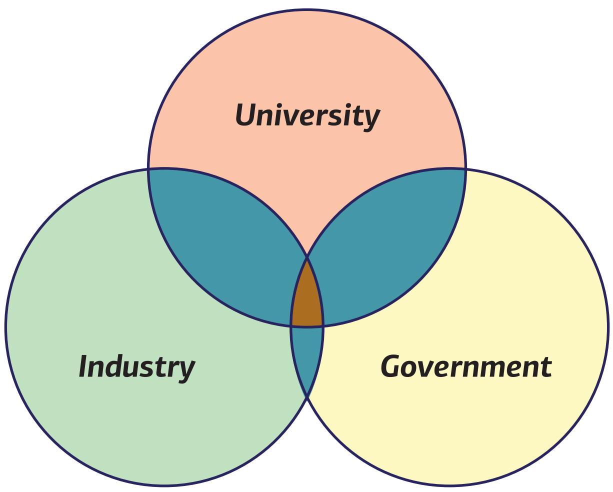

Figure 1: The Triple Helix model adopted from Leydesdorff, (2012)

METHODOLOGY`

The research utilised online questionnaires and used a pragmatic approach (Lund, 2012). The questionnaire was structured into a format having closed Likert-scale and open-ended questions. This provided an opportunity for more in-depth answers/responses from the 96 respondents. Furthermore the study also utilised an inferential survey, (one that accommodates small data samples but which are a representative sample of the population) as the research strategy aimed at highlighting relationships between variables made by assumptions (hypothesis) regarding the nature of relationship between variables (Christensen et al., 2012). The data was statistically analysed using IBM SPSS version 20, and this was used in testing the correlation (Pearson correlation) between variables. MS-Excel was also used. A semi-structured method was also adopted for the eight research interviews via Skype video-calls. The interview questions were arranged sequentially so as to give better insight and explanations to the research participants and were transcribed and analysed using thematic-analysis.

RESULTS PRESENTATION, ANALYSIS AND INTERPRETATIONS

In this section, the demographic profile of the respondents is outlined showing respondents' gender, duration of employment and position.

Gender-Distribution

The gender distribution for this research survey is presented in the figures below.

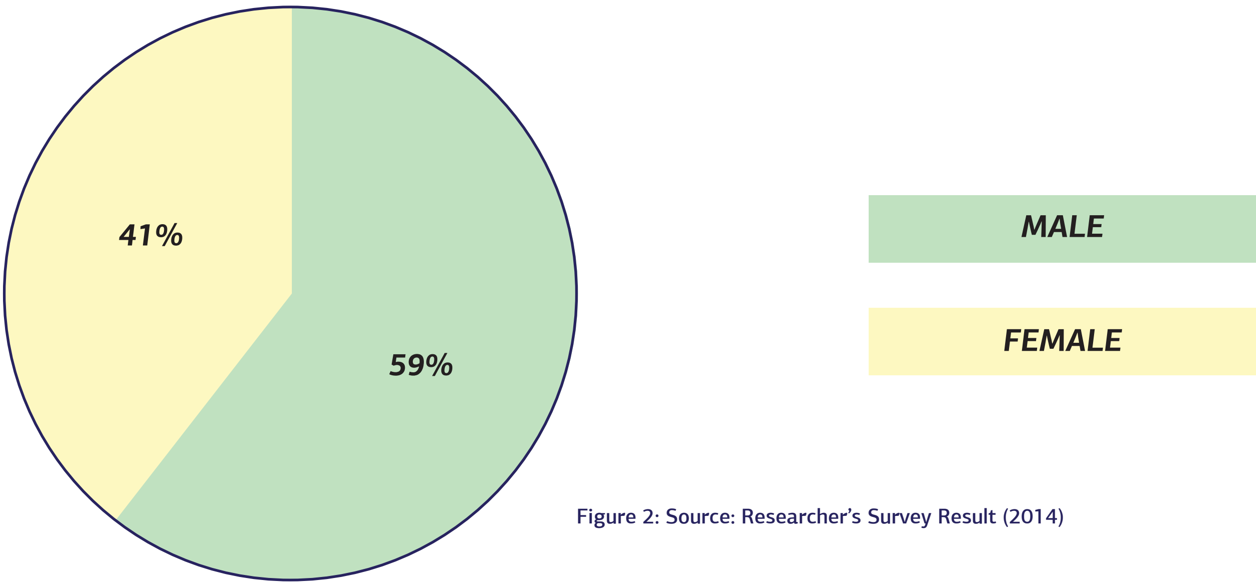

Figure 2: Source: Researcher's Survey Result (2014)

The results from the survey (see figure 2) shows that 57 respondents out of 96 questionnaires were male, representing 59% of the total sample size, and 41% of the respondents (39) were female. The main rationale for the inclusion of gender distribution is to establish whether there is a difference in the way male academic-staff and female academic-staff experience pressures and the factors that affect their level of job performance (Amusa et al., 2013). Results show that 55% of the respondents (29) from DELSU are male and 64% from IUO are male respondents (28). Female respondents consisted of 44% and 36% from DELSU and IUO respectively. This equates to 23 and 16 female participants from DELSU and IUO respectively.

Duration of Employment in Higher-Education

Results show that 40% of the respondents have been employed in the university system for over 10 years. About 24% of the sample had been employed in the university for 5-10 years, followed by 25% who had been employed for 1-5 years. However, only a small fraction of the sample had been employed in the university for less than one year (see figure 3).

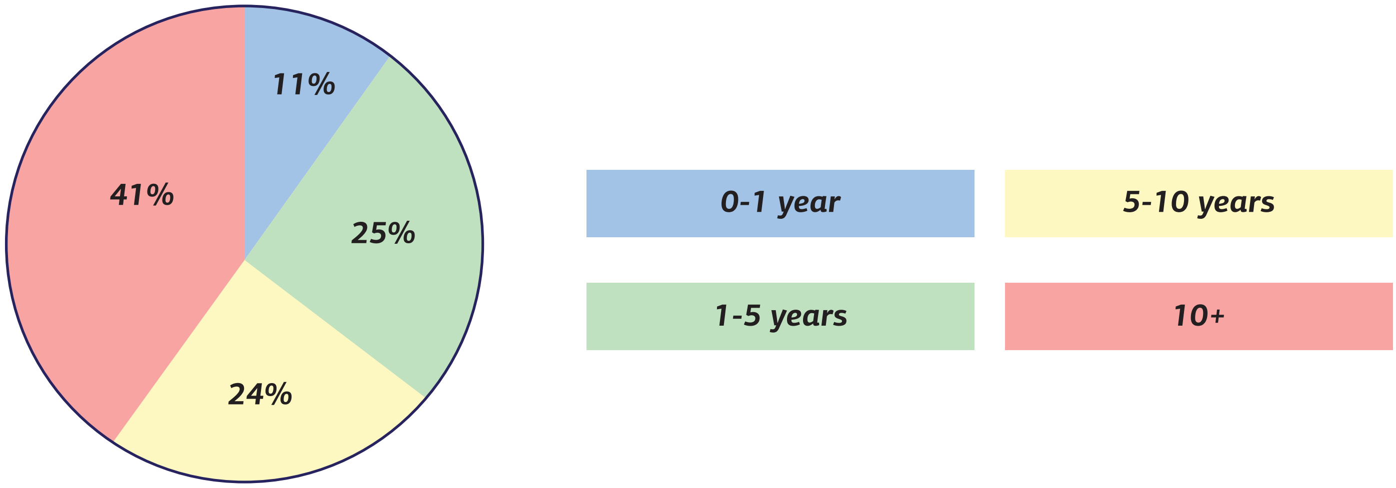

Figure 3: Duration of Employment

Hypothesis 1: Increased Teaching Load And The High Demand On Teaching Has A Significant Effect On Academic Job Performance

Figure 4 (DELSU) and figure 5 (IUO) below show the comparison of relationship between increased teaching load and high demand on teaching and large class size and increased teaching hours.

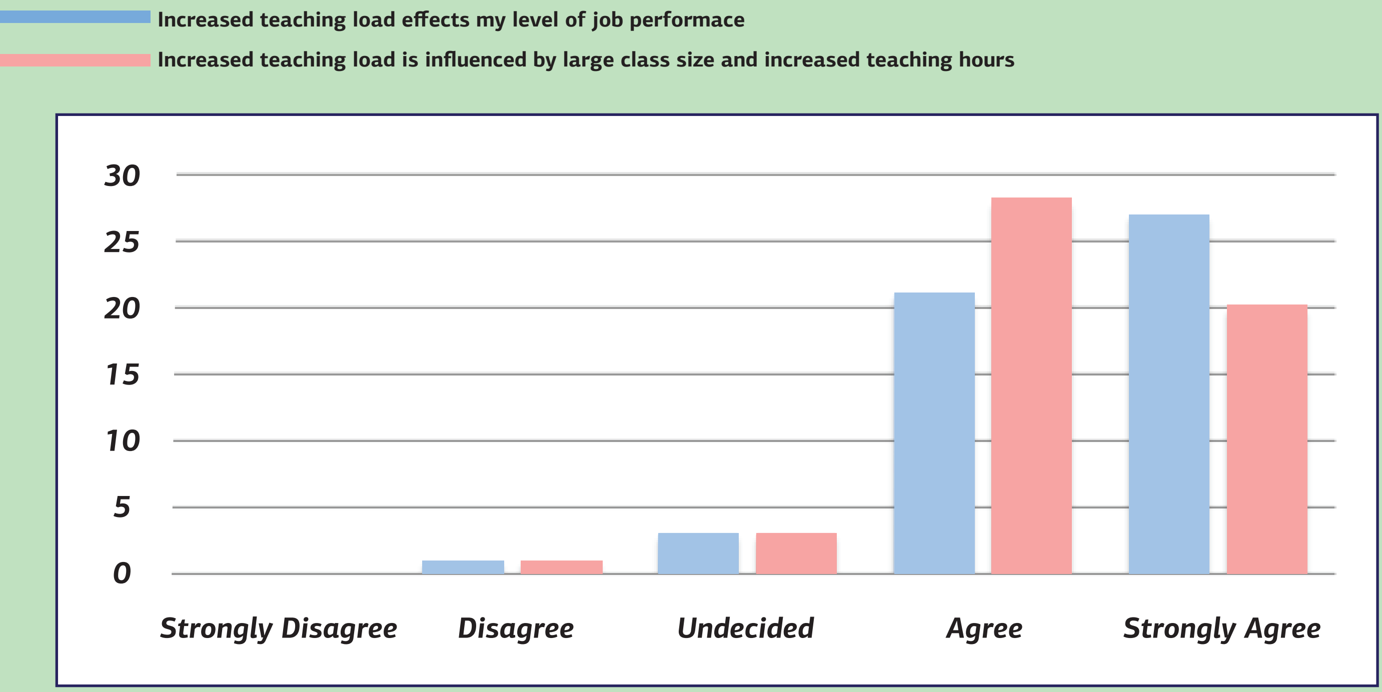

Figure 4 ‘DELSU’ relationships between increased teaching load and high demand on teaching and large class size and increased teaching hours.

Figure 4 above shows that 52% (27 academics)‘strongly-agreed’ that increased teaching load has an effect on their level of job performance; 38% (20 academics) ‘strongly-agreed’ large class-size and longer teaching hours is the cause of the increase. 40% (21 academics) and 54% (28 academics) ‘agreed’ with the above-mentioned effects. However, 2% (1 academic) ‘disagreed’ and 6% (3 academics) were ‘undecided’

For IUO respondents, 49% (i.e. 21 academics) 'strongly-agreed' that increased teaching load has an effect on their level of job performance; 39% (i.e. 17 academics) 'strongly agreed' that large class-size and longer teaching hours are the cause of the increase in teaching load. However, 18% (i.e. 8 academics) and 20% (i.e. 9 academics) were 'undecided' and 5% (i.e. 2 academics) and 6% (i.e. 3 academics) disagreed (see figure 5)

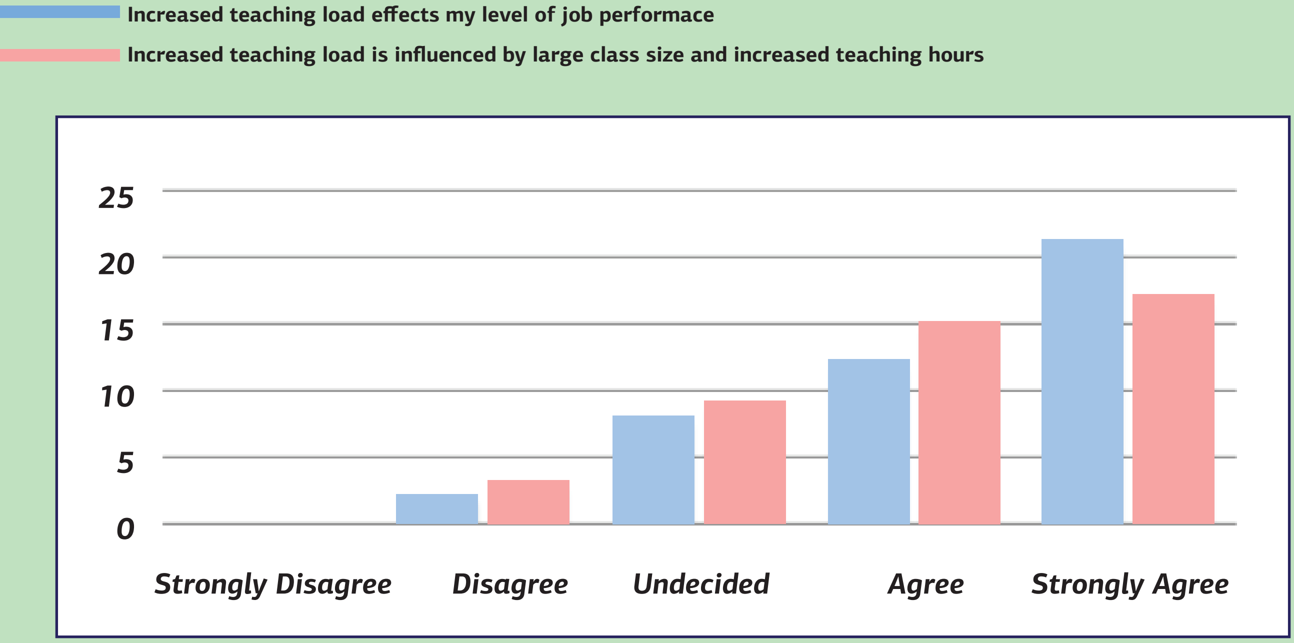

Figure 5: 'IUO'

In order to test if there is a significant relationship between the respective dependent and independent variables the following hypotheses were tested:

$\mathbf{H_o}$: Increased teaching-load and high demand on teaching have no significant relationship/effect on academics' job performance.

$\mathbf{H_1}$: Increased teaching-load and high demand on teaching has a significant relationship/effect on academics' job performance.

$\mathbf{H_0} = 0$

$\mathbf{H_1} \neq 0$

For DELSU, results revealed that the Cronbach's Alpha was 0.932 and this is above the minimal acceptable value of 0.7. However, the Pearson's correlation test indicates that the relationship between 'increased teaching load and high demand on teaching and large class size and increased teaching hours' is positively correlated and strong with the number of respondents $r (52) = .873^{**}$, $p < .000$. Hence, we reject $\mathbf{H_0}$ then accept $\mathbf{H_1}$ that is under the 99% level of confidence.

For IUO, results revealed that Cronbach's Alpha was 0.958 above the minimal acceptable value of 0.7 and the closer to 1 the more reliable. The Pearson's correlation indicates that $r (44) = .920^{**}$ is very strong and positively correlated. Therefore, we accept $\mathbf{H_1}$ that is under the 99% level of confidence.

These results from both samples support the literature because they are consistent with the views of Nadeem et al. (2011), Shaheen, Sajid and Batool (2013) and Barrett and Barret, (2008) which state that increased teaching load and high demand on teaching affect the job performance of academic-staff due to large class-size/longer teaching hours.

Figure 6 (DELSU) and figure 7 (IUO) below show the comparison of the relationship between the high demands for research activities on academics' morale, job performance and the factors that influence this pressure (financial benefits and reputation).

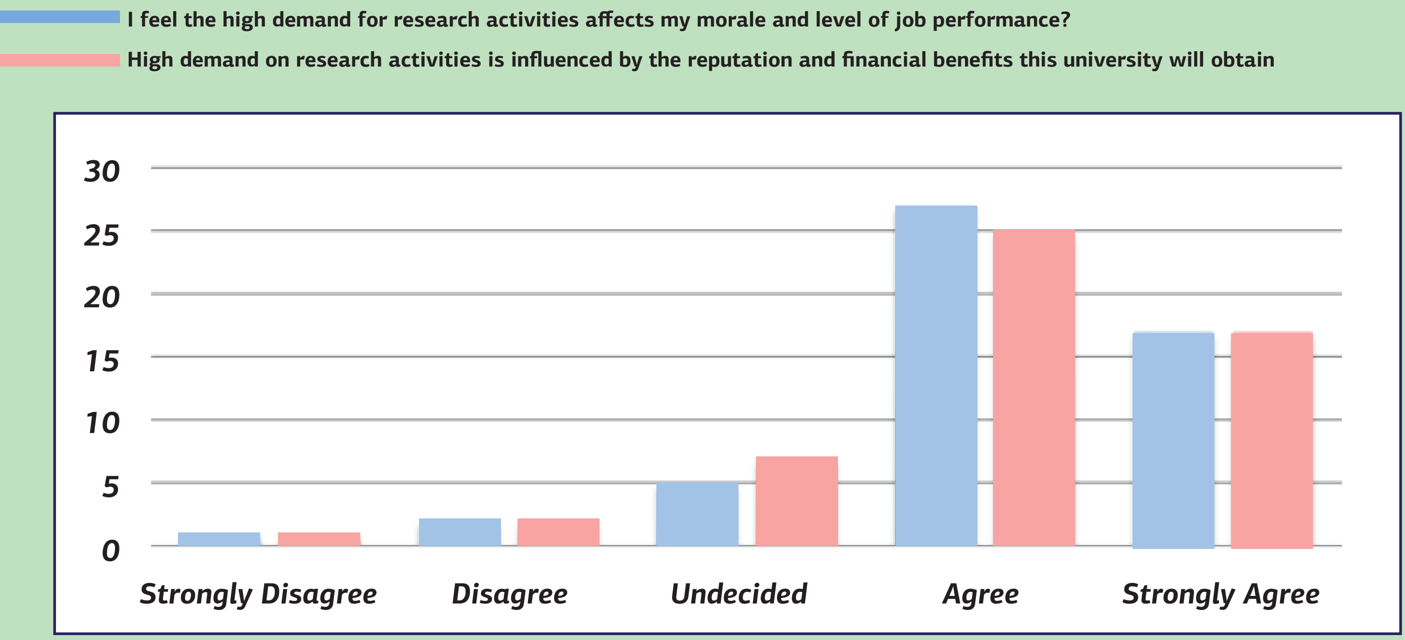

Figure 6: DELSU

Figure 6 above showed that 33% (17 academics) in DELSU 'strongly-agreed' that high demands on research activities affect their job performance. 33% (17 academics) also 'strongly-agreed' that this demand is as a result of the financial benefits and reputation the university will obtain. 9% (5 academics) and 13% (7 academics) were 'undecided'.

Responses from IUO showed that 41% (18 academics) 'strongly-agreed' that high demands on research activities affect their job performance; 36% (16 academics) 'strongly-agreed' that this demand is as a result of the financial benefits and reputation the university will obtain. 21% (9 academics) and 23% (10 academics) were 'undecided', 2% (1 academic) and 7% (7 academics) 'disagreed' (see figure 7).

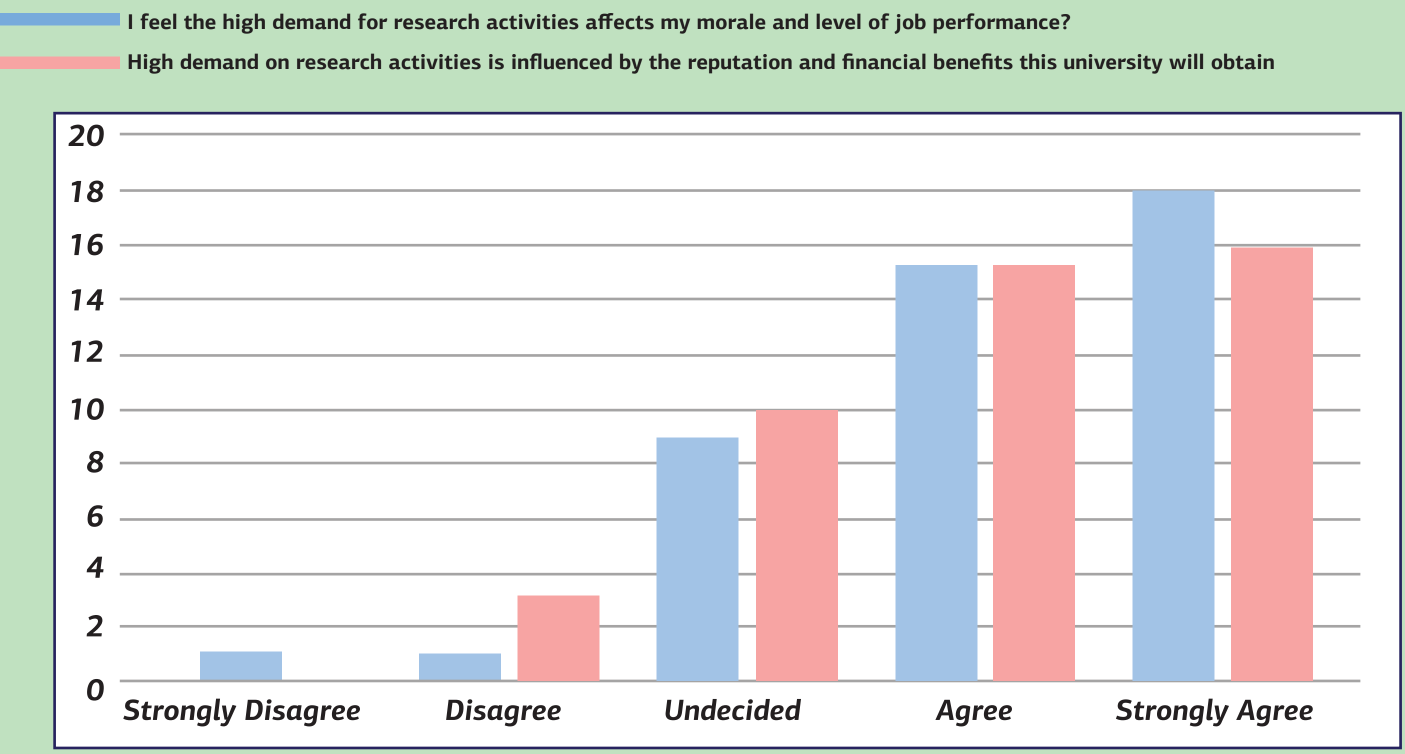

Figure 7: Relationship between high demand on research activities on academics and the financial benefits, reputation the university will obtain 'IUO'

These relationships will be tested with the stated hypotheses below:

H_0: High demand on research does not affect the morale and job performance of academics.

H_1: High demand on research affects the morale and job performance of academics.

H_0 = 0

H_1 ≠ 0

For DELSU, results revealed that the Cronbach's Alpha was 0.840 and this is above the minimal satisfactory value of 0.7. However, the Pearson's correlation test indicates that the relationship between 'high demand on research activities on academics and the financial benefits and reputation the university will obtain is positively correlated and strong with r (52) = .724**, p < .000. Hence, we reject **H_0** then accept **H_1** that is under the 99% level of confidence.

For IUO, results revealed that Cronbach's Alpha reliability was 0.962, above the minimal acceptable value of 0.7 and the closer to 1 the more reliable. Pearson's correlation indicates that r (44) = .928** is very strong and positively correlated. Therefore, we reject **H_0** then accept **H_1** that is under the 99% level of confidence.

The above results from both samples indicate that 'the level of job performance and the morale of academic-staff is affected by the increased demand of research activities by the management of both universities. This supports the literature as it is consistent with the views of Barrett and Barrett (2008); Sliskovic and Sersic (2011) state that academics are faced with the pressure to publish or perish and this negatively affects their level of performance and that this is as result of the reputation and financial gain the university will gain.

Hypothesis 3: The Increased Pressure Of 'Third Stream' Or 'Third Mission' Activities Significantly Affect Teaching And Academic Morale

Figure 8 (DELSU) and figure 9 (IUO) below show the comparison of the relationship between the increased pressure to participate in external engagements and the professional identity/status of academics.

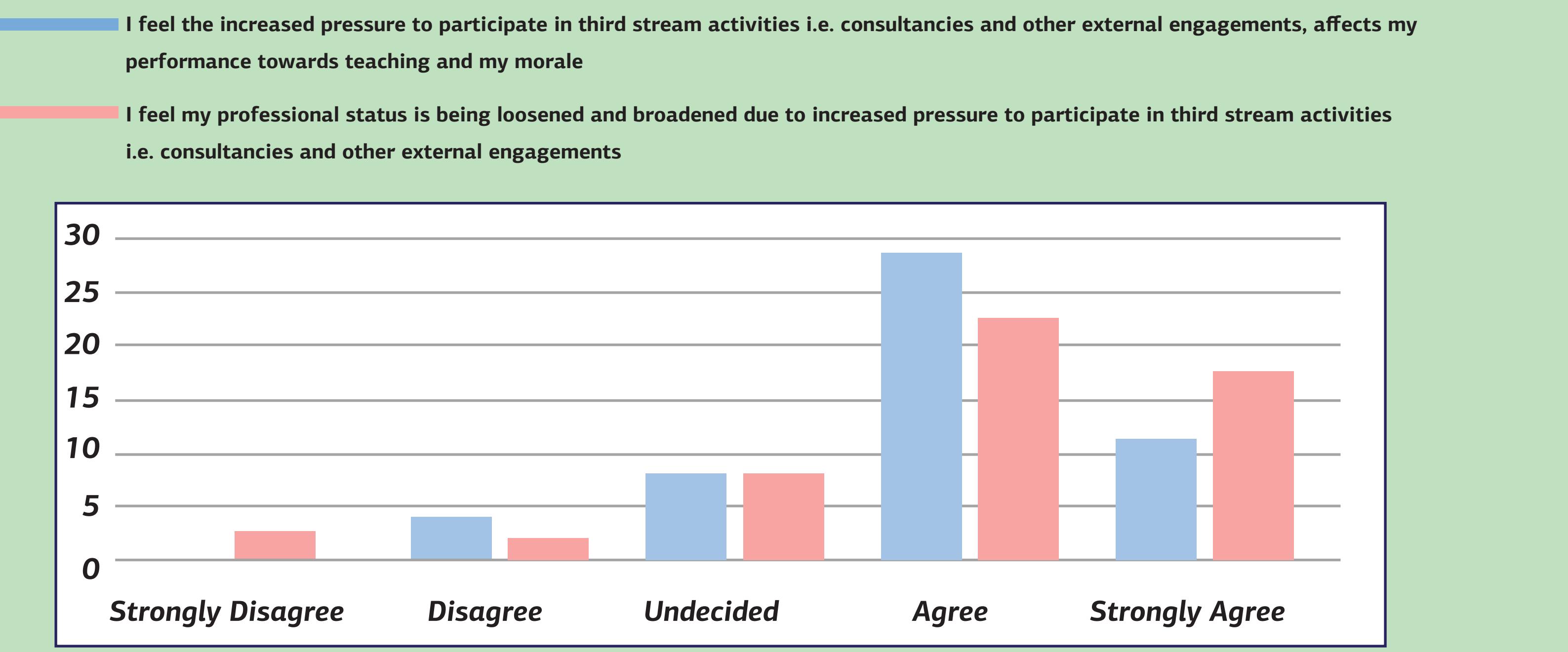

Figure 8: Relationship between increased pressure to participate in external engagement and the professional identity/status of academics 'DELSU'

From figure 8 above we see that 21% (11 academics) 'strongly-agreed' that increased pressure to participate in third stream affects their job performance; 33% (17 academics) also 'strongly-agreed' that their professional status is been eroded by the increased pressure to engage in third-stream. 56% (29 academics) and 44% (23 academics) agreed to the above-mentioned effects of third stream participation.

For IUO, 46% (20 academics) ‘strongly-agreed’ that increased pressure to participate in third stream affects their job performance; 59% (26 academics) also ‘strongly-agreed’ that their professional status is been eroded due to the increased pressure to engage in third-stream (see figure 9).

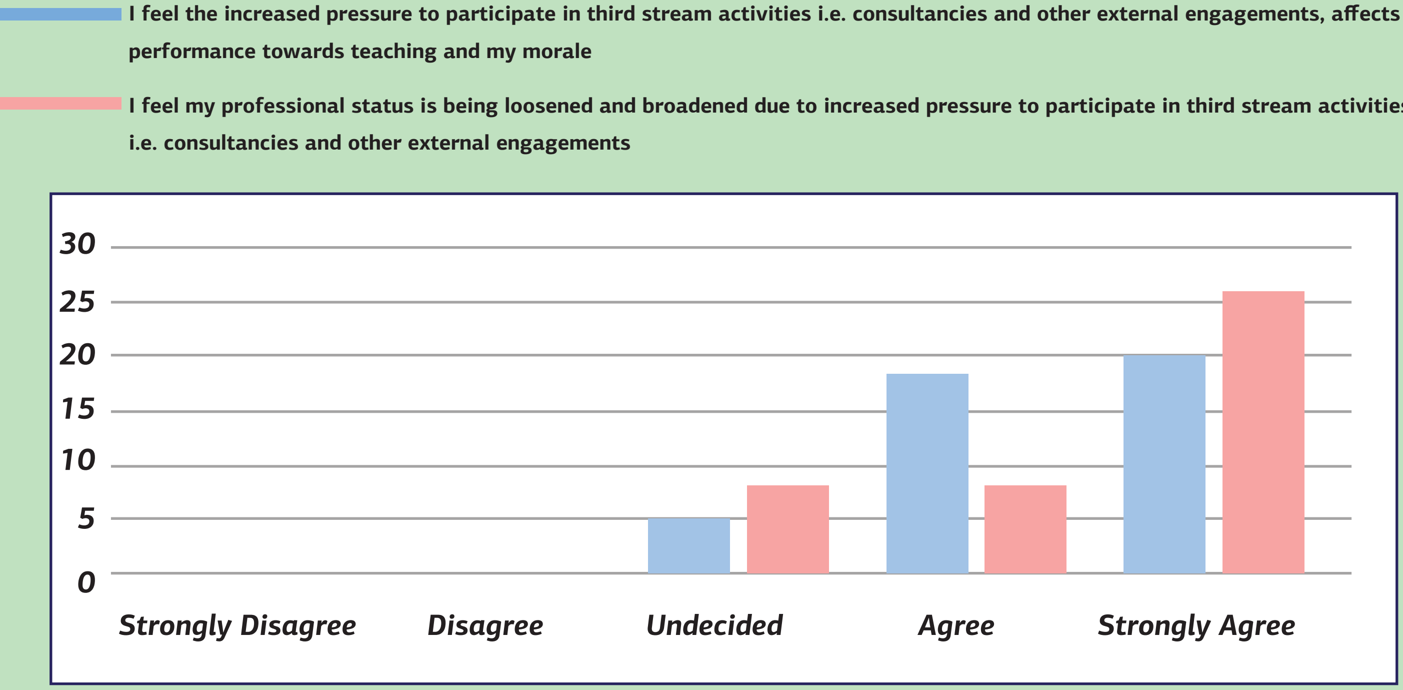

Figure 9: Relationship between increased pressure to participate in external engagements and the professional identity/status of academics 'IUO'

These relationships will be tested with the stated hypotheses below:

H_0: The increased pressure of ‘third stream’ or ‘third mission’ activities does not significantly affect teaching, its related activities and academics’ morale

H_1: The increased pressure of ‘third stream’ or ‘third mission’ activities significantly affects teaching, its related activities and academics’ morale

$H_0 = 0$

$H_1 \neq 0$

For DELSU, results revealed that the Cronbach’s Alpha was 0.953 and this is above the minimal satisfactory value of 0.7. However, the Pearson’s correlation test indicates that the relationship between the ‘increased pressure to participate in external engagements and the professional identity/status of academicsis positively correlated and was strong with r (52) = .927**, p < .000. Hence, we reject **H_0** then accept **H_1** that is under the 99% level of confidence.

For IUO, results revealed that Cronbach’s Alpha reliability statistic was 0.886, above the minimal acceptable value of 0.7 and the closer to 1 the more reliable. The Pearson’s correlation indicates that r (44) = .808** is very strong and positively correlated. Therefore, we reject **H_0** then accept **H_1** that is under the 99% level of confidence.

The results above from both research-samples (DELSU and IUO), show that increased pressure on academics to participate in external engagement, which is the third-stream of HEIs, affects their level of job-performance. Also, data analysis shows that academics feel that their professional identity is being eroded. These findings are consistent with the views of Teichler and Höhle (2013) and Woods (2012).

CONCLUSION

To conclude, the outcome from the data analysis will be examined in order to reveal if the research objectives and stated hypotheses have been satisfied.

Objectives 1: To Investigate The Factors Creating Academic's Low Morale In Universities

In order to achieve this objective, questionnaires were also administered and a series of semi-structured interviews were utilised to capture the perception of academics. Questions were asked concerning academics' perception of first, second and third stream activities. This research study revealed the factors creating academics' low morale from DELSU and IUO academics.

Firstly, increased teaching-loads showed that the pressure on academics to handle large classes and increased teaching hours is affecting the performance of academics. Academics from both institutions explained that these pressures create stress and fatigue. These findings are consistent with the literature, as several authors highlighted that increased teaching and high demand on teaching affects the job performance of academics.

The research findings revealed that the pressure on academics to engage in more research activities is one of the factors creating reduced job performance. However the research findings revealed a clear difference of opinion between the executive and academics. Surprisingly, the executives felt that academics are not being pressured to participate in third stream activities and they had the required skills.

Secondly, research findings also revealed that the issues of government policy changes and lack of funding is another factor affecting academics, especially those in DELSU because they are primarily funded by the government. For IUO academics, they are also affected, but it as a result of the unavailability of the Tertiary Education Trust Fund. Academics agreed that the issue of funding is the reason why there are strike actions by the different academics unions.

Objectives 2: To Investigate If Academics' Participation In Third Stream Activities Could Affect Their job Performance

Authors such as Sliskovic and Sersic (2011) stated that academics were being pressured by their institutions to use their existing knowledge to provide advice outside academia. In consequence, this has resulted in academics reflecting on their professional identity and their professional calling. The data analysis indicated that academics are being pressured to participate in third-stream activities to source additional or back-fill traditional funding streams. The research findings also highlighted the fact that the majority of Nigerian academics purposely entered the teaching profession purely to teach and to be research active. Any encroachment on those two activities will erode their professional calling. Data analysis also indicated that increased pressure to participate in third stream activities affects the performance of academics as they were unable to provide additional support to further enrich student learning.

Objective 3: To Investigate If Salaries And Incentives Affect The Job Performance Of Academics

Questions concerning academics' remunerations in the questionnaire and semi-structured interview sections identified that pay has a motivational value and that there was a significant relationship between academic pay and job performance. In addition, Nigerian academics openly stated that there was a real need to provide a code of practice to reward such activities. This finding was consistent with the empirical findings of Hilderbaandt and Eom, 2011, and Fapohunda (2010).

In summary, it is quite evident that Nigerian universities are not alone in facing the global educational challenges of the 21st century, such as the continuing economic recession, increased competition from both traditional universities and newly privately funded institutions and significantly reduced governmental funding streams. Universities certainly need to be more competitive in their service offering to both retain and attract students.

Whilst it is generally agreed and accepted that Nigerian universities need to change, their university executives need to be mindful in ensuring that the majority of front line academics are committed to their institutional change strategy. Many academics embarked on their professional careers to teach and therefore to be required to participate in second stream research and third stream activities is seen as a weakening of their professional ethos. This is primarily due to a lack of consultation, effective work-loading tariffs, suitable training and agreed remuneration. To ignore their concerns will further hinder their commitment and ultimately their job performance to the benefit of competitors.

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Eliminating Gender Discrimination in the Workplace through Gender Neutrality

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ABSTRACT

The purpose of this article is to present a theoretical framework on gender discrimination faced by women in the workplace and also offer a discussion on gender variation theories as identified by Kolb, Fletcher, Meyerson, Merrill-Sands and Ely (1998). Gender variation in the workplace can be identified in several aspects of the organisation i.e. hiring, promotion, remuneration, development, etc. and it is not just a matter of considering an occupation male or female. Four main theories have been identified, according to Kolb et al. (1998) which will be discussed within the scope of this article. Further to that, a fifth theory is going to be introduced indicating the importance of national culture in recognising the root of gender discrimination in the workplace.

INTRODUCTION

During the last few decades there has been an increase in the number of women in the workplace (Davidson and Burke, 2004). However, the advancement of women in managerial positions has not been so positive; the progress of women in the professional and managerial world has been uneven compared to the proportion of working women (Wirth, 2001). While it is evident that women are as well-educated and trained as their male counterparts, according to Powell (1999) they still encounter a "glass ceiling" on their way to the top. Several studies over the years have documented gender discrimination in organisational procedures in the forms of hiring, promotions, the pay-gap, evaluations and even sexual harassment (Bobbit-Zeher, 2011; Gorman, 2005).

In the words of Ely, Foldy and Scully (2008), many people share the view that giving emphasis to gender, race, or any other element of divergence is, at best, frustrating due to the fact that the more one discusses an issue the more of an issue it becomes. Indeed, some might argue that focusing on these kinds of discrepancies can create problems. According to Bobbitt-Zeher (2011) gender stereotypes, which are created by categorising people based on their sex, might be responsible for gender discrimination in the workplace (see also Ridgeway and England, 2007). On the other hand, there is the view that the observation of organisational life 'through a gender lens' (Ely et al., 2008, p. ix), as with other dimensions of difference, makes it possible to comprehend more about individuals' behaviour, the structure of companies and to better acknowledge the importance of certain policies.

Scientific research has often ignored women's voices and, hence, has not examined the latter's point of view within the scope of their research and consequently has not taken into consideration women's interpretation of political and/or social phenomena (Ackerly and True, 2010). However, from the flourishing of the feminist movements, in the 1960s and 1970s and onward, many issues such as sexual harassment, workplace discrimination, pay gap, and reproductive care economy have been inserted in the investigation schedules of researchers who 'made the conceptualisation of these political and social concerns a cornerstone of their work' (Ackerly and True, 2010, p. 465).

Ackerly and True (2010, p. 468) indicated that 'gender works differently in different contexts because of multiple political, economic and social forces'. In addition, Liff and Cameron (1997, p. 35) suggested that 'conventional equality measures have made a limited impact on women's position in the workforce' and as a result there is the belief that women are not as capable as men and are seen as not able to adjust to business reality.

Many researchers have tried to ascertain the root of the gender discrimination that is faced by women in the workplace and through these attempts four theories on gender variation have been identified. Gender variation in the workplace can be identified in several aspects of the organisation i.e. hiring, promotion, remuneration, development, etc. and it is not just a matter of considering an occupation male or female. There are several approaches regarding the role of gender within organisations and consequently about gender inequalities in the workplace (Kolb et al., 1998).

Each approach gives a different perspective on the gender inequity problem and introduces a suitable means of action towards the elimination of inequalities. Some treatments concentrate on minimising the wage gap between men and women, while others are based on training and development. In effect, some of the proposed actions have made a difference towards gender equality, although none of them, according to Kolb et al. (1998, p.10), have managed to 'address the problem comprehensively'. Four main theories have been identified, according to Kolb et al. (1998), which are going to be discussed here.

Approach 1: Fix the women (Deficiency Theory)

The first and probably most widespread approach towards gender equality is the one that claims that 'individuals rise and fall on their own merits' (Kolb et al., 1998). Men and women are alleged to have equivalent access to opportunities (ibid.). The lack of women's achievement within organisations is accredited to divergence of experience between men and women (ibid.). An assumption of this school of thought is that women are not yet familiar with the business world and hence do not know how to play the game (Socratous, 2018).

The action proposed by this approach is the elimination of the differences between men and women by developing women through training programmes on leadership, presentation skills and negotiation (Kolb et al., 1998). The outcome is that women actually learn a lot by attending the seminars and some of them might even be able to compete equally with men and obtain higher positions in organisations. Indeed, women can and do develop through this approach, but they do it by meeting male standards; the game is "man-made". According to Kolb et al. (1998, p.11) these programmes try to face the problem on an individual level and fail to make any difference concerning organisational structures, leaving women with an 'uneven playing field'.

This approach suggests that gender differences within the workplace derive from women's choices. However, it fails to recognise the effect that culture might have on people, both men and women, as well as the organisation itself and suggests that everything functions in a sterilised working environment.

Approach 2: Celebrate Differences (Gender Differences)

This second approach is focused on celebrating the differences between men and women, instead of eliminating them, as the previous approach suggests. This school of thought, according to Kolb et al. (1998, p.11), perceives gender as 'socialised differences between men and women, embodied in different masculine and female styles or 'ways of being'. According to this framework, any difference between male and female "being" is due to diverse life experience and different social roles. Helgessen (1990) indicated that women are disadvantaged within their workplace because the female "working style" is not yet recognised.

The idea behind this theory is to acknowledge the differences between female and male working styles and value them (Kolb et al., 1998). Therefore, the proposed action entails the promotion of tolerance and understanding of difference within the organisations, demonstration of how the traditional female characteristics suggested by Kolb et al. (1998) can be of use for the organisation, i.e. listening skills, better team spirit, and sometimes playing the role of peacemaker. These interventions can lead to the rise of awareness for tolerance and flexibility in the workplace, but, while this is an important step forward, this theory has limitations as well (ibid.). The focus on male and female differences can actually reinforce gender stereotypes and discrimination and it ignores the power of the masculine work model that the societies tend to follow.

Fletcher (1998) indicated that women who try to adopt a more feminine style in their workplace find that others do not even notice them most of the time and when they do the attention these women get is only minimal. Consequently, it can be said that through this theory's remedy "female" characteristics, such as people skills, are underlined as important within the organisation but this does not lead to equality between men and women (Kolb et al., 1998). It can be suggested that through this frame women are considered as an "add-on" to men's performance. Furthermore, Fletchers' (1998) indication is itself discriminatory towards women by suggesting that they are not even noticeable within the workplace.

This approach, albeit it recognises the difference between the two genders suggests that they are treated accordingly, attributing everything to structure, hence underestimating the impact of both agency and culture. By doing this though, instead of eliminating the differences the latter are sustained and preserved within the workplace. In addition, the nature of the organisation is not even mentioned, therefore women might be led to engage in a male working environment having as weapons their female characteristics. This might lead to the isolation of the women within the organisation as they probably won't be able to cope with their male counterparts.

Approach 3: Create equal opportunity (Equality Theories)

This third frame is still defined by the differences between men and women but instead of focusing on their personal characteristics it focused on the differential structures of opportunity that create an even playing field (Kanter, 1977). This theory focuses on the ways the HR activities within the organisation, such as recruiting, evaluation and promotion, can be biased against women to a degree that creates the glass ceiling (Kolb et al., 1998). This theory aims at eliminating discriminatory barriers which can be identified within the structure and procedures of the organisation.

The action projected by this frame entails the introduction and implementation of non-discriminatory laws and policies, for instance affirmative action initiatives, alteration of the recruiting and hiring procedures, making the promotions more transparent and additional procedures that need to be legally binding (ibid.). This approach helps reduce organisational barriers that constrain women from being successful within their working environment (ibid.). It has made it possible to hire, retain and promote greater numbers of women in the US, but it could also apply to European countries as well. Adding to the above Ely (1995) suggested that the increase in working women can lead to consequent results which collude with the fact that women can “play the game” on equal terms.

Nevertheless, this approach has its share of insufficiencies as it fails to recognise and battle the ‘informal rules and practices that govern workplace behaviour’ (Kolb et al., 1998, p. 12) or norms that prevail within the organisation that might not be in line with the new policies, again underestimating the impact of culture and agency. For example, flexible working hours might be on the books, but those who actually use them may be faced with negative career consequences (Bailyn, Fletcher and Kolb, 1997). It is important that these new policies are followed by a change of organisational culture so as to create equality between men and women (Kolb et al., 1998).

The deficiency of this theory is that it introduces proposed action that women can use in order to be able to compete in a male environment by using their agency. It does not reach to the root of the problem and it circumvents gender discrimination by introducing measures that are only good for women, i.e. flexible working hours which cannot guarantee their equal treatment in promotional or advancement issues. It is also important to note that men, especially fathers, might also like to take advantage of flexible working hours.

Approach 4: Revise work cultures (Gendered Organisations)

This frame of thought contends that in order to eliminate inequity in the workplace one should not focus on women or discrimination but on the organisation itself (ibid.). This frame supposes that organisations are intrinsically gendered (Fletcher and Merrill-Sands, 1998). Today, the vast majority of organisations can be regarded as “male” organisations due to the fact that they have been created by men and hence reflect masculine structures, norms and policies (Kolb et al., 1998). As a result, everything regarded as normal is actually “male-normal” and inevitably privileges characteristics ascribed to men as well as the “male way of living”. As Burgess and Borgida (1999) noted, women in male-dominated occupations are more prone to discrimination. Even if gender discrimination has its roots in culture, organisational structure and policies can be held accountable as well (Bobbitt-Zeher, 2011).

The problem of inequality has deep roots which can be found at the base of the organisation in often ‘unquestioned assumptions that drive behaviour and work practice in the organisation’ (Kolb et al., 1998, p. 13). Therefore, any inequalities that can be acknowledged within the workplace are attributed to the culture of the organisation. These assumptions might appear neutral on the surface (what is regarded as normal) but often have a distinct impact on men and women. For instance, it is believed that the more time spent at work the more the commitment of the employee, regardless of productivity. This conjecture privileges employees who do not have responsibilities at home. Consequently, this norm better suits employees with no family responsibilities or who have delegated this elsewhere i.e. to a spouse.

In the business world, if masculinity is perceived as normal, not only do inequities between the two genders arise, but also a lack of communication can prevail within the organisation (Kolb et al., 1998). According to Martin (1998), displays of masculinity are often presented in a way that wound the majority of women, some men and the workplace itself. For example, the image of the perfect worker, in many professional organisations, is someone who spends many hours at work, is willing to travel abroad and does not have responsibilities outside the workplace. Working long hours, which are a main cultural characteristic of many organisations, can create work and family conflict and stress (Lewis and Cooper, 1987, 1988). The majority of women cannot fit into this “perfect working image”, and this norm can also hurt the workplace as many talented people who can’t match this image might not be recruited.

The action proposed by this fourth frame of thought is to change the gendered norms that organisations carry. However, this process cannot be a one-time fix. Rather, it is a long process and as Kolb et al. (1998, p.14) put it; ‘it’s like peeling an onion, where each layer reveals yet another to be explored and examined'. Moreover, in organisations that have in place family-friendly policies, such as flexible working hours or even working from home, these only apply to mothers, and people who do take advantage of these schemes are seen as losing face (Socratous, Galloway and Kamenou-Aigbekaen, 2017).

This proposed action requires long-term dedication on behalf of the organisation and its stakeholders, however, not every organisation is ready to make such a commitment for the sake of gender equality (Kolb et al., 1998). Moreover, it is not easy to keep the fight for gender equity amongst the priorities of the organisation, as it can be easily overshadowed by shorter-term goals such as the improvement of the organisation's effectiveness. Once it is decided that change in organisational culture must occur then great commitment must be shown by those who are going to implement it so as to keep everyone else on track (Ely and Meyerson, 2000).

Promoting gender equality within the workplace is rather challenging and that is why one must take into account all four theories discussed above and find possible ways for their interaction with each other (Kolb et al., 1998). The above-mentioned theories do not necessarily have to be competing; they can very well be combined. For example, by combining the third and fourth frameworks previously discussed, not only will new policies towards equality be introduced, but also through organisational change there will be help towards their correct implementation and sustainability (ibid.). Taking into account the above-mentioned, the development of a fifth theory is suggested to acknowledge the impact of national culture on the culture of organisations and also propose that discriminatory practices in the workplace are an outcome of the co-existence/interrelation of culture, structure and agency.

Approach 5: Revisit national cultures (Gender Neutrality)

Taking into account all of the above the fifth approach suggested has to do with changing national cultures. As Fletcher and Ely (2008, p. 8) have said '…gender is incomplete as a lens for analysing organisations: we cannot adequately understand or challenge gender arrangements without considering the simultaneous effects of other social and power relations as well'. McGregor (2010) indicates that if women are 'marginalised in the private or public sectors and in economic spheres they will be marginalised everywhere else' (p. 272). Hence, a woman's position within her workplace is strongly related to her position in her country or her international status (McGregor, 2010). According to Socratous et al. (2017) women are considered as the main caregivers in Cyprus, due to the gendered-specific roles attached to them by cultural and societal norms. Hence, when women become mothers, they either choose or are forced to select between their careers or their families. This clearly affects the organisational progression of women and derives directly from the gender roles attached to people by their national culture.

In effect, when changing national culture and making it more gender neutral, the change in organisational cultures will occur as a consequence of that. Henceforth, when women are not being discriminated against within society and their homes, the same treatment will be repeated in the workplace as well. This change in national culture cannot occur instantly but instead it will take years to develop through the learning process in schools (formal education) and within the family (social education).

Conclusion

This article, based on the theoretical framework of gender discrimination faced by women in the workplace, has offered a discussion on gender variation theories and the four approaches already introduced by several researchers. Further to that, a fifth approach has been introduced suggesting that in order to eliminate gender inequalities in the workplace a change in national cultures towards gender neutrality should occur first.

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Why Foreign Companies Choose Cyprus

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ABSTRACT

Purpose – the purpose of this paper is to attempt to identify the factors that underpin the decision of a foreign company to choose Cyprus for its business presence, under the scope of theories for foreign direct investments (FDIs).

Methodology – this study was based on a qualitative approach and the findings were obtained from semi-structured interviews with executives of foreign companies and local professionals in the area of international business in Cyprus.

Findings – This research identified that international companies choose Cyprus not just for one reason, but for a combination of internal and external factors. The main factors that were identified through the findings of this research were; economic, such as the tax regime, the double tax treaty, generally cheap prices for services and the maintenance of the business; cultural, such as religion, language, atmosphere, historical ties and the image of Cyprus; administrative, such as the English legal system, availability of professional services including banking, accounting and fiduciary, as well as European Union membership; geographical proximity to important business centres in the European Union, Russia, Israel, etc.; and external factors such as the legislation of the country of the foreign company, the derating of competitors, a financial crisis and the specifics of a firm itself.

Value – this work contributes to the understanding of why foreign companies choose Cyprus for their business presence and what the motives behind this choice are. This identification is important for both the companies aiming to go abroad as well as the receiver country, in this case Cyprus.

Introduction

This paper focusses on the presence of international business in Cyprus, and more specifically on the factors behind this phenomenon. There are only a limited number of studies focusing on the attraction of international business to Cyprus. This particular type of business is important due to the continuous benefits for Cyprus, or indeed any receiver country, such as job creation, increases in rents, use of services, etc. This gives value to exploring the actual reasons behind the phenomenon of international business in Cyprus. As one can observe Russians, Chinese, Israelis, Germans, British, Indians and Lebanese are among the list of nationals that are engaged in business activities in Cyprus. Further to that, there is a 40,000-strong Russian-speaking business community in one of the biggest cities of Cyprus – Limassol (Christou, 2017). The initiation of this research derived from the authors' personal interest in identifying why there are so many Russians in Cyprus, as their concentration in such a small place as Cyprus is impressive and interesting and could not be justified solely by Russia's internal policies. It is also an impressive phenomenon because of the fact that international business was not withdrawn after the bailout of 2013 but continued to be a significant catalyst for the growth of the Cypriot economy (Christou, 2017). This business phenomenon affects numerous aspects of life in Cyprus – rent prices, growth of the local economy, availability of working places and competition in the labour market, vulnerability and the exposure of Cyprus to violations of certain international laws and other aspects. This research attempts to understand the origins of this phenomenon not just from the perspective of tax evasion and the tax haven, but from the perspective of foreign business presence.

Behind each factor that determines the decision of a company to work abroad there is a respective motive. Henceforth, in order to identify these factors, it is important to understand the motives behind them. The importance of motives that underpin the decision of a firm to go abroad cannot be underestimated. According to Dunning (1993), motives are essential because they shape the choice and direct the different alternatives available to firms. Additionally, motives are subject to change over time, because they depend on features of the host countries and the structure of the firm under investigation. Indeed, variables of host countries and the characteristics of the country of origin are taken into account when analysing why, how and where a firm may decide to take its business abroad. Hence, not only economic benefits, but cultural, administrative features and global events are considered in an attempt to understand the factors that influence foreign companies' decisions to come to Cyprus.

This research was conducted through interviews with preselected representatives and experts in the field of international business. The goal was to gain understanding and find out about the opinions of participants on the matter. The participants were company managers of British and Russian origin in Cyprus, managers of the international banking and fiduciary services sectors of Cyprus, and a representative of the Cyprus International Business Association. These people were chosen as they are employees of foreign companies that have chosen Cyprus for their business presence or experts/professionals of the Cyprus international business sector; and also, they hold managerial positions and therefore have a direct bearing on the decision-making process.

This paper starts with a review of the literature on the topic of foreign business presence in a host country and summarises some of the work on frameworks that are used to explain a firm's decision to go abroad and the choice of the location, as well as known factors of the popularity of Cyprus among international businesses. It continues with the presentation of research questions and a description of methodology. The paper moves on to an analysis of the findings, concluding with suggestions regarding the subject under investigation.

Business Presence

This paper investigates the phenomenon of the international business presence in Cyprus. The activities of foreign companies in the host economy provide numerous important economic benefits to the latter (Pattnayak and Thangavelu, 2011). The positive impact of foreign business presence and its effects on the domestic economy have been identified by a number of studies; it increases productivity, competition, innovation and access to new technologies (Anon., 2007).

FDIs

Economic growth is one of the main goals of any country. It relates to the level of income, which in turn defines the quality of life, thus, economic growth results in the improvement of the quality of life (McConnell, 2009). Economic growth implies the accumulation of capital from internal or external sources of supply (Nouri and Soltani, 2016). Indeed, there are theoretical and empirical studies supporting the theory that FDIs are essential instruments in advancing economic growth. Hence, the attraction of FDIs is a goal for many countries (Durmaz, 2017) and Cyprus is no different. Therefore, an identification of the factors that attract FDIs, especially to a European developing country, can be useful. As Cyprus is one of the developing countries in Europe, attracting FDIs is of the utmost importance (Nouri and Soltani, 2016).

The benefits of FDIs include, among other things, an increase of employment rates and competition power, fundraising, acquisition of up-to-date technology and knowledge and the enhancement of management capability, increasing the technical knowledge and managerial skills of the host country (ibid.). With the right policy framework, FDIs can provide financial stability, promote economic development and enhance the wellbeing of societies (OECD, 2008). FDIs are divided into two types: "greenfield" investment, which means establishment of new business cross-border from scratch, and mergers and acquisitions (M&A), which involve the acquisition of existing interests rather than new investment. Besides these two, loans, reinvesting earnings and similar capital transfers (third category) between parent companies and their subsidiaries also belong to the area of foreign direct investments (Wan, 2010). Although the subject under study in this work is international business presence, it can also be attributed to the third category of FDIs mentioned above.
This study focuses on the business presence of international companies in Cyprus and why they chose Cyprus from among other foreign jurisdictions. Therefore, why and how foreign companies go abroad needs to be investigated. The next sections deal with the area of interest theories, more specifically the OLI paradigm and the CAGE Distance Framework.

Relative Theories

Theoretical explanations of how and why a firm undertakes a decision to go abroad have long been of interest to international business economists. When a firm goes abroad it follows a set of different goals, for example, a new market, new technological options, profits, etc. For this reason, the motives behind a firm's decision to go abroad are not treated as a separate field, but mainly as the intersection of various streams of economic literature, like international trade models, international business and the theory of the firm. The determinants of the decision depend not only on external factors and the conditions of the host or outgoing country, but also on the structure of a firm and its specific characteristics (Franco, Rentocchini and Vittucci Marzetti, 2008). There are a few theories with regards to this area. The first is the firm's desire to acquire advantages over its competitors a view shared by economists such as Hymer (1960), Aliber (1970) and others. However, this notion was amended with the suggestion that this advantage would need to be significant to compensate transaction costs (Buckley and Casson (1976); Rugman (1985); Ibeh, Uduma, Makhmadshoev and Madichie, 2018). Moreover, there are an abundance of theories and models related to the topic of why and how a firm undertakes a decision to go abroad c in the literature. For example, the product life cycle theory of Raymond Vernon (1966) that explains patterns of international trade in relation to a new product or invention and how it's eventually imported by the country of origin (Vernon, 1966); the internalisation theory of Buckley and Casson (1976) that suggests why firms exist and focuses mainly on knowledge flow, it explains how knowledge leads to the creation of multinational companies; the theory of market imperfections by Hymer (1976) assumes that there is no perfect competition in international markets and how this imperfection drives companies to invest abroad; additionally there is the theory of incremental internationalisation of Johanson and Vahlne (1977) that explains the increase of involvement of companies in international trade and markets; and behavioural economics (Hosseini, 2005) that interprets economic decisions through psychological insights.

In an explanation of how and why firms make a decision to go abroad there are not only notions, theories and models, but also some findings that need to be considered. There are empirical findings showing that determinants of that decision also vary by sector, for example, the size of the host market may be critical for the chemical and primary metals industries, but not so critical in the consumer goods sectors (Farrell, Gaston, and Sturm, 2004). However, these theories, notions and findings are all very different from one another and therefore are difficult to consider simultaneously (Papadopoulos, Hamzaoui-Essoussi and El Banna, 2016). There is still no unified framework for analysis of motives underlying firms' decisions to go abroad (Franco et al., 2008). Later in this study the theories that are used in the scope of this research are discussed

OLI paradigm

According to Papadopoulos et al. (2016) there is one framework that can be distinguished as the most useful and widely used in explaining a firm's decision to go abroad; the eclectic paradigm of John Dunning, also known as the OLI-model or OLI-Framework, published in the 1980s, is used for the purposes of this study as well. The OLI paradigm attempts to explain the pattern, level and origin of a firm's offshore activity (Eden and Dai, 2010). This paradigm is comprised of ownership (O), locational (L) and internalisation (I) advantages that need to exist for the successful entrance of a company to a foreign country. In other words, it interprets why (Ownership advantage) and how (Internalisation advantage) a firm makes a decision to become a multinational and where (Location advantage) it is more likely to locate (Franco et al., 2008).

Although, being the most often used model for the explanation of firms' offshore activity motivations, the OLI paradigm has been criticised a lot. Franco et al. (2008) claimed that not all offshore activity motivations fit well into the paradigm as its categories are not defined correctly. In addition, Narula (2010) identified the OLI paradigm as rather more complex than simple. Talking about its limitations he concluded that there is no definitive eclectic paradigm and it is rather used for academic purposes only as a conceptual framework, but not for the work of specialists. Narula (2010) has suggested that even though the OLI paradigm has been upgraded through time, at the same time it has become cumbersome and less functional. Eden and Dai (2010) argued that over the years Dunning has over-expanded his paradigm, and specifically ownership (O) advantage. They insisted that (O) advantages should not be subsumed with internalisation advantages only, but explain the success of MNE as an organisational form. Nevertheless, Eden and Dai (2010) confirm that the OLI paradigm is the dominant paradigm in international business studies.

There is also later development of Dunning's eclectic paradigm - taxonomy of FDI motivations (Dunning, 1993), that was built upon his eclectic paradigm (Franco et al., 2008). It also explains why and how a firm decides to become a multinational and where it is more likely to locate. Dunning's taxonomy (1993) consists of four categories;

(i) Resource seeking: in this category the main goal for a firm is a specific resource that is not available at home (natural resource or raw material) or is available at a lower cost in the new location.

(ii) Market seeking: in this category a firm aims to exploit the possibilities of markets of greater dimensions. Firms make this choice to follow suppliers or customers, to reduce the cost of serving a market from afar, to have a physical presence in the market so as to discourage potential competitors from occupying that market.

(iii) Efficiency seeking: this category allows a firm to take advantage either of the differences in availability and costs of traditional factor endowments in different countries or of the economies of scale and scope and of differences in consumer tastes and supply capabilities. Some authors consider this category to be very close to the category of resource seeking.

(iv) Strategic asset seeking: in this category the purpose of the offshore activity is acquiring and complementing a new technological base rather than exploiting the existing assets (Franco et al., 2008).

There are other minor motives described by Dunning and not included in any of the four categories, which are rather important for this work. They are 'escape investments' (Dunning, 1993, p.61) that are made to escape restrictive legislation or macro-organisational policies by home governments; 'support investments' (Dunning, 1993, p.61) that support activities of the rest of the enterprise of which they are part; and 'passive investments' (ibid.) that are closer to portfolio investments, although sharing some characteristics of active involvement with FDI in firm management.

A choice of location for business presence can depend on factors such as cultural distance, evolution of new markets, whether location alternatives are in developing or developed countries, market size and labour costs, geographic proximity and production efficiencies, external environment, firm's network, personal characteristics such as age, education and level of experience of the firm's owners or managers, and political stability and home government support. Hence, different studies consider different factors as potential determinants, and those that are important in one setting or for a certain type of business, are less important in alternative situations (Papadopoulos et al., 2016).

Another attempt to organise the above mentioned factors is reflected in the more recent CAGE Distance Framework that can be applied to this area of analysis. This theory helps to distinguish Cultural, Administrative, Geographic and Economic differences or distances between companies and countries. It is designed to be used by companies for the design of their international strategies and the evaluation of a new country to enter, as well as for gaining an understanding of patterns of capital, trade, people or information flows (Ghemawat, 2011). This framework offers a broader view of the distance between two countries and provides another way of thinking about the opportunities and risks that are linked to them (Table 1, Ghemawat, September 2003).

Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
Attributes Creating Distance			
Different languages	**Absence of colonial ties**	**Physical remoteness**	**Differences in consumer incomes**
Different ethnicities; lack of connective ethnic or social networks	Absence of shared monetary or political association	Lack of a common border	Differences in costs and quality of the following: • Natural resources • Financial resources • Human resources • Infrastructure • Intermediate inputs • Information or knowledge
Different religions	Political hostility	Lack of sea or river access	
Different social norms	Government policies	Size of country	
	Institutional weakness	Weak transportation or communication links	
		Differences in climates	
Industries or Products Affected by Distance			
Products have high-linguistic content (TV).	Government involvement is high in industries that are • producers of staple goods (electricity), • producers of other "entitlements" (drugs), • large employers (farming), • large suppliers to government (mass transportation), • national champions (aerospace), • vital to national security (telecommunications),		

Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
Industries or Products Affected by Distance			
	• exploiters of natural resources (oil, mining), and • subject to high sunk costs (infra-structure).	Products have a low value-of-weight or bulk ratio (cement).	Nature of demand varies with income level (cars).
Products affect cultural or national identity of consumers (foods).		Products are fragile or perishable (glass or fruit).	Economies of standardisation or scale are important (mobile phones).
Product features vary in terms of size (cars), standards (electrical appliances), or packaging		Communications and connectivity are important (financial services).	Labor and other factor cost differences are salient (garments).
Products carry coun-try-specific quality		Local supervision and operational	Distribution or business systems are different
associations (wines).		requirements are high (many services).	(insurance).
			(Companies need to be respon-sive and agile (home appliances).

Table 1

According to Ghemawat (2011) this analytical framework makes 'distance' visible for managers, helps to distinguish the differences across countries that may interrupt multinational companies, it can show the approximate 'distance' of a multinational company from different countries (for example, explanation of a Spanish firms' strength in Latin America), or it can be used for comparison of markets. He also highlights that different types of distance matter to a differening extent depending on the industry.

The previous sections analysed the theories in general that could aid in the understanding of FDIs. The next section deals with the factors that influence FDIs in Cyprus.

Factors for choosing Cyprus for a business presence by foreign companies

As mentioned above there are a number of frameworks that can assist in understanding what motivates a company to go abroad and choose one or another location for its business presence. Usually companies can choose where to go from among several alternatives depending on their goals (Papadopoulos et al., 2016). Due to intense competition, countries routinely offer incentives such as tax holidays, special grants, advantageous worker compensation, fringe benefits regimes, office space, ISDN (Integrated Services Digital Network) connections, lower personal income taxes for expatriate personnel and accounting, consulting, legal and other business services (PricewaterhouseCoopers, 2000). However, their effectiveness depends mostly on how they compare to similar offers elsewhere, as they are easy to replicate (Papadopoulos et al., 2016).

Many policy makers in general believe that lowering taxes increases the attractiveness of their territory for foreign businesses (Tavares-Lehmann, Coelho and Lehmann, 2012). However, research by Tavares-Lehmann, et al. (2012) indicated that taxes only play a marginal role compared to other determinants and that it is not the main driver of the decision. Additionally, the same research does not give a straight answer as to whether lower taxes increase a country's attractiveness. Thus, it seems that the superior effect of tax policy on foreign business presence is overestimated (Tavares-Lehmann, 2012) and there must be other factors influencing the choice a company makes.

It is widely acknowledged that Cyprus has an advantageous tax regime but, according to Vargasov (2018), it has much more to offer. Vargasov (2018) tried to explain current interest in Cyprus by international organisations in general through a number of factors; primarily, Cyprus is viewed as a protected jurisdiction for ownership and management of family capital, due to offsetting of tax advantages through the introduction of CRS (The Common Reporting Standard for automatic exchange of information between tax authorities concerning bank accounts created by the OECD in 2014) and the rising risks of offshore countries. At the same time, Cyprus as a member-state of the European Union provides a high level of capital protection and the infrastructure to serve such capital. The reasons for FDI attractiveness to Cyprus are as follows; firstly, the developed legal system which is based on British Law, which, for example, allows the use of the institute of the trust, something which is unavailable in Russia. Moreover, the Cyprus has gone beyond its British origin in regulation: changes in 2011 expanded the power of the trust founder, giving them partial authority to control the structure, which is difficult to implement in the UK. Secondly, Cyprus is in the same time zone as important business centres such as Moscow, Beirut, Athens, etc. which is comfortable for business management in the sense of same time bank transactions and same working hours for other service providers. Thirdly, unlike other offshore countries, Cyprus has corporation tax of just 12.5%, although there are a few important exceptions. For example, as a rule, dividends received are exempted from taxes. Fourthly, an additional advantage is the numerous agreements on avoidance of double taxation, for example, between Cyprus and Russia, which establishes a preferential tax regime, and makes Cyprus an attractive jurisdiction for securities management, as well as for the structuring of direct and portfolio investments, Cypriot companies by default have to audit financial statements, which is important for the disclosure of controlling foreign companies in Russia and the calculation of taxable profit. Lastly, there are many service providers in Cyprus that specialise in serving international clients. Competition in the market of fiduciary and administration services is high, hence prices for such services are attractive (Vargasov, 2018).

In addition to the above, the Cyprus International Business Association gives a good summary of the main reasons to choose Cyprus: (i) easy access to markets, (ii) an attractive tax system, (iii) the low cost of doing business, (iv) an excellent regulatory structure, (v) access to talent, (vi) strong business support services, (vii) high quality of life, (viii) a positive economic outlook (CIPA, 2018).
This study examines the reasons for choosing Cyprus by foreign business through investigating the literature for this topic, relevant theories that attempt to explain why companies go abroad and how they choose the country, as well as factors that seem to attract foreign business to Cyprus. To this end, the following research questions are generated:

(a) Why foreign companies choose Cyprus for their business presence?

(b) What determines their decision?

The following section is taken up with the methodology of the research.

Methodology

For the purposes of this study exploratory research was applied, as its main advantages, flexibility and adaptability, were considered appropriate. Since this research is exploratory, a qualitative approach was considered suitable. Qualitative research has been selected for this work to enable the researcher to report on the opinions and views of people involved in the area of interest in order to understand underlying reasons and the motivation behind their actions. According to Mador (2008), the most important way of gathering qualitative data is through interviews. Given the nature and aims of this research, primary data was collected through semi-structured, in-depth interviews. Semi-structured interviews have proven ideal for this study in view of the nature of research (exploratory) on international business in Cyprus. A semi-structured interview is more flexible and personal than a survey and offers more possibilities to dive deeper into areas of interest with questions. The semi-structured interview was a good choice for the author as she already had personal contact with participants, hence the chance of tacit behaviour or the desire to avoid the actual answer was at a minimum. Another reason for the choice of semi-structured interviews was that they give a story, an opinion. On the downside, in semi-structured interviews there is a lack of standardisation (Saunders, Lewis and Thornhill, 2015). Hence, the questions were as close to the theory of the topic under study as possible. For data analysis self-memos and summaries were also used.

The researcher explained to the interviewees that the main goal of the interviews was to gain each participant's understanding and opinion on the matter and that there were minimal restrictions. The interviews were conducted with preselected representatives and experts in the field of international business. These were managers of foreign companies in Cyprus of Russian and British origin, managers of international banking and fiduciary services sectors of Cyprus, and a representative of the Cyprus International Business Association. The sample was formed by people who were the most readily willing and available for interviewing. The sample comprised eight participants and the interviews were conducted between June and August 2018. Most of these people were personal contacts of the researcher. Hence, it was a convenience sample with non-probability sampling and the use of purposive technique (Bryman, 2012). Given the key research questions and the objective of this research, this sampling design helped to answer the posed questions in the best way possible. Although it is admitted that since the selection was not random, the chances of a biased sample is higher and generalisation possibilities are restricted. These people were chosen for the following reasons: (a) they are employees of foreign companies that have chosen Cyprus for their business presence or experts/professionals of the Cyprus international business sector, (b) they hold managerial positions, and therefore have a direct bearing on the decision-making process, (c) most of them have good connections and established relations with the author, hence potential interviews with these people could be more informal and thus more informative as participants felt more comfortable. All interviews were recorded and transcribed verbatim and some of the interviews were translated from Russian. It was essential to create a dialogue and at the same time make a record of important details hence the use of audio recorder was evident. All the participants agreed to have the interview audio recorded (Table 2).

	Position held	Age	Gender	Years in Cyprus	Nationality
Participant 1	Senior Manager of a coal trading company	30s	Male	Since 2013	Russian
Participant 2	Managing Director of a property investment group that specialises in commercial property in Russia	50s	Male	13 years	British
Participant 3	General Secretary of the CIBA		Female		Bulgarian
Participant 4	Manager of a coal trading company	30s	Male	1 year	Russian
Participant 5	Manager of the International Business Centre of one of the largest banks in Cyprus	Late 40s	Male	Local	Cypriot
Participant 6	CEO and Owner of a fiduciary services office in Cyprus	40s	Male	Local	Russian
Participant 7	Senior Manager of a coal trading company	30s	Male	Since 2013	Belarusian
Participant 8	Senior manager of a crushed stone production/trading company	Early 30s	Female	Since 2015	Russian

Table 2. List of Participants

The next section deals with the main findings of the research.

Findings

In this section the main research findings are presented, categorised into five main themes, namely: (a) economic, (b) cultural, (c) administrative, (d) geographical, (e) external factors.

Economic Factors

There are economic reasons behind the decision to come to Cyprus, which are reflected in matters such as the tax regime, double tax treaties, generally cheap prices for services and the maintenance of the business. According to the answers of the participants there seems to be a clear reason why foreign companies choose Cyprus. When participants were asked about the main reasons for choosing Cyprus the most common replies were the following:

> *"The main reason is taxation." (Participant 3, Female)*
>
> *"Well as you may already know, many Russian companies move to Cyprus and to other countries mainly for tax purposes." (Participant 4, Male)*
>
> *"In my opinion, Cyprus has been very attractive over recent years due to the very favorable tax regime compared to other countries. Today we also experience some big corporations wishing to relocate their business, their head offices actually, to Cyprus for the benefit of the tax regime. The tax regime is here and should remain at the current level in order to continue being attractive." (Participant 5, Male)*

More specifically, it seems that the law on double taxation with Russia plays an important role in the decision-making process, based on the quotes below:

> *"Well I think that for us it is the double tax treaty with Russia, the effectiveness of the double tax treaty with Russia." (Participant 2, Male)*
>
> *"The tax base and the double tax treaty was also considered." (Participant 1, Male)*
>
> *"I think it is the economic side of the question, it is the tax treaty. The economic function is the starting point. And if the tax treaty changes significantly, we have to review the situation [...]. So, I think it is all around the double tax treaty." (Participant 2, Male)*

The participants also noted the low-cost of business maintenance and the general economic side of the question, that seems to increase competitiveness of Cyprus in combination with double tax treaties and the tax regime:

> *"In terms of maintenance of a company Cyprus is still one of the cheapest jurisdictions. Although there is already a tendency of service cost comparison with other countries, but there are still some advantages. And of course, if we take into consideration the specifics of our subsidiary company that regularly pays dividends and makes some payments, Cyprus is more interesting for us due to the double tax treaty that exists here with Russia." (Participant 8, Female)*
>
> *"Economic factors are the first ones in terms of priority. The economic component is the most important one as it is cheap to maintain the company here at the moment and it is advantageous in terms of double tax treaty. As far as I know in similar structure companies it works same way, because Cyprus is cheaper." (Participant 8, Female)*
>
> *"One of indispensable features of Cyprus in terms of investments is low cost of the formation and conduction of operations." (Participant 7, Male)*
>
> *"One of the reasons for choosing Cyprus for business presence among foreign companies in my opinion is mild tax regime and according to my experience company looks here for relatively cheap maintenance, office and local personnel" (Participant 6, Male)*

Cultural Factors

Although the economic component seems to be of utmost importance, it cannot explain why Cyprus is chosen instead of other competitors like Switzerland, Malta, or the BVI for example. In this respect the following answers were given that could mostly relate to the cultural, administrative and geographical sides of the question and why foreign companies are choosing Cyprus for their business presence. Cultural factors behind the decision to come to Cyprus are represented in religion, language, atmosphere, historical ties and the image of Cyprus.

> *"After economic factors, I think it is cultural closeness and then goes everything else." (Participant 8, Female)*
>
> *"Cultural characteristics of the question are secondary, as people open companies even in Hong Kong. But personally, I would not go to Hong Kong to stay for a long period of time. It is more comfortable for me to move here in Cyprus for a long period of time" (Participant 4, Male)*
>
> *"It seems to me that the Christian faith it influences and plays an important role for Russians in Cyprus. Meaning like a culture, cultures are very similar" (Participant 1, Male)*
>
> *"We were essentially a UK company and it [Cyprus] is very familiar to us with the language and system, and it is accessible. We could have done the BVI or Seychelles or something like that, all that could have been good or all good than Holland, but they are not as familiar as if you come from the UK, because of the UK historic ties with Cyprus. The culture is an interesting question. I think Cyprus is partly British, (Participant 2, Male)*
>
> *"There are traditional advantages of doing business in Cyprus. Firstly, we have a close culture with Cypriots, and local population treats Russians with respect and very benevolent." (Participant 7, Male)*
>
> *"The second language of the country is English, presence of qualified staff with languages knowledge plays an important role" (Participant 6, Male)*
>
> *"So, it is availability of English, Greek or Russian languages here in Cyprus, but I think it is this ability of people to operate in two or three different languages." (Participant 2, Male)*
>
> *"After an economic side of the question, which is a priority, we can start to talk about cultural side, as Limassol can be called a Russian capital for business now. It somewhat became a Russian tradition, I may say, to be here (in Cyprus) and to be all together in the same party. So of course, Cyprus does have some cultural meaning in that respect." (Participant 4, Male)*

Administrative Factors

The administrative reasons behind the decision to come to Cyprus consist of the English legal system, availability of such professional services as banking, accounting, fiduciary, as well as European Union membership, etc.:

> *"In my opinion, first of all Cyprus has been very attractive over the recent years due to the fact that we offer a very attractive package in terms of services meaning that we [Cyprus legal system] are based on British common law, we have very good accounting services, we have very good banking services and the services are collaborating in a way, and the one adds on or benefit to another. I know from my experience, because we have some Hungarian collaborators, they tried to promote let's say Hungarian companies or investments in Hungary, but they have obstacles concerning their banking, their accounting system, their law system, etc. So, in general the whole package is the one that attracts the foreign business to Cyprus."*
> *(Participant 5, Male)*
>
> *"Well, I think it is availability of labour, I think it is availability of labour with linguistic skills as well. And I think it is the freedom to travel and work isn't it? It is the EU system and being part of the EU. People can travel. We can travel there without a visa, people can travel to the UK without a visa, I mean that is a big advantage." (Participant 2, Male)*

"Of course, you should not lose sight of the fact that Cyprus legal system is based on English law that operates fairly clear. The presence of big insurance companies which deal with shipping of barges, etc. also affects positively. And the owners of ships registered here as well. So, as I said, such a developed structure forms sort of a hub" (Participant 1, Male)

"Russians come to Cyprus, I think, somewhat for the same reasons that they come to London. The Russians come to London to invest in London because they believe in the independence of the legal system. And as we said there are historic ties to the UK, and I think they associate Cyprus with the UK, they associate Cyprus legal system with UK legal system. It is independent, and you can have access there and your assets are safe. It is that strength of the legal system." (Participant 2, Male)

"The Republic of Cyprus is rightly considered one of the most comfortable places to stay. This is due not only to climatic conditions, rich nature and the hospitality of residents, but also a stable fiscal system, developed banking sector and high information security of business." (Participant 7, Male)

Geographical Factors

Another clear reason why international businesses choose Cyprus for their presence is geographical proximity. This is evident by the replies of the participants below:

"Geographical characteristics are obvious as Cyprus is sufficiently close compare to Cayman Islands or Panama for example." (Participant 1, Male)

"Accessibility from Europe. It is close, and it is in the same time zone. The physical placeness I think is an advantage." (Participant 2, Male)

"Firstly, because it is the same time range for work with Moscow as all financial activities are conducted in Moscow." (Participant 4, Male)

"The advantage of Cyprus is its location. The island is at the junction between Asia, Europe and Africa. It gives this country a lot of strategic advantages in terms of the possibility of creating a transshipment point or establishing an interregional business." (Participant 7, Male)

"Comfortable geographical location" (Participant 6, Male)

External factors

External factors played an important role as well. These are the factors that are outside of Cyprus and its influence. For example, legislation of the country of the foreign company:

"[...] We opened a real office in Cyprus due to the changes in Russian legislation. [...]." (Participant 8, Female)

"In this case, today, we have to move because laws in Russia have changed. [...]. So, it is a forced measure for all organizations with similar activity to have physical presence abroad with real office and people." (Participant 4, Male)

or derating of competitors (e.g. Latvia, Baltic countries):

"Before 2013 the company had a scheme between classic offshores and Latvia. But eventually we preferred more serious jurisdiction and chose Cyprus. Old scheme became out of time because counterparties didn't want to pay to offshore companies accounts in Baltic banks and required the organization of a new trading company in good jurisdiction with good image." (Participant 1, Male)

such external factors as the financial crisis:

> *"We had crisis in 2013, which we all know what happened, and it seems that after that Cyprus itself has become more attractive in terms of investments, investments in hotels, investments in real business in Cyprus, even into banks we have seen FDIs, believing that there was an opportunity that came after the crisis. And this has been proven and it can be established that there was increased interest for Cyprus after the crisis." (Participant 5, Male)*

An example of another an external factor can be the specifics of a company itself that influence the choice and the decision:

> *"To formulate it more fully, the reason of our presence here is the requirements of Russian tax authorities. So, it is not a real interest to Cyprus itself, but mostly a specification of my company. As it has holding and a little bit of financial activity." (Participant 8, Female)*

> *"As we are not an investment but trading company we decided to 'go abroad' due to our strong corporate structure and we chose Cyprus specifically due to its image of a 'trading hub' or 'commercial centre'." (Participant 1, Male)*

This section covered the main findings of the research. Five main themes that emerged from the answers of the participants were presented in this section as the main findings, corresponding to the research question emanating from the interviews and the secondary data. The next section deals with the analysis of these findings.

Analysis

In this section, an analysis of the findings is attempted, and they are critically connected to the literature review. A number of themes have emerged from the findings of this research that help to understand why foreign companies make the decision to come to Cyprus. After the analysis of these themes it can be said that international companies bring their businesses to Cyprus not for just one reason, but a combination of internal and external factors that have created the phenomenon of international business in Cyprus that can be currently observed. There is no single determining factor, but rather they all contribute to the success. However, analysis of each of the emerging themes is attempted below.

Economic Factors

As identified by the findings of this research, economic factors such as the tax regime, double tax treaties and generally cheap prices for services and maintenance of the business are priority factors that influence the decision of a firm to go abroad. It means that if Cyprus wants to continue being attractive for international businesses these factors must be applicable in the future. According to the participants such economic factors as the tax regime itself and double tax treaties are marked as the most important ones and this finding is in accordance with the literature that states that lowering taxes increases the attractiveness of their territory for foreign business (Tavares-Lehmann et al., 2012). These findings also confirm Dunning's OLI paradigm which declares the necessity of presence of ownership advantage for a firm to go abroad (Dunning, 1977). Economic factors can explain why a firm undertakes offshore activity, as there is a clear economic benefit for a firm. Also, they agree with the location advantage of the OLI paradigm and justify where a firm is more likely to go from a variety of other destinations (ibid.). This finding is also in accordance with the CAGE framework (Ghemawat, 2011) and shows that economic distance between Cyprus and Russia and the United Kingdom is shorter by at least one attribute (differences in costs and quality of financial, human resources).

Cultural Factors

Findings of this research also identified cultural factors, such as religion, language, atmosphere, historical ties and the image of Cyprus that seem to play a secondary role for foreign companies when they are choosing Cyprus for their business presence. This agrees with the literature that indicates that even though taxes are an important aspect of decisions among managers, they are most probably not the main drivers (Tavares-Lehmann et al., 2012). It means that taxes play only a marginal role when compared to the other factors and that there are some specific cultural characteristics which give a competitive advantage to Cyprus as opposed to countries with similar tax advantages. Cultural factors also confirm internalisation and location advantages of the OLI paradigm (Dunning, 1977) that explain how and where a firm is more likely to go. For example, the availability of different language speakers and English being a main language simplifies entering the country, as well as the presence of an international community and historic ties ease the process of adaptation. Cultural factors as well as economic factors are in accordance with the CAGE framework (Ghemawat, 2011) and show that there is almost no cultural distance between Cyprus and foreign firms that were investigated for the purposes of this research, as there is no significant difference of language, religion or social norms.

Administrative Factors

The English legal system, the availability of professional services such as banking, accounting, fiduciary as well as the European Union membership are identified as important administrative factors based on the findings of this research. And they are important not only because they signify internalization advantages of the OLI paradigm (Dunning, 1977) of the process of choosing Cyprus, but also because they represent a whole package of services that assist a firm in this process. This finding shows that Cyprus is established as a hub for international business not only because of the tax regime and historical, cultural features, but also due to some unique, quality products that were created and continue to develop in Cyprus. Likewise, these administrative factors agree with the CAGE framework (Ghemawat, 2011) and confirm the absence of major attributes that create administrative distances..

Geographical Factors

The findings also indicate the importance of geographical factors and more specifically the geographical proximity of Cyprus. This factor is important because it gives a competitive advantage to Cyprus compared to countries with similar tax regimes in Latin America or in Asian regions, for example, as it is geographically close to important business centers in the European Union, Russia, Israel, etc. It is also because of this unique location that provides short physical remoteness, strong transportation and communication links that Cyprus has managed to become an international trading hub for lots of companies. Geographical factors agree with the location advantage of the OLI paradigm and confirm the short geographical distance between Cyprus and foreign firms in accordance with the GACE framework (Dunning, 1977).

External Factors

The findings of this research also identified external factors that influence the decision of a firm to go abroad, including the legislation of the country of the foreign company, derating of competitors, financial crises and the specifics of a firm itself. These factors once again confirm that there are many drivers of the decision to go abroad. Additionally, they reveal a different perspective on the matter at hand, a reminder that the world nowadays is interconnected and analysis of world events and forecasts can be very beneficial. Furthermore, this is an indication that Cyprus has to be ready to adjust and change if needed. External factors agree with the ownership advantage of the OLI paradigm as they explain that some firms made a decision to come to Cyprus due to changes in their country's own legislation or due to financial crisis, hence they are seeking economic benefits in Cyprus (Dunning, 1977). Although these factors cannot be justified through the CAGE framework (Ghemawat, 2011).

Even though the OLI paradigm can be applied to this research, it seems it doesn't give a clear understanding of why foreign companies come to Cyprus. There is the presence of all these advantages, but it seems they don't completely explain why foreign companies specifically choose Cyprus. As for Dunning's eclectic paradigm, it doesn't to any large extent explain the findings of this research. Russian companies are not seeking resources, a market, efficiency or strategic assets in Cyprus. Although two motives that were deduced by Dunning (1993) could characterise the activity of Russian and UK companies in Cyprus. They are 'escape investments' and 'passive investments'. Albeit they were not included in Dunning's main categories, hence the eclectic paradigm does not really help answer the main question of the research.

The CAGE framework, on the other hand, helps answer the main question more concretely. According to this theory, when applied to the case of Cyprus and Russia distances, there are only few attributes that create distances between Cyprus and Russian business world. These will be mostly administrative and geographical distances, and even then there are only a few. Concerning cultural and economic distances, they are the shortest. In effect, through the CAGE framework one can observe that the Cypriot and Russia business worlds are quite close.

Concerning the UK and Cypriot business world, the distances are even shorter due to historical connection and as a consequence the lack of cultural and administrative distances.

To summarise, it has been identified by the findings of this research that firstly Cyprus is chosen by foreign companies due to its tax regime, although it seems that it is specifically chosen by the companies that have holding structure and trading activity. Moreover, the motivation of these types of companies to go abroad may vary, from a change in its own country's legislation to a change in a country-competitor, or sometimes simply a crisis can become the turning point. Once the decision is made to go abroad, Cyprus attracts these kinds of companies with its package of legal, banking services, etc. that are not only reasonably priced, but also demonstrate a good level of quality. Further, its geographic location, closeness to such business centres as Moscow, London, etc., the fact that Cyprus is a member of the EU, giving a certain amount of freedom to travel. Specifically in the case of Russian and British companies, cultural closeness helps in making this choice, as well as general cosy atmosphere of Cyprus, its high standard of living and in some cases personal relationships and connections. All these factors play their role and explain why foreign companies choose Cyprus.

Despite generally positive reviews about Cyprus, most of the participants express their suggestions for improvement, along with some negative reflections on their experience of doing business both with and in Cyprus. These findings are valuable, as they can be used as tips for further development. For example, despite the presence of numerous positive cultural factors that affect relationships between Russian companies and Cyprus, there are still some mentality issues, working habits that negatively influence the overall business experience of foreign companies. Nevertheless, the choice remains in favour of Cyprus.

Conclusion

The aim of this work was to study the reasons behind foreign firms' decisions to come to Cyprus. The objective of this work was:

- to identify what determines the strategy and the choice of foreign companies that come to Cyprus;

The objective has been met and it has been shown that there is no single important determinant for foreign companies' presence in Cyprus, but rather a mixture of factors that determine the phenomenon of foreign business in Cyprus. These factors are not all internal characteristics of Cyprus, but there are also external ones which are outside the influence of Cyprus. Moreover, they are interrelated and need to be applied together in order to reach and sustain success.

The area of foreign business presence in Cyprus is broad and has not been investigated deeply, requiring further research. This study was mainly based on an investigation through the semi-structured interviews of senior managers of foreign companies, mainly of Russian and British origin, along with local professionals related to this area. Moreover, three out of five companies were from the same area of business (coal trading). Hence, the findings of this work cannot be generalised, but they can serve as a good recommendation and guiding material. Further research with companies from different countries and areas of business would be revealing. This research contributes to the understanding of the phenomenon of international business in Cyprus. However, foreign investments, or foreign business presence in a specific business field may have different factors of attraction and require other investigation.

This research identified that international companies come to Cyprus for more than one reason, a combination of internal and external factors. There is no single determining factor, but rather they all contribute to the success. Firstly, Cyprus is chosen by foreign companies due to economic factors like the tax regime, the double tax treaty, generally cheap prices for services and maintenance of the business. These are priority factors that must remain if Cyprus wants to continue to be attractive to international business. It seems that Cyprus is specifically chosen by the companies with holding and trading activities. Moreover, the motivation of these types of companies to go abroad may vary from a change in its country's legislation to a change in a country-competitor, or simply a crisis can become a turning point. All these factors belong to the area of external factors and give us a perspective of an interconnected world, the necessity to analyse world events, forecast and then be ready to adjust. Once the decision is taken to go abroad, Cyprus attracts because of administrative factors like its legal, banking and services, etc. that are not only reasonably priced, but also at a good level of quality, with an English legal system, EU membership with its freedom to travel. All these show that Cyprus is established as a hub for international business, not only due to tax regime, but thanks to some unique, quality products that have been created and continue to develop. The geographic factor and the unique location, with closeness to world business centres, was also identified as a determinant in the decision process. Specifically, in the case of Russian and British companies, cultural closeness plays an important role, as well as the general cosy atmosphere of Cyprus, its high standard of living and in some cases personal relationships and connections.

Suggestions

Despite a generally positive picture of the international business climate in Cyprus, there were number of suggestions and critics that emerged from this research. One of the suggestions that might be considered valuable, given the current turn of events in Europe, is the availability of passports for long time businesses from the UK. It would be quite advantageous and helpful for UK businessmen to keep their EU passports after Brexit is finalised. Also, there are still some mentality issues, working habits that negatively influence the whole business experience of foreign companies, although since they are part of a culture, it would be very hard to change them, at least in the short-term. Nevertheless, the suggestions in this direction are:

(i) to reduce the time it takes to prepare state documentation to the minimum possible
(ii) to ensure better and faster services for international business organisations in such important areas as banks and governmental bodies
(iii) to provide a quality and non-quantitative product
(iv) to strive for European standards in all aspects of business and service, as Cyprus is seen as part of Europe for international business purposes

Limitations of the research

The purpose of this study was to investigate the reasons behind foreign company choices in coming to Cyprus. It would be impossible to investigate the entire spectrum of international business presence in Cyprus, therefore it was decided to concentrate on foreign companies and their business presence in Cyprus. The selection was done in order to identify the specific factors that are strategically chosen by the businesses. As these businesses bring long-lasting benefits to Cyprus, such as new jobs, increases in rents, use of services, etc. and not just direct injections of funds.

In effect, the findings are based on specific types of companies and don't reflect the full picture of international business in Cyprus. In this perspective, a survey could have been done so as to reflect the full picture of international business, if the researcher had had more time and resources. However, the researcher concentrated on interviews only. As for the sample for the interviews (8 interviewees) it is considered adequate, though it could have been increased if the researcher had had more time and there were not so many difficulties related to communication with participants. As the topic may seem to be sensitive (tax planning), not all who were asked agreed. As a result, the researcher was obliged to use her personal contacts in order to gain access to the participants. Hence, the sample was not random but rather convenient, and that might have affected the results of the research.

Future Research

To better explore the area of foreign business presence in Cyprus, an extension of the study could be carried out. It could be done through application of this research to other areas of business, like property, oil, personal investments, etc. or it could be concentrated on one specific country, for example Russia. This might give valuable information and a fuller picture of the foreign business presence in Cyprus. Also, a comparative study could be conducted. It would be useful to compare this research to other countries with similar tax regimes, so as to identify limitations of Cyprus' policies. Besides, a longitudinal study would be beneficial. So, to study the development of international business in Cyprus through a number of years or identify some major foreign companies in Cyprus with a major impact on the Cyprus economy and see their experience here in Cyprus in order to attract more 'big players'.

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A cointegrating stock trading strategy: Application to listed tanker shipping companies

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Abstract

In the current paper, we propose a strategy to trade a portfolio of listed shipping companies in the US market. In particular, we estimate a co-integrating relationship between the weekly stock market returns of a portfolio of tanker shipping companies and the Baltic Tanker Index, exploiting the close relationship between freight rates and the stock market performance of shipping companies. Our results suggest that a trading strategy on the basis of a co-integrating relationship and a simple moving average rule outperforms, by approximately 50%, a standard buy-and-hold strategy in various investment horizons, often by a very wide margin. Given the latter fact, the results allow us to enhance the current literature on shipping finance by providing evidence of how simple investment strategies can benefit both retail and institutional investors who do not have direct exposure or experience in the shipping industry by allowing them to include shipping stocks in their portfolios.

Keywords:

Trading, cointegration, tanker, stock market.

List of abbreviations:

BDI – Baltic Dry Index
IPO – Initial Public Offering
M&A – Mergers and Acquisitions
US – United States
VEC – Vector Error Correction
AIC – Akaike Information Criterion
SIC – Standard Industrial Classification
MA – Moving Average

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The shipping industry has not been open for a wider circle of investors since its inception (Harlaftis and Papakonstantinou, 2013). Ties within the industry have been close and family relationships have been, more often than not, predominant (Harlaftis and Theotokas, 2007). Nevertheless, the increase in vessel prices since the 1970s has brought up the question of whether shipping companies should use external lending financing or float on the markets. Nonetheless, it was not until the mid-2000s that an increasing number of shipping enterprises decided to relinquish information on their modus operandi and list on the world stock markets (Merikas, Gounopoulos and Nounis, 2009).

The increased number of companies in the market provided investors with an alternative way to invest in the shipping industry. Interested parties no longer need to acquire actual assets (vessels) but only hold stocks of shipping companies. Even in this case, however, little is currently known regarding the performance of shipping companies on the stock market. The existing literature just provides information regarding IPOs (Merikas, Gounopoulos and Nounis, 2009) and M&As (Alexandrou, Gounopoulos and Thomas, 2014) in the industry. There exists no study, at least to our knowledge, which employs a trading strategy based solely on shipping stock companies.

In the current paper, we build on the literature's premise that freight rates are the predominant factor which affects the companies' performance (see also next section) and propose a trading strategy for a portfolio of tanker shipping companies that are listed on the US stock markets. As expected, we find that these companies exhibit, in the long run, a path in common with the Baltic Tanker Index. Given this relationship, we propose a long-short trading strategy on the basis of a cointegration model and a simple moving average rule, which appears to outperform the classic buy-and-hold approach across various investment horizons, often by a wide margin. We have employed the buy-and-hold approach as a benchmark for our strategy, since it tends to be denoted to investors that are not actively trading in the stock markets (Shilling, 1992). Thus, we propose that the specific active trading technique that we propose can give higher returns when compared to a passive investment strategy.

The remainder of the paper is organised as follows: the next section provides a review of the existing literature on the shipping companies' stock prices, their unique characteristics and the (non-stock market) trading strategies that have been introduced by other researchers; Section 3 presents the methodology and the data we have used; Section 4 offers the results; and the last section provides a general overview along with the conclusions reached by this paper.

2. Literature Review

The majority of the shipping-related literature has, until now, focused on the management perspective of shipping companies; either for firms which were or are still held privately, or for those which are publicly listed on stock markets. Through this prism, the performance of the companies has been extensively researched (inter alia, Panayides, Lambertides, and Savva, 2011; Merika et al., 2015; Lambertides and Louca, 2008). While performance, and always a direct paragon of stock market returns, it nevertheless surely serves as a good proxy (DeBondt and Thaler, 1985).

From the more stock price-oriented stream of literature, shipping stocks have been found to exhibit some unique characteristics when compared to stocks from other economic sectors, primarily due to the globalised nature of the sector's operations. More precisely, previous researchers have found that market betas are of little importance for shipping stocks (Tezuka, Ishii and Ishizaka, 2012), leading to the conclusion that country-specific systematic risk is not particularly important for investors in shipping companies. The low importance of country-specific factors in the stock performance of shipping companies is even more evident when foreign exchange rates are considered. Given that US dollars are the predominant currency that it is used by shipping companies, the majority actively use currency hedging techniques that ultimately leave companies indifferent to fluctuations in the currency markets (El-Masry, Olugbode and Pointon, 2010).

On the other hand, variables that are more closely related to world economic outlook, like the G-7 industrial production (Papapostolou et al., 2014), changes in oil prices (Drobetz, Schilling and Tegtmeier, 2010) and economic crises (Papapostolou et al., 2016), play a more important role in assessing the risk outlook of the shipping companies and subsequently their stock market performance.

Taking the above into consideration leaves investors in shipping companies in a conundrum: what are the factors that one can rely upon when investment strategies are drawn? Perhaps unsurprisingly, Syriopoulos and Roumpis (2009) show that the most important factor that explains and predicts shipping stock performance is freight rates. This finding makes intuitive sense, given that, from a financial accounting perspective, freight rates will ultimately determine the amount of income received (sales) by any given shipping company.

Various researchers have tried to explore which factors are important in assessing the stock price performance of shipping firms. Grammenos and Marcoulis (1996) in their seminal work, provide evidence that financial leverage and the average age of the fleet have an explanatory power over the shipping stock returns. Additionally, Kavussanos and Marcoulis (2000a, 2000b) provide evidence on the macro-economic factors that affect shipping stock returns. In their research they exhibit a positive relationship between shipping stock returns and oil prices and a negative one with industrials. Additionally, Drobretz et al. (2010) further strengthen the evidence of the latter research piece by providing results on the strong relation of oil prices and industrial production for the period 1997 to 2007. Finally, C. T. Grammenos and Arkoulis (2002) show in their work that oil prices and laid up tonnage are found to be negatively related to shipping stocks, whereas the exchange rate variable displays a positive relationship.

On a broader level though, the financialisation of a wider spectrum of commodities has raised the interest of the research community in the linkages that exist between commodities and the stock markets (Basak and Pavlova, 2016). While oil remains one of the mains factors that affect stock price volatility (Sadorsky, 1999), others commodities also exhibit a correlation with the stock markets. More precisely, Creti, Joëts, and Mignon (2013), in their research show that during times of economic stability correlation is evident between the major commodities and the S&P500. Furthermore, oil, coffee and cocoa act as speculative alternative assets as their correlation with the markets is strengthened during bullish periods and diminished during bearish ones. Finally, gold exhibits a safe haven character since it exhibits a negative correlation over time with the stock markets.

In the current paper, we exploit the stream of literature that embraces econometric techniques in portfolio-oriented investment strategies so as to produce above-average returns from trading in shipping companies. We derive our technique from the seminal work of Alexander (1999), who uses cointegration as a trading technique so as to hedge three different stock portfolios from the volatility that exists in the global financial markets. Even before their stock market application, hedging techniques based on the cointegration approach had also been used in the futures (Ghosh, 1991) and the currency markets (Kroner and Sultan, 1993).

However, cointegration has not been used for stocks in the shipping sector. The studies most related to this one are Alizadeh and Nomikos (2006), who use a cointegration approach to time buying and selling of ships in the tanker market, and Andriosopoulos et al. (2013) who use stochastic optimisation (heuristic) methods to reduce shipping-related investment risks and achieve a performance equivalent to the shipping indices and the shipping stocks.

However, this paper differs significantly from the above two studies. In particular, the Alizadeh and Nomikos (2006) approach is not suitable for retail investors, or even the majority of institutional investors who do not possess knowledge in the shipping sector. Furthermore, the Andriosopoulos et al. (2013) approach focuses on reducing risk instead of increasing performance and uses a much more complicated strategy than the one employed here.

In this paper, we follow the suggestions of the previous literature that the stock performance of a portfolio of tanker shipping companies is only affected by freight rates and thus exclude any factors that are either irrelevant or difficult to include in a model. To make the model suitable for the portfolio of shipping companies we seek to trade, we use the Baltic Tanker Index as an indicator for market conditions.[1] We expect that, ceteris paribus, our portfolio's returns and the Baltic Tanker Index will move together in the long-run and share a cointegrating relationship. Any deviations from the cointegrating equation will trigger our trading strategy, which is discussed in the next section.

[1] Given that information regarding the split between Clean and Dirty Tanker voyages is impossible to obtain, we have averaged the values of the Clean Index and the Dirty Index. This makes no qualitative and very small quantitative difference to the results, as the correlation between the two indices stands at 0.87.

The general Vector Error Correction specification, following Johansen and Juselius (1990) is defined as:

$$\Delta BT_t = a_{1,0} + \sum_{i=1}^{p} \beta_{1,i} \Delta BT_{t-i} + \sum_{i=1}^{p} y_{1,i} \Delta P_{t-i} + \delta\left(BT_{t-1} - \theta_1 P_{t-1} - \theta_0\right) + \varepsilon_{1,t} \quad (1)$$

$$\Delta P_t = a_{2,0} + \sum_{i=1}^{p} \beta_{2,i} \Delta P_{t-i} + \sum_{i=1}^{p} y_{2,i} \Delta BT_{t-i} + \delta\left(BT_{t-1} - \theta_1 P_{t-1} - \theta_0\right) + \varepsilon_{2,t} \quad (2)$$

where BT_t is the natural logarithm of the Baltic Tanker Index, which is comprised as the average clean and dirty tanker index P_t is the natural logarithm of an equal-weight portfolio comprising of shipping companies participating in the tanker transportation market, and Δ is the first difference operator. $\beta_{i,\,i}$ and $\gamma_{i,\,i}$ refer to the own and other variable coefficient values in the estimations, while $\varepsilon_{i,\,t}$ refer to the error processes in each equation.

The long-run relationship between the two variables is found within the brackets of equations (1) and (2) with δ determining the speed of adjustment to the long-run equilibrium. A theoretical generalisation as to why there should be a relationship between freight rates and stock market returns can be justified in a similar manner as in Alizadeh and Nomikos (2006, p.122).

All the data was obtained from Clarksons' Intelligence Network and Thompson-Reuters Eikon. Initially, we collected all the shipping companies that are listed in the US stock markets and their respective SIC code concerning sea transportation. Accordingly, we have gone through the financial statements of the companies and included in our sample only those whose fleet consists of more than 66% tankers.[3] Thus, we have been able to collect the respective data for four companies which abide by our previously-mentioned criteria, along with a timespan sufficient to provide robust empirical results. The four companies are: DHT Holding, Teekay, Tsakos Energy Nav and Capital Product Partners. After collecting the data for the prices of stocks, we calculated their weekly average prices, so as to match the latter with the average prices of the Baltic Tanker Index. The data spanned from the 12th April 2006 to the 10th February 2017, at a weekly frequency, with a total of 566 observations.[4]

To empirically examine whether a long-run relationship exists between the portfolio of stock returns and the Baltic Tanker Index, we need to first test for the existence of a cointegrating relationship. In other words, there needs to be an empirical justification for the use of the term in the brackets. However, before we are able to perform the Johansen test for cointegration we first need to establish that both variables are I(1), i.e. they follow a unit root process (for more details see Hendry and Juselius, 2000; 2001).

Table 1 presents the results from such an estimation. In particular, we test for the presence of a unit root using both the Augmented Dickey-Fuller test (Dickey and Fuller 1979; MacKinnon 1996) and the Philips and Perron (1988) tests at the levels and the first differences. The main difference between the two tests is that the first uses a parametric approach based on the residuals while the second is nonparametric. The results suggest that there is evidence of a unit root in the case of lnP_t, and $lnBT_t$ given that neither test rejects the unit root hypothesis. The fact that the series are I (1) is confirmed in the lower panel of Table 1 as the null of a unit root is rejected in the first differences of the variables. As such, given that both variables follow a unit root process, we can proceed with testing for a cointegrating relationship.

[2] The long run, as per Johansen and Juselius (1990), refers to the equilibrium relationship between the variables, i.e. one that would be reached in the absence of any external shocks. Similarly, short run refers to the fluctuations which take place and allow for deviations from the equilibrium value. As such, the terms "long run" and "short run" do not refer to any predetermined time period – it is simply how econometricians refer to these relationships, derived from theoretical models which define the long run as a period with no shocks.

[3] The financial statements examined are for the year 2017. However, it is highly unlikely that a listed company would massively change their fleet outlook from one specific ship type to another in a short period of time, given that if the owners of the company want to start a new line of business, a new enterprise is likely to be incorporated.

[4] For both the BDI and stock market returns, we calculate the weekly averages using the average value during the week.

Variable	ADF	PP
Levels:		
	-1.14	*-0.95*
	-0.67	-0.66
First Differences:		
	*-14.39****	*-15.15****
	-19.73***	-19.75***

Notes: Δ is the first difference operator. Critical values are from MacKinnon (1996). ***, ** and * indicate significance at the 1%, 5% and 10% levels.

Table 1 – Unit root tests

Using the Johansen (1991) method, we test for the presence of a cointegrating relationship in a vector autoregressive setup. The rank of the error-correction matrix δ is found to be one in both the maximum eigenvalue and the trace tests, hence confirming the existence of one co-integrating relationship (Table 2). Following the Granger representation theorem (Engle and Granger, 1987), if two variables are cointegrated, then at least one variable should Granger-cause the other. As such, the use of a VEC model is justified by the data generating processes. The following section presents the results from the estimation.

Null	Max Eigenvalue	Trace Test
Rank=0	***16.09****	***16.60****
Rank=1	***0.51***	***0.51***

Notes: Critical values are taken from MacKinnon et al. (1999). ** indicates the rejection of the null hypothesis of no cointegration at least at the 5% level of significance.

Table 2 – Cointegration Results

4. A Cointegrated Trading Strategy

Following the AIC criterion, an optimal lag length of 100 was selected. The cointegrating equation results can be found in Table 3. As the findings suggest, the freight rate index (BT) has a strong positive long-run effect on portfolio performance. In particular, a 1% increase in freight rates would increase the equilibrium (long-run) value of the portfolio by approximately 3.2%. The magnitude of the relationship provides more support to the claim that shipping stock portfolio performance is highly dependent on freight rates. Hence, the use of a trading strategy which employs the relationship between the two appears to be supported by the data.

[5] It should be remembered that the sign of the coefficient should be reversed in the long-run equation. In addition, the positive Error-Correction term in the Δ equation is correct given the negative sign in the long-run equation. For more on these points see Hendry and Juselius (2001) and Enders (1995).

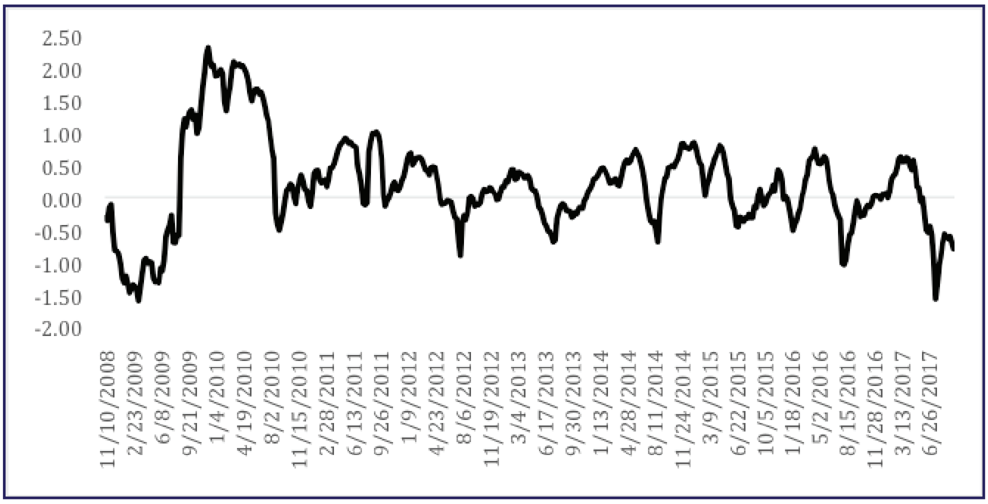
Long-run		
	1.00 -3.19***- (0.65)	
Constant	17.42	
Sort-run		
EC_{t-1}	-0.01* (0.01)	0.01* (0.00)
Akaike Criterion	-3.15	-3.64
Schwarz Criterion	-1.28	-1.77

Notes: *** and * indicate significance at the 1%, and 10% levels respectively

Table 3 – VECM results

Figure 1 presents the cointegrating equation. As can be observed, the cointegrating equation follows a pattern around zero (i.e. equilibrium), with notable ups and downs (deviations from the equilibrium) akin to small business cycles throughout the estimation period. Given that the existence of these cycles is more pronounced in the cointegrating relationship than in the actual data, it is thus more convenient for the investor to try to exploit this cyclicality. To this end, we employ two moving averages: a six-week (long-run) moving average of the cointegrating equation, denoted as MA(6), and the lag of the relationship (short-term) denoted as MA(1). A similar setup was employed by Alizadeh and Nomikos (2006).

As in a usual technical analysis, we consider crossovers to determine the strategy. In particular, when the short-run moving average exceeds the long-run moving average then this is a buy signal as it suggests that prices are moving higher at a faster rate than in the past. In contrast, when the short-run moving average passes below the long-run moving average we consider this as a sell signal. In-between the crossovers, we simply follow the crossover and the strategy dictates that we continue to be in the market, i.e. after a buy signal the algorithm buys and holds until a sell signal is found. To make the setup more realistic we impose a transaction cost equal to 0.5%.



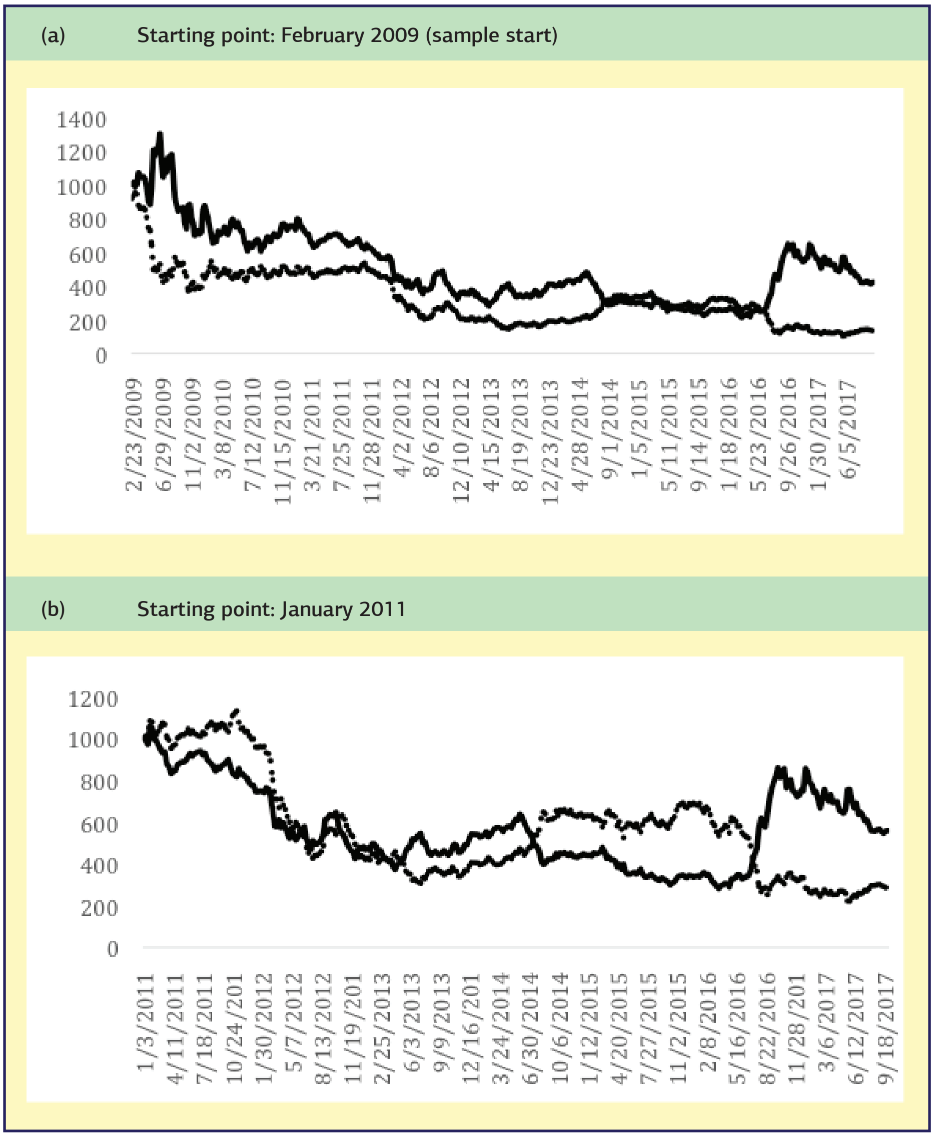
Notes: the cointegrating equation revolves around zero (equilibrium). Deviations from the equilibrium allow for the use of a trading strategy to exploit the eminent return of the relationship to the equilibrium level.

Figure 1 : Cointegrating Equation

The results from the trading strategy can be found in Figure 2. Given that it is known that trading strategies are highly dependent on the investment horizon (Dierkes, Erner and Zeisberger, 2010), we provide results for four different starting points: the start of the sample, 2009, 2011 and 2013.[6] The findings suggest that the strategy appears to be more successful at the end of the investment horizon, compared to the simple buy-and-hold strategy. However, the starting point makes an important difference to the overall portfolio performance. Starting our investment strategy in 2009 or 2011 the cointegrating strategy would have simply reduced the potential losses from a buy-and-hold strategy. In particular, the buy-and-hold strategy resulted in 86.6% and 71.6% losses while the trading strategy resulted in 57.8% and 44.3% losses during the period. In contrast, in the 2013 and 2015 starting points, the strategy would have resulted in 19.5% and 26.3% gains for the cointegrating strategy compared to losses standing at 32.5% and 55.0% for buy-and-hold.

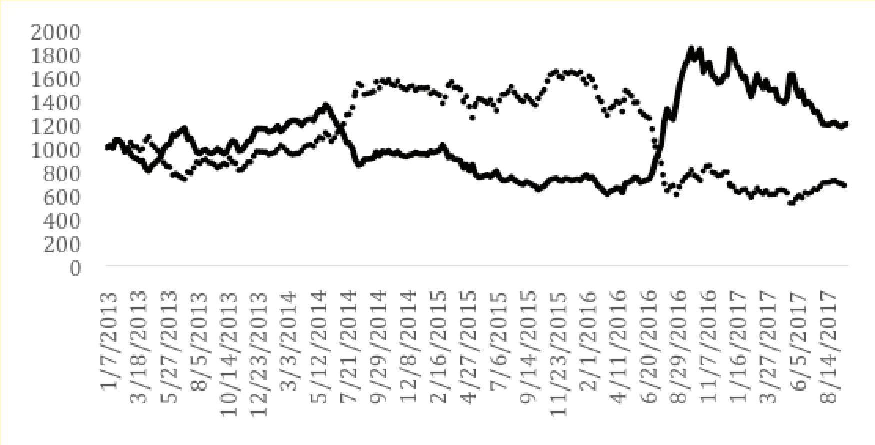
As the results suggest, the cointegrating strategy appears to have correctly identified the drop in the value of the portfolio in the summer of 2016 and issued a sell signal. This contributed to large gains, in contrast to the buy-and-hold which faced severe losses. Throughout the time, there appear to be periods during which some strategies outperformed others. Only in panel (a) does the cointegrating strategy remain above the buy-and-hold in almost all periods and is very close to it in the mid-2015 to mid-2016 period.

An important point to bear in mind is that while the trading rule appears to be very profitable in some periods, its success could be perhaps enhanced by not simply relying on mechanical use. Furthermore, Figure 2 points out that the rule appears to perform better in downturns and hence may be more suitable as a hedging companion to a buy-and-hold strategy. This could perhaps mitigate the buy-and-hold strategy's main drawback, i.e. not having an alternative to downturns. A very simple combination would entail averaging exposure in both strategies, leading to an ability to have more stable returns over time. The use of portfolio optimisation techniques could also perhaps be useful in creating a more efficient allocation. However, given that this is beyond the scope of this paper, we leave this very interesting implication for future research.

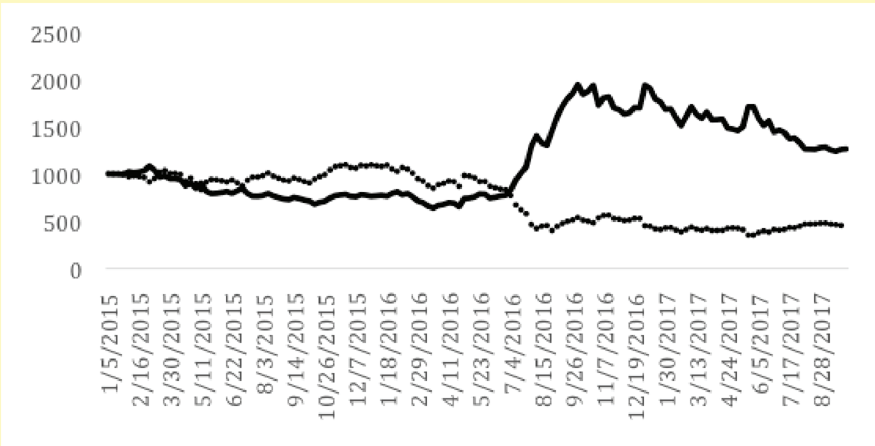


[6] Changes in the starting points has no qualitative impact on the conclusions reached.

(c) Starting point: January 2013



(d) Starting point: January 2015



Notes: Figure 2 presents the portfolio returns using the cointegrating strategy (solid line) as opposed to using the buy-and-hold strategy (dashed line) for various starting points. Starting period varies starting from February 2009, January 201, January 2013 and January 2015. Each portfolio starts with the assumption that 1000 dollars is invested both in the buy-and-hold and the trading strategy portfolio. Thus, in all graphs the lines have a starting point of 1000 basis points.

Figure 2 : Returns on the strategies

5. Conclusions

We propose a trading strategy that is derived from the close association between tanker market freight rates and the stock returns of tanker companies. This relationship holds in the long-run and hence the use of a cointegration approach based on a portfolio of the US-listed tanker companies and the Baltic Tanker Index on a weekly basis is warranted. Our results show that, while the choice of the investment horizon matters, a strategy using the cointegrating relationship and a simple moving average rule appears to be more successful at the end of the horizon, compared to a simple buy-and-hold strategy. Its success in downturns also means the strategy can be useful as a hedging tool.

Figure Legends:

Figure 1: Cointegrating Equation
Figure 2: Returns on the strategies

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Cultural Diversity and Indicated Intercultural Implications in the Hotel Working Environment in the United Kingdom: Underpinning the Employee's Perspective

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Abstract

Purpose – The study aims to investigate the presence of cultural diversity in selected global hotel brands in the United Kingdom, as well as the contribution of cultural diversity and how it impacts the operation of hotels. The presence of intercultural service encounters is discussed, alongside the intercultural characteristics of the hotel industry, finding that intercultural elements are more than well-established for internal affairs and internal and external customers of hotels.

Methodology

A combination of data collection instruments and analysis approaches has been used involving semi-structured interviews with hotel management staff from different cultures and public space observations during check in and check out in the reception area and during dining at the café-bar and restaurant. Thematic analysis has been applied to interviews, public space observations and job advertisements using interpretive (hermeneutic) phenomenology.

Findings

A global workforce in selected global hotels is seen as a competitive advantage under diversity management practices and contributes to overcoming intercultural challenges. Both British and non-British hotel staff acknowledge that provision of training and language support from their organisations would enhance their intercultural understanding and awareness. Although cultural diversity is highly valued, the participating hotels have not connected this value with the expansion of the intercultural skills of hotel staff in terms of learning and development and managing diversity adequately.

Research limitations

The study has a normative character. Some of the arguments and interpretations should be established more firmly with cross-cultural research and examination of the international customer's viewpoint.

Practical implications

Equipping and expanding the skills of hotel staff with the appropriate learning and development opportunities should be seen as part of managing diversity in global hotel brands because of changes occurring in the global market and the industry.

Originality/value

This study provides a framework for intercultural communication and intercultural affairs in the hotel sector. It fills a research gap in the United Kingdom by analysing hotel staff viewpoints on intercultural service encounters.

Keywords

Cultural Diversity, Intercultural Communication, Managing Diversity, Intercultural Service Encounters, Hotels, Skills

Paper type

Research paper

Acknowledgments

The data for this paper comes from the author's PhD dissertation (Daskalaki, 2016).

Introduction

Global hotel brands in the United Kingdom interact to a great extent with people from different cultural backgrounds. Their professional relationships are therefore characterised by an intercultural dimension simply because intercultural contacts and relationships are found at the centre of their daily operations. “Global travelling and labour work mobility are phenomena which have been generated by changes which occur on a socio-economic, cultural and political level because of the phenomenon of globalisation” (Daskalaki, 2016, p. 2). “The populations of countries around the world are becoming more culturally diverse because of immigration, and organisations indigenous to these countries are embracing cultural diversity as a business strategy” (Nahavandi, 2003; Pitta, Wood and Franzak, 2008; Schaubroeck and Lam, 2002). “As a result of worldwide demographic, economic, political and technological developments and changes, many organisations have expanded beyond their national borders” (Gröschl, et al., 2008; Brodbeck et al., 2000). “Service organisations are usually the first source of employment for culturally diverse workers, who are arriving in these countries at an increasing rate” (Banks, 2007; Maxwell, McDougall and Blair, 2000; Stubor, 2002).

Not only has the diversified workforce employed in the hotel industry contributed to the multicultural face of hotel organisations – global customers who travel to the United Kingdom either for leisure or business from different parts of the world have also played a key role. “It is estimated that, in 2028, international tourist arrivals will total 53,036,000, generating expenditure of GBP39.4bn, an increase of 2.8% pa” (WTTC, 2018, p. 5). “The presence of intercultural communication in the hotel industry in the United Kingdom has been intensified as a result of the influx of a diversified workforce and global customers into the country. Thus, intercultural communication forms a significant part of the daily routine of employees during customer service” (Daskalaki, 2016, p. 13).

“Cultural diversity has been defined as the representation, in one social system, of people with distinctly different group affiliations of cultural significance” (Cox, 1993). “To date, however, little research has been conducted in the area of corporate diversity management in the global hotel industry” (Gröschl, 2011, p. 225). “Interactions between customers seeking a particular service and employees assigned to provide the service have been described as service encounters” (Chase, Jacobs and Aquilano, 2004). “Companies that are successful in communicating cross-culturally have a competitive advantage because they can devote more time and resources to conducting business and less time to internal and external communication issues” (Hilton, 2007).

Literature Review - Diversity

“In the 21st century, one of the most important trends affecting the workforce is that of increasing diversity” (Lavarty and Kleiner, 2001). “A diverse workforce consists of individuals belonging to unique cultures with different characteristics, aspirations and expectations” (Cennamo and Gardner, 2008). Daft (2003) proposed that diversity is defined by basic dimensions and secondary dimensions, and the main difference lies in the fact that the basic dimensions – race, ethnicity, gender, physical ability – are those acquired since birth. On the other hand, secondary dimensions are acquired during our lives, including religion, education, lifestyle, appearance, dietary habits, social status and language. Secondary dimensions are arguably less obvious because they require some interaction or knowledge from the communicators and, in cases of an intercultural interaction where the cultural distance is greater, communication could be problematic. Employees from different cultural backgrounds need to be equally supported, appreciated and understood because they have different requirements which will have to be acknowledged and considered by organisations. “Diversity refers to a heterogeneous set (Cascio, 1998) of individuals who acknowledge, understand, value and respect (Wambui et al., 2013) each other’s demographic, physical, biological, social and psychological differences”.

Why is managing diversity so important?

Managing diversity involves embedding two rationales. The legal rationale denotes that it is the right and ethical thing to do and the economic rationale dictates that diversity makes organisations more competitive. “Much of the discussion about diversity within a workplace or managerial context ranges from numerical compositions [...] to inclusive behaviour” (Point and Singh, 2003, p. 751) or “about legal necessity [...] versus moral responsibility [...] versus competitive advantage” (Kirby and Harter, 2003, p. 44).“Cultivating a diverse workforce is not just ethical or social but also demonstrates a good business-oriented approach” (Bateman and Snell, 2008). As Kandola and Fullerton (1998, p. 7) have emphasised the positive organisational advantages that managing diversity in the United Kingdom can bring to the working environment, founded on the premise that harnessing these differences will create a productive environment in which everyone feels valued, where their talents are fully utilised and in which organisational goals are met. “Heterogeneous work groups are more flexible, creative and innovative than homogeneous groups, making their employers more nimble in adapting to constantly changing business environments" (Kochan et al., 2003; Jackson, Joshi and Erhardt, 2003; Jackson and Joshi, 2004; Leonard, Levine and Joshi 2004; Mannix and Neale, 2005). The organisational advantages of encouraging diversity are numerous. Diversity has, for example, the potential to offer better problem solving, higher profitability, improvement of corporate image, increased innovation and more empathy, cultural awareness and social sensitivity in the working environment.

Lattimer (1998) asserts that managing diversity can help an organisation adjust to new challenges including securing new and emerging markets, dealing with globalisation, adjusting to a changing workforce and shifting employee values and integrating new technology and information systems. It has been argued that a managing diversity approach comprises engaging with a strategic perspective and playing a critical role in ensuring economic and competitive success (Wilson, 1996), as well as being the responsibility of all employees (Ross and Scheinder, 1992), particularly managers (Kandola and Fullerton, 1994). It has to be acknowledged that encouraging cultural diversity in the workplace comes with potential disadvantages if it is not managed appropriately. "Diversity can make it harder to arrive at an agreement on a particular course of action and can result in negative dynamics and cultural clashes that can create work disadvantages for women and minorities" (Mazur, 2010, p. 10).

Bhadury et al. (2000) recognise that diversity can have both positive and negative effects on organisations, but the nature of the impact depends, to a large extent, on the type of diversity climate that exists rather than diversity itself. Chevrier argues that diversity increases ambiguity, complexity and confusion in group processes, and thus becomes potentially devastating for team effectiveness (2003, p. 142). It falls under the responsibility of human resource management to apply certain practices and policies which will facilitate the development of managers and consequently the organisation and its employees. Managing diversity can have positive effects on organisational performance and goals if it is managed effectively, and damaging effects if it is mismanaged. Social psychologists/organisational theorists, management consultants and cross-cultural researchers (e.g. Hall, Hofstede, Trompenaars, Hampden-Turner, House) introduced and suggested specific cultural dimensions and values across cultures. "While research exists on the role of culture in areas of human resource management such as recruitment, organisational socialisation and in-service training, it is widely acknowledged that there is a critical lack of theoretical rigour and research into the impact of cultural issues in that field" (McGuire et al., 2002).

Intercultural Service Encounters – Intercultural Interaction

"Intercultural service encounters (ICSEs) involve customers and service employees from different cultures" (Stauss and Mang, 1999). "Despite the increasing importance of intercultural service encounters, previous research mostly explores the influence of customer perceptions and relations (Liu, Furrer and Sudharshan 2001; Zhang, Beatty and Walsh, 2008) but generally ignores the impact of cultural differences on interaction between customers and employees from diverse cultural backgrounds". "Customers purchasing a particular service may have little choice but to interact with an employee whose culture may be different from their own. In such cases, the use of what are called 'service scripts' (Stewart and Jackson, 2003) is particularly important to achieving a service organisation's goal of customer satisfaction". "Within the context of service organisations, a script can be thought of as rules for predicting, interpreting, responding to and controlling a service encounter" (Bateson, 2002; Harris, Harris and Baron, 2003; O' Connor and Adams, 1999; Smith and Houston, 1985). Previous research (Fitzsimmons and Fitzsimmons, 2003; Jones, et al., 1998; Mattila, 1999) further suggests that at the dyadic level of interaction, a service script will be more effective if the customer and the employee providing the service share the same or a similar culture. If the customer and employee share the same cultural characteristics (language, etc.) because they belong to the same cultural group, the service script can be more effective because the presence of cultural differences has been minimised. This does not mean, though, that people who belong to the same cultural group share exactly the same cultural characteristics. Culture is learned, shared and acquired but the same beliefs and values might not be shared by all individuals.

"Many hospitality organisations find it challenging to cater to global travellers from various cultural backgrounds. Cultural nuances in language, customs and norms imply different rules and expectations related to customer–provider interactions" (Chen, Cheung and Law, 2012; Heo, Jogaratnam and Buchanan, 2004; Stauss and Mang 1999; Mattila, 2000). Customers from different cultures have significantly different attitudes towards service employees and different expectations from them, and this affects the ways in which they interact with service employees and evaluate service performance (Mattitla, 1999; Raajpoot, 2004; Stauss and Mang, 1999).

First impressions matter during delivery service and culture can be a crucial factor in whether or not an ICSE was satisfactory or unsatisfactory. Different communication styles among different cultures can affect the ICSE. For instance, in a high context communication verbal communication is indirect and there is a stronger presence of non-verbal cues, meaning that the listener cannot decode it easily (Hall, 1976). In a low context communication, verbal communication involves direct, straight talk with a low presence of non-verbal cues and the message is well-structured so the listener can decode it easily (Hall, 1976). Countries and cultures which are classified as high context cultures include China, Japan, Korea, American Indian, most Latin American cultures and Southern and Eastern Mediterranean cultures, such as Greece, Turkey and Arab states. Low context cultures include Switzerland, Germany, North America and the Nordic states. Different communication styles have the power to define relationships and the quality of interactions, so communication that is based on a shared cultural understanding stands more chance of being successful as it minimises the presence of misunderstandings and conflict between speakers. Different communication styles in different cultures can affect the ICSE. Intercultural awareness and mindfulness on the part of hotel staff towards different communication styles can determine the quality and outcome of ICSE by minimising the presence of miscommunication. Notably, many cross-cultural theories in the field do have their limitations and attract the criticism that "one size does not fit all" – people are individuals and should not be examined as a whole or as a culture. People belong to particular cultures, but this does mean that they do not borrow elements and adopt behaviours separately as individuals which might not match or agree with the culture to which they have been ascribed based on categorisations of cross-cultural theories. Cross-cultural theories can be applied during ICSE as an attempt to understand that cultures differ but with the precaution not to oversimplify and generalise in relation to different cultures.

Organisational Culture

According to Schein, culture is defined as "a pattern of basic assumptions invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration that has worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to the problems" (1985, p. 9).

Organisational culture is seen as a mechanism with a dual function. From one side, it prepares and educates individuals as to how to deal with potential external changes of any type – i.e. of a socio-economic and technological nature – and, from the other side, it is shared and transmitted to individuals and guides their behaviour. Organisational culture is embedded within the organisational values of an organisation, thus defining and predetermining the values, beliefs and attitudes that are adopted by employees and reflected in their work, particularly in the hotel industry during customer service and customer care where the employee has to guarantee a positive customer service experience and ensure guest satisfaction. Culture has a number of different roles within organisations. As Timmerman (1996) has argued, it creates a distinction between one organisation and others and, second, it conveys a sense of identity for organisation members. Third, culture facilitates the generation of commitment into something larger than individual self-interest (Weiner, 1998).

Many researchers have confirmed the relationship between organisational culture and effectiveness (Denison, 1990; Ambroz, 2004; Ouchi, 1981; Kwantes and Boglarsky, 2007; Berry and Parasuraman, 1992; Stein and Bowen, 2003). The most compelling exposition of the connection between organisational culture and performance in the hospitality industry is provided by LeBlanc and Mills (1995), who argue that a strong organisational culture is a prerequisite for organisational improvement and performance in the sector. A strong organisational culture arguably has the power to enhance employee commitment, satisfaction and loyalty.

Methodology

"A combination of data collection instruments and analysis approaches has been used, incorporating semi-structured interviews, public space observations and thematic analysis using interpretive (hermeneutic) phenomenology" (Daskalaki, 2016, p. 76).

"In total, eight global hotel brands participated, including twelve different hotels in the United Kingdom. Interviewees worked in various departments of each hotel, including general management, human resources, operations, food and beverage, guest relations, concierge, housekeeping and front office, and one director of sales and marketing was also interviewed. Ten employees were of British origin and the nationalities of the remainder were identified as follows: one Irish, two Indian, one British–Pakistani, one Hungarian and one Greek" (Daskalaki, 2016, p. 83).

HS1: Director of Sales and Marketing, 4-star hotel (British)	**HS9:** Front Office Supervisor, 3-star hotel (Hungarian)
HS2: Operations Manager, 4-star hotel (Indian)	**HS10:** Senior Supervisor, Food and Beverage, 3-star hotel (Greek)
HS3: General Manager, 4-star hotel (British)	**HS11:** Guests Relations and Housekeeping Manager, 4-star hotel (British)
HS4: Food and Beverage Manager, 5-star hotel (British-Pakistani)	**HS12:** Assistant General Manager, 4-star hotel (British)
HS5: Human Resource Manager, 4-star hotel (British)	**HS13:** Meetings Host Guest, 4-star hotel (British)
HS6: Front Office Supervisor, 3-star hotel (British)	**HS14:** Food and Beverage Manager, 3-star hotel (Indian)
HS7: Human Resource Manager, 4-star hotel (British)	**HS15:** Senior Supervisor, Food and Beverage, 5-star hotel (Irish)
HS8: Assistant Concierge Manager, 5-star hotel (British)	

Table 1: Participants in semi-structured interviews

For the purposes of this study, globally branded hotel groups were selected across the United Kingdom, incorporating three-, four- and five-star categories. The rationale behind the choice of only branded hotels for the study stems from their possession of financial and brand image power as a result of their international expansion, meaning that they stand a higher chance of attracting international customers. Some of the most important advantages of chain hotels come from the financial side – both academic and industry reports have shown better performance of chain hotels in terms of revenues, occupancy and other performance metrics (Xiao et al., 2008; Enz et al., 2014; Hanson et al., 2009). "With brands, employees, guests, owners and competitors from around the globe, hotel groups enjoy a rich tapestry of diversity in their business. Wide geographic dispersion and territorial expansion strategies entailing closer relations with third parties require maintaining high and consistent quality standards, training and disseminating a common ethical culture throughout the group" (Salvioni, 2016, p. 41).

Holiday Inn: 4-star hotel Glasgow
Crown Plaza: 4-star hotel Manchester
Radisson Blu: 4-star hotel Edinburgh
Park Inn: 3-star hotel Aberdeen
Hilton Glasgow Grosvenor: 4-star hotel Glasgow
Hilton Glasgow: 5-star hotel Glasgow
Walford Astoria Edinburgh-The Caledonian: 5-star hotel Edinburgh
Mercure Edinburgh City Hotel: 3-star hotel Edinburgh
The Balmoral: 5-star hotel Edinburgh
Thistle: 4-star hotel Glasgow
Glasgow Marriot Hotel: 4-star hotel Glasgow
Grand Central Hotel: 4-star hotel Glasgow

Table 2: Eight global hotel brands across twelve different hotels

Hotel staff (senior and middle management) were the right people to participate in the study for three reasons. First, they come into frequent contact with a variety of customers during service delivery. Second, they have many years of experience in the sector so they are regarded as highly experienced. Finally, it was difficult to gain access to this organisational setting as hotels were not used to taking part in this type of organisational research on the grounds that they are not permitted to do so, and in most cases the researcher was assigned to the right people to be interviewed. As Morse et al. (2002, p. 18) have outlined, the sample must be appropriate, using participants who best represent or have knowledge of the research topic.

The qualitative interviews were divided into three sections. The first section was more introductory so as to identify the organisational culture and some general values of the hotel. The second section focused on what customer service is, what kind of customer service skills are required from hotel staff, which cultural groups customers belong to and the level of staff cultural diversification. The third section related to intercultural issues and possible cultural differences/needs of different cultural groups of customers. “This section also explored whether or not hotel staff possessed certain intercultural skills such as knowledge of international languages and cultural awareness” (Daskalaki, 2016, p. 90).

During analysis of semi structured interviews fourteen themes were identified during thematic analysis.

1) Terms for buyers	**2) Global workforce**	**3) Global customers**
4) Use of social media	**5) Customer care**	**6) Customer service demeanour**
7) People’s skills	**8) Aesthetic labour**	**9) Grooming standards**
10) Language issues	**11) Non-verbal communication**	**12) Religious and food matters**
13) Intercultural differences	**14) Diversity training**	

Table 3: Themes in interviews

As an analytic method, thematic analysis was chosen for qualitative interviews, public space observations, on the official website of hotel brands and in job advertisements to identify if the themes which emerged from interviews and observations were similar or the same as the ones in interviews and observations (Daskalaki, 2016). “Thematic analysis is defined as a method for identifying, analysing and reporting patterns within data” (Braun and Clarke, 2006, p. 79). Manual coding was also employed to identify relevant themes. “To codify is to arrange things in a systematic order, to make something part of a system or classification and to categorise” (Saldana, 2012, p. 9).

The use of different research methods and analytic methods resulted in triangulation of data. “The benefits of triangulation include increasing confidence in research data, creating innovative ways of understanding a phenomenon, revealing unique findings and providing clearer understandings of problems” (Thurmond, 2001, p. 254). The study considered Lincoln and Guba’s trustworthiness criteria and techniques, which are summarised in Table 4.

Criteria	Techniques
Credibility (internal validity)	1) Prolonged engagement 2) Persistent observation 3) Triangulation (sources, methods, investigators) 4) Peer debriefing 5) Negative case analysis 6) Referential adequacy (archiving of data) 7) Member checks
Transferability (external validity)	8) Thick description
Dependability (reliability)	9) Overlap methods (Triangulation of methods) 10) Dependability audit – examining the process of the inquiry (how data was collected; how data was kept; accuracy of data)
Confirmability (objectivity)	11) Confirmability audit – examines the product to attest that the findings, interpretations and recommendations are supported by data
All four criteria	12) Reflexive journal (about self and method)

Table 4. Lincoln and Guba's (1985) trustworthiness criteria and techniques for establishing them

Apart from semi-structured interviews, nine public space observations in the areas of reception, café-bar and restaurant were employed, meaning that nine different hotels were chosen to be observed during the morning and afternoon hours of customer service. Each hotel was visited twice and each observation lasted between two and two and a half hours. "During the observation time, the researcher kept written notes on the kind of customer service, demeanour and skills required from hotel staff during customer service and any intercultural elements that might be present" (Daskalaki, 2016, p. 101).

"Non-participant observation is used both to capture the reality of a dynamic situation without affecting it with intrusive research observation, and because it is believed that any such intrusion would affect the situation being observed" (Kirby et al., 2000, pp. 358–359). "Every researcher knows or should know that the experience of being observed is likely to affect the behaviour of the person under observation – the Hawthorne experiments are a familiar staple of basic textbooks" (Olson et al., 2004). The common themes which were identified by the use of different research methods contributed to the trustworthiness and credibility of findings.

Findings and Discussion

Recruitment of Culturally Diverse Workforce

The hotel industry is characterised by the strong presence of a culturally diverse workforce. Employees who belong to different cultural groups are encountered in a great number as it can be seen from the statements of interviewees.

HS3: 'We have some Indians, Eastern European, Polish, myself from England, Hungarian and Portuguese' (General Manager, 4-star hotel).

HS16: 'Oh loads. We have, let me see, Portuguese, Spanish, Polish, Lithuanian, South African, Australian, Italian, French; there are many more that I cannot think' (Guest Relations Manager, 4-star hotel).

Managing diversity helps in recruitment and retention of the best talent (Ross and Schneider, 1992; Iles, 1995) by improving the attractiveness of the workplace (Nykiel, 1997). The United Kingdom has been characterised by increased immigration in recent years. "Net migration continues to add to the population and has remained fairly stable since its peak in 2016, with around 270,000 more people coming to the UK than leaving in the year ending June 2018" (Blake, 2018, p. 3). The British economy is greatly dependent on the travel and tourism sector as its activities are a significant source of prosperity not only in terms of employability but also in terms of economic growth and development. "In the United Kingdom in 2017 travel and tourism directly supported 1,716,500 jobs" (4.9% of total employment) (WTTC, 2018, p. 4). A very strong connection and interdependence exists between immigration and staffing the hotel industry in the UK. An estimated 442,000 EU migrants work in hotels and restaurants, accounting for 12% of the sector's total workforce (Bridge, 2018). As well as EU nationals who are employed in the hospitality sector and in particular in the hotel sector, British Asian hotel staff, individuals born in the United Kingdom to immigrant parents, can be seen in great number employed in the industry (Daskalaki, 2016).

Diverse Workforce as a Competitive Advantage

Multicultural teams offer several organisational advantages: increased productivity, better teamwork and sources of information about cultural affairs. They therefore contribute to higher employee engagement and better performance.

HS2: '... when you work in a multicultural team the engagement of the team is better because, for instance, if you got two different nationalities working together, nine out of ten times they both want to know about each nationality...' (Operations Manager, 4-star hotel).

HS7: '...I believe a lot in many different cultures together bringing a lot of open new ideas, ways of doing things differently...' (Human Resource Manager, 4-star hotel).

Other suggested benefits of a diversity management approach include enabling more creativity within the organisation (McNerney, 1994; Iles, 1995; Wilson, 1996; Gardenswartz and Rowe, 1998), reducing costs linked to turnover and absenteeism (Ross and Schneider, 1992; Kandola, 1995), and increasing resilience and flexibility (Gardenswartz and Rowe, 1998). Such an approach encourages more innovative solutions to problems (Rice, 1994) and thus profits (Segal, 1997). Diversity management assists in the understanding of a greater number of customer needs (Rice, 1994; Thidaboux, Jeffards and Greenberg, 1994; Capowksi, 1996).

TA4: '...understanding our employees' cultures helps us to better understand our international clientele' (3- and 4-star hotel belonging to the same hotel group).

Using the cultural background and cultural characteristics of hotel staff to understand international customers' needs through cultural exchange can enhance customer satisfaction, brand reputation and consequently economic growth for hotel organisations. Valuing the cultural side of a diversified workforce can play a major role in attracting a new customer base and/or understanding an existing one. Valuing diversity focuses on appreciating differences among diverse groups, thus starting from the position that people's differences are an asset rather than a burden to be tolerated (Meyerson and Fletcher, 2000).

International Language Skills

"There is no doubt that, despite the dominance of English as a world language, the ability to speak another language – or several languages – is increasingly important in our competitive and global economy" (Blunkett, 1998, p. 1). The language skills of the global workforce benefit to a great extent the daily operation of hotels in intercultural service encounters. Knowledge of international languages was mainly a quality found in the global workforce and not so much among British staff.

HS14: 'It is good as a hotel we have people from everywhere, so as a manager I may not understand something, I will try to get someone who can understand it' (Food and Beverage Manager, 3-star hotel).

HS11: 'If it is a culture that we recognise we say, alright, I know somebody in the restaurant speaks that language and we would pull them forward to assist; we have done that many times in the past…' (Guest Relations and Housekeeping Manager, 4-star hotel).

The researcher identified three different groups of staff based on their language competency/skills. This categorisation became possible through the interviews with hotel staff as follows: British hotel staff who are monolingual, and international hotel staff who speak some international languages at a basic or proficient level who are immigrants in the United Kingdom, as well as hotel staff who identified themselves as British Asian (parents of Pakistani or Indian origin) and were taught the mother tongue of their parents (Urdu or Hindi). Some hotel staff endorse the perception that English is the global language, the lingua franca of the business world, and that is a possible explanation for why a number of hotel staff members do not speak international languages and expect international guests to possess knowledge of English.

HS2: '…Spanish do not feel comfortable speaking in English and they had problems how to get on the Internet and we try to explain but they could not take the message…' (Operations Manager, 4-star hotel).

HS14: '…Spanish, Italians, these people have not very good English so they come to the bar, for example they order food and drink which we are not sure…' (Food and Beverage Manager, 3-star hotel).

"In the United Kingdom, foreign language skills are not normally required of hotel employees, who are assumed (not always justifiably) to have at least an adequate command of English" (Blue and Harun, 2003, p. 78). Selected hotels offer English language courses to their employees to enhance their communication skills, especially in the housekeeping department. Linguistic competence and the presence of multilingual hotel staff can enhance service quality in an intercultural service encounter by overcoming language barriers. A positive customer service experience and a 'smooth' interaction is more likely to be achieved when the presence of language misunderstandings has been minimised because of linguistic competency. In the 1980s, Shames (1986) and Tanke (1988) emphasised the importance of staffing the hospitality and tourism industry with multilingual and multicultural employees who possess a combination of foreign language abilities and cultural awareness. Triandis (1994) contends that communication between individuals whose native language differs multiplies the chances that ineffective communication will occur. Linguistic competence and cultural competence are interrelated. The former involves the use of different language levels (phonology, morphology, syntax, semantics) to construct meaning and convey information in an effective way, while the latter refers to a series of different actions including behaviours and attitudes which signify cultural empathy and respect towards different cultures, as well as a willingness to achieve effective communication in an intercultural interaction. However, linguistic competence is not a prerequisite of being culturally competent, rather an added aptitude towards cultural competence.

Non-verbal Communication

Hotel staff acknowledged that intercultural differences exist in service encounters, meaning that some cultural awareness facilitates interactions and positively affects the customer service experience.

"Non-verbal communication is defined as all behaviours, attributes and objects other than words that communicate messages and have shared social meaning. This definition includes any aspect of physical appearance, body movements, gestures, facial expressions, eye movements, touching behaviours, the voice, and the way people use objects, time and space to communicate" (Morreale, Spitzberg and Barge, 2007, p. 110).

HS3: '... is not just different cultures, people speak in a different way, some people can use their hands more, Italians are very descriptive...' (General Manager, 4-star hotel).

Non-verbal communication performed different roles and functions in service encounters, not limited to accompanying verbal communication. When hotel staff and customers did not share the same language, they resorted to non-verbal gestures to decode meaning and achieve understanding. A member of staff mentioned that they could communicate 'visually' with international customers when language barriers existed.

HS11: '... floor staff and guest relations managers, we have not come across any major problem; we can communicate "visually", we can describe things on the menu...' (Guest Relations and Housekeeping Manager, 4-star hotel).

The fact that non-verbal signs are used in service encounters verifies that there is deficiency in international language skills on the part of hotel staff in selected hotels. The majority of global hotel brands enforce service scripts in service encounters. "A script can be thought of as rules for predicting, interpreting, responding to and controlling a service encounter" (Bateson, 2002; Harris, Harris and Baron, 2003; O'Connor and Adams, 1999; Smith and Houston, 1985). The effectiveness of the service script is reduced by the presence of non-verbal cues in cases where hotel staff cannot predict and analyse cues because of cultural differences. Within this framework, hotel staff are required to possess some awareness of the different meanings of non-verbal cues as their meanings are not universal across cultures. Westerners are comfortable with establishing mutual gaze (Argyle and Cook, 1976), and use direct eye contact as an important tool for interpersonal communication signalling a variety of social information (Kleinke, 1986). East Asians, on the other hand, tend to consider excessive eye contact impolite, and thus avoid looking others directly in the eye (Sue and Sue, 1990; Watson, 1970).

Intercultural Training

Hotel staff from the participating hotels acknowledged that in many cases they felt puzzled as they did not know how to deal with issues relating to culture and language in intercultural service encounters. They would therefore embrace some training to increase their cultural awareness and intercultural skills. The psychology of hotel staff is also negatively affected and the presence of negative feelings is prominent for both employees and guests when intercultural barriers arise.

HS11: '...It would relieve a lot of frustration if we were able to communicate properly knowing that the guests understand everything; you know, sometimes you get frustrated and there is tension because you feel you do not put yourself across properly, they do not understand you. The customers probably feel the exact same way, frustrated as well...' (Guest Relations and Housekeeping Manager, 4-star hotel).

HS14: '...Training, training – if the company, the organisation, provides more training according to what they want us to do from a business point of view that could help and try to get business from every country they are coming from: the food culture, the standard of living, if we know in advance is helpful, so yes, more awareness and a kind of training could be provided to let us know, we want this...' (Food and Beverage Manager, 3-star hotel).

Employees have referred to the organisational advantages and benefits that cultural diversity brings to their working environment so, starting from the provision of intercultural training, the workforce will be introduced to how culture impacts communication between customers, as it has been implied that intercultural challenges do exist at the service encounter and in many cases hotel staff do not know how to deal with them. Taking into consideration the fact that intercultural contact has increased for external and internal customers, provision of intercultural training can further enhance communication and relationships among colleagues.

Brislin and Yoshida (1994, p. 183) define intercultural training as "formal efforts to prepare people for more effective interpersonal relations and for job success when they interact extensively with individuals from cultures other than their own". "A common goal of intercultural training is to develop intercultural sensitivity by increasing awareness of cultural differences and attempts to develop one's communication potential while lessening the likelihood of intercultural misunderstandings" (Cargile and Giles, 1996). In other words, intercultural training programmes aim to develop an appreciation and understanding of cross-cultural differences and to acquire some of the necessary abilities, such as an increased awareness and sensitivity to cultural stimuli and better human relations skills (Seidel, 1981, p. 184). Morgan and Weigel (1988) have pointed out that the major purpose of the above-mentioned training programmes is to develop intercultural sensitivity, and intercultural sensitivity is a prerequisite for intercultural effectiveness. On corporate communication on their official websites, some hotel brands claim that they offer a variety of training and educational opportunities to their hotel staff. However, it seems that these opportunities are not connected with the expansion of hotel staff's intercultural skills.

TA2: '...Hospitality and business training for hotel employees to refine their skills to run a successful and profitable hotel... online training and educational development materials are available to help maintain high guest satisfaction ratings...' (4-star hotel).

In general, any training in the hotel industry is limited mainly because of the cost involved and owing to the fact that it is a short-staffed industry. A few interviewees referred to the dysfunctional elements that a hospitality job entails. According to representatives of the selected hotels, financial cost and staffing issues are major problems which impede the organisational effectiveness of the sector and their decision-making for training opportunities.

HS12: '... at the moment you have to think of the costs and taking people off the desks because we find particularly hard...' (Assistant General Manager, 4-star hotel).

"Tourism and hospitality employment is characterised by a number of repeatedly cited features, summarised by Walmsley (2004) as follows: low paid, low skilled, having a negative image, part- time and seasonal, with poor management and lacking a clear career path". Baum (2006) adds that "such jobs are often dirty, involve physical work, are monotonous and boring, and characterised by long and unsociable hours".

Conclusions, Limitations and Recommendations

This paper examined the importance of a global workforce and managing diversity in global hotel brands, as well as the presence of intercultural communication and intercultural affairs in the industry and comprising the correspondence of hoteliers as professionals. A comprehension of the essence of diversity and cultural diversity in particular has been provided, highlighting its benefits in the workplace. The involvement of intercultural service encounters has been analysed, outlining the effect that these have for the daily operation of hotels and some challenges they represent for hotel staff.

The qualitative analysis verified that despite the presence of a diversified workforce and international customers, the participating hotels did not manage to connect these two elements with the development of intercultural skills on the part of hotel staff. Employees had difficulties communicating efficiently and effectively with international customers. Expansion of hotel staff's intercultural skills could be regarded as an approach towards managing and valuing diversity adequately, benefiting both employees and customers. Managing diversity is regarded as a competitive advantage as discussed in the literature review and supported by participants' statements and as part of corporate communication (hotel websites and job advertisements). It is therefore surprising that access to learning and development opportunities for employees is limited.

It is notable that there might be lack of communication between employees and senior management. This relates to the difficulties that employees are facing as part of service encounters as hotel staff expressed their desire for any training opportunity aiming at cultural issues. Successful diversity management should give emphasis to employees' people skills by providing the right learning and development opportunities from an intercultural perspective. Organisations which implement learning and development interventions as part of their learning and development strategy target the equipment and expansion of employee skills and competencies to improve their performance and enable them to become better at their jobs.

Based on the research findings, hotel staff were highly motivated, committed and passionate about their duties and responsibilities in terms of customer service, customer care and customer satisfaction, which indicates that existing organisational culture in the specific hotel establishments was strong based on the attitudes and behaviours shown by employees during their interviews. As strong organisational cultures have the potential to improve job performance, as indicated in the literature review, a higher chance exists of implementing successful practices and programmes for staff development relating to intercultural awareness and understanding.

It was unexpected to see that management staff of the selected hotels were not aware of the existence of specific courses or training programmes in business which focus on how to deal with cultural differences. Hospitality and tourism management programmes should incorporate in their curricula courses focusing on cultural awareness and understanding of the impact of cultural differences in business. Hotel management staff would then be better educated about other cultures. Hotel brands need to invest in their strategic resources by providing the right and essential human and financial resources to their employees, recognising that changes in the external environment affect their competitiveness and customer retention and satisfaction.

Intercultural training can offer benefits both for individuals and organisations. Having culturally aware staff helps businesses to operate effectively and efficiently by ensuring an open-minded, adaptable and collaborative working environment, and high levels of customer satisfaction and retention across cultural bounds. Developing intercultural awareness can contribute to the expansion of business beyond traditional cultural boundaries, attracting new customer groups, markets and business partners and increasing the potential for business growth and profit. It is also surprising that the selected hotels highlight the importance of excellent customer service, customer satisfaction and professionalism from hotel staff with the support of appropriate learning opportunities in place but it was widely stated by participants that access to learning and training sources does not exist in practice. The explanation on the part of hotels that training seems costly and time-consuming shows their lack of knowledge as to what type of training or learning opportunities exist – for example, virtual or computer based.

Future research could examine whether levels of customer satisfaction are affected by potential intercultural barriers and how international customers feel about this. It would be worth investigating in a cross-cultural study how different global hotel brands deal with intercultural affairs and how important diversity management is.

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