# DOES THE EFFECTIVENESS OF BOARD OF DIRECTORS AND AUDIT COMMITTEE AFFECT ACCOUNTING CONSERVATISM

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## ABSTRACT

This paper examines conservative accounting and the influence of board effectiveness along with audit committee on the level of accounting conservatism for Jordanian listed firms. The findings obtained from 348 firm-year observations over the period 2009 to 2011 refer to the absence of accounting conservatism, which indicate that Jordanian firms have low level of financial reporting quality. Furthermore, the our analyses pointed out that the board effectiveness along with audit committee contribute positively and significantly in strengthening the conservatism principle among Jordanian firms in order to enhance the quality of financial reporting. Therefore, this paper concludes that board of directors should be effectiveness to protect the shareholders' interest.

## INTRODUCTION

Accounting conservatism has a lengthy history in financial accounting field (Watts, 2003a). Despite criticism on accounting conservatism, previous studies suggest that accounting conservatism has increased in the previous decades (Givoly & Hayn, 2000, 2002; Lobo & Zhou, 2006). This study highlights on the various aspects of accounting conservatism. As for the definitions of accounting conservatism; despite that conservatism is well known and a very important attribute to Generally Accepted Accounting Principles, however, the previous studies argued that there is no common definition of conservatism (Zhang, 2000). Statement of Financial Accounting Concepts (SFAC) No. 2 (FASB, 1980) paragraph 95 states: "if there are two estimates of amounts to be received or paid in the future are about equally likely, conservatism dictates using the less optimistic estimate". Therefore, the firm should choose the lower estimate for profits/gains and the higher value for losses/liabilities if the firm can choose among different estimates. Bliss (1924) has defined conservatism as "anticipate no profits, but anticipate all losses. Watts (2003a) has defined conservatism as the differential verifiability required for recognizing losses versus profits. It depends on the verification degree of losses and profit. If the difference of verification is greater, the level of conservatism will be greater.

Givoly, Hayn and Natarajan (2007) have confirmed that no common definition of accounting conservatism exists, despite a consensus suggests that accounting conservatism systematically undervalues a company's net assets relative to its economic value. Moreover, Givoly and Hayn (2000) have described conservative accounting as the accounting principles choice that lead to a minimization of reported earnings. Conservatism also leads to consistently lower cumulative earnings relative to operating cash flows. Therefore, this study uses the definition of Givoly and Hayn (2000) because such definition is consistent with the purposes of the current study.

Previous studies have offered various reasons for the causes of accounting conservatism and different views on conservatism. For example, Francis, LaFond, Olsson and Schipper (2004) assumed that accounting conservatism is one of the desirable characteristics of financial reports because it improves the level of transparency among firms. Ball and Shivakumar (2005) employed conservatism in their study as a measure of earnings quality. On the other hand, Penman and Zhang (2002) reported that accounting conservatism results in lower level of earning quality because the practices of accounting conservatism accelerate expensing the cost of investment, thus generating hidden reserves and decreasing income, when the investment expenditures of firms grow.

Accounting conservatism is a bone of attention at the global and local level. At the global level, many researchers have criticized the use of a low level of conservatism as they claim it to be responsible for the demise of some large companies such as Enron and WorldCom (Biddle, Ma &Song, 2012; Lobo & Zhou, 2006). However, researchers such as Watts (2003a) and Hamdan (2012b) argue by saying that the benefits of applying accounting conservatism exceed its disadvantages. At the local level; Al-Sraheen, Fadzil and Ismail (2014), Hamdan (2010, 2012a) and Hamdan et al. (2012) reported that accounting conservatism level in Jordanian firms is very low. The low level of conservatism of Jordanian listed firms was attributed amongst others to the poor of corporate governance practices (Abed, Al-Badainah&Serdaneh, 2012; Hamdan, 2012a). Such a problem led to the increase of the earnings management practices between the Jordanian companies as reported by Abed, Al-Badainah and Serdaneh (2012). Therefore, this study seeks to offer an optimal model that helps in increasing the conservatism practices in order to limit the agency conflicts and information asymmetry.Audit committee is another mechanism used to monitor the work of management. Such committee is deemed as a sub-committee of board of director whose work focuses on the fields such as financial reporting, audit, and internal control (Spira, 1999).

### 1.1 Related Literature and Hypotheses Development

Fama and Jensen (1983) concluded that the board of directors serves as the climax of control and monitoring system of the organizations. In addition, it's argued by Watts (2003b, 2006) that conservative accounting has emerged as part of an efficient contracting technology that assists in limiting deadweight losses that resulting due to the agency problems. Corporate directors require accurate financial information in order to monitor and control the managers; accounting conservatism contributes in decreasing the deadweight losses. Therefore, investigating the relationship between accounting conservatism practices and board effectiveness is potentially interesting.

Our tests utilize three board characteristics: board independence, board size and CEO duality. As for board independence, one important mechanism that seeks to decrease agency problems is the employment of independent directors on the firm board. Both empirical and theoretical analyses reported that outside members on the firm board serve a vital role in the disciplining and monitoring of senior managers, and thereby affect firm performance (Ghosh &Sirmans, 2003).Numerous of previous studies examine the association among board characteristics and the quality of financial reporting. For instance, Ferreira, Ferreira and Raposo (2011) found a positive relationship among accounting quality and the earnings informativeness, and proportion of independent directors. Beasley (1996) studied financial reports fraud, and compared board independence between companies where fraud occurred and companies with no fraud. It was found that companies with no fraud have a higher proportion of independent directors. Koh, Laplante and Tong (2007) on Australian companies and Benkraiem (2011) on French companies all support the important role of the independent directors in reducing the earnings management.

There are mixed views about the influence of board size. Agoraki, Delis and Staikouras (2010) reported that larger size of boards is less effective than smaller size of boards due to difficulties in coordination of task. According to Lasfer (2004), directors on a large board are less likely to criticize the policies of top management, hence are subject to the control of CEO. Further, large board tends to employ less meaningful discussion since too many directors attended in the discussion, making it need more time and effort to achieve cohesiveness. Further, a large board is less effective due to the slowdown in decision making, and one member will depend on other members to monitor management (Hermalin& Weisbach, 2003). On the other hand, Dalton and Dalton (2005) suggested that a large size of board provides a wider range of expertise and knowledge, but Jensen (1993) showed that the problems of coordination in large board size may outweigh the benefit.

CEO duality indicates the leadership structure where a firm's CEO also acts as chairman of the board (Coombes& Wong, 2004). The CEO and the chair of the board positions should be held by one person or by different persons. According to the agency theory, the combined functions can significantly hamper the boards' most important function of controlling and monitoring, compensating and disciplining senior managers. It also enables the CEO to engage in the opportunistic behavior because of his dominance over the board (Barako, Hancock &Izan, 2006). Two competing theories that interpret the consequences of this structure are stewardship theory and agency theory. Cornett, Marcus and Tehranian (2008) showed that the combined structure does not effect on the earnings management of U.S. listed companies. Gulzar and Wang (2011) showed a positive significant relationship among the CEO-Chairman duality and earnings management. In contrast, Meca and Ballesta (2009) also reported no association between the CEO-Chairman duality and enhancing probability of earnings management.

Both of the resource dependence theory and agency theory highlight the significance of presence independent directors on the board in order to monitor the corporate management effectively (Fama & Jensen, 1983). Agency theory suggests also that larger size of boards associated positively with the quality of financial reporting. Jensen (1993) pointed out that the separation of duties between CEO and chairman may lead to an effective monitoring over the management function, such result is supported also by Agency theory. Based on the above discussion, the first hypothesis is:

***H1:*** *There is a positive relationship between board effectiveness and accounting conservatism.*

There is no consensus on the audit committee definition. However, audit committee is considered as the indication to judge whether an audit committee has added credibility and accuracy to the financial data reported by a company (Abbott & Parker, 2000; Bedard, Chtourou&Courteau, 2004; Klein, 2002a). Previous literatures have determined three regulatory responsibilities of audit committee (e.g., monitoring the external audit function, ensuring the impartiality of the financial reports and scrutinizing the process of internal audit), then the audit committee will be viewed as effective (DeZoort, Hermanson&Archambeault, 2002; Vera-Munoz 2005).

In Jordan, Nimer, Warrad&Khuraisat (2012) found that the performance of the audit committees in Jordanian listed firms deemed ineffective and poor due to the constraints on the members of the audit committees in their work as well the independence of the members also is weak as mentioned. They also showed that most members of the audit committees have close association with the directors on the board as well the top corporate management. Their findings were not surprising due to ownership structure in Jordanian firms is the family business group which offers additional evidence to such findings. Therefore, it is clear that Jordanian companies pay their emphasis to the legal viewpoints such as the audit committees' procedures, instructions and structures and neglecting the substance the work of these committees,which is controlling and monitoring the performance of management to protect the equity of investors particularly small investors.

In Jordan, Al-khabash and Al-Thuneibat (2008) found that the absence of audit committee correlated positively with earning management, which confirms agency theory's assertion that is the presence of an audit committee enhances the quality of financial statements. Accordingly, the next hypothesis is formulated as follows:

***H2:*** *There is a positive relationship between the presences of audit committee and accounting conservatism.*

In conclusion, very limited number of previous research addressed the relationship between board effectiveness along with audit committee (Al-Sraheen et al., 2014b). This study differs from the above mentioned studies in an important ways. There are significant variances in US and UK and other developed countries and Jordan as a developing country in term of the institutional characteristics. Furthermore, in term of the differences in the level of corporate commitment to the rules of corporate governance between developed and developed countries. In short, such important differences in institutional and accounting environments across countries suggest that the findings in the previous studies may not consistent with our results due to the above mentioned differences. Previous studies focus on investigating one aspect of board of directors, while this study examines a broader range of board characteristics that indicate the effectiveness of board.

## 1.2 Research Design

### 1.2.1 Unit of Analysis

This study follows the previous studies that employed annual reports as the prime source of data (Al-Sraheen et al., 2014a, 2014b; Hashim& Devi, 2008). Therefore, the unit analysis is the annual reports of Jordanian listed firms. This study also used data from 2009 to 2011.

### 1.2.2 Sample and Data Collection

Only two sectors (industrial and services sector) are chosen for the purposes of this study. The final sample of Jordanian listed companies that involved to the analysis process is (348) companies, for this period (2009 to 2011) after excluded the annual reports that do not contain the necessary data. Financial sector was excluded from the sample of the study because the financial sector is the most conservative as reported by Hamden (2012). In addition, it has different regulations and practices issued by the Central Bank of Jordan and the Insurance Commission.

As mentioned above, data for the current study came from secondary data. Secondary data were collected through analyzing the audited financial statements of firms. This data is used to achieve the study purposes.

## 1.3 Measurements of the Variables in Research Model

This study employs the following model to achieve the study objectives

$$ACCR_{it} = BOREFF_{it} + AC_{it} + \varepsilon_{it}$$

*Where*:

ACCR = Accounting Conservatism measured by accrual based

BOREFF = Board Effectiveness

AC = Audit Committee

### 1.3.1 Proxy for Board Effectiveness

We compute the scores of the three individual characteristics of the board of directors (board independence, board size and CEO duality), in order to develop an overall, composite measure of board effectiveness. A composite measure of BOREFF ranging from 0 to 3 is developed. Large BOREFF scores refer to high effectiveness of board of directors. The measurement of board effectiveness is based on previous research (e.g., Hoitash, Hoitash&Bedard, 2009). However, the data related to the board is obtained from the annual reports of the companies.

As For board independence, dummy variable for board independence which equal 1 if percentage of board independence is higher the median of board independence of the sample, and 0 otherwise. Regarding to the board size, dummy variable was used which equal 1 if board size is higher than the median of board size of the sample and 0 otherwise. Finally, score 1 if the functions of the CEO and chairman were combined and 0 otherwise, this is to measure CEO duality. Such measurement of board effectiveness is based on the previous studies such as (Bagulaidah, 2012; Goh, 2008).

### 1.3.2 Proxy for Audit Committee

Audit committee was measured in the current study by the existence of audit committee in the firm, coded 1 if the firm has audit committee and coded 0 otherwise. This measurement was employed by previous studies such as Goodwin and Seow (2002), and Gulzarand Wang (2011). However, most Jordanian companies did not follow therequirements of corporate governance. For example, Abu-Haija (2012) and Al-Sraheen et al., (2014a)respectively documented that only 48.22% and 55% of industrial companies in Jordan have an audit committee.

### 1.3.3 Proxy for Accounting Conservatism

Accrual-based measure as developed by (Givoly & Hayn, 2000) has chosen to measure accounting conservatism because there has not been a detected in the literature on any possible biases in this measure, as well as this measurement is more sophisticated than other measurements (Wang, 2009). Therefore, the simple form is shown as follows:

$$Accruals = \frac{Income + Depreciation\ Expenses - Operating\ Cash\ Flows}{Total\ assets}$$

$$ACCR = (Accruals/3\ years) * (-1)$$

## 1.4 Empirical results

### 1.4.1 Descriptive Analysis

For the overall effectiveness of the board of directors (BEFFC), the average of the board effectiveness is 1.79, the theoretical scale extends from zero (0) to three (3). Zero (0) means that all the three board characteristics (independence, size and duality) are less than the sample's median, this refers low effectiveness, while three (3) refers the higher effectiveness of board. There are twenty five (25) firms (7.2%) of sample with zero score while sixty three (63) firms (18.1%) with three (3).

The descriptive in Table 1.0 also shows also that 150 (43.2%) of Jordanian listed firm are without audit committee, while 198 (56.8%) have audit committee. This result offers a valuable insight to both of corporate managers and policy makers in Jordan to pay more attention on the role of audit committee.

The average value of the accrual conservatism is -.002. This value is lower than the average value of accrual conservatism at 0.010 and -.004 which reported by Ahmed and Duellman (2007) and Ahmed, Billings, Morton and Stanford-Hars (2002) respectively. This contradiction might have driven to various institutional factors, such as the structure of ownership; where Jordanian firms' ownership structure is highly concentrated. This ratio implies that the level of conservatism amongst Jordanian firms is low.

Table: 1.0

*Descriptive Statistics*

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| BEFFC | 349 | .00 | 3.00 | 1.79 | .81954 |
| AC | 348 | 0 | 1 | .55 | .452 |
| ACCRUAL | 348 | -.32100 | .45000 | -.002 | .15995412 |

### 1.4.2 Hypotheses Testing

Table 1.1 shows the model is significant (F = 20.799) (Sig F = 0.000). The model explained 10.8% of the variation in the accrual conservatism ($R^2$10.8%). The following section provides the results of the relationship among the variables under study as hypothesised in Chapter Three.

Table 1.1

*Regression Analysis Results*

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | t value | P value. |
| BEFFC | .033 | .010 | .167 | 3.286 | .001 |
| AC | .096 | .018 | .272 | 5.335 | .000 |

F value =20.799

Sig value = 0.00

$R^2$ value = .108

As shown in Table 1.1, board effectiveness has positive and significant relationship with accruals conservatism (t = 3.268, P = .001). This refers that the effectiveness of the board of directors contributes positively in applying more conservative policies in recognition of profit and losses. Therefore, the first hypothesis is supported.

In a similar vein, there is a positive and significant relationship among the presence of audit committee and accrual conservatism ($t = 5.335$, $P = .000$). This indicates that the presence of an audit committee can be perceived as suggesting higher quality control and should have a major effect on reducing the likelihood of financial report fraud. Therefore, this study supports the second hypothesis.

## CONCLUSION

In this paper the author sought to deepen the understanding of the influence of board effectiveness and audit committee on the level of accounting conservatism. Our results provide insights regarding the mechanisms through which board of directors and audit committee creates a value to the financial reporting quality. The examining of the influence of board effectiveness and audit committee on level of conservatism has gained enhanced momentum in the contemporary world, in which the effectiveness of the boards play a prominent function in managing corporations and establishing their strategic directions. A deeper understanding of the influence of board effectiveness as well the audit committee on accounting conservatism has a substantial significance.

Extension of this study in future is possible in the following fields, such as using more than one measurements of conservatism would enhance the reliability of the conclusions. So, further studies are needed to define which measurement of conservatism is more adequate and proper than the other measure; especially in emerging markets. In general, it is found that the independent variables explained 10.8% of the total variance in accruals conservatism. This ratio indicates that 89.2.1% is unexplained. In other words, there are other substantial factors that are important in interpreting the accounting conservatism that have not been considered in this study such as internal audit function and timeliness of financial reporting. Consequently, future research should take this into account.

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# GLOBAL LEADERSHIP: UNDERSTANDING THE VALUE OF CULTURAL DIVERSITY

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## ABSTRACT

The effective leadership of what are increasingly highly globalized business environments, involves developing certain attitudinal and behavioral competencies undergirded by an understanding of the cultural influences that contextualize leadership behavior and practices. The purpose of this study was to examine the complexity of leadership in a global context by exploring the ways in which various cultures' values and moral foundations affect how leadership is viewed and effectively practiced. The study focused on three groups of predictive variables of global leadership: characteristics of personality, attitude, and self; behavioral skills related to relationship building and cross-cultural connectivity; and cognitive and organizational acumen, by region to identify any significant relationships between the variables. The findings for this quantitative research were derived from a survey distributed to 192 managing directors/partners of management consultancies operating in Asia, Europe, India, Latin America, the Middle East/Africa, and North America. The study found that leadership practice and philosophy varied by region of the world, with the Americas reporting higher scores on competencies associated with personality, while most of the other regions emphasizing those associated with behavioral skills. The study also asked the respondents to comment on the primary focus of leadership in their region of the world. Respondents in Asia and Europe gave priority to achieving higher levels of morality and collective purpose, those from India and Latin America emphasized the importance of relationship building, the Middle East/Africa respondents expressed the need to contribute to a

more just society, and the respondents from North America emphasized that leadership is derived based upon a competitive meritocracy.

Key Words: Leadership, global, organizational, culture, diversity

## INTRODUCTION

In his seminal work on leadership development, Gardner (1990) expressed the view that "The first step is not action: the first step is understanding" (p. xiv). An acknowledgement of this foundational principle appears to be missing in much of the applied research and practice regarding ways in which individuals and organizations can best prepare themselves for the complexities of global leadership. Too often, we find ourselves focused on the mechanics of designing global simulations, formulating international assignments, creating global task forces, and delivering language training, while giving short shrift to an understanding of what makes an effective global leader and why effective global leadership matters (Caligiuri & Dragoni, 2014). This paper is intended to encourage a thoughtful examination of complexity of leadership in a global context by exploring the ways in which various cultures' values and moral foundations affect how leadership is viewed and effectively practiced.

To begin to understand the global context to leadership, one must acknowledge that this involves multiple elements, including the relationship between the leader and his/her followers, the goal that guides and provides purpose to that relationship, the environmental or organizational context where that relationship takes place, and finally the cultural influences that contextualize certain behaviors (McManus & Perruci, 2015). Assimilating the complexity, cultural nuances, and contextual applications of effective leadership practice can allow the individual to develop themselves and others while contributing to the greater good of one's organization and broader society. In doing so, the individual leader has the potential to acquire the self-awareness and mindfulness essential to developing their whole selves.

The elements that begin to distinguish global-capable leaders include the ability to establish and build teams that encourage diversity of thought and leverage cultural differences and to insure that those cultural differences do not negatively influence the effectiveness of the team or larger organization (House, Hanges, Javidan, Dorfman, & Gupta, 2004).

Having acknowledged the need for understanding the contextual aspects of applied leadership, it begs the question of how one defines effective leaders, a subject that has been extensively researched for quite some time. Bennis (1989, p. 259) wrote “Always, it seems, the concept of leadership eludes us or turns up in another form to taunt us again with its slipperiness and complexity. So we have invented an endless proliferation of terms to deal with it…and still the concept is not sufficiently defined.” Some years later, another of the twentieth-century’s leading scholars on the subject, stated that “Leadership is one of the most observed and least understood phenomena on earth” (Burns, 1978, p.2).

## What Makes an Effective Global Leader?

In general terms, effective global leadership requires an individual to possess certain attitudes, learned behaviors, and experience that can only be acquired through exposing oneself to different and oftentimes challenging situations. Global leaders must have a certain degree of intellectual intelligence involving both business acumen and the skills to be able to cognitively process complex and paradoxical problems, and emotional intelligence, which is comprised of cultural self-awareness, cross-cultural adaptability, and cross-cultural understanding and effectiveness (Rhinesmith, 2003). Together, these forms of intelligence equip global leaders with a high level of cognitive ability to process sometimes unfamiliar and frequently contradictory sources of information and make effective decisions.

Black & Gregersen (1999) approached the question of effectiveness from a qualitative perspective, identifying several personal characteristics that these leaders must possess. Global leaders need a strong sense of inquisitiveness as reflected by a love of learning, being intrigued by diversity, having a desire to seek out people different than oneself rather than those that make us feel comfortable, along with possessing a mindset that questions rather than confirms that which we think we already know. Another characteristic is the ability to embrace duality wherein uncertainty is viewed as invigorating and a natural dimension to global business, wherein one acts as opposed to hesitating when confronted with ambiguous, complex and rapidly changing situations.

And finally, global leaders must possess a strong character that enables the leader to connect emotionally with different cultures in establishing and reinforcing trustworthiness, by consistently demonstrating a high degree of personal integrity across a diversity of ethical conflicts (Caligiuri & Tarique, 2012). A strong and consistent reputation for acting with integrity can serve to help influence the views of followers, while those lacking in integrity will fail to earn the respect they require from stakeholders within and outside their organizations.

Global leaders must also find a balance between resilience and humility. Here we define resilience as that combination of optimism and persistence that is necessary to move forward despite adversity, coupled with the hardiness required to cope with the inevitable stresses inherent in global relationships. Humility, the antithesis of arrogance and ethnocentrism, is an equally important quality for global managers to possess if they are to allow themselves to be open to learning from other cultures (Pauleen, Rooney, & Holden, 2010).

A review of the empirical research conducted over the past two decades reveals over 160 separate and specific competencies associated with global leadership effectiveness (Grundling, Hogan, & Cvitkovich, 2011). These competencies can be grouped into three major categories: characteristics of personality, attitude, and self; behavioral skills related to relationship building and cross-cultural connectivity; and cognitive and organizational acumen.

With respect to characteristics of personality, attitude, and self, global leaders tend to be resilient, possess strong elements of character, are naturally inquisitive, flexible and pre-disposed towards having a more cosmopolitan mindset. Resilience speaks to the leader's ability to process complex challenges across different cultural, political and regulatory systems in a confident manner that minimizes stress, is resourceful, and naturally optimistic by nature (Jenkins, 2012).

Given the inherent ambiguity and stresses associated with global business, leaders in such an environment require a higher than average sense of self-identity and core values, integrity, and maturity in order to deal with a broad set of ethical decisions, as well as a healthy degree of inquisitiveness, manifested by innate curiosity, an openness to learning, and a confident humility that is not threatened by and is open to being taught by others (Black & Gregerson, 1999). Finally, global leaders must have an inherent interest in and knowledge of the broader world, coupled with the cognitive ability to approach highly contextualized cultural, social, and political environments effectively (Miska, Stahl, & Mendenhall, 2013).

The second major category of global competencies involves those behavioral skills related to relationship-building and cross-cultural connectivity, which is essentially the ability to manage people and interpersonal relationships. A critical element of this ability is a respect for, and understanding of people as individuals and for their differences. Implicit in creating and maintaining these relationships is an acknowledgement that they are fundamentally trust-based.

Competency in interpersonal skills requires both emotional intelligence, which involves a healthy sense of self awareness and sensitivity to others, and the ability to influence followers towards a goal. Finally, global leaders require a high degree of competency in cross-cultural communication, which draws on an awareness of the contextual, cultural and individual differences in the way messages are coded, transmitted and interpreted (Muenjohn, 2011).

The third and final core competency of effective global leadership speaks to organizational acumen, which is founded on possessing a practical understanding of one's internal and external environments, and using that knowledge to accomplish objectives efficiently and effectively. This entails the ability to assess the complexity of these environments in a way the balances the tactical and strategic aspects of any decision, inclusive of understanding their interdependencies (Bird & Osland, 2004).

Developing a globally-oriented strategic mindset requires leaders who possess, or acquire over time, the intellectual capital to grasp the complexities of global business and associated risks of having operations in different parts of the world, along with the cognitive capacity to connect complex elements in alignment to the organization's strategy. Global leaders further possess an interest in other cultures and socio-economic and political systems, and the mental flexibility, openness and respect for different and diverse perspectives and values. Finally, these leaders project the ability to build consensus and influence through authentic, trust-based interactions and are able to do so in a diplomatic manner (Javidan, Hough, & Bullough, 2010).

## METHODOLOGY

The Study

The purpose of this study was to examine the complexity of leadership in a global context by exploring the ways in which cultural values and moral foundations affect how leadership is viewed and effectively practiced. The study focused on three groups of predictive variables of global leadership: characteristics of personality, attitude, and self; behavioral skills related to relationship building and cross-cultural connectivity; and cognitive and organizational acumen, along with the demographics of the respondents, to identify any significant relationships between the variables. These were analyzed from the data derived from a survey that measured the relevance of these variables based upon the individual respondent's regional background.

The target population for this study was 192 managing directors/partners of management consultancies operating in six major regions of the world (Asia, Europe, India, Latin America, the Middle East/Africa, and North America). These individuals were selected on the basis that by virtue of the nature of their industry, they would possess extensive experience working with other senior executives within their respective markets, and thus would likely have an appreciation for their leadership competencies and philosophy. The management consultancies were identified from the 2015 Association of Executive Search Consultants Directory.

## FINDINGS

Of the 192 managing directors/partners who received invitations to participate in the study, 92 (48%) responded. Responses were strongest from Europe at 27%, followed by India and Latin America at 16% each. The responses from North America (12%), Asia (11%), and the Middle East/Africa (10%) were roughly equal.

Table 1

*Geographic Distribution of Respondents (n=92)*

| Variable | *n* | % |
|---|---|---|
| Asia | 11 | 12.0 |
| Europe | 27 | 29.0 |
| India | 16 | 17.0 |
| Latin America | 16 | 17.0 |
| Middle East/Africa | 10 | 12.0 |
| North America | 12 | 13.0 |

Industry affiliation was led by Finance & Services at 27%, Retail/Wholesale at 19%, Agriculture at 14%, Construction and Healthcare at 12% each, followed by Energy, Hospitality, Media/Technology, Manufacturing, and Defense, and the years of experience the respondents had worked in their respective regions of the world was heavily weighted towards 16+ years.

Table 2

*Industry Affiliation of Respondents (n=92)*

| Variable | *n* | % |
|---|---|---|
| Agriculture | 13 | 14.0 |
| Construction | 11 | 12.0 |
| Defense | 2 | 2.0 |
| Energy | 4 | 4.0 |
| Finance/Services | 25 | 27.0 |
| Healthcare | 11 | 12.0 |
| Hospitality | 4 | 4.0 |
| Manufacturing | 2 | 2.0 |
| Media/Technology | 4 | 4.0 |
| Retail/Wholesale | 16 | 19.0 |

Table 3

*Years of Regional Experience of Respondents (n=92)*

| Variable | *n* | % |
|---|---|---|
| 0-5 Years | 0 | 0.0 |
| 6-10 Years | 8 | 9.0 |
| 11-15 Years | 8 | 9.0 |
| 16-20 Years | 20 | 22.0 |
| 20+ Years | 56 | 60.0 |

The survey then asked about the most important challenges facing global leaders, with a significant number of respondents (59%) citing managing change as the leading issue, followed by building coalitions (22%), and managing diversity (13%). Cross-cultural communication and defining roles within organizations were minimally reported.

Table 4

*Global Leadership Challenges (n=92)*

| Variable | *n* | % |
|---|---|---|
| Managing Change | 54 | 59.0 |
| Building Coalitions | 20 | 22.0 |
| Managing Diversity | 12 | 13.0 |
| Cross-cultural Communication | 4 | 4.0 |
| Defining Roles | 2 | 2.0 |

The study measured three groups of predictive variables of global leadership by region of the world: characteristics of personality, attitude, and self; behavioral skills related to relationship building and cross-cultural connectivity; and cognitive and organizational acumen. The highest rated competencies in Asia, Europe, India and the Middle East/Africa were correlated to behavioral skills related to relationship building and cross-cultural connectivity. The respondents from Latin

America and North America rated those competencies associated with personality, attitude, and self the highest. Cognitive and organizational acumen was the next highest rated competency group in the Middle East/Africa region, but was otherwise not given high priority throughout the other regions.

Table 5

*Leadership Competencies by Region*

| Region | Personality | | Behavioral | | Cognitive | |
|---|---|---|---|---|---|---|
| | *M* | *SD* | *M* | *SD* | *M* | *SD* |
| Asia | 3.33 | .30 | 3.60 | .79 | 3.07 | .80 |
| Europe | 3.71 | .63 | 3.83 | .61 | 3.63 | .78 |
| India | 3.95 | .60 | 3.95 | .56 | 3.75 | .78 |
| Latin America | 3.95 | .69 | 3.90 | .51 | 3.40 | .54 |
| Middle East/Africa | 3.70 | .53 | 4.10 | .32 | 3.90 | .11 |
| North America | 3.87 | .56 | 3.67 | .64 | 3.53 | .77 |

An analysis of variance (ANOVA), performed in order to determine if there was a statistically significant difference between the means of the regions, found significance when comparing the means for the personality and cognitive related competencies between the six regions.

Table 6

*ANOVA of the Leadership Competencies by Region*

| Region | *Sum of Squares* | *df* | *Mean Square* | *f* | *Sig* |
|---|---|---|---|---|---|
| Personality | 7.91 | 5 | 1.58 | 4.12 | .002 |
| Behavioral | 4.17 | 5 | .83 | 1.17 | .332 |
| Cognitive | 14.45 | 5 | 2.89 | 2.87 | .019 |

The study asked the respondents to then comment on the primary focus of leadership in their region of the world. Respondents in Asia emphasized that the primary focus of leadership is to motivate followers to higher levels of morality and collective purpose, and also stressed that leadership is most effective when it is subtle without appearing controlling. The European respondents gave high ratings to leadership that is guided by broader societal values and by their organization's strategic objectives.

Respondents from Latin America reported that effective leaders emphasize achieving results through charisma and by building personal relationships, while the Middle East/Africa respondents stated the an integral responsibility of every leader is to contribute to a more just society. Finally, the respondents from North America emphasized that the focus of leadership is more individually based and is derived from, and earned based upon a competitive meritocracy.

Table 7

*Primary Focus of Leadership (Mean/Standard Deviation)*

| Region/Focus | Asia | Europe | India | Latin America | Middle East Africa | North America |
|---|---|---|---|---|---|---|
| Morality & Collective Purpose | 4.67 | 4.00 | 3.75 | 4.25 | 4.50 | 3.67 |
| | .49 | .94 | 1.13 | 1.34 | .53 | 1.30 |
| Relationship Building | 3.67 | 3.86 | 4.00 | 4.50 | 3.50 | 3.67 |
| | 1.30 | 1.38 | 1.03 | .52 | 1.60 | 1.30 |
| Competitive Meritocracy | 2.33 | 3.00 | 3.50 | 3.75 | 2.50 | 4.00 |
| | .49 | .54 | .89 | 1.13 | .53 | .85 |
| Subtle Without Controlling | 4.67 | 3.57 | 2.50 | 3.00 | 2.50 | 2.67 |
| | .49 | 1.07 | .89 | .73 | 1.60 | .49 |
| Societal Values & Strategy | 3.00 | 4.00 | 3.50 | 3.75 | 3.50 | 2.67 |
| | 1.48 | .77 | 1.15 | .86 | .53 | .49 |
| Contribute to a | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Just Society | 2.33<br>1.30 | 3.43<br>.92 | 3.00<br>1.26 | 3.75<br>.86 | 5.00<br>.00 | 2.00<br>.85 |

Implications

The study drew from the responses to a survey of business consultants drawn from six regions of the world, representing a diverse set of industry affiliations. Of note, the level of experience of the respondents was extensive, theoretically contributing to a more well-informed assessment of the leadership competencies and philosophy of the senior executives they reported on.

One of the issues this research sought to examine pertained to what challenges senior global leaders were facing and how those issues might relate to regional or global influences. Managing change was rated the highest concern by 59% of the respondents, with building coalitions significant, but nevertheless a distant second at 22%, managing diversity cited by 13%, followed by cross-cultural communication (4.0%) and defining roles (2.0%).

Change management (59%) is a critical challenge for global leaders, given certain interpretations in the way different culture perceive and deal with change. Cultures with a preference for structure and order tend to be less comfortable with ambiguity and risk and may be more resistant to change, while other cultures may recognize change as an important cultural value to be accepted (Belias & Koustelios, 2014).

While certain cultures first focus on changing the attitudes of key stakeholders and then follow by realigning the organizational structure to fit the changed perceptions, others take the exact opposite approach by beginning with changes to the organizational structure in the hope that it will eventually encourage changes in the stakeholder's behavior and processes (Van Hove, 2012). In order to effectively manage change, global leaders are well advised to develop visions with expectations that are clear and linked to organizational goals, communicate the change in a manner that is easily understood and reinforced, is founded on a previously established community of trust, and engage stakeholders at all levels of the organization to drive the initiative.

Global-capable leaders establish and build coalitions (22%) that are differentiated from their domestic counterparts in the diversity of their composition and in their distribution. The diversity of such teams can often bring the potential for higher levels of creativity, innovation, and overall performance. Managing diverse and distributed teams can be challenging, given cultural differences and expectations regarding roles, decision making processes, and communication (Nica, 2013).

Managing diversity (13%) reflects, in many respects, on the inherent complexity of the breadth of issues global leaders must address. These leaders must deal with a far greater degree of ambiguity in managing across cross-cultural norms and differences (Lane, Maznevski, Mendenhall, & McNett, 2004). Through these intercultural experiences, leaders' prior opinions and convictions are altered as they realize a lessening of what they previously believed to be certain and an acknowledgment of that which is yet to be discovered (Steers, Sanchez-Runde, & Nardon, 2012).

Intercultural competence involves a process that often starts from an ethnocentric perspective that is transformed over time by acquiring the ability to empathize with others, communicate across cultural boundaries, and adapt one's frame of reference in aligning to the behavior of others (Bennett, 2009). It involves the ability to establish interpersonal relationships, communicate effectively, and manage ambiguity in dealing with different social systems (Paige, 1993).

Another aspect of intercultural competence involves having a sense of mindfulness in thinking in new ways and being open to different perspectives. By being aware of, and considerate of, our internal assumptions and cognitions, global leaders not only better understand themselves, but are better able to see things through the eyes of others (Thomas, 2015). Intercultural competence does not develop overnight, but rather through a series of transformational experiences that allows one to internalize the values and perceptions of other cultures, and become imbedded through a strong personal motivation to learn and adapt (Hassanzadeh, Silong, Asmuni, & Wahat 2015).

Managing differences in cross-cultural communication (4.0%), and the manner in which conflicts are resolved, is another major challenge for global leaders (Nishii & Özbilgin, 2007). In Latin American culture, it is entirely acceptable for team members to express themselves, even at the same time as others, and with open expression while in Asian culture, doing so would be interpreted as disrespectful; the same can be said for most cultures, where expressions of excessive emotion or opinion are generally discouraged. More collective cultures tend to be more sensitive towards the affective influence of team members to each other than found in (more individualistic) Western culture.

With respect to conflict resolution, certain cultures demonstrate respect for each other by expressing disagreement indirectly, while in other cultures, the exact opposite values encourage direct conflict engagement as a normal behavior (Illies et al., 2007). Given these varying norms of acceptable team communication and conflict resolution, effective global leaders must be particularly sensitive to take these cross-cultural differences into consideration.

The definition of roles (2.0%) can differ depending on the hierarchical nature of a given culture. For example, Indian, Latin American, and elements of Asian cultures tend to be more hierarchical, and as such teams in those regions typically have a single leader with full decision-making authority. Other, more collective cultures within Asia tend to define roles with greater flexibility, with individuals contributing in different ways towards a more distributed form of team accountability.

Certain European segments of Western culture assume that the leadership of teams should be shared, with different individuals taking the lead based upon the tasks at hand, while the more individualistic American segment typically defines task-specific roles so as to identify individual areas of responsibility (Illies, Wagner, & Moregson, 2007).

This study sought to measure three groups of leadership competencies by region of the world: characteristics of personality, attitude, and self; behavioral skills related to relationship building and cross-cultural connectivity; and cognitive and organizational acumen. The highest rated competencies in Asia, Europe, India and the Middle East/Africa were correlated to behavioral skills related to relationship building and cross-cultural connectivity; respondents in Latin America and North America rated those competencies associated with personality, attitude, and self the highest.

An analysis of variance (ANOVA), determined that there was a statistically significant difference between the personality and cognitive related competency's means between the regions. The inference is that while the manifestation of these leadership-related competencies differs around the world, those competencies associated with behavioral skills related to relationship building and cross-cultural connectivity appear to be more universal.

Respondents in Asia emphasized that leadership serves to motivate followers to higher levels of morality and collective purpose, and stressed that leadership is most effective when it is subtle without appearing controlling. The European respondents gave high ratings to leadership that is guided by broader societal values and by organizational strategy. Respondents from Latin America emphasized the importance of achieving results through charisma and relationship building, while the Middle East/Africa respondents gave priority to the responsibility of leaders to contribute to a more just society. Finally, the respondents from North America emphasized that leadership is derived from and earned based upon a competitive meritocracy.

Leadership in Asian culture is challenging to capture in a single definition, given the significant cultural and political differences found throughout the region. Still, certain universal tenets of leadership philosophy are found throughout many Asian cultures. These include an understanding that every person in a society exists to function in a specific role, and that societal order is sought and valued. This perspective was reflected in the significant response (4.67) that leadership exists to motivate followers to higher levels of morality and collective purpose. Inherent in the underlying leader-follower relationships are a reverence for dignity, respect and humility, and an appreciation for the sagacity and wisdom one hopefully develops with age (Low, 2012).

Through experience, Asian leaders draw intuition on how to act through assessing the contextual environment. From a Western perspective, Asian leadership can appear to be subtle in that it strives to be effective without being overtly forceful or controlling, as reflected in the highest mean (4.67) for this variable of any of the regions in the survey. Finally, leaders are expected to place followers and the common good above their personal aspirations (Heller, 2012), as reflected in the rating (3.60) applied to behavioral skills related to relationship building and cross-cultural connectivity.

While challenging to define European leadership in one paragraph, given the various cultural influences that exist across the continent (size, degree of collectivism, socio-political system, east-west influence, etc.), most of these leaders are guided by broader societal values and an appreciation for the social contract that exists within the workplace. In addition, as a result of such constructs as the European Union, it is understandable that these leaders have adopted a greater sense for the interrelatedness of economies and cultures (Hofstede, 2001). These influences were reflected in the response to the importance of societal values and organizational strategy (4.00) and in the response (3.87) related to leadership competencies, with behavioral skills related to relationship building and cross-cultural connectivity.

India may hold the distinction of being the most diverse country in the world in terms of its social, economic, cultural, and linguistic dimensions. With respect to leadership philosophy, Indian leaders combine foreign ideas with historical values of interconnectedness, the leader as teacher and role model - as reflected in one of the higher means (4.00) for behavioral skills related to relationship building and cross-cultural connectivity - and an enlightened moral foundation (Cappelli, Singh, & Useem, 2014). Indian leaders place special emphasis on the broader mission of their organizations by focusing on social purpose, values, and strategic thinking. Driven by a desire to be creative in developing their organizations' value propositions, these leaders place priority on sustaining holistic employee development and in nurturing organizational culture (Wilson & Van Velsor, 2011).

Leadership in Latin American culture has been defined as *personalismo*, or the ability to persuade others through certain attributes and personal relationships. Leaders lead because they possess these qualities, most notably through a bold style combined with charisma. Followers are expected to recognize and respect their leaders through acts of loyalty and devotion and in that sense, the leader-follower relationship can be viewed as an extension of another foundational value in Latin America, that of family (Northouse, 2015). Latin American leaders ascend based upon personal qualities, achieve results through personal relationships, value order and hierarchy, inspire the loyalty and commitment of their followers, and define the moral dimensions of leadership as derived from a Judeo-Christian framework (Castano, de Luque, & Wernsing, 2015). These values were reflected in the highest mean of any region (4.50) when assessing the importance of charisma in building relationships, and for high ratings for leadership competencies related to personality, attitude, and self (3.95).

In Islamic culture, faith, politics, and society are inseparable. Whereas Western society views leadership as something to be pursued and attained in order to benefit one's self, Muslims generally hold that leadership exists to benefit the greater good. From this foundational principle, Islamic leaders are expected to follow the teachings of Islam, place value on the communities in which they lead, give priority to leading in a just manner, and to understand that they are entrusted to care for their followers in a reciprocal form of a leader-servant relationship (Ali, 2012). This trust is bestowed to the leader by his or her followers in order that they together may achieve a common goal.

In one sense, Islamic leadership philosophy is similar to secular transformational leadership theory except that the aspirational focus is to motivate the group to higher levels of morality and purpose, while encouraging each other to become better Muslims (Toor, 2008). In broader terms, the Islamic leader's responsibility is to help create a just society. This focus on the responsibility of leaders to contribute to a more just society was reflected in the highest mean (5.00) of any of the responses in the survey.

The study also asked the respondents to comment on the primary focus of leadership in their region of the world. Leadership in North American culture is noted for its focus on individualism and expression. The leader is viewed as an individual, a boss, and someone separated from his or her followers by rank or title. Leadership is earned based upon a competitive meritocracy, wherein followers are equated to subordinates and are thus deemed inferior to the leader. This perspective was reflected in the highest mean (4.00) for this variable of any of the regions in the survey. North American leaders are also given a fair degree of latitude and freedom of expression in the practice and projection of leadership philosophy (Chhokar, Brodbeck, & House, 2013).

These leaders, emulating an underlying aspect of capitalism, see themselves as engaging in a social contract or transaction with their followers while motivating them expressly to accomplish a given task or goal. Success is measured by the leader's ability to utilize resources and people in order to accomplish those goals. This individual focus was reflected in the response related to leadership competencies, with characteristics of personality, attitude, and self, reflected the highest mean (3.87). Finally, these leaders are ethically guided to do what is right, grounded by a Judeo-Christian perspective, based upon concepts of equity, justice, and fairness (Tubbs, 2005).

## Conclusion: Why Effective Global Leadership Matters

Becoming an effective global leader embodies both the possibilities that global engagement can offer and the means by which an individual's personal development can be further shaped towards reaching his or her potential. In order to realize these outcomes, these leaders must pursue this development with purpose, well-grounded motivations, and self-discipline. Such a course is not a purely intellectual exercise, but requires a higher level of personal interest and engagement in seeking out new relationships with others quite different from themselves. By recognizing these challenges and opportunities, global leaders can seek out specific experiences that will allow them to learn and grow professionally (George, 2014).

Undergirding these experiences are the leader's inner values that guide the individual's behavior in deciding on moral or ethical matters. Globalization can, in turn, intensify certain differences in culturally-relative values as dissimilar peoples interact. Considering how one's personal and moral values may be different from one's follower's, and how the leader's behavior can affect their follower's mores, can stimulate a greater degree of openness, acceptance and humility as elements of a powerful personal learning experience (George, Sims, McLean, & Mayer, 2007).

Global leaders make a difference in the lives of their followers and in contributing to the greater good of their organizations and society. They foster the development of others through setting and inspiring a shared vision towards common goals, by setting an example through their values and ethical behavior, by taking risks and challenging the accepted, through collaboration and empowerment, and by encouraging their followers to aspire to greater things (Kouzes & Posner, 2008).

Effective global leaders recognize the concept that leadership can and should be seen as a social responsibility, wherein the leader's and follower's activities go beyond serving self-interests and seek to benefit the collective society. Acquiring a willingness to contribute to and build social capital requires connecting with, and bonding with other people who may hold different perspectives. Effective global leaders transcend parochial interests in establishing trust-based relationships with others who are often from different backgrounds, in order to contribute to a community's social capital (Putnum & Feldstein, 2003).

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# PUBLIC OPINION AND PRESIDENTIAL LEGACY: OBAMA'S MIDDLE EASTERN SUNSET

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## ABSTRACT

President Obama's 2009 speech in Cairo seemed to signal a profound and optimistic realignment America's intentions towards the Middle East and its peoples. However, in the final year of his office, the underlying political landscape of the region has now changed significantly. The withdrawal from and now return to Iraq, the nuclear agreement with Iran, the increasingly chaotic legacy of the Arab Spring, the continued impasse of the Israel-Palestinian peace, the disintegration of Yemen and the rise of the Islamic State as the new threat in the political vacuum of northern Iraq and eastern Syria - all of these have provided novel challenges to Washington and a President attempting to live up to the positivity of his early days in office. Faced with a public burned by the disappointments of the Iraq and Afghanistan campaigns, deeper engagement with the Middle East might be a difficult proposition to sell for Obama and any potential Democratic successor. So what does the US public make of these geo-strategic developments? This paper will explore public opinion of America's entanglement with the region and Obama's leadership across the various issues. By examining reactions to past and present dilemmas the paper seeks to offer insights into what Obama's Middle East legacy might really be, as well as what paths the next American President may need to tread.

**Keywords** – America, Middle East, Obama

## INTRODUCTION

The interaction of American Presidents with the Middle East region is often seen as a hallmark of their tenure. For Jimmy Carter it was the Iranian Revolution and subsequent hostage crisis that dogged his presidency to the end. Ronald Reagan's Lebanese and Libyan entanglements and the Iran-Contra Affair were significant episodes in his two terms of office. Both Bush Senior and Junior are indelibly linked with conflicts with Iraq. Bill Clinton's handshakes on progress between Israel and Palestine were seen as a momentous products of his diplomatic skill. Indeed, since the 'Eisenhower Doctrine' of 1957, the importance of the Middle East to America has become a truism for presidents and their success or failure in that region will become an inevitable part of their legacy.

Barack Obama will fare no differently in this regard. Within a few weeks of taking office in 2009 President Obama had signalled that his administration would place an emphasis on interaction between America and the Islamic world, and the Middle East in particular. As part of his first overseas trip as President, Obama visited Turkey in early April before flying on to Iraq. In a forerunner of his more well-known Cairo speech, Obama addressed the Turkish parliament:

> *I know there have been difficulties these last few years. I know that the trust that binds the United States and Turkey has been strained, and I know that strain is shared in many places where the Muslim faith is practiced. So let me say this as clearly as I can: The United States is not, and will never be, at war with Islam. (Applause.) In fact, our partnership with the Muslim world is critical not just in rolling back the violent ideologies that people of all faiths reject, but also to strengthen opportunity for all its people. I*

 

> *also want to be clear that America's relationship with the Muslim community, the Muslim world, cannot, and will not, just be based upon opposition to terrorism. We seek broader engagement based on mutual interest and mutual respect….There's an old Turkish proverb: "You cannot put out fire with flames." America knows this. Turkey knows this. There's some who must be met by force, they will not compromise. But force alone cannot solve our problems, and it is no alternative to extremism. The future must belong to those who create, not those who destroy. That is the future we must work for, and we must work for it together* (Obama, 2009a).

In this speech and his Cairo version in June 2009, Obama outlined his vision for a new era in US-Muslim relations. His Kenyan heritage and Indonesian residency were mentioned but it is telling that when he gave specific examples of what he was aiming for, the Middle East and Afghanistan/Pakistan were the emphasis. The Muslim world beyond those strategic interests was mentioned only generically. In this sense, Obama's new era was very much concerned with the same set of preoccupations as most of his predecessors:

**Iraq:** Disentangling America from Iraq was a key plank in Obama's election platform. Dissatisfaction with the years of loss in Iraq and the seemingly unending quagmire was rising and Obama made it clear that America's military presence was coming to an end: "America has a dual responsibility: to help Iraq forge a better future -- and to leave Iraq to Iraqis" (Obama, 2009b).

**Israel-Palestine:** The stalled Road Map and the intransigence of the parties in the peace process was something Obama, like so many presidents before him, aimed to address. "I intend to personally pursue this outcome with all the patience and dedication that the task requires… All of us have a responsibility to work for the day when the mothers of Israelis and Palestinians can see their children grow up without fear…" (Obama, 2009b)

**Iran:** Seen as an implacable enemy to US interests since 1979, Iran and its nuclear potential was third on Obama's list of priorities in his Cairo speech. "I've made it clear to Iran's leaders and people that my country is prepared to move forward…it is clear to all concerned that when it comes to nuclear weapons, we have reached a decisive point. This is not simply about America's interests. It's about preventing a nuclear arms race in the Middle East that could lead this region and the world down a hugely dangerous path" (Obama, 2009b).

**Terrorism:** The presence within and export of violent ideologies from the Middle East had been a bugbear for American presidents since the days of Ronald Raegan. Linked with concerns such as Iran and an unstable Iraq, Obama's early speeches pre-date the rise of the Islamic State and focus on al-Qaeda and those localities that provided haven and support for the group. It is notable that the word the Cairo speech did not include a single mention of the word 'terrorism', which some interpreted as a means of distancing America's vision of the Middle East from that of the Bush era and the conflation of the War on Terror with a broader war on Islam.

**Democratisation and freedom:** Strong democratic institutions, personal freedoms and the rights of women also figured in Obama's avowed policies. However, burned by the bungled attempts to impose democracy on Iraq, Obama's remarks were couched in a sense of Middle Eastern *realpolitik* "there are some who advocate for democracy only when they're out of power; once in power, they are ruthless in suppressing the rights of others…You must maintain your power through consent, not coercion; you must respect the rights of minorities, and participate with a spirit of tolerance and compromise; you must place the interests of your people and the legitimate workings of the political process above your party. Without these ingredients, elections alone do not make true democracy" (Obama, 2009b). Such observations would become ironic given the next few years and the journey of the Arab Spring, particularly in Egypt itself.

Such ambitions were received with general positivity in the Middle East and the West. The title of the Cairo speech – *A New Beginning* – was taken by optimists at face value. Reactions in the Middle East were positive, both from leaders in the region and commentators. At the other end of the spectrum were those who saw the speech as empty rhetoric or who were cognizant of the extreme difficulties such lofty aspirations would face in the realities of the Middle Eastern political system. Further still along the continuum were those aboard and at home who were outraged by Obama's words and saw them either as a patronising lecture, a betrayal of Israel or a capitulation of America's interests. (For example, House Republican Leader in Congress, John Boehner, said "He (Obama) continues to say he will sit down with the Iranians without any preconditions, I just think that that puts us in a position where America looks weak in the eyes of their rulers." (BBC, 2009)

The wider world was even more approving of Obama's diplomatic overtures. In October 2009, after only a few months in office, he was awarded the Nobel Peace Prize for his "extraordinary efforts to strengthen international diplomacy and cooperation between peoples". The Committee placed emphasis on Obama's "vision of and work for a world without nuclear weapons" (Norwegian Nobel Committee, 2009). This made Obama only the fourth American President so honoured. Moreover, the other three laureates (Teddy Roosevelt, Woodrow Wilson and Jimmy Carter) were all recognised towards the end (or after) their terms and for substantial actual achievements.

But it was not 'the Muslim world' or Norwegian intellectuals who elected Barack Obama to two terms of office. It was American voters who installed him in the 2008 elections and then opted to double down in 2012. It will be they who decide whether to keep faith with the Democrats in 2016. Measuring their reactions to their president is critical, not just for his tenure and legacy, but also if we are to understand what role Middle Eastern foreign policy has in the mind of the American public. Whilst lofty foreign policy goals such as solving the Israel-Palestine deadlock or bringing democracy to Iraq may fascinate observers, do such ambitions 'play in Peoria'? Does success or failure in the world's great political challenges have any real impact on voters?

**Why is public opinion important?**

The scrutiny of public opinion polls as a catalyst for examining US foreign policy is long established (Dieck, 2010; Foyle, 1999; Mueller, 1973). There are various models and hypotheses regarding the extent to which public opinion influences foreign policy and presidential direction. However, public opinion can be particularly important when it comes to committing American forces to conflict and what the nature of such an intervention might involve (Dieck, 2010). For example, whilst the public might favour some form of intervention, support for full scale ground occupations may be more limited than support for aerial campaigns or peace-keeping type deployments. Ignoring public opinion is not uncommon for presidents when interacting with the Middle East, but it has its pitfalls and falling to heed the mood of the public may have repercussions for long term approval.

A myriad of polls and questions will be generated during the course of any president's term. In examining Obama's eight years of Middle East interaction this paper will focus mainly on those produced by the Pew Research Center. As a non-partisan entity that specialises in US public opinion, Pew has a strong reputation for credibility and conducts large sample polls via established methodologies.

**Obama's legacy in the context of public opinion**

**Iran**

Arguably the biggest foreign success of Obama's presidency has been involvement in the Joint Comprehensive Plan of Action (JCPOA) deal reached with Iran over the Islamic Republic's nuclear ambitions. Addressing years of uncertainty and hostility over Iran's nuclear activities the JCPOA was described by Obama as "the most consequential foreign policy debate that our country has had since the invasion of Iraq"(Obama, 2015). Opening the path to further dialogue with Iran and being potentially the biggest *positive* change in US relationships with the region in decades, the afterglow of the signing was short-lived for Obama and the American public.

Strident criticism of the JCPOA from Republicans and pro-Israel voices as a 'green light' to Iranian aspirations for a nuclear weapons program quickly cast the deal as a humiliating surrender for America. Despite the very detailed explanations from the White House as to the severity of the inspections regime a Pew survey found that only 33% of the public approved of the agreement when it was announced, while 45% disapproved and 22% had no opinion (Pew Research Center, 2015d). That is, two thirds of the American public either disapproved or did not care about the JCPOA. In the following six weeks approval dropped to 21%. Similar levels of approval were exhibited in other polls, though results varied according to how much the respondents had heard about the deal or had explained to them. Generally those more informed about the JCPOA were more likely to be approving. Those who knew little or nothing about the deal were more reflexive in their disapproval.

Distrust of Iran, and by extension, American leaders who make deals with that nation, is apparently endemic in the US. In the most recent annual survey (2015) of US public opinion on Iran only 14% of Americans exhibited a favourable opinion of the Islamic Republic, down from only a marginally better score of 21% when Obama took office in 2009 (Pew Research Center, 2015b). So predictable is this mistrust that Iran is one of only three countries that Pew seeks favourable/unfavourable opinions on annually (the others being Russia and China).

Given this data, it would seem that any president setting his course towards agreement with Iran cannot expect to be applauded for it. The majority of American voters either have no interest in such lofty foreign policy goals or else see such deals as a zero-sum game, where American interests are harmed by any handshake.

**Intervention in the Middle East**

The long involvement with Iraq stemming from the 2003 invasion has not created a positive impression among Americans or enamoured them of military entanglement in the Middle East. With the benefit of hindsight, by early 2014 only 38% of Americans felt that the Iraq intervention had been the right course of action and 52% felt that America had "mostly failed" to achieve its goals in that country (Drake, 2014). Importantly, these Pew figures show a marked decline during the course of Obama's presidency, indicating that voters (and particularly Democrat voters) were unenthusiastic about further American involvement there. Obama's pledge in Cairo to leave Iraq to the Iraqis would have been in tune with such sentiment.

The chariness over Middle East intervention was evident during the crises in Libya and Syria. In the chaos of the Arab Spring, only 27% of Americans polled in March 2011 felt that the US had a responsibility to act in Libya (Pew Research Center, 2012). However 50% approved of the US participation in airstrikes on Gadhafi's forces as an appropriate course of action. The relatively swift deposition of the dictatorship meant that by September 2011 polls showed that the 49% of the US public felt approval for Obama's actions in Libya (Pew Research Center, 2011).

The dilemma posed by this sort of feedback is that the American public may only be supportive of quick, clean air campaigns that are rapidly successful. Even then opinion is not even in majority approval. As with the Iran nuclear negotiations approval for intervention is higher among those who are bigger consumers of news coverage concerning the Middle East. This demographic though is quite small. Only 17% of Americans polled reported that they had followed news from Libya closely in the week before they were polled in September 2011 and in this group 63% felt that airstrikes were the appropriate recourse (Pew Research Center, 2011). The vast majority of Americans were not following events in Libya and had more mixed feelings about intervening (35% approval) or no opinion at all (24%).

Remote warfare as the publicly preferred manner of intervention is evidenced by other polls during Obama's presidency showing backing for drone strikes to combat terrorists abroad trends in the mid-50 percent region (Drake, 2013; Pew Research Center, 2015c).

Such an equation posed challenges for Obama's response to the Syrian crisis. Fettered by the UN Security Council deadlock, the same pathways of coalition airstrikes were not even available in Syria. Public opinion too was on par with that towards intervention in Libya. In March 2012 only 25% of respondents felt America had a responsibility to act in Syria and by December 2012 this was still only at 27% (Pew Research Center, 2012).

Having left "Iraq to the Iraqis" for a while, the ground taken by the Islamic State (IS) in the middle of 2014 invoked the other clause in Obama's speech: "to help Iraq forge a better future". The failure of the increasingly autocratic Maliki regime to foster unity in Iraq was also part of the problem and in discord with Obama's rhetoric about democracy and pluralism. America's investment in Iraq, the need to secure the country and placate regional allies meant that Washington felt the need to act. Commentators also quoted the 'Pottery Barn Rule' (You break it. You own it), implying that the US had a moral obligation to shore up the country that their intervention had arguably shattered.

The American public, however, did not see it that way. A 55% majority felt that the US had no responsibility to act in Iraq, with 39% supporting intervention (Pew Research Center, 2014b). This was despite the fact that 45% of respondents reported they had heard 'a lot' about the violence in Iraq and takeover of large parts of the country by the Islamic State forces. By way of contrast though, 57% of Americans said that same week that they had heard a lot about the recent influx of illegally immigrating unaccompanied minors across the US-Mexican border. The comparative awareness between domestic 'threat' and Middle Eastern crisis is stark, again showing that big picture geo-strategic events are of less concern to voters than domestic issues.

As the crisis in Iraq deepened though, support for the fight against IS increased. By the start of 2015, 63% of those surveyed said they approved of a "campaign" against Islamic militants in Iraq and Syria. The issue of what sort of campaign was a little more divisive, with a fairly even split between those who did (47%) or did not (49%) support the commitment of US ground forces to this action when polled in February 2015. This was still a marked increase from October 2014 where respondents to the same question were more clearly opposed to US ground intervention (only 39% approval versus 55% disapproval) (Pew Research Center, 2015a).

This indecision over ground troops is also reflected in attitudes towards how best to deal with violent extremism around the world. Democrat voters are markedly wary of the use of military force as a solution. In the February 2015 survey, two thirds of Democrat supporters felt that "relying too much on military force to defeat terrorism creates hatred that leads to more terrorism." Only 22% of Republican voters held the same opinion. Concerns over the effectiveness and duration of intervention were also expressed, with a fairly even split between respondents' "biggest concern" being that either the US would not go far enough to stop the militants (49%) or that it would go too far in getting involved in the situation. The spectre of the Iraq occupation is evident here.

Such ambivalence posed a problem for Obama. Not getting involved in Syria early in the uprising was reflective of the Iraq experience. Yet the lack of response allowed a civil war to sputter along and irredeemably fracture Syrian society. When IS grew out of these cracks and marched towards Baghdad, Obama's slow and piecemeal re-commitment to Iraq was a product of the electoral tightrope he had to walk. Voters did not want to see a large scale "Iraq 2.0" deployment (Mathes, 2014). The choice of an air campaign and the increased backing of local militias is also a classic Democrat option, despite the probable ineffectiveness of this strategy to definitively defeat IS. Having inherited the Iraq predicament from his predecessor, Obama has to be wary about saddling the next Democratic candidate with a newer version; especially when the majority of the voting public seem opposed to such adventures.

**Israel – Palestine**

If there is a chimera among American presidential ambitions in the Middle East it is in seeking a lasting solution to the Israel-Palestine issue. From Bill Clinton's grandiose Rose Garden moment with Yasser Arafat and Yitzhak Rabin, through George W. Bush's Annapolis Conference to Obama's own 'personal pursuit' of a peace, many presidents have foundered on the shoals of this dispute. Like a grail quest, this elusive objective is pursued almost out of custom. However, the reality of public opinion indicates that voters do not really care about this most intractable of world problems. Indeed, any solution that seems to disadvantage Israel - as any compromise surely must, could actually be a handicap for a president.

Opinion polls show consistent favour for Israel among Americans. When asked with whom they most sympathise with, or favour, in the conflict, steady figures of around 60-72% have indicated Israel (Pew Research Center, 2014a; Saad, 2015). Favour for Palestinians hovers around the high teens to low 20 percent mark. These trends have been consistent throughout Obama's presidency and for years beforehand. There is little doubt that American public opinion is firmly on the side of Israel and whilst Democrats are traditionally less supportive in this regard, it would still be foolish for any president to pursue a line of policy that could be construed as detrimental in this regard. Despite Obama and Benjamin Netanyahu's worsening relationship over the years, the Israeli Prime Minister can count seemingly on the support of the American public.

**CONCLUSION**

Despite the emphasis that is placed upon US foreign policy towards the Middle East by many academics and commentators, interactions there have no real resonance with the American public. Indeed, foreign policy as a whole is of no great interest in comparison to domestic issues. The majority of Americans do not closely follow events in the Middle East and even those who do are not overwhelmingly approving of too much intervention there. This confusion and ambivalence about the Middle East on the part of the American public is demonstrated in a December 2015 poll where 30% of respondents indicated support for bombing Agrabah, the fictional Middle Eastern city in Disney's film *Aladdin* (Public Policy Polling, 2015).

Obama's overall approval rating has fluctuated without any evident link with his policies towards the Middle East, and despite crises in Gaza and Syria, these fluctuations have been within a narrower range than most of his post-World War 2 predecessors but follow broadly the same trend lines when mapped against years of tenure. High and low points in Obama's presidential approval figures have more clearly been the result of domestic affairs such as the passing of Obamacare or budgetary deadlocks.

President Obama's successor would do well to heed these findings. Solving Middle East peace dilemmas is a lofty ambition, but 'all politics is local'. The American public does not express a strong interest in Middle Eastern affairs and they do not want their leaders to become involved in conflict there or risk national prestige in compromises. In his eight years of office, President Barack Obama has been relatively successful in treading this line. The result is that his actions (or relative lack of them) have left little legacy on the Middle East, except for the deepening of problems that were already occurring when he was sworn in. Despite his good intentions and the hopes of the Nobel Prize Committee there has been no significant gains in Middle East peace during Obama's White House stay. This may be lamentable, but from the perspective of public opinion, is a politically shrewd strategy.

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# CHANGES OF NATIONALISM AND WORLD ORDER IN LANGUAGE POLICY: MANDATORY SWEDISH LANGUAGE STUDY IN FINLAND

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## ABSTRACT

Finland is a bilingual country, where both Finnish and Swedish are official languages. Even though the legal status of the two languages is equal, there is a great disparity in the usage of the languages. Swedish-speakers make up only five percent of the population. Despite this disparity, it is mandatory for all pupils to study Swedish in primary and high schools. This language policy has been a cause for controversy in Finland for over a century.

When examining language policy in Europe one cannot bypass the impact of nationalism and world order and its evolution. The end of the First World War and the rise of small monolingual nation states was a prelude to the establishment of increasingly language-based nationalism. After the Second World War the language-nationalism decreased both in Finland and in Europe. During the Cold War while under the pressure of the Soviet Union, it was useful for Finland to highlight its status as a bilingual nation in order to position itself in the camp of the Nordic countries and the west in general. Swedish language was held up as a proof that Finland belonged to Western Europe and was a part of its culture.

The fall of the Berlin Wall and the sudden collapse of Soviet Union made the questions of ethnicity and language-nationalism relevant again in newly “independent” states. These great geopolitical changes reflected on Finland and its language policy as well. In the late 1980’s the demands to weaken the role Swedish language education in Finnish schools rose again.

The development of nationalism is closely linked in Finland to the mandatory Swedish language studies. On the other hand, the direction of Finland’s language policy has always depended on the state of world politics and Finland position in the world order. Today globalization and the “new” cold war pose the biggest challenges for Finland’s, and European language policy.

# THE EFFECT OF JOINT AUDIT ON AUDIT QUALITY: EMPIRICAL EVIDENCE FROM COMPANIES LISTED ON THE EGYPTIAN STOCK EXCHANGE

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## ABSTRACT

The purpose of this paper is to investigate the effect of joint audit on earnings conservatism, our proxy for audit quality, of companies listed on the Egyptian stock exchange, by examining whether companies audited by two independent auditors are more conservative than companies audited by a single auditor. In addition, we investigate whether this relationship is affected by the type of joint audit regimes (i.e., voluntary versus mandatory), and the mix of joint auditors appointed (i.e., two big 4 auditors, or two non-big 4 auditors, or one Big 4 auditor paired with one non-big 4 auditor). To test our hypotheses, we use a sample of 32 companies listed on the Egyptian stock exchange during the period 2009 through 2013. The results of our multiple regression analyses show that companies audited by joint auditors are more conservative than companies audited by single auditors. However, we find no significant difference in levels of earnings conservatism between companies audited by joint auditors mandatorily and companies audited by joint auditors voluntarily. We also find no significant difference in levels of earnings conservatism between companies audited by two big4 auditors and companies audited by two non-big4 auditors, or by one big4 auditor paired with one non-big4 auditor.

**JEL Classifications:** M410, M420

**Keywords:** Joint Audit, Audit Quality, Earnings Conservatism, Joint Audit Regimes, Mix of Joint Auditors.

# MERITS AND DEMERITS OF DECENTRALISATION IN HIGHER EDUCATION: A CASE STUDY OF ONE HIGHER EDUCATION INSTITUTION IN SOUTH AFRICA

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## ABSTRACT

The aim of this paper is to present merits and demerits of decentralisation from the perspectives of the employees from one higher education institution in South Africa.

During the apartheid era in South Africa, there were 36 higher education institutions controlled by eight different government departments. One of the South African government’s initiatives in post-apartheid era was to transform the system of education. This led to the reduction of universities from 36 universities and polytechnics to 23 higher education institutions, including 11 research universities, six universities of technology and six 'comprehensive' universities (which combine formative and vocational higher education). The merged universities had centralised systems of governance and these did not seem to work due to a number of reasons including the distances between campuses.

Nine years after the merger, one comprehensive university underwent further transformation and opted for decentralisation of its government systems. This could not be implemented as expected hence the paper sought to explore the merits and demerits of decentralisation. This is a case study of one higher education institution in South Africa. It is descriptive and used both questionnaires and interviews to collect data. Findings reveal that merits outnumber demerits of decentralisation. Despite this, the process was not implemented smoothly in the institution. This could be attributed to failure to negotiate the process in advance and getting a buy-in from everyone before decentralisation is implemented. The merits of decentralisation are presented in this paper. The paper concludes by making recommendations on lessons to be learnt in ensuring the smooth implementation of decentralisation in higher education.

# ROLE OF DESIGNING IN MACHINERY THROUGH INDUSTRIAL FIELDS

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## ABSTRACT

To ensure a stable quality, each manufacturing step needs to be repeatable by keeping it within defined specifications. For technologically advanced products these requirements become tighter, and inevitable fluctuations might be of the same scale as the allowed tolerances. To effectively control a complex manufacturing environment, it is therefore necessary to collect a large number of data to monitor its stability. Rigorous quality checks at the end of the production line are indispensable to identify and reject sporadic failures.. A number of approaches to salient problems in industrial application have been developed in the presented work, addressing the yield as the central figure of batch processes in silicon manufacturing: The parametric yield is governed by a design's robustness against process Tolerances. We consider some impacts of mechanical engineering designing effects in factories and industrial framework systems.

**Keywords**: Factory, Design, Frame.

## INTRODUCTION

Connected factories reap benefits by opening up information flows between plant systems and business applications. As these information silos disappear, disconnects between the floor and the business go away. For example, R&D departments are now working in tandem with manufacturing planners, streamlining the introduction of new products. Using dashboards and mobile devices, managers and engineers react immediately to shifting production needs, operational issues, and market scenarios. The result, managers say, is like having an "enterprise-wide decision engine" that enables them to speed new products to market and execute supply chain adjustments faster than before. Likewise, new-generation flexible control systems and automation networks dramatically reduce costly setup and production changes over time. Industrial enterprises are searching for technology platforms that will drive growth and profitability in an increasingly fast moving, interconnected, and mobile marketplace. In this world, legacy technology architectures that carve up manufacturing operations into factory and business silos are becoming outmoded and uncompetitive. Forward-thinking manufacturers are embracing converged networks that securely integrate factory floors with business systems, seamlessly link to partner solutions, and exploit networks of intelligent machines. By converging sensors, machines, cells and zones — "islands of automation" that are usually siloed on separate networks, Connected Factory Automation gives customers the ability to integrate manufacturing systems and business systems and bring everything online on a single network. A converged network gives manufacturers the flexibility they need to adapt to changes quickly, whether it is new product introductions, planned product line change-over's, adjustments due to component supply and/or shifts in the mix of product demand. Each affected zone, from the enterprise to the plant floor, is alerted of changes in real time through mobile devices, video monitors and HMIs that communicate over the converged network. The real-time information is also linked back to the entire supply chain, so that each step in the manufacturing value chain from supply through to distribution can quickly respond as needed.

**Connected Factory Wireless**

Connected Factory Wireless creates new flexible communication opportunities between things, machines, data bases and people located throughout the plant. From asset tracking to visibility of automation controls and Human Machine Interfaces (HMI), a wireless network environment in the shop floor can increase productivity and production speed. By adding wireless technology to your converged network architecture, you create new flexible communication opportunities between machines and people located throughout the plant. A unified plant wireless infrastructure can provide the reliability and performance needed for mission critical plant floor applications (like wireless torque tools) and is also a platform for additional industrial global applications ranging from WIFI asset tags to increase output and productivity by finding production assets and inventory faster to using mobile HD video cameras for troubleshooting and collaboration.

**Machine learning**

Machine learning provides a large variety of methods to extract information from data. The aim of this thesis is to assess where machine learning promises to be valuable to analyze processes in production and engineering, and to develop tools for the application in practice. Production in semiconductor technology involves a particularly automated manufacturing environment where a lot of data is collected on the way from the design to the finished product. Therefore we concentrate on this field to identify beneficial applications for machine learning. However, we believe that the approaches which we have developed in this thesis apply also to other fields of modern production.

Qualified labor is of outstanding importance for mechanical engineering and contributes much to the competitiveness in international markets. Recommendations have been derived to counter expected bottlenecks caused by demographic developments and the changed interest of young people in professional careers.

**Specifics of Mechanical Engineering**

Since the late 1970s, ME (Mechanical Engineering ) has evolved into a leading industry in the development and application of high tech, ranging from optoelectronics to new materials and alike. Many products of the industry combine mechanical technologies – often denigrated as old technologies – with advanced technologies. The engineering ingenuity to create innovative products that combine different technologies is one of the prominent strengths of European ME. Although ME is understood as a supplier of hardware, machinery and equipment, it has evolved in the direction of a service industry. Services such as the installation of manufacturing systems, training of operators, maintenance and repair, and even the supply of finance, have become more important. These services contribute not only to higher productivity but simultaneously reduce the exposure to low-cost competition.

**Effect of industry on economy and vice versa**

Traditionally, strong ME upstream linkages exist in the steel and iron industries. There is a trend towards customized deliveries of parts that reduce the workload for ME firms. Castings and welded parts are procured from metal-working industries. There are ME firms that are stakeholders of upstream industries. Upstream industries are energy intensive and face certain challenges from EU environmental provisions on energy efficiency and emissions.9 This must be taken into account in the assessment of the sustainability of ME as one of the most important industries. The outstanding importance of ME as a supplier of capital goods for a broad range of industries is mentioned in the Engineering Europe Report.11 In fact, for many industries ME supplies more than 50% of their total investment in machinery and equipment. The investment

matrices calculated by Ifo, based on official statistics from the Federal Statistics Bureau and other sources, provide a clear picture of the most important suppliers of machinery and equipment. The share of ME in total investment in machinery and equipment is well above 50%. In manufacturing, the industries' refined petroleum, printing, metal products and other transport equipment are lower with around 30%. Outside of manufacturing, ME is of lesser importance. In energy water supply, recycling and the service sectors, the share in total investment in machinery and investment is, on average, below 20%. Although these results are for Germany only, it may be assumed
that in other countries the pattern does not differ too much12. The structure of capital endowment within a particular industry is more dependent on production and process technologies than on national specifics (Figure 1).

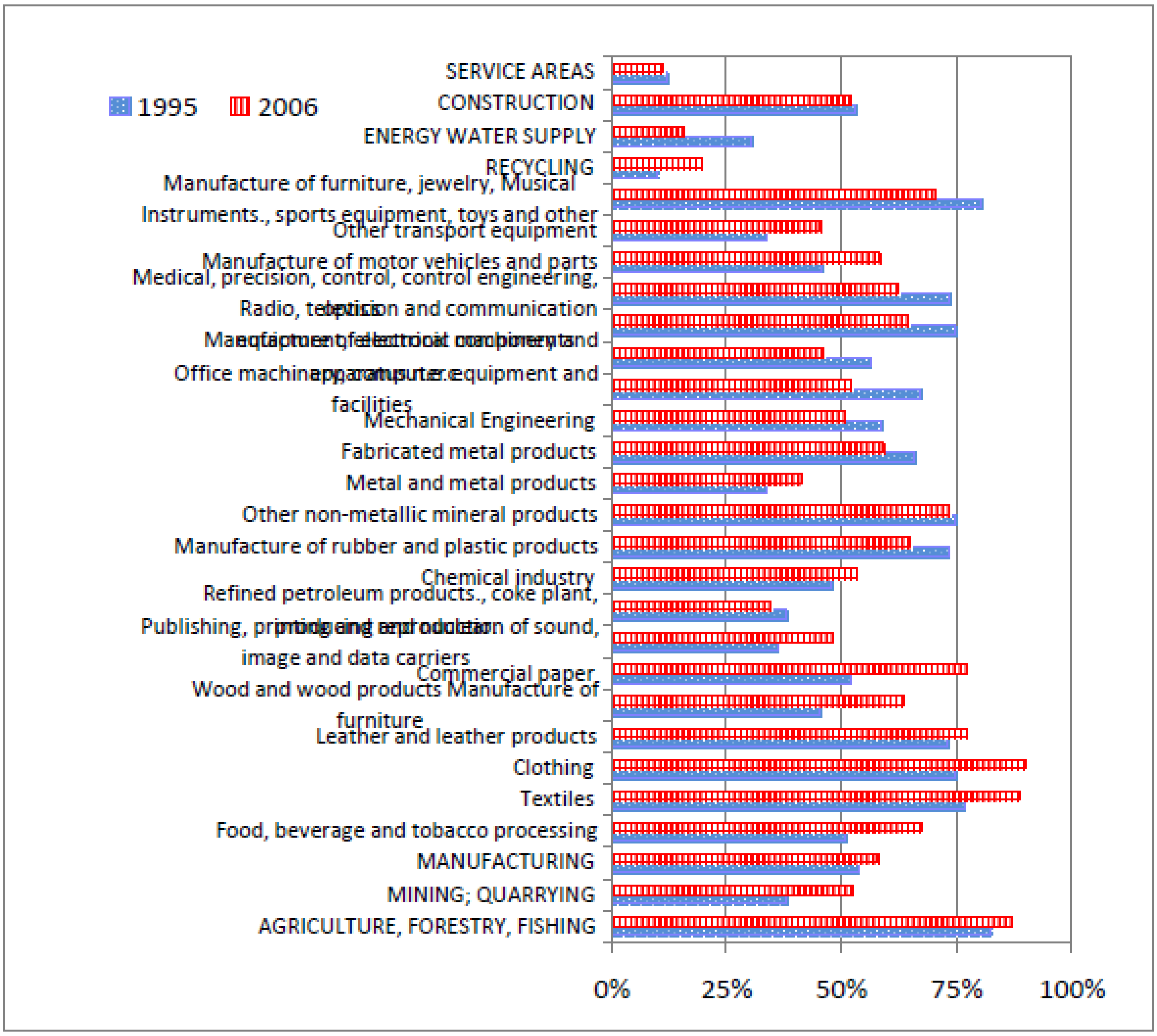


Figure 1. Investment in Mechanical Engineering products by industry

**Business cycles and long-term trends**

Increasingly, the ME industry is required to cope with more severe market fluctuations than most other branches of industry. As on of the prime supplying industries of capital goods, it is highly dependent on the investment activity of the purchasing companies, which are highly sensitive to developments in the economy as a whole. This applies above all to industry's investments in equipment and machinery, into which most ME products flow either directly or indirectly. A chain of action exists here which has been incorporated into the analytical framework as the “acceleration principle”. The one-sided dependency on investment activity repeatedly subjects the ME industry to pronounced cyclic fluctuations in demand. The client companies’ investment decisions are a response to actual or expected changes in capacity utilization, earnings, financing costs or general market conditions. These aspects develop in parallel for large areas of the economy, leading to cumulative processes. The resultant fluctuations in investment activity, which are more pronounced for equipment than for other business activities, have a decisive effect on the cyclical up-, and downturns of the economy as a whole. Consequently, the ME industry is almost inevitably at the core confronted by the boom and recession periods.

**Profile of the EU Mechanical Engineering**

ME is an industry of medium-sized companies. However, the average company’s size hides a large variation, ranging from SMEs to companies that employ several thousand people. However, extremely large corporations, such as those in the chemical and automotive industries, are the exception. The key performance figures – differentiated by group sizes – disclose a typical pattern. Smaller firms pay lower wages than larger companies and labour productivity is lower. This contrasts the Gross-Operating Rate (GOR) that is higher for smaller firms (Table 2). The GOR denotes the share of output that is dedicated for capital services, taxes and entrepreneurs’ income. A comparison of ME with manufacturing discloses structural discrepancies that are typical. Wages and productivity are higher than for the average of all of manufacturing. This can be attributed to the need for a highly qualified labour force. For example, engineers are needed for the design of complex products and manufacturing processes that, due to the predominance of single and small batch production, qualified machine operators and workers are equally required. Manufacturing depth, as measured by the share of value added of total production, is higher for ME. Despite growing globalization and the extension of international production networks a higher share of in-house production as compared with most other industries has remained a specific pattern for ME that is above all due to complex products and processes (Table 2).

Table1

Key indicators on the performance of total manufacturing and Mechanical Engineering

| Employees per enterprise | Per employee and annum[1] thsds. EUR | | | | % | | % | |
|---|---|---|---|---|---|---|---|---|
| | Wages | | Gross value added | | Gross operating rate[2] | | Manufacturing depth[3] | |
| | Manu[4] | ME[5] | Manu[4] | ME[5] | Manu[4] | ME[5] | Manu[4] | ME[5] |
| 1 to 9 | 12.90 | 18.82 | 30.55 | 43.47 | 19.1% | 19.9% | 33.1% | 35.0% |
| 10 to 19 | 20.34 | 25.20 | 38.59 | 48.10 | 15.8% | 16.6% | 33.3% | 34.9% |
| 20 to 49 | 23.06 | 27.84 | 44.00 | 51.87 | 14.3% | 15.5% | 30.0% | 33.5% |
| 50 to 249 | 25.78 | 30.79 | 48.71 | 56.83 | 12.5% | 14.8% | 26.7% | 32.3% |
| 250 or more | 34.15 | 38.48 | 65.28 | 67.00 | 11.1% | 13.0% | 23.3% | 30.6% |
| Total | 26.81 | 32.86 | 51.87 | 59.50 | 12.4% | 14.2% | 25.7% | 31.7% |

1) Average for 8 member states (CZ, DE, ES, FR, IT, PL, SK, UK); 2) (Value added-wages)/production) per employee; 3) Value added / production; 4) Total manufacturing; 5) Mechanical engineering.

## CONCLUSION

As we know, economy has some different impacts and dependences, such as industry, production and education. That is, a good economy needs to be educated by the scientific fields experts, and also it affect on industry why industry and production in an optimized domain with a broad range requires money and a good financial support. The Turkish ME trade balance deteriorated during the study period, although exports grew stronger than imports. The explanatory factor is the low level of machinery exports in 2000. The exports were driven above all by demand from non-EU countries, although specialization on ME in foreign trade has remained below the global average yet. This development indicates that Turkey is an emerging ME manufacturer. The bilateral ME trade deficit with the EU is much more pronounced than that for non-EU countries and has strongly growing. The labour market and skills conditions in the ME sector in Europe are extremely varied due to different technology and market conditions in sub-sectors, and huge variations in productivity. Labour markets appear still to be quite regional, so that bottlenecks and shortages can easily occur. Regional and in-company competence development initiatives are insufficient to keep up with new technical requirements. Some companies have tried to reduce skill shortages by attempting to recruit technical staff from abroad, but language remains a challenge.

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# THE ROLE OF WORK MOTIVATION IN A RELATIONSHIP BETWEEN PERSONALITY AND CUSTOMER FOCUS IN HOTEL INDUSTRY

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## ABSTRACT

The purpose of this paper was to explore the relationship between personality (the Big Five personality factors), work motivation and service orientation (specifically customer focus). The paper examines the possible moderating and mediating effect of work motivation on the realtionship between personality dimensions and customer focus. For the purpose of the study we used a Service Orientation Scale, developed by Dienhart et al. (1992), Work Motivation Scale, developed by Gagne et al. (2013) and Big Five Inventory developed by John et al. (1991). The research was conducted from February until May, 2015, in 10 city hotels in Novi Sad, on a sample of 121 hotel employees. Results confirmed the existence of mediating effect of the *intrinsic* motivation on a relationship between *extraversion* and c*ustomer focus*, as well as on a relationship between *neuroticism* and *customer focus*. The study also indicates that *extrinsic* motivation has a moderating effect on a relationship between *agreeableness* and *customer focus*. *Identified* and *introjected* regulation was also found to have a moderating role between a*greeableness* and *customer focus*. The data gained through research could find its application in hotel management, especially in the recruitment process, where personality and motivation of employees should be important selection criteria to consider. Customers, their needs and wishes, are in a focus of entire hotel industry, thus, choosing employees who will be dedicated and directed towards guests' satisfaction, is of essential importance. This paper indicates which motivating factors mediate or moderate the relationship between personality traits and customer focus, helping us to shape an employee profile, which will be customer-oriented.

**Keywords:** work motivation; customer focus; Big Five model; hotel industry; Serbia

# CEO OVERCONFIDENCE AND THE COST OF BANK LOAN

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## ABSTRACT

This paper investigates the impact of Chief Executive Officer (CEO) overconfidence on the cost of bank loan. Using a sample of the firms in the US from 1992 to 2012, we find that overconfident CEO enhance a firm's external financing capacity by lowering the firm's cost of bank loan. In other words, the overall findings in this study suggest that the information transparency hypothesis dominates the manager optimism hypothesis in term of positive impact of CEO overconfidence on the cost of bank loan. Our results are also robustness to the financial crisis, potentially selection bias and endogeneity problem issue.

***Keywords: CEO, Overconfidence, Bank-loan contract***

## INTRODUCTION

Academics and industry practitioners have long puzzled over whether and to what CEOs have heterogeneous talents and abilities of a firm matters for its performances and investment decisions (Adams, Almeida, and Ferreira, 2005; Bertrand and Schoar, 2003; Gabaix and Landier, 2008; Kaplan, Klebanov and Sorensen, 2012 and Murphy and Zabojnik, 2004) and the human beings who run the firm ultimately determine the level of efficiency achieved and the cost of bank loan (Berkm, Stanton and Zechner, 2010; Frank and Goyal, 2007; Graham, Harvey and Puri, 2013; Rahaman and Zaman, 2013). This paper contributes to the extant literature by directly estimating the impact of a firm's CEO overconfidence[1] on its cost of bank loan which are critical sources of funding for firms[2] by testing two competing, but not mutually exclusive, hypothesis: the information transparency hypothesis and manager optimism hypothesis.

The information transparency hypothesis predicts that CEO overconfidence enhance a firm's external financing capacity by lowering the firm's cost of bank loan. As suggested by previous studies firms with overconfident CEO have greater information transparency with respect to performance and project quality, it may mitigate the information and monitoring costs on the bank lender. Andriosopoulos, Andriosopoulos and Hoque (2013) find that overconfident CEOs disclose more information is more likely to disclose explicit information on their intended buyback program. Gervais, Heaton, and Odean (2011) present a model where overconfidence can increase firm's value by aligning incentives and mitigating moral hazard. In addition, Hirshleifer, Low and Teoh (2012) find that over the 1993–2003 period, firms with overconfident CEOs have greater return volatility, invest more in innovation, obtain more

[1] Overconfidence is the tendency of individuals to think that they are better than they really are in terms of characteristics such as ability, judgment, or prospects for successful life outcomes. (Hirshleifer, Low and Teoh, 2012).

[2] Over the past two decades, the syndicated loan market has become the largest sources of worldwide corporate financing (Ivashina, 2009) and roughly 80% of all public firms maintain private credit agreements, compared with only 15-20% that have public debt ( Faulkender and Petersen, 2006; Sufi, 2009). Malmendier and Tate (2005) show that overconfident managers avoid equity financing and rely on internal cash and debt to fund projects.

patents and patent citations, and achieve greater innovative success for given research and development expenditures. Kaplan, Klebanov and Sorense (2012) find that both buyout and VC CEOs, success is more strongly related to execution, resoluteness, and overconfidence-related skills than to interpersonal-related skills.

The manager optimism hypothesis predicts that CEO overconfidence diminish a firm's external financing capacity by heightening the firm's cost of bank loan. As suggested by previous studies firms with overconfident CEO have over optimistic. They will overestimate future cash flow and underestimate the volatility of their firms' future cash flows. This character will make bias in the future performance and it will enhance the risk cost of lender of bank. Griffin and Tversky (1992) find overconfident individuals tend to overestimate the net discounted expected payoffs from uncertain endeavors, either because of a general tendency to expect good outcomes, or because they overestimate their own efficacy in bringing about success. Furthermore, people tend to be more overconfident about their performance on hard rather than easy tasks. Malmendier and Tate (2005) propose a simple model and the empirically show that managerial overconfidence can cause corporate investment distortions. They find that the sensitivity of investment to cash flow is strongest in the presence of overconfidence. Ben-David, Graham, and Harvey (2007) provide a theoretic framework to analyze the relations between managerial overconfidence and corporate policies. However, they define the CEO overconfidence as miscalibration. Based on their definitions, overconfident managers who either underestimate the volatility of their firms' future cash flows or use lower discount rates than unbiased managers do. Hribar and Yang (2011) examines whether overconfidence increases the issuance of overly optimistic management earnings forecasts and greater earnings management. Chen, Ho and Ho (2014) examine the relationship between unexpected increase in research and development (R&D) expenditure and CEO overconfidence and find that the positive long-run stock performance is found only for firms with non-overconfident CEOs.

This paper focuses on a sample of 4809 loans which include 805 firms and 1163 CEOs in the US covering the period of 1995 to 2012. Our main finding is that overconfident CEOs have lower spread than non-overconfident CEOs. Since bank could design covenants to mitigate the anticipated effects of overconfidence (Sunder, Sunder and Tan, 2010) and overconfident CEOs have greater information transparency with respect to performance and project quality which can reduce information and monitoring cost. In other words, we suggest that the information transparency hypothesis dominates the manager optimism hypothesis. In addition, our results are also robustness to the financial crisis, potentially selection bias and endogeneity problem issue.

This research makes at least two valuable contributions to the literature. First, to the best of our knowledge, our paper is the first to combine CEO confidence and the cost of bank loan. Despite the growing evidence of the effects of CEO overconfidence on corporate decisions (Malamendier and Tate, 2005, 2008; Campbell, Gallmeyer, Johnson, Rutherford and Stanley, 2011; Malamendier and Tate, 2011; Hribar and Yang, 2011), it is unclear whether investors rationally discern and incorporate such overconfidence in contracting with firms with overconfident CEOs. This paper fills a gap in the literature by examining how bank contract with firms in the presence of overconfident CEOs. Nevertheless, nowadays, private bank loans have become the primary source of corporate debt financing, overtaking public debt since the last decade (Denis and Mihov, 2003; Bradley and Roberts, 2004; Sufi, 2007, 2009). The concurrent increases in the levels of intangibles and bank financing in recent decades make it important to examine how this particular form of organizational capital (intangibles) affects the pricing and design of bank loans. Second, we complement the literature which studied which factor affect the pricing and design of bank loans. Base on the Rahaman and Zaman (2013) ideal that is manager quality matter to lender. They use the management practice scores in Bloom and Van Reenen (2007) to measure the managerial quality of the firm that is a measurement of past behavior, but we use overconfidence to be a forward looking variable. The creditor’s perspective in assessing the role of CEO overconfidence for CEO performance and efficiency and shows that beyond shareholders, creditors also explicitly take into account the cost down of information collection cost and supervision cost from CEO overconfidence when designing debt contract.

The rest of the paper is organized as follows. In section 2 we describe the data and introduce the methodology used in this paper. Section 3 analyzes the empirical results. Section 4 displays our robustness checks and section 5 concludes this study.

## 2. Data and Variables

### 2.1 Data

Information on bank loan is from the DealScan database in the Loan Pricing Corporation database, and contains detailed information on U.S. commercial loans made to corporations since 1989. Strahan (1999) and Chava and Roberts (2008) provide a god description of the LPC Dealsacn database. In our empirical analysis, the basic unit is a loan, also referred to as a facility or tranche in Dealscan. The information about firms is from the Compustat annual files, and CEO overconfidence measure information in our samples is collected from Execucomp. We merged the Deals, Compustat annual file and the Execucomp to create our final sample for the years 1995 to 2012. This leaves a sample of 4809 loans observations which include 805 firms and 1163 CEOs

### 2.2 Variable Definitions

#### 2.2.1 Measurement of the cost of loan

The primary outcome variable of our analysis is the cost of bank debt. Much of the literature on the cost of bank debt (e.g., Graham, Li and Qiu, 2008 and Rahaman and Zaman, 2013) uses the loan spread over LIBOR at the time of the loan origination as a measure of the cost of bank debt. The ‘‘All-in-Drawn’’ (*Loan Spread*) variable in the DealScan database describes the amount the borrower pays in basis points over LIBOR for each dollar drawn down. It also adds the spread of the loan with any annual (or facility) fee paid to the bank or bank group. We use the logarithm of the ‘‘All-in-Drawn’’ variable as our measure of the cost of bank debt in our analysis.

2.2.2 Measurement of CEO Overconfidence

The measure of CEO overconfidence (*Longhlder*) we use the data on option compensation. Our measures of CEO overconfidence are the same as a series paper of Malmendier and Tate (2005, 2008). Following Malmendier and Tate (2005, 2008), Confident CEO takes a value 1 if a CEO postpones the exercise of vested options that are at least 67% in the money, and 0 otherwise. They employ the panel data of the CEO's personal portfolios in executive options exercise to identify whether CEO is overconfidence. CEO obtains the right to purchase their company's share from executive options, and the exercise prices of the options are usually at the stock price on the grant date. The duration of most executive options is ten years, and the vesting period in which the options are unexercisable are usually four years. If a CEO is identified as overconfident by exercise option measure, she remains so for the rest of the sample period.

As we do not have detailed data on a CEO’s options holdings and exercise prices for each option grant, we follow Campbell et al. (2011) in calculating the average moneyness of the CEO’s option portfolio for each year. First, for each CEO-year, we calculate the average realizable value per option by dividing the total realizable value of the options by the number of options held by the CEO. The strike price is calculated as the fiscal year-end stock price minus the average realizable value. The average moneyness of the options is then calculated as the stock price divided by the estimated strike price minus one. As we are only interested in options that the CEO can exercise, we include only the vested options held by the CEO.

Using this measure with the Execucomp sample allows us to include more firms and to cover a more recent period that includes the millennial high-tech boom and Subprime mortgage crisis. Although this measure is less precise, Malmendier, Tate, and Yan (2011) show that it works well after controlling for past stock return performance. Furthermore, Campbell et al.

(2011) show that this measure of overconfidence generates results similar to those in Malmendier and Tate (2005).

2.2.3 Control variable

a. Firm characteristics

To control the firm characteristics we use several variables. We use log(total assets). The natural logarithm of the firm's total assets represents a firm's annual book value of assets. *Leverage* is the ratio of long-term debt to total assets. *Profitability* is the ratio of earnings before interest, taxes, depreciation, and amortization (EBITDA) to total assets. *Tangibility* is defined as the ratio of net properties, plants, and equipment to total assets. Interest coverage ratio (*ICR*) is defined as EBITDA over interest expenses; a higher coverage ratio indicates greater ability of a firm to service its existing debt. Finally, we use *ZSCORE* is defined (1.2Working capital + 1.4Retained earnings + 3.3EBIT + 0.999Sales) / Total assets which can be used to predict the probability that a firm will go into bankruptcy within two years.

b. Loan characteristics

Some loan-specific characteristics may affect spreads. We control for natural log of loan size because there may be economies of scale in bank lending. If so, the loan spread would be negatively related to loan size. We further control for loan maturity because banks might face greater uncertainty and higher credit risk in loans carrying relatively long maturities. Loan may differ from non-pricing clauses. Therefore we use dummy variables to control this possibility. The financial covenant may reduce the risk so we use the dummy variable. We also control the sponsored, refinancing, secured and syndication that we expect to affect spreads. In order to facilitate a quick overview on our explanatory variables, we provide definitions of the dependent and independent variables examined in our study in the Table 1.

2.3 The baseline model

The Tobit framework accounts for the constrained range of the dependent variable and hence, is an econometrically sound choice to obtain consistent estimates of the regression coefficients. The regression model is specified as

$$y_{ijt}^{*} = x_{ijt}^{'}\lambda + \varsigma_{j} + year_{t} + u_{ijt} \qquad \text{with} \qquad y_{ijt} = \begin{cases} y_{ijt}^{*} & \text{if } y_{ijt}^{*} > 0 \\ 0 & \text{otherwise} \end{cases}$$

where $y_{ijt}^{*}$ is a latent variable that is observed for values greater than 0 corresponding to firm i's loan spread for industry j per year t (*Loan Spread* )and zero otherwise. $\lambda$ is a vector of coefficients associated with the regressor vector $x_{ijt}$ including the explanatory variables as described in Section 2.2 on an annual basis. $\varsigma_{j}$ measure the industry effect; $year_{t}$ control the year effect and $u_{ijt}$ is the error term.

## 3. Empirical result

### 3.1 Descriptive Statistics

Table 2 displays summary statistics such as mean, standard deviation, etc. for all of our variables. It can be seen that *loan spread* exhibits a mean of 166.713 basis points, ranging between 5 and 1325 basis points during sample period. *Longholde*r variable even distribute in our sample. The average of loan *tenor* is 4 years which means the long term loan more than short term loan. In Table 3, we provide pairwise correlation of the variables in our sample. The general level of the correlation coefficients in Table 3 is below 0.7. Therefore, we suggest that the problem of multicollinearity in my following regression analysis is quite limited. Table 4 provides preliminary univariate statistics for the sample of CEO overconfidence firms and their nonoverconfidence peers. It shows that *loan spread* of the CEO overconfidence firms are significantly lower than that of nonoverconfidence peers (162.601 basis point vs. 173.036 basis point). CEO overconfidence firms also enjoy significantly larger deal amount ($705.911 million vs. $613.689 million), larger tenor with overconfident CEO (4.267 years vs. 4.051 years), more covenants to overconfident CEO (0.875 covenants vs. 0.843 covenants) and higher *ZSCORE* with overconfident CEO (1.73 points vs. 1.636 points). In addition, for almost variables, the median test of the difference between overconfident CEOs and non-overconfident CEOs are statistically significant at 1% level, except for median difference test of the spread and asset which are significant at 5% level.

Moreover, the median difference tests of loan spread between overconfident CEOs and non-overconfident CEOs are significant under 5% level. To sum up, based on the mean and median difference tests, Table 1 suggests that the characteristics of firms with and without overconfident CEOs who loan spread may be different. Accordingly, it is important to control the firm characteristics in the following Tobit regression analysis.

### 3.2 Tobit regression: Baseline

Table 5 reports the multiple Tobit regression results from testing the association between loan spread and firms with CEO overconfidence (*Longholder*) to enable the testing of the two competing, but not mutually exclusive, hypothesis: the information transparency hypothesis and manager optimism hypothesis. The coefficient of *longholder* is negative and significantly supporting the information transparency hypothesis that CEO overconfidence enhances a firm's external financing capacity by lowering the firm's cost of bank loan.[3] Since bank could design covenants to mitigate the anticipated effects of overconfidence (Sunder, Sunder and Tan, 2010) and overconfident CEOs have greater information transparency with respect to performance and project quality which can reduce information and monitoring cost (Gervais et al., 2011 and Andriosopoulos et al., 2013).

## 4. Robust test

### 4.1 Impact of financial crisis

US banking system was highly affected by 2008 financial turmoil, our results might be influenced by this time of high uncertainty. To analyze possible effects, we repeat the

[3] The baseline OLS regression results on the effect of CEO overconfidence on loan spreads are also considered. To save space, we do not report these results; the tenor of the results remains unchanged and they are available from the authors upon request.

regressions from Tables 5, but additionally interact the variable we are most interested in *longholder* with a dummy for the crisis years 2008 and 2009. Tables 6 report the results for the *loan spread* and we find that the non-interacted coefficients of the *longholder* are again negative, and in general slightly more pronounced and of the same significance compared to the whole sample period reported in Table 5. The interacted coefficients capturing the diverging impact during the financial crisis are positive and exceed those previously presented in terms of their magnitude. The respective sums of both coefficients (-15.046 + 95.535 = 80.489) represent the pricing impact during the financial crisis. They are positive, and tests are highly significant. This suggests that the negative impact of the *longholder* on *loan spread*—as predicted by our model—holds but is distorted during the financial crisis.

4.2 Exploring the endogenous problem

Does overconfident CEOs have lower spread because they are overconfidence? Maybe they just take lower spread then they become overconfidence. We use two stage tobit regression to examine the endogenous problem and use *age* as instrumental variable which we examine whether our results are robust after controlling for potential endogeneity. CEO age can have a significant impact on decision making, since younger persons may be more prone to risk taking. However, experience grows with age, allowing executives to take more risks, but sensibly. Evidence suggests that risk aversion and age are nonlinear, as personal risk aversion tends to increase with age until the age of 70 and then decline (Shefrin, 2005). Moreover, Agarwal, Driscoll, Gabaix and Laibson (2007) report evidence suggesting that the sophistication of financial decisions varies with age. We use two-stage Tobit regression to examine endogeneity in Table 7. The result is consist with prior result and it is significance at 1% level. When except the endogeneity overconfidence still have negative relationship with loan spread.

4.3 Exploring the selection bias problem

A potential problem in existing literature, including the above analysis, is the selection bias problem. The empirical analysis focuses on bonds issued during the period of interest.

When company need to borrow money they tend to borrow in the good timing. The lending marking is good or company condition is welling to borrow money. Overconfident CEOs have lower cost of bank not because they're overconfidence. Possibility they chose the great timing to borrow money.

We use Heckman's (1979) approach to control for selection bias, which consists of two steps. In the first step, we run a probit regression to examine firms' bond issuance decision. For all individual firms included in our sample, we construct a monthly dummy variable that indicates whether a firm issued new bonds in each month, from February 1995 to December 2012. The list of explanatory variables include some variables used in the baseline analysis as well as several additional variables (the credit market and global financial market variables described below), so as to ensure that the probit analysis provides additional information.

We add three different specific variables. First, firm-specific variables, including firm size, leverage and rating. These variables may reflect firms' financing need and their ability to raise new funds in the bond market. Second, country-specific macro and financial market variables, including stock market returns, GDP gap and interest rates in each economy. Final global financial market variables, including the implied volatility of the S&P 500 (VIX) and the Baa–Aaa spread in the US market. A higher VIX indicates higher volatility and higher risk aversion in the financial market, and the Baa–Aaa spread is associated with the size of the risk premium.

We calculate the inverse Mills ratio based on the probit analysis. In the second step, we re-examine the impact of loan issuance by including the inverse Mills ratio as an additional explanatory variable.

The baseline analysis, however, is subject to the selection bias critique. A Heckman two-step approach can correct for selection bias. The second-step regression including the inverse Mills ratio, which is calculated from the probit analysis, adjusts for the selection bias problem. Table 8 reports the results. The Heckman adjustment does not change the baseline results. Overconfidence continues to play a significant role in lowering spread. Indeed, its economic significance even increases. In addition, the statistical and economic significance of other explanatory variables is relatively robust. It is worth noting that the inverse Mills ratio has a significantly negative impact in both equations.

Overall, the Heckman correction analysis suggests that there are direct and indirect impacts of overconfidence and other explanatory variables on the cost of loans in the primary markets. The indirect impact comes through the decision of loan issuance, and the direct impact affects the cost after controlling for this selection bias.

4.4 How the difference between overconfident (non-overconfident) CEO replaced by non-overconfident (overconfident) CEO

Almost firms' operate time longer than CEO tenor. When a firm's CEO change variable of *Longholder* will also change. Therefore, we test the different when *Longholder* change to *Non-Longholder* and *Non-Longholder* change to *Longholder*. Table 9 reports the results. The spread different of *Longholder* change to *Non-Longholder* is positive and it is significant at 1% level. This result consists with previous finding which indicate overconfidence CEO's loan spread lower than non-overconfidence CEOs. Sometimes loan will sign on begging of term but confirm overconfidence will on end of term. Then, we lag *Longholder* to examine the results whether coefficient is negative or not. The result also consists with previous results.[4]

## CONCLUSION

We test the information transparency and the manager optimism hypotheses to examine the importance of the cost of bank loan in explaining the impact of CEO overconfidence. The information transparency hypothesis predicts that CEO overconfidence enhance a firm's external financing capacity by lowering the firm's cost of bank loan, because firms with overconfident CEO have greater information transparency with respect to performance and project quality, it may mitigate the information and monitoring costs on the bank lender. The

[4] The results of lag *Longholder* present overconfidence CEOs have negative relationship with loan spread. It indicates overconfidence CEOs loan spread lower than non-overconfidence CEOs.

manager optimism hypothesis predicts that CEO overconfidence diminish a firm's external financing capacity by heightening the firm's cost of bank loan, because firms with overconfident CEO will bias in the future performance and it will enhance the risk cost of lender of bank.

Examination a sample of 4809 loans in the US covering the period of 1995 to 2012, our main finding is that overconfident CEOs have lower spread than non-overconfident CEOs. Since bank could design covenants to mitigate the anticipated effects of overconfidence and overconfident CEOs have greater information transparency with respect to performance and project quality which can reduce information and monitoring cost. Our findings overall suggest that the information transparency hypothesis dominates the manager optimism hypothesis. In addition, our results are also robustness to the potentially selection bias and endogeneity problem issue.

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# THE EFFECT OF JOINT AUDIT ON AUDIT QUALITY: EMPIRICAL EVIDENCE FROM COMPANIES LISTED ON THE EGYPTIAN STOCK EXCHANGE

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## ABSTRACT

The purpose of this paper is to investigate the effect of joint audit on earnings conservatism, our proxy for audit quality, of companies listed on the Egyptian stock exchange, by examining whether companies audited by two independent auditors are more conservative than companies audited by a single auditor. In addition, we investigate whether this relationship is affected by the type of joint audit regimes (i.e., voluntary versus mandatory), and the mix of joint auditors appointed (i.e., two big 4 auditors, or two non-big 4 auditors, or one Big 4 auditor paired with one non-big 4 auditor). To test our hypotheses, we use a sample of 32 companies listed on the Egyptian stock exchange during the period 2009 through 2013. The results of our multiple regression analyses show that companies audited by joint auditors are more conservative than companies audited by single auditors. However, we find no significant difference in levels of earnings conservatism between companies audited by joint auditors mandatorily and companies audited by joint auditors voluntarily. We also find no significant difference in levels of earnings conservatism between companies audited by two big4 auditors and companies audited by two non-big4 auditors, or by one big4 auditor paired with one non-big4 auditor.

**JEL Classifications:** M410, M420

**Keywords:** Joint Audit, Audit Quality, Earnings Conservatism, Joint Audit Regimes, Mix of Joint Auditors.

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# INTRODUCTION

The recent business and financial scandals have led regulators and other stakeholders around the world to criticize the audit profession and to question whether external auditors really have the required levels of independence, expertise, and incentive to provide the true and fair view of audit client affairs. This question has led The European Commission, in its Green Paper issued in 2010, to suggest the use of several mechanisms to improve both auditors' abilities to detect material misstatements in financial statements and auditors' incentives to report detected material misstatements (Lobo et al., 2013). One of the most important mechanisms proposed by the European Commission was the practice of Joint Audit to improve audit quality through improving auditor competence and independence, and reduce audit market concentration through encouraging the emergence of small audit firms.

Egypt is considered as one of the few countries where the use of joint audit is required by law, whether voluntarily or mandatorily, even before the release of the Green Paper by the European Commission. The concept of joint audit has become voluntary in Egypt for first time in 1981, when the Ministry of Trade and Industry issued Law No. 159/1981, stating that joint stock companies listed on the Egyptian stock exchange must appoint at least one independent auditor. However, this concept has become mandatory in Egypt for first time in 2003, when the Central Bank issued Law No. 88/2003, stating that banks listed on the Egyptian stock exchange must have at least two independent auditors who have no dependent link with each other.

There is a general agreement between researchers with regard to Joint audit definition. Previous studies (Zerni et al., 2012; Alanezi et al., 2012; Baldauf & Steckel, 2012; Ratzinger-Sakel et al., 2013; Paugam et al., 2015) define joint audit as an audit in which two or more independent auditors, from separate audit firms, are appointed to audit financial statements of an audit client, in such a way that involves: developing the audit plan jointly; performing the audit work jointly; making periodic cross reviews and mutual quality controls; issuing and signing a single audit report; and bearing joint liability in case of audit failure.

The concept of joint audit should be differentiated from the concept of dual audit, where two or more independent auditors from separate audit firms are appointed to audit financial statements of an audit client in a way that involves: developing the audit plan separately; performing the audit work separately; no periodic cross reviews and mutual quality controls; and issuing two or more audit reports, in which every auditor is not responsible for the audit opinion expressed by the others (Alanezi et al., 2012; Ratzinger-Sakel et al., 2013; Jane lin et al., 2014). Also, the concept of joint audit differs from the concept of Double Audit, where a single auditor is required to fully perform the audit work twice (Alanezi et al., 2012; Ratzinger-Sakel et al., 2013).

There is a strong debate raised by proponents and opponents of the joint audit. Proponents of joint audit (Baldauf & Steckel, 2012; Zerni et al., 2012; Lobo et al., 2013) argue that the practice of joint audit could increase audit quality for the following reasons. First, the type of audit report issued by two auditors seems to be more precise than the type of audit report issued by a single auditor because having four eyes obtain audit evidence could increase the precision of audit opinion that will be issued based on this evidence. Second, Joint audit could improve the auditors' ability to detect material misstatements because it allows each auditor to check the work done by the others to make sure that the other auditors have taken the appropriate audit procedures to obtain the appropriate and sufficient audit evidence. Third, joint audit could improve auditor independence by weakening the economic relationship between the auditor and the client because joint auditors share audit fees between them. In addition, it weakens the economic relationship between the auditor and the management because it might be more difficult for management to manipulate two auditors instead of one. Fourth, Joint Audit could improve auditor competence through preserving knowledge that results from auditors' meetings. Finally, joint audit could reduce audit market concentration by reducing the domination of big audit firms and allowing small audit firms to collaborate with big audit firms, resulting in the emergence of new generation of big audit firms.

On the other side, opponents of joint audit (Marmousez, 2009; Zerni et al., 2012; Alsadoun & Aljaber, 2014; Deng et al., 2014) argue that the practice of Joint Audit could reduce audit quality for the following reasons. First, it could result in Free Riding problem because the small audit firm has fewer resources than the big audit firm, so it will have an incentive to withhold its limited resources and free ride the big audit firm's effort. Second, joint audit could result in Opinion Shopping problem because management may offer to purchase the audit opinion of the small audit firm, and the small audit firm may accept this offer because, in this case, the big audit firm will bear the reputation costs alone. Third, joint audit may result in insufficient information exchange, resulting in compromising audit quality because auditors from competitive audit firms may not have an incentive to cooperate while conducting the audit.

The impact of joint audit on audit quality has been investigated in prior research, and the empirical evidence on this impact confirms the mixed theoretical predictions. A stream of research documents that joint audit has no significant effect on audit quality (Holm & Thinggaard, 2010; Alanezi et al., 2012; Alfaraih & Alanezi, 2012; Lesage et al., 2012; Khatab, 2013; Velte & Azibi, 2015). In addition, it may result in a lower level of audit quality (Deng et al., 2014). However, another stream of research documents that joint audit may result in a higher level of audit quality (Baldauf & Steckel, 2012; Zerni et al., 2012; Benali, 2013; Ittonen & Tronnes, 2015; Relvas & Pais, 2015). Furthermore, another stream of research concluded that the effect of joint audit on audit quality depends on the type of joint audit regimes (Voluntary versus Mandatory joint audit regimes) (Lesage et al., 2012; Alsadoun & Aljaber, 2014; Andre' et al., 2015), and by the mix of joint auditors appointed (two big 4 auditors, or two non-big 4 auditors, or one Big 4 auditor paired with one non-big 4 auditor) (Francis et al., 2009; Marmousez, 2009; Alfaraih & Alanezi, 2012; Paugam & Casta, 2012; Chihi & Mhirsi, 2013; Lobo et al., 2013; Alsadoun & Aljaber, 2014).

Based on the previous discussion, three important questions that can inform the debate on the implications of joint audit for audit quality are phrased as follows:

Q1: Does joint audit, when compared to single audit, provide higher audit quality, as measured by earnings conservatism?

Q2: In case of joint audit, does level of audit quality depend on the type of joint audit regimes (i.e., whether the company uses two auditors in a voluntary joint audit regime or a mandatory joint audit regime)?

Q3: In case of joint audit, does level of audit quality depend on the mix of joint auditors appointed (i.e., whether the company uses two big 4 auditors, or two non-big 4 auditors, or one Big 4 auditor and one non-big 4 auditor)?

The objective of this study is to compare the effect of joint audit and single audit on audit quality in companies listed on the Egyptian stock exchange, and investigate whether the effect of joint audit on audit quality depends on the type of joint audit regimes (i.e., Voluntary versus mandatory joint audit regimes), and the mix of joint auditors appointed (i.e., two big 4 auditors, or two non-big 4 auditors, or one Big 4 auditor paired with one non-big 4 auditor).

The importance of this study can be addressed along two aspects: this study would provide additional contribution to the accounting literature in general, and especially in Egypt, by presenting appropriate analysis of the Egyptian environment which has unique characteristics. Also, this study would draw the attention of Egyptian companies and shareholders, as well as regulators to joint audit and its role in enhancing audit quality and strengthening stakeholders' confidence in financial reports issued by companies opting for joint audits.

# 1. Literature Review and Hypotheses Development:

Prior research attempting to compare the effect of joint audit and single audit on audit quality is limited. However, previous studies examining the effect of joint audit on audit quality can be classified into four categories as follows:

**First: Studies that found that joint audit has no or negative impact on audit quality** (Holm & Thinggaard, 2010; Alanezi et al., 2012; Alfaraih & Alanezi, 2012; Lesage et al., 2012; Khatab, 2013; Deng et al., 2014; Velte & Azibi, 2015). In the Egyptian Settings, (Khatab, 2013) investigated whether joint audit affects firm value and auditor independence, as proxies for audit quality. Using a sample of 34 companies listed on the Egyptian Stock Exchange during the period 2005 through 2009, (Khatab, 2013) showed that joint audit has no effect on firm value or auditor independence.

In the Kuwaiti settings, (Alanezi et al., 2012) examined the effect of joint audit, as opposed to dual audit, on the level of compliance with IFRS- disclosure requirements, as a proxy for audit quality. Using a sample of 33 financial institutions listed on the Kuwait Stock Exchange (KSE) in 2006, (Alanezi et al., 2012) found that financial institutions audited by joint auditors are less compliant with IFRS- disclosure requirements than financial institutions audited by dual auditors. Another study in the Kuwaiti Settings by (Alfaraih & Alanezi, 2012) confirmed the previous study and found that none of KSE-listed companies audited by joint auditors fully complies with IFRS-disclosure requirements; however, the joint auditors of all KSE-listed companies attest to full compliance with IFRS-disclosure requirements.

In the Danish Settings, (Holm & Thinggaard, 2010; Lesage et al., 2012) investigated the effect of joint audit, compared to single audit, on the level of abnormal accruals, as a proxy for audit quality, of companies listed on the Copenhagen Stock Exchange. Their main findings documented that there is no significant difference between level of abnormal accruals in companies audited by two audit firms and level of abnormal accruals in companies audited by a single audit firm. In other words, single audit is more effective in constraining earnings management than joint audit.

In the same context, (Velte & Azibi, 2015) examined the effect of joint audit on the level of abnormal accruals and discretionary accruals, as proxies of audit quality. Using a sample of 307 German and French listed companies during the period 2008 through 2012, (Velte &

Azibi, 2015) documented that joint audit has no significant impact on the level of abnormal accruals or discretionary accruals in both countries.

Furthermore, (Deng et al., 2014) developed a theoretical model to examine the effect of joint audit on audit evidence precision and auditor independence, as proxies of audit quality. By developing three audit regimes – Single audit by one big audit firm (Regime B), Joint audit by two big audit firms (Regime BB), and joint audit by one big audit firm paired with one small audit firm (Regime BS), (Deng et al., 2014) documented that the level of audit evidence precision is lower under regime BS than under regime B, but is the same for regimes BB and B. In addition, the level of auditor independence is lower under regimes BB and BS than under regime B. In other words, joint audit impairs audit quality through lowering both audit evidence precision and auditor independence.

**Second: Studies that found that joint audit has positive effect on audit quality** (Baldauf & Steckel, 2012; Zerni et al., 2012; Benali, 2013; Ittonen & Tronnes, 2015; Relvas & Pais, 2015). Most of these studies examined the impact of voluntary joint audit on audit quality. For example, (Zerni et al., 2012) examined the use of voluntary joint audit on actual audit quality, as measured by levels of earnings conservatism and abnormal working capital accruals, and perceived audit quality, as measured by credit ratings and risk forecasts of insolvency. Using a sample of Swedish listed companies during the period 2001 through 2007, (Zerni et al., 2012) documented that companies employing voluntarily joint auditors have higher levels of earnings conservatism, lower levels of abnormal working capital accruals, higher credit ratings, and lower risks forecasts of insolvency than companies employing a single auditor.

In the same context, (Ittonen & Tronnes, 2015) examined whether voluntarily appointing two auditors is associated with audit quality, as measured by total accruals, abnormal accruals, the probability of reporting profit, and timely recognition of economic losses. Using a sample of Finnish and Swedish listed companies during the period 2005 through 2010, (Ittonen & Tronnes, 2015) showed that joint audit improves audit quality on the dimensions of abnormal accruals and timely recognition of economic losses, but not on the dimensions of total accruals and the probability of reporting profit.

In a case study conducted by (Baldauf & Steckel, 2012) to investigate whether joint audit, as opposed to single audit, improves the degrees of auditor's report consensus and accuracy, as proxies of audit quality, (Baldauf & Steckel, 2012) found that audit reports issued by auditors involved in joint audit process are more conservative and more accurate than that issued by auditors involved in single audit process, as the communication between auditors involved in joint audit process and the discussion of audit findings between them improves the accuracy of audit opinion expressed, thus enhancing the level of audit quality.

Furthermore, (Benali, 2013) examined the effect of joint audit on shareholders' confidence of joint auditors, and found that, with a sample of 145 French listed companies during the period 2005 through 2010, the use of joint auditors, especially two big-4 auditors, by French listed companies has a positive and significant impact on the shareholders' confidence. In the same context, (Relvas & Pais, 2015) investigated the impact of joint audit on cost of debt, as a proxy for audit quality. Using a sample of largest European listed companies during the period 2005 through 2010, (Relvas & Pais, 2015) showed that the cost of debt in companies audited by two auditors is lower than that in companies audited by one single auditor. In addition, the cost of debt reaches its lowest level in companies audited by two big-4 auditors.

**Third: Studies that found that the effect of joint audit on audit quality is affected by the type of joint audit regimes** (Lesage et al., 2012; Alsadoun & Aljaber, 2014; Andre' et al., 2015). Two of these studies (Lesage et al., 2012; Andre' et al., 2015) investigated the effect of mandatory joint audit regime, as opposed to voluntary joint audit regime, on both audit fees and abnormal accruals, as proxies of audit quality. They found that audit fees paid by companies under mandatory joint audit regime are higher than audit fees paid by companies under voluntary joint audit regime. Moreover, they showed that level of abnormal accruals reported by companies under mandatory joint audit regime does not differ significantly from level of abnormal accruals reported by companies under voluntary joint audit regime.

In contrast, (Alsadoun & Aljaber, 2014) examined the effect of mandatory joint audit regime, as opposed to voluntary joint audit regime, on required rate of return, as proxy for audit quality, and showed that companies subject to mandatory joint audit regimes have higher required rate of return than companies subject to voluntary joint audit regimes. Thus, investors' perception of joint audit is stronger under voluntary joint audit regime.

**Fourth: Studies that found that the effect of joint audit on audit quality is affected by the mix of joint auditors appointed** (Francis et al., 2009; Marmousez, 2009; Alfaraih & Alanezi, 2012; Paugam & Casta, 2012; Chihi & Mhirsi, 2013; Lobo et al., 2013; Alsadoun & Aljaber, 2014). Some of these studies (Francis et al., 2009; Alfaraih & Alanezi, 2012; Alsadoun & Aljaber, 2014) found that companies audited by two big 4 auditors tend to have lower abnormal accruals (Francis et al., 2009), lower cost of equity capital (Alsadoun & Aljaber, 2014), and are likely to be more compliant with IFRS- disclosure requirements (Alfaraih & Alanezi, 2012) than companies audited by one big 4 auditor paired with one non-big 4 auditor and companies audited by two non-big 4 auditors.

In contrast, most of these studies (Marmousez, 2009; Paugam & Casta, 2012; Chihi & Mhirsi, 2013; Lobo et al., 2013) agree that companies audited by one big 4 auditor paired with one non-big 4 auditor are more conditionally and unconditionally conservative, more likely to record goodwill impairment (Paugam & Casta, 2012; Lobo et al., 2013), and to report abnormal accruals (Marmousez, 2009; Chihi & Mhirsi, 2013; Lobo et al., 2013) than companies audited by two big 4 auditors and companies audited by two non-big 4 auditors. Thus, a pair of big 4 auditor and non-big 4 auditor could result in higher audit quality, as unequal sharing of reputation risks between big and small audit firms could improve auditors' independence and, therefore, is likely to enhance audit quality (Lobo et al., 2013). Based on the preceding discussions, we formulate our hypotheses as follows:

**H1:** Companies audited by joint auditors are more conservative than companies audited by a single auditor.

**H2:** Companies audited by joint auditors voluntarily are more conservative than companies audited by joint auditors mandatorily.

**H3:** Companies audited by two big4 auditors are more conservative than companies audited by one big4 auditor paired with one non-big 4 auditor and companies audited by two non-big 4 auditors.

# 2. Sample Selection and Research Design:

## 2.1. Sample Selection:

Our sample is comprised of 32 companies listed on the Egyptian Stock Exchange in the period 2009 through 2013 representing 160 firm-year observations. To test our **first hypothesis (H1),** we divide our sample into two main categories; 16 companies audited by a single auditor and 16 companies audited by joint auditors. To test our **second hypothesis (H2),** we divide our joint audit sample into two sub categories: 8 companies subject to mandatory joint audit regime and 8 companies subject to voluntary joint audit regime. To test our **third hypothesis (H3),** we divide each group of joint audit sample into three categories: 4 companies audited by two Big4 auditors, 3 companies audited by two non-big4 auditors, and 9 companies audited by one Big 4 auditor paired with one non-Big4 auditor. Our research data were obtained from the annual disclosure book of the Egyptian stock exchange and the Egyptian database (Egypt for Information Dissemination EGID).

## 2.2. Research Design:

To test our **first hypothesis (H1)**, we run a multiple regression model based on the earnings conservatism framework of Basu (1997) to determine whether there are differences in levels of earnings conservatism between companies audited by a single auditor and companies audited by joint auditors:

$$X_{i,t} / P_{i,t-1} = \beta_0 + \beta_1 R_{i,t} + \beta_2 D_{i,t} + \beta_3 DR_{i,t} + \beta_4 AuditType + \beta_5 AuditType \times R_{i,t} + \beta_6 AuditType \times D_{i,t} + \beta_7 AuditType \times DR_{i,t} + \varepsilon_{i,t} \quad (1)$$

Where $\mathbf{X_{i,t} / P_{i,t-1}}$ is the earnings per share of company (i) in fiscal year (t) divided by share price at the beginning of the fiscal year (t). $\mathbf{R_{i,t}}$ is the annual return on share of company (i) through the fiscal year (t). $\mathbf{D_{i,t}}$ is a dummy variable with the value 1 if ($R_{i,t}$) is negative, and the value 0 otherwise. **Audit Type** is a dummy variable with the value 1 if the company is audited by joint auditors, and the value 0 otherwise.

To test our **second hypothesis (H2)**, we use a multiple regression model based on the earnings conservatism framework of Basu (1997) to determine whether there are differences in levels of earnings conservatism between companies audited by joint auditors mandatorily and those audited by joint auditors voluntarily:

$$X_{i,t} / P_{i,t-1} = \beta_0 + \beta_1 R_{i,t} + \beta_2 D_{i,t} + \beta_3 DR_{i,t} + \beta_4 Mand\text{-}Volun + \beta_5 Mand\text{-}Volun \times R_{i,t} + \beta_6 Mand\text{-}Volun \times D_{i,t} + \beta_7 Mand\text{-}Volun \times DR_{i,t} + \varepsilon_{i,t} \quad (2)$$

Where **Mand-Volun** is a dummy variable with the value 1 if the company is audited by joint auditors mandatorily, and the value 0 otherwise.

To test our **third hypothesis (H3)**, we run three multiple regression models based on the earnings conservatism framework of Basu (1997) to determine whether there are differences in levels of earnings conservatism between companies with two big 4 auditors, companies with two non-big 4 auditors, and those with one big 4 auditor paired with one non-big auditor:

$$X_{i,t} / P_{i,t-1} = \beta_0 + \beta_1 R_{i,t} + \beta_2 D_{i,t} + \beta_3 DR_{i,t} + \beta_4 Big4\text{-}Big4 + \beta_5 Big4\text{-}Big4 \times R_{i,t} + \beta_6 Big4\text{-}Big4 \times D_{i,t} + \beta_7 Big4\text{-}Big4 \times DR_{i,t} + \varepsilon_{i,t} \quad (3a)$$

$$X_{i,t} / P_{i,t-1} = \beta_0 + \beta_1 R_{i,t} + \beta_2 D_{i,t} + \beta_3 DR_{i,t} + \beta_4 Big4\text{-}NonBig4 + \beta_5 Big4\text{-}NonBig4 \times R_{i,t} + \beta_6 Big4\text{-}NonBig4 \times D_{i,t} + \beta_7 Big4\text{-}NonBig4 \times DR_{i,t} + \varepsilon_{i,t} \quad (3b)$$

$$X_{i,t} / P_{i,t-1} = \beta_0 + \beta_1 R_{i,t} + \beta_2 D_{i,t} + \beta_3 DR_{i,t} + \beta_4 NonBig4\text{-}NonBig4 + \beta_5 NonBig4\text{-}NonBig4 \times R_{i,t} + \beta_6 NonBig4\text{-}NonBig4 \times D_{i,t} + \beta_7 NonBig4\text{-}NonBig4 \times DR_{i,t} + \varepsilon_{i,t} \quad (3c)$$

Where **Big4-Big4** is a dummy variable with the value 1 if the company is audited by two big 4 auditors, and the value 0 otherwise. **Big4-NonBig4** is a dummy variable with the value 1 if the company is audited by one big 4 auditor paired with one non-big 4 auditor, and the value 0 otherwise. **NonBig4-NonBig4** is a dummy variable with the value 1 if the company is audited by two non-big 4 auditors, and the value 0 otherwise.

## 3. Descriptive Statistics:

Table (1) represents the distribution of the companies of our sample according to audit types. In our sample, 16 companies (50%) audited by a single auditor and 16 companies (50%) audited by joint auditors.

**Table 1** *Distribution of companies according to audit types:*

| | Number of observations | Percent | Cumulative Percent |
|---|---|---|---|
| Single Audit | 80 | 50% | 50% |
| Joint Audit | 80 | 50% | 100% |
| **Total** | **160** | **100%** | |

Table (2) represents the distribution of the companies of our sample according to joint audit regimes. In our sample, 8 companies (50%) are subject to mandatory joint audit regime and 8 companies (50%) are subject to voluntary joint audit regime.

**Table 2** *Distribution of companies according to joint audit regimes:*

| | Number of observations | Percent | Cumulative Percent |
|---|---|---|---|
| Mandatory Joint Audit | 40 | 50% | 50% |
| Voluntary Joint Audit | 40 | 50% | 100% |
| **Total** | **80** | **100%** | |

Table (3) represents the distribution of the companies of our sample according to auditor pair types. In our sample, 4 companies (25%) audited by two big 4 auditors, 9 companies (56%) audited by one big 4 auditor paired with one non-big 4 auditor, and 3 companies (19%) audited by two non-big 4 auditors. We notice that 13 companies (81%) have decided to appoint at least one big 4 auditor.

**Table 3** *Distribution of companies according to auditor pair types:*

| | Number of observations | Percent | Cumulative Percent |
|---|---|---|---|
| Big 4 – Big 4 | 20 | 25% | 25% |

| | | | |
|---|---:|---:|---:|
| Big 4 – Non Big 4 | 45 | 56% | 81% |
| Non Big 4 – Non Big 4 | 15 | 19% | 100% |
| **Total** | **80** | **100%** | |

# 4. Empirical Results:

Table (4) represents results of our multiple regression analyses. Model (1) used to test **(H1)** explains about 16% of the variability in earnings. The coefficient on *Audit Type* is negative and statistically significant at 0.05 level, indicating that joint audits are associated with more conservative earnings than single audits. Thus, we accept our **first hypothesis (H1)** which states that companies audited by joint auditors are more conservative than companies audited by single auditors.

**Table 4** *Results of multiple regression analyses:*

| Model | Variables | Coefficient | T-Statistic | P Value | Adjusted $R^2$ |
|---|---|---:|---:|---:|---:|
| **Model 1** | R | -0.008 | -1.140 | 0.256 | 0.160 |
| | D | -0.085 | -1.497 | 0.136 | |
| | RD | 0.127 | 0.972 | 0.332 | |
| | **Audit Type** | **-0.104** | **-2.692** | **0.008** | |
| | Audit Type * R | **0.165** | **4.215** | **0.000** | |
| | Audit Type * D | 0.095 | 1.167 | 0.245 | |
| | Audit Type * RD | -0.207 | -1.092 | 0.277 | |
| **Model 2** | R | **0.161** | **4.355** | **0.000** | 0.316 |
| | D | 0.050 | 0.715 | 0.477 | |
| | RD | -0.077 | -0.497 | 0.621 | |
| | Mand-Volun | 0.081 | 1.426 | 0.158 | |
| | Mand-Volun * R | -0.005 | -0.066 | 0.947 | |
| | Mand-Volun * D | -0.079 | -0.794 | 0.430 | |
| | Mand-Volun * RD | -0.019 | -0.081 | 0.936 | |
| **Model 3(a)** | R | **0.103** | **2.048** | **0.044** | 0.298 |
| | D | -0.016 | -0.276 | 0.783 | |
| | RD | -0.017 | -0.128 | 0.899 | |
| | Big4-Big4 | -0.013 | -0.176 | 0.861 | |
| | Big4-Big4 * R | 0.078 | 1.094 | 0.278 | |
| | Big4-Big4 * D | 0.046 | 0.378 | 0.707 | |
| | Big4-Big4 * RD | -0.119 | -0.426 | 0.671 | |
| **Model 3(b)** | R | **0.158** | **3.900** | **0.000** | 0.281 |
| | D | 0.034 | 0.423 | 0.674 | |
| | RD | -0.121 | -0.541 | 0.591 | |
| | Big4-NonBig4 | 0.024 | 0.426 | 0.672 | |
| | Big4-NonBig4 * R | 0.014 | 0.191 | 0.849 | |
| | Big4-NonBig4 * D | -0.042 | -0.401 | 0.690 | |
| | Big4-NonBig4 * RD | 0.030 | 0.113 | 0.910 | |
| **Model 3(c)** | R | **0.179** | **5.754** | **0.000** | 0.446 |
| | D | 0.008 | 0.159 | 0.874 | |
| | RD | -0.102 | -0.965 | 0.338 | |

| | | | | | |
|---|---|---|---|---|---|
| | NonBig4-NonBig4 | 0.059 | 1.031 | 0.306 | |
| | NonBig4-NonBig4 * R | **-0.419** | **-4.118** | **0.000** | |
| | NonBig4-NonBig4 * D | -0.050 | -0.333 | 0.740 | |
| | NonBig4-NonBig4 * RD | 0.495 | 0.898 | 0.372 | |

Model (2) estimated to test **(H2)** explains about 31% of the variability in earnings. All coefficients on *Mand-Volun* variables are statistically insignificant at 0.05 level. Thus, we reject our **second hypothesis (H2)** which states that companies audited by joint auditors voluntarily are more conservative than companies audited by joint auditors mandatorily.

Models (3a, 3b, & 3c) used to test **(H3)** explain about 29.8%, 28.1%, and 44.6% of the variability in earnings respectively. All coefficients on *Big4-Big4* and *Big4-NonBig4* variables are statistically insignificant at 0.05 level. However, the coefficient on *NonBig4-NonBig4 * R* variable is negative and statistically significant, indicating that, contrary to previous studies, companies audited by non-big4 auditors issue more conservative financial statements than companies audited by big4 auditors do. Thus, we reject our **third hypothesis (H3)** which states that companies audited by two big 4 auditors are more conservative than companies audited by one big 4 auditor paired with one non-big 4 auditor and companies audited by two non-big 4 auditors.

## 5. Conclusions:

This study investigates whether joint audit affects earnings conservatism, as a proxy for audit quality, of companies listed on the Egyptian stock exchange. In addition, we investigate whether this relationship is affected by the type of joint audit regimes, and the mix of joint auditors appointed. The results of our multiple regression analyses show that companies audited by joint auditors are more conservative than companies audited by single auditors are. However, we find no significant difference in levels of earnings conservatism between companies audited by joint auditors mandatorily and companies audited by joint auditors voluntarily. We also find no significant difference in levels of earnings conservatism between companies audited by two big4 auditors and companies audited by two non-big4 auditors, or by one big4 auditor paired with one non-big4 auditor.

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# CBT AS SUSTAINABLE TOURISM STRATEGY: EMPOWERING RURAL COMMUNITIES IN BALI?

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## ABSTRACT

Community-based tourism (CBT), an alternative form of tourism that emerged from the ambition of involving communities in bottom-up development, is widely used as a strategy by governments, NGOs and development agencies alike to foster community empowerment and sustainable development in the world's less developed countries. Nevertheless, CBT has regularly been romanticised as panacea for prevailing problems in rural communities – promising community control, socio-economic development and empowerment. This paper problematizes the ambiguous notion of empowerment in CBT and sheds light particularly on its social dimension and the power relations between actors involved in CBT. It discusses some of the obstacles to empowerment as CBT establishes itself as sustainable tourism strategy in rural communities by drawing on anthropological research conducted in three rural villages in Bali. The insights generated in the present paper point towards unequal opportunities for villagers to form part of empowerment processes stimulated through CBT. It shows that in Bali CBT tends to be appropriated by a local elite and its success is largely dependent on outside actors, compromising widespread community participation, benefits and control. At the same time this paper identifies possibilities for CBT to establish itself as a space of empowerment that rural communities in Bali use to articulate their agency and combat the overpowering effects of mass tourism on the island. This paper therefore reveals the paradoxes and processes of empowerment in CBT by offering an in-depth analysis of power relations between the actors involved to ultimately reveal the potential CBT bears as sustainable tourism strategy.

**Keywords:**
Community-based tourism, empowerment, Bali

# FEMINIZING MALE BODIES: CINEMATIC REPRESENTATION OF RHIZOMATIC TRANSFORMATION FROM MAN TO WOMAN IN MARATHI FILMS JOGWA AND NATARANG

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## ABSTRACT

This article analyzes how Gilles Deleuze's concept of Becoming-woman is a "positive ontology" which exemplifies the radical contribution and creativity of his thought. Deleuze's philosophy is often called a philosophy of immanence because it is concerned with what a life can do, what a body can do when we think in terms of becomings, multiplicities, lines and intensities rather than essential forms, predetermined subjects, structured functions or transcendental values. Such forms, subjects, functions and values constitute planes of organization, hidden structures that can be known only through their effects. For Deleuze and Guattari, becomings are processes of desire. When they talk about becoming-woman, they are adamant about their non-representational process of movement, proximity and desire. In other words, becoming-woman creates a molecular woman in a male body. Rajiv Patil's 2009 *Jogwa* (The Awakening) and Ravi Jadhav's 2010 *Natrang* (The Artist) are two recent Marathi films that hearken to becoming-woman's ability to mould the traumatic condition of their protagonists into productive and virtual powers of becoming's experience. These particular films provide an alternative way of understanding the bodily and psychic effects of becoming-woman's ability to understand feminine predicaments more effectively than feminism in the usual sense does.

**Keywords:** Gilles Deleuze, Becoming-woman, immanence, multiplicities, processes of desire, empiricism, psychical effects of trauma, feminism, ontology

# THE PERCEPTIOS AND EXPECTATIONS OF THE CUSTOMERS IN TERMS OF SERVICE QUALITY WHERE SERVICE COMPANIES AND RETAIL OUTLETS PLAY A DOMINANT ROLE – A FIELD SURVEY FROM ANKARA TURKEY

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## ABSTRACT

This surveys intends to find out consumers' expectations and perceptions about the service quality offered by service companies and retail outletss. A survey is applied to 495 respondents selected via stratified sampling from Ankara, the capital of Turkey with 4.5 million inhabitants. The respondents are required to answer 35 questions of which last five are related to demographic characteristics of these respondents. The rest 30 are statements which are designed to reflect the service quality perceptions of these people. The study consists of five parts. The first part is an introduction where the scope and the purpose of the study are concisely stated. The second part relates to the theoretical background of the subject matter and the prior researches carried out so far. The third part deals with research methodology, basic premises and hypotheses attached to these premises. Research model and analyses take place in this section. Theoretical framework is built and a variable name is assigned to each of the question asked or proposition forwarded to the respondents of this survey. 30 statements or propositions given to the respondents are placed on a five-point Likert scale where 1 represents strongly disagree; 2 disagree; 3 neither agree nor disagree; 4 agree and 5 strongly agree. The last five questions about demographic traits as age, gender, occupation, educational level and monthly income are placed either on a nominal or ratio scale with respect to the nature of the trait. Ten research hypotheses are formulated in this section. The fourth part mainly deals with the results of the hypothesis tests and a factor analysis is applied to the data on hand. Here exploratory factor analysis reduces 30 variables to five basic components. KMO test of sampling adequacy and scale reliability test proved high scores as 0.855 and 0.806 respectively. In addition non-parametric biraviate analysis in terms of Chi-Square test is applied to test the hypotheses formulated in this respect. The fifth part is the conclusion where findings of this survey is listed.

**Key words**: Service quality, customer trust, customer ambiguity, customer relationship, information adequacy physical aspects