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Mergers and acquisitions: prospects and impacts for accounting/audit firms in Cyprus

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**MERGERS AND ACQUISITIONS: PROSPECTS AND IMPACTS
FOR ACCOUNTING/AUDIT FIRMS IN CYPRUS**

By

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**MERGERS AND ACQUISITIONS: PROSPECTS AND IMPACTS
FOR ACCOUNTING/AUDIT FIRMS IN CYPRUS**

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A handwritten signature in blue ink, appearing to read 'Theodoros Christodoulides', is written over a horizontal line. The signature is stylized and cursive.

Theodoros Christodoulides

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ABSTRACT

The purpose of this research work is to examine whether there is a need and space for mergers and acquisitions regarding accounting/audit firms in Cyprus. The study analyzes the new economic environment and the stricter regulatory framework, in which audit firms operate, and how these factors affect the decisions for mergers and acquisitions. The impact of mergers and acquisitions upon the merged companies is also being examined.

In this dissertation, the research questions that were set were discussed quite effectively. The research that was done was adequate for answering the research questions that were preset. Any information irrelevant to the research questions was not discussed. The objectives that were set in this dissertation were accomplished, thus some conclusions were reached and some recommendations were given. The contribution of this work to the literature on M&As could be for the benefit of various groups that involved or interested in this specific professional services sector.

Research findings confirm that the economic environment, the stricter regulatory framework and the Regulatory Body, can affect decisions for mergers and acquisitions, but they are not the main and only factors that they could determine such decisions. Through the questionnaires survey and data from interviews, many other important factors are identified. In addition the impact of mergers and acquisitions upon the audit firms is also confirmed, in the research is proved that a possible M&A deal between accounting/audit firms would have a positive impact upon the merged companies. The small and medium firms through an M&A deal can be in a better position to compete the Big 4.

There are also some other important issues raised that should be noted, for example mergers and acquisitions between large firms in any sector always attract critical attention, because of fears about concentration and possible monopolistic behavior.

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LIST OF ABBREVIATIONS

ACCA	-	Association of Certified Chartered Accountants
BOD	-	Board of Directors
CIMA	-	Chartered Institute of Management Accountants
CIPA	-	Cyprus Investment Promotion Agency
CPA	-	Certified Public Accountant
CSE	-	Cyprus Stock Exchange
CYTA	-	Cyprus Telecommunications Authorities
EAC	-	Electricity Authority of Cyprus
E.Y	-	Ernst and Young
ELA	-	Emergency Liquidity Assistance
ESM	-	European Support Mechanism
GAO	-	U.S. Government Accountability Office
ICAEW	-	Institute of Chartered Accountants in England and Wales
ICAN	-	Institute of Chartered Accountants of Nigeria
ICPAC	-	The Institute of Certified Public Accountants of Cyprus
IMF	-	International Monetary Fund
LSE	-	London Stock Exchange
M&As	-	Mergers and Acquisitions
PWC	-	Pricewaterhousecoopers
R&D	-	Research and Development
SGO	-	Semi Government Organizations

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CHAPTER 1: INTRODUCTION

1.1. Introduction

Mergers and Acquisitions (M&A) have been considered as the ultimate in change for a business or an organization, and no other event can be more difficult, challenging, or chaotic as M&A activity. Certainly, M&A as processes or as concepts can be critical factors for any business' growth and development. Due to globalization - despite not being a new issue, it still has an important impact on world economy and the rapid expansion of markets, businesses and organizations are facing unpredicted, larger and more demanding challenges. As economic environment changes and thus businesses' environment is becoming extremely competitive, for organizations reaching at an appropriate size becomes a necessity. The choice of the correct participants or target companies can add value to new schemes and reduce costs.

For companies to stay at pace with competitors or even comply with new demanding regulations and legislation, grow to appropriate sizes through mergers and acquisitions, and it has become increasingly important and has at least partly replaced organic growth. One result of this has been an increase in the number of M&A activity both within and across borders. Beside the number of M&A the value of these transactions has risen significantly through time, as well. More specific, Bruner (2004) mentions that the number of M&A deals per year increased from approximately 60 to 10.000 between the years 1895 and 2000, and the aggregate dollar value increased from approximately \$1 billion in 1895 to \$1 trillion in 2000. In 2004, worldwide M&A activity increased by over 40% to \$1.95 trillion resulting in the highest M&A activity levels (Thomson, 2005).

Regarding the world economic climate, and despite the fact that, there had been some years passed since the Lehman Brothers bankruptcy in 2007 and the world economic crisis in 2008, which deteriorate the economic climate, Cyprus had been affected in 2011 when was cut out of international financial markets. The situation became worse in June 2012 when the European Central Bank refused to accept Cyprus bonds as collateral for loans. Finally the March 2013 agreements between Cyprus and the Eurogroup included for the first time in the Euro zone the unpredictable scenario of a "bail in" on deposits over 100.000 euros.

Also agreed in the negotiations was the forced sale of the facilities of the three major Cyprus banks in Greece within the very short period of few days. Financial experts have estimated that

the sale of these assets was adverse to the best interests of the Cypriot banks costing them about 3.4 billion euros. Additionally, the Bank of Cyprus was forced to merge or better to acquire Laiki bank and its huge ELA (emergency liquidity assistance) debt. These arrangements essentially crippled both banks and the Cypriot financial industry and deteriorate the existing bad economic climate.

Today, there are 540 registered audit firms operating in Cyprus, proving the existing intensive competition in this sector. The recent economic and political crisis in Cyprus in 2013 certainly reformed the economic environment and led to more strictly controls of the application of the Regulatory Framework, affecting the specific professional services sector and demanding radical changes to be made. Stricter regulations and slower economic growth continue to impact professional services industry, causing many firms, especially small and mid-sized firms to see M&A in the future.

1.2. Aims and Objectives of the Dissertation

1.2.1. Aims of the Dissertation

This research project aims to examine whether there is a need and place for mergers and acquisitions regarding accounting/audit firms in Cyprus. The study will try to identify the impact of mergers and acquisitions on "big four" (PWC, KPMG, E.Y, Deloitte & Touche) and other small and medium audit firms operating in Cyprus.

1.2.2. Research Objectives

The specific objectives of this study are:

1. To analyze the new specific economic environment and the stricter regulatory framework, in which audit firms operate, and how these factors affect them.
2. To predict and measure the impact and possible outcomes of possible M&A in this sector, on accounting /audit firms in Cyprus.

Moreover, the study aims to identify and understand the factors influencing decisions for mergers and acquisitions among accounting/audit firms in Cyprus and the possible outcomes. The research questions to be used for unlocking the research issue include: 1.What are the changes and/or existing conditions of the i. Economic environment and ii. Regulatory framework in Cyprus, affecting the accounting/audit firms, especially after the economic and

political crisis in Cyprus in 2013? 2. What are the possible impacts or/and outcomes of mergers and acquisitions on accounting/audit firms in Cyprus?

1.2.3. Motivation driving this dissertation

During the last five years, especially after the economic and political crisis in Cyprus in 2013, the accounting profession had difficult times. More specific, accounting/audit firms in Cyprus were adversely affected mainly due to the shrinkage of their customer base. Until now, no research has been done regarding the factors affecting the decision for mergers and acquisitions of audit firms in the country. This research on this specific area can contribute and give answers to accounting/audit firms and to accounting practitioners in the country, regarding their future development plans.

1.2.4. Significance of the Research

M&A activity is not a new concept for Cyprus, as during the period 2000 to 2015 large scale consolidations took place in the banking and commercial sector of the economy. In contrast M&A regarding accounting/audit firms is not such familiar to the public or popular amongst audit firms operating in Cyprus.

Once the research objectives have been answered, it will provide sufficient and real knowledge background for evaluating the mergers & acquisitions in the specific professional services sector. The results arising from analysis and evaluation will direct in coming up with safe conclusions and recommendations which in turn could be for the benefit of professional practitioners', the Regulatory Bodies in the country and of course the government. The Regulatory Bodies can update the regulatory framework to reflect any new changes needed, whereas the government can take any necessary proactive actions that protect and serve the community. Furthermore, the findings of this research project can contribute to the industrial economic literature of M&A.

1.2.5. Approach to reach objectives

The Research work is mainly based on gathering the necessary information and the practical analysis of that information. A thorough literature review was needed where all the aspects regarding M&A are examined on a theoretical basis. Scientific books, academic journals and

publications were chosen in order to perform an appropriate analysis. In addition there was an examination, if similar researches exist which could be used for comparison.

The intention was to use a survey questionnaire and personal interviews to collect data among Accounting/Audit firms in Cyprus. Combining of Quantitative and Qualitative research, possibly will lead to better analysis and safe conclusions.

Now regarding the practical analysis of this information a quantitative research design was chosen to examine the proposed relationships among the various constructs in the research model. Information is provided about the collection of primary data along with the methods used for its collection and analysis. Also, information is given about the content and the layout of the questionnaire and the purpose of each of the questions included. The questionnaire was used in order to facilitate the collection of data from accounting/audit firms in Cyprus.

In addition, conduct interviews with key people in order to provide primary data related to the research objective. It will be used to gain an understanding of underlying reasons, opinions, and motivations. It will provide insights into the existing conditions and will help to develop ideas or hypotheses for potential quantitative research. Qualitative Research will also be used to uncover trends in thought and opinions, and dive deeper into the issues. The sample will mainly include respondents from top management in the audit firms in Cyprus.

1.3. Structure of the Dissertation

This research study is comprised of seven different chapters for an easier way of reference. At the beginning the analysis is around identifying the various theoretical concepts related to the M&A activity and registering them in an appropriate and proceeding order in Literature review topic. Following the discussion of the various issues as suggested by theory, an industry and market analysis is provided giving the latest characteristics of the accounting professional services sector in Cyprus and specific characteristics of the audit firms in Cyprus. The research paper includes the methodology used for gathering, analyzing and presenting the primary data. Finally the research study reaches conclusions and proposed recommendations regarding the specific issues, and suggested future research.

1.3.1. Chapter 1 - Introduction

This chapter presents the background of this dissertation and aims to explain the prospects of M&A related to accounting/audit firms in Cyprus. A brief overview of the economic

environment of Cyprus is provided, after the political and economic crisis in 2013. The aims and objectives of the dissertation are explained and the significance of the study is provided as well.

1.3.2. Chapter 2 – Literature Review

Through the literature review this chapter aims to present the different views, frameworks and concepts identified through the review of relevant literature. Several authors have written about the success and failure of M&A activity and most of them concluded that for M&A success is very important since the risks and costs associated are significantly high. M&A have been very popular amongst accounting/audit firms in the United States and Canada. Furthermore, the “big four” have made some important M&A during the last decade in Europe, Australia and Asia. The attempt is to provide the current view of this issue in the specific professional services sector, identify any prospects for M&A of accounting/audit firms and consider any conflicting outcomes that different authors have expressed on the M&A activity.

1.3.3. Chapter 3 – Market & Industry analysis

Market analysis will provide a clear understanding of the attractiveness and the dynamics of the specific professional services sector in Cyprus, whereas the industry analysis will provide an assessment of the current business environment and the structure of the industry of accounting/audit professional services sector. Examples of M&A in other countries in the specific industry have been used along with the experience gained from M&A activities.

1.3.4. Chapter 4 – Research Methodology

This chapter includes the main research approach. The research methodology provides the resources to find sufficient answers to the questions which are the aim and objective of this dissertation.

Quantitative method will be used for this research. This research method relies on collection and analysis of numerical data and statistics. Data collection instruments will be described and a detail outlay of research hypothesis and chosen variables for research will be carried out. Furthermore the statistical tests applied to conclude the research will be discussed.

In addition, Qualitative Research will be used as exploratory research. It will be used to gain an understanding of underlying reasons, opinions, and motivations. It will provide insights into the existing conditions and will help to develop ideas or hypotheses for potential quantitative

research. Qualitative Research will also be used to uncover trends in thought and opinions, and dive deeper into the issues. The sample will mainly include respondents from top management.

1.3.5. Chapter 5 – Analysis of collected Data

Data Analysis presents and discusses the results through descriptive and inferential statistics. More simply through this chapter, the basic information derived from the analysis of the information captured after using the quantitative and qualitative methods, is supplied and presents the findings which are analyzed, interpreted and presented after a comprehensive review.

1.3.6. Chapter 6 – Conclusions

After explaining the methodology, the analysis is presented and evaluated and finally the research project reaches to conclusions regarding the specific issues. Chapter 6 analyses and discusses the factors identified through the research with the aim to give answers to the research questions. To accomplish the mission of this research the most important findings of the research are presented and compared to the concepts of M&A activity identified in the literature review.

1.3.7. Chapter 7 – Recommendations and Future Research

This chapter based on the conclusions proposes the recommendations and the suggestions for further research. It also provides and explains the limitations of the research project.

CHAPTER 2: LITERATURE REVIEW

The following literature review targets at exploring what has been found by the existing researches regarding the related issues around the research subject of "Mergers and Acquisitions for accounting/audit firms in Cyprus and their possible impact on "big four" and other small and medium accounting/audit firms", in order to determine the context for the research subject. Therefore, the literature review is classified into two sections: (i) M&A activity for professional services sector in Cyprus, and (ii) Possible impact on accounting/audit firms operating in Cyprus.

2.1. Mergers & Acquisitions theoretical background

2.1.1. Mergers and Acquisitions overview

Companies grow in two main ways: either organically or by merging with or acquiring other companies. Although the number and volume of M&As broke records in the first decade of the 21st century, these transactions are not a recent phenomenon. (Petitt S.B. and Ferris R.K., 2013, p.3)

Mergers and Acquisitions are increasingly commonplace in both developed and emerging economies and given the frequency with which such activities occur, it is critical for business people and officials at all levels of government to have a basic understanding of why and how they take place (DePaphilis D., 2010, p.xiii). This complex phenomenon which M&A activity represents has attracted considerable interest from a variety of management disciplines over the past 30 years (Cartwright S. & Schoenberg R., 2006).

Mergers and acquisitions represent a major source of organizational change and organizations that can understand that there is a need for change, design the changes required and implement these changes more effectively and efficiently than competitors are more likely to survive and prosper, in contrast those that cannot adapt to change are likely to perish. (Roberts A., Wallace W. and Moles P., 2003, p.ix)

According to Martynova M. and Renneboog L. (2006), M&As come in "waves". As they have reviewed a century of transactions, they identified six major waves of M&As: 1890 to 1903,

1910 to 1929, 1950 to 1973, 1981 to 1989, 1993 to 2001, and 2003 to 2007. Their research provides that the end of a wave typically coincides with a crisis or a recession for example, the most recent wave ended with the subprime debt crisis in 2007. What triggers the start of a wave varies across time, but three factors have clearly driven M&A activity since the end of the 19th century: industrial and technological shocks, regulatory changes, and credit availability.

Petitt S.B. and Ferris R.K., (2013), briefly provided the specific characteristics of each M&A "wave". Beginning with the 1890s and early 1900s which witnessed what is considered the first wave of M&As. Companies in the USA tried to build monopolies in their respective industries. Most of the M&As that took place during the second wave in the 1920s involved small U.S. companies that were left outside the monopolies created during the previous wave.

The 1950s, 1960s, and early 1970s witnessed a third wave of M&As, during which companies tried to diversify their revenue streams and, in doing so, reduce their perceived riskiness. This trend led to the creation of conglomerates and holding companies composed of many unrelated businesses.

The late 1970s and early 1980s were characterized by relatively high inflation rates and, consequently, high borrowing costs. To remain profitable, many companies sought ways to reduce both operating and financing costs. Reaching a critical size was often viewed as the way to survive the industry "shake-outs" that inevitably characterize such economic periods, giving rise to the fourth wave of M&As.

The 1990s saw new justifications for acquisitions emerge, paving the way for a fifth wave of M&As, in which some companies made acquisitions to gain access to knowledge-based assets. This sixth wave of M&As came to an abrupt end following the subprime debt crisis of 2007. (Petitt S.B. and Ferris R.K., 2013, pp.4-6)

2.1.2 Definition of Mergers and Acquisitions

A merger is a combination of two corporations in which only one corporation survives and the merged corporation goes out of existence. In a merger, the acquiring company accepts the assets and liabilities of the merged company. (Gaughan A.P., 2007, p.12)

The main difference between a merger and an acquisition lies in the way in which the combination of the two companies is brought about. In a merger there is usually a process of

negotiation involved between the two companies prior to the combination taking place. If these are favourable, the outcome would be a merger of the two companies to form a new larger whole. In an acquisition the negotiation process does not necessarily take place. In an acquisition company A buys company B and company B becomes wholly owned by company A. Acquisitions can be friendly or hostile. In the case of a friendly acquisition the target is willing to be acquired. The target may view the acquisition as an opportunity to develop into new areas and use the resources offered by the acquirer. This happens particularly in the case of small successful companies that wish to develop and expand but are held back by a lack of capital. (Roberts A., Wallace W. and Moles P., 2003, p.21)

Furthermore some differences between mergers and acquisitions were outlined by Nicholas, Mastracchio and Zunitch (2002), namely:

- i. A merger allows parties to negotiate regarding the level of ownership that each company will have in the newly-formed company, however, in an acquisition, negotiation is around the relative value "compared to the new enterprise" and how this relates to the purchase price.
- ii. Mergers can be beneficial over acquisitions because this can be done tax free in some circumstances, and it does not need cash inputs.
- iii. Acquisitions can be beneficial over mergers because outright buying another company can be faster, and there is no confusion of ownership.

In terms of mergers, there are two broad types:

1. Upstream: an upstream merger is one where a smaller company is generally looking for a larger firm to merge into. Often larger firms find this kind of deal attractive, because it means that they can gain entry into new niche area, and
2. Downstream or Expansion: an expansion merger happens when a company is seeking out a merger simply to grow their firm.

American accountancy mergers expert, Sinkin (2007), states that "It's far more common to see smaller firms taking the initiative and seeking to merge "upstream."

2.1.3 Types of Mergers and Acquisitions

Mergers are often categorized as horizontal, vertical, or conglomerate, Abbas et al., (2014) explain the three main categories of M&As as following: i. Horizontal Merger occurs between companies in the same industry and basically is a business consolidation that occurs between firms which operate in the same space, often as competitors offering the same products or

services. Horizontal mergers are common in industries with fewer firms, as competition tends to be higher and the synergies and potential gains in market share are much greater for merging firms in such an industry. ii. Vertical Merger occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations. Most often the logic behind the merger is to increase synergies created by merging firms that would be more efficient operating as one. More simply involves acquisition of customers and/or suppliers. Similarly, vertical mergers are combinations of companies that have a buyer-seller relationship. (Gaughan A.P., 2007, p.13). iii. Conglomerate: a merger between firms that are involved in totally unrelated business activities. There are two types of conglomerate mergers: pure and mixed. Pure conglomerate mergers involve firms with nothing in common, while mixed conglomerate mergers involve firms that are looking for product extensions or market extensions. Similarly, a conglomerate merger occurs when the companies are not competitors and do not have a buyer-seller relationship. (Gaughan A.P., 2007, p.13)

In addition, M&A could also be classified as 'friendly' or 'hostile' (Chunlai Chen and Findlay C., 2003, pp.14-38). When an M&A transaction is undertaken in a friendly manner, the board of the target company agrees to the transaction. On the contrary, a hostile deal is one that pits the offer against the wishes of the target, since the board of the target refuses the offer.

Last but not least, M&A transactions could be either domestic or cross-border with regards to where the companies involved operate. A cross-border M&A transaction involves two firms located in different economies, or two firms operating within one economy but belonging to two different countries (Chunlai Chen and Findlay, 2003, pp.14-38). Accordingly, in domestic M&A transactions, the firms involved originate from one country and operate in that economy-country.

2.1.4 Reasons for Mergers and Acquisitions

The fundamental aim of Mergers and Acquisitions is the generation of synergies that can, in turn, foster corporate growth, increase market power, boost profitability, and improve shareholders' wealth. Accordingly, M&As should constitute positive net present value projects. (Alexandridis G., Petmezas D. and Travlos N., 2010)

Existing literature on M&A has placed a significant amount of efforts on exploring the reasons for M&A transactions. From all the motives suggested under various theories, Trautwein

(1990) distinguishes that M&A makers frequently cite synergy and valuation (the deals should have positive Net Present Value) objectives to justify their actions. He also noted that there is little evidence in both practice and research on the motives implied by the process and the raider theories. In contrast, Gaughan (2007) takes a different view to identify M&A motives by basing his search on empirical case studies and reaching to four main motives: (1) M&A is considered as a means for firms to grow quickly; (2) M&A firms hope to experience economic gains as a result of economies of scale or scope; (3) a larger firm as a result of M&A may have a better access to capital market, which later leads to a lower cost of capital, i.e., financial benefits; and (4) M&A is aimed at anticipated gains which a firm may experience when applying its superior management skills to the target's business.

According to Jerayr Haleblian et al., (2008), although scholars have proposed a number of acquisition experiences, they fall broadly into four categories: value creation, managerial self-interest (value destruction) and environmental factors.

Regarding the value creation, market power may be considered an attempt to appropriate more value from customers. The finance literature was first to explore the market power hypothesis; the idea that having fewer firms in an industry increases firm-level pricing power. In order to reduce the cost side of value creation, economists have also assessed whether acquisitions are motivated by the desire to increase efficiency. Scholars have argued that managers view horizontal acquisitions as a means of facilitating redeployment of assets and competency transfers to generate economies of scope. Additional research from finance literature suggests that acquisitions may be value enhancing when they are used to discipline ineffective and inappropriate managers.

Referring to the Managerial self-interest (value destruction), it is interesting that although much work assumes that acquisitions are made to maximize shareholder value (e.g., market power, efficiency, asset redeployment, market discipline), a substantial amount of studies make the opposing assumption—that acquisitions destroy shareholder value as managers attempt to maximize their own self-interest. A number of finance and management scholars have demonstrated important links between upper level compensation and ownership and acquisitive behavior.

Environmental factors, such as environmental uncertainty and regulation are certainly important reasons for M&As. Strategic management scholars have focused attention on

whether the fit between environment and firm strategy motivates acquisition behavior. Some of this work has shown that environmental uncertainty affects whether firms select to acquire or opt for other cooperative means. (Jerayr Haleblian et al., 2008, pp.469-502).

The Institute of Chartered Accountants of Nigeria (ICAN), as it is statutorily empowered to set standards and regulate the practice of Accountancy in Nigeria, developed guidelines for merger of small and medium-sized audit firms in pursuance of its desire to improve on the operations and quality of services members render to the public. From the practice monitoring exercise carried out so far by the Institute, it is evident that most sole practitioners and other small audit firms are faced with operational challenges in practice and as a result adopt different survival tactics which impact negatively on the quality of services rendered to their clients. The Institute is encouraging firms to merge so as to ensure improvement in the capacity of firms to carry out high quality audit assignments. The guidelines (ICAN 2011) for merger of small- and medium-sized audit firms are aimed at encouraging sole practitioners to exploit the benefits of size in their operations. They briefly provide that mergers can: increase efficiency, prevent duplication of facilities, diversification reduces risks, synergistic effect, reduces or prevents escalation of administrative costs/overheads, broadening of knowledge pool, experience and skill from which the firm can draw internally, increases fundraising ability thus ensuring larger pool of resources for optimal performance of the firm and it encourages geographical spread.

2.1.5 Reasons of failure for Mergers and Acquisitions

Roberts et al., (2003), points that it can be very difficult to say clearly whether a merger or acquisition has been successful, either in the short term or in the long term. The degree of success involved depends on the point of view of the observer, the timescale being considered and determinants of success being used for evaluation.

However, there are basic concerns often cited in the literature upon which there is more or less common agreement. The main reasons for a relatively unsuccessful outcome appear to be those listed below: an inability to agree terms, overestimation of the true value of the target, the target being too large relative to the acquirer, a failure to realize all identified potential synergies, an inability to implement change, shortcomings in the implementation and integration processes, a failure to achieve technological fit, conflicting cultures, a weak central core in the target. (Roberts et al., 2003).

In similar way DePaphilis D., (2010), mentions that, the notion that most M&As fail in some substantive manner is not supported by the evidence. In fact, the failure of an M&A to meet expectations depends entirely on how failure is defined. "The failure rate is low if failure is defined as the eventual sale or liquidation of the business, but is higher if failure is defined as the inability to meet or exceed financial objectives. Managers are often very satisfied with their acquisitions, so the failure rate is low if failure is defined as not achieving strategic, non-financial objectives". (DePaphilis D., 2010, p.43)

Nevertheless, there are three explanations to which this is most commonly attributed: overpaying, overestimating synergies and a slow pace of integration. Overpaying for a target firm, makes it much more difficult for the acquirer to earn its cost of capital, as there is little or no margin of error in achieving anticipated synergies on a timely basis. Furthermore, if acquirers have significantly overestimated potential synergy, they will be unable to realize these returns. Regarding the slow integration, it frequently turns out to be more challenging than anticipated. (DePaphilis D., 2010, pp.43-44)

Gadiesh O. et al., (2001, p.188) through their research show that 50-70% of acquisitions actually destroy shareholder value instead of achieving cost-revenue benefits and that mergers fail because of bad integration. Haransky S.A. (1999, p.13), points that the company's haste to find a fast "fix" through M&A has caused failure in many deals that should have succeeded and in some other cases.

Another similar distinction to DePaphilis' of the reasons of failures of M&A can be analyzed as follows : (i) poor understanding of the strategic levers, (ii) overpayment for the acquisition, (iii) inadequate integration of planning and execution, (iv) the lack of executive leadership and strategic communication, and (v) a severe cultural mismatch (Gadiesh et al., 2001, p.188). M&As fail because of insufficient planning, structuring and execution of the transactions, as that is summarized by Hunt P.A. (2009, p.721). Managers' ignorance about the potential clash of cultures is another reason why M&A fail in accordance to Bligh M.C. (2006). Other researches such as Grotenhuis F.D.J. and Weggeman M.P. (2002), confirm the previous observation.

2.1.6 Critical Success Factors for M&As

Critical success factors include those specific areas where an organization performs more than satisfactory and thus ensuring successful competitive performance. If an organization can effectively identify the critical success factors and control them, then the success of M&A will be greatly increased. (Turner J.R., 2004, pp.349-350).

Various research studies identify specific critical success factors such as effective communication throughout the M&A process, clear goals, reasonable time frame, top management commitment and support, competence of project team, flexible and comprehensive integration plan, learning organization, and manager capabilities. (Appelbaum et al., 2000a and 2000b, Schraeder M. and Self R., 2003). According to Jennings R. (1985,pp.37-39), in a successful M&A, it is clearly that the M&A program of the acquiring company is well structured, with comprehensive acquisition criteria, backed up by comprehensive analysis of various factors/areas, and proactive candidate identification and contact.

Hoang T. and Lapumnuaypon K. (2008), concluded on DiGeorgio (2002, 2003), that specifically classifies the success of M&As into two stages. The first stage is called front-end success and the second stage is integration success. The result of the front-end success is to select the right target for M&A which comprises many elements such as characteristic of leadership, the facilitating climate within the stakeholder team, adequate time and resources and tools for M&A analysis, possessing learning mechanisms, and understanding culture and organizational structure differences entailed in the analysis. Regarding the successful outcome of the second stage is to achieve the objectives, which needs selecting the right leadership, structuring the integration team, and detailed plan in terms of communication, integration, and people issue.

Gomes et al., (2013) have defined the events within the M&A phases as critical success factors. The review article by Gomes et al. (2013) methodically examines M&A research and it resulted in critical success factors, which can enhance performance in the pre and post M&As. The pre-M&A phase ends when ownership is transferred from the acquired business to the acquiring business.

The pre - M&A phase critical success factors can be summarized to the following: (1) choice and evaluation of the strategic partner, (2) payment for the right price regarding the target firm,

(3) size mismatches and organization, (4) accumulated experience on M&A, (5) courtship - that is the time needed for both sides to understand each other's informational asymmetry, financial and strategic fit, and the culture at the other company and cultural fit, and (6) communication before the merger.

The post - M&A phase critical success factors includes the following: (1) integration strategies, (2) post-acquisition leadership, (3) speed of implementation, (4) communication during implementation, (5) managing corporate and national culture differences.

2.2 M&A activity for professional services sector

2.2.1 Recent mergers between large accounting/audit firms

Although U.S. accounting firms have used mergers and acquisitions to help build their businesses and expand nationally and internationally since the early part of the twentieth century, in the late 1980s Big 8 firms began to merge with one another.

Numerous attempts have been made for large scale mergers during the corporate merger wave of the 1980s and 1990s. More specific, in 1984 an attempt by Price Waterhouse and Deloitte Haskins & Sells to unite failed to materialize. In 1986, Peat Marwick and the European-dominated firm KMG merged to form KPMG. In 1997-98, Ernst & Young entered into merger talks with KPMG, but the proposed merger between the two firms did not proceed due to concerns about increasing regulation of the industry and costs. Also in 1989, Price Waterhouse and Arthur Andersen held merger talks that failed to unite the firms. (Zeff S., 2003, p.271)

The first of the large scale mergers was that of Ernst & Whinney and Arthur Young & Co., which became Ernst & Young in June 1989. Two months later, another merger took place, merging Deloitte Haskins & Sells with Touche Ross creating Deloitte & Touche. The Deloitte & Touche merger was complicated by certain offices of the former audit firms, merging with various others of the Big 8. More specific in the United Kingdom, Deloitte Haskins & Sells merged with Coopers & Lybrand, whereas in Australia, Touche Ross merged with KPMG. Furthermore, nine years later in July 1998, Price Waterhouse merged with Coopers & Lybrand to become PricewaterhouseCoopers. (Bond K.D. 2010).

In 2001, Arthur Andersen LLP (Andersen) was the fourth-largest public accounting firm in the United States. On March 7, 2002, Andersen was indicted by a federal grand jury and charged with obstructing justice for destroying evidence relevant to investigations into the 2001 financial collapse of Enron, and as a result Arthur Andersen dissolved. At the time of its indictment, Andersen performed audit and attest services for about 2,400 public companies in the United States, including many of the largest public companies in the world. In addition, Andersen served private companies and provided additional professional services such as tax and consulting services. Between October 2001 and December 2002, 1,085 public companies audited by Andersen switched to a new auditor of record. From the 1,085 companies reviewed, 938 switched to one of the Big 4 (87%), and 147 switched to a non-Big 4 firm (13%). Among the Big 4, Ernst & Young attracted the largest number of former Andersen clients, followed by KPMG, Deloitte & Touche, and PricewaterhouseCoopers. Of the former Andersen clients who switched to a non-Big 4 firm, 45 switched to Grant Thornton (4%) and 23 switched to BDO (2%). (GAO, 2003).

2.2.2 The need for mergers of accounting/audit firms

In their study of the effects of globalization on the major accounting firms, Perera et al., (2003), have examined the need and motives behind those mergers. First, the effects of deregulation in client industries, that is the reduction or elimination of government power in client industries, usually enacted to create more competition within those industries, especially in the banking and telecommunications sectors. Globalization and technology were all important factors. Deregulation and globalization have both led to increasing audit firm client sizes, through client mergers and the increasing occurrence of multinational enterprises respectively (Bond K.D. 2010). To be able to audit these organizations efficiently, audit firms need scale both in terms of personnel but also geographic reach (Kirsch et al., 2000, Andon and Free, 1999/2000). Advances in technology now mean that larger audit firms are more able to efficiently provide these services, as the communication and control costs have reduced.

Any one or a combination of several key factors were quoted by the Big 4 and others as encouraging the mergers of the Big 8 in the 1980s and 1990s—notably the vast growth of U.S. businesses internationally, desire for greater economies of scale, and need and desire to build or expand industry specific and technical expertise, among others. First, the trend toward corporate globalization led to an increased demand for accounting firms with greater global reach. Second, some firms wanted to achieve greater economies of scale as they modernized

their operations and built staff capacity and to spread risk over a broader capital base. Third, some firms wanted to build industry-specific or technical expertise as the operations of their clients became increasingly complex and diversified. Finally, some firms merged to increase or maintain their market share and maintain their market position among the top tier.

According to representatives of the Big 4 firms, globalization was a driving force behind the mergers of the 1980s and 1990s. As their clients expanded their operations around the world, the top-tier firms felt pressure to expand as well as to provide service to their clients. The trend toward corporate globalization, which continues today, was encouraged in part by the lowering of trade barriers. Moreover, by the mid-1990s, the overall economic environment was changing dramatically as technological and telecommunications advances changed the way businesses operated.

As a result, large U.S. companies operated worldwide and more foreign-based companies entered U.S. markets. Although all of the Big 8 had offices in certain countries, they did not have extensive networks that enabled them to provide comprehensive services to large multinational clients. Some of the smaller Big 8 firms had difficulty attracting and retaining strong foreign affiliates. Mergers with compatible firms were the quickest way to fill gaps in geographic coverage. For instance, in the 1980s, Ernst & Whinney had an established network in the Pacific Rim countries while Arthur Young did not. Likewise, Price Waterhouse had a network in South America while Coopers & Lybrand's network was in Europe. In addition to expanding their reach and staff capacity, firms believed that they needed to establish global networks to stay abreast of country-specific generally accepted accounting principles and regulations.

Globalization also had raised a number of tax issues that required firms to have networks able to accommodate clients with operations in a growing number of countries. To have successful global networks, the Big 8 needed affiliations with prominent foreign firms that dominated the market for audit services in the energy and gas and telecommunications industries, respectively. Officials also said that the mergers allowed them to achieve economies of scope by offering a broader range of services to clients. As firms merged, they were able to create synergies and offer their clients extensive services beyond traditional audit and corroborate services such as tax consulting, internal audit, and information systems support. In order to remain competitive, some firms merged to build upon different operating strengths such as consulting services versus auditing. For example, the Deloitte Haskins & Sells and Touche Ross merger brought

together a firm with substantial audit and tax consulting operations and a firm with a strong management consulting business (GAO, 2003).

In addition, included in the report, (GAO, 2003) that some firm executives provided that they had to build their technical expertise in areas such as derivatives and other complex financial arrangements used by their clients. Firms also needed to build their expertise to address a series of changes to the U.S. tax code and the regulatory requirements faced by their clients in other countries. Strengthening a firm's technical expertise was critical, because some firms believed that clients were increasingly selecting their auditors based on specialized expertise and geographic coverage. Firms began to provide technological support and services to clients that were modernizing their operations.

2.2.3 The impact of accounting/audit firm mergers

Existing research on M&A activity designates that regulatory bodies or agencies, that are concerned about market concentration are closely monitoring any mergers between large public accounting/audit firms due to increased post-merger audit market concentration (McMeeking et al., 2007). For instance, in its 2008 report on market concentration for audits of public company, the U.S. Government Accountability Office indicated that the market concentration at that time lacked significant adverse concentration effect required for immediate action (GAO, 2008). Theoretically, a high market concentration level designates low competition in a market (Besanko et al., 2013).

Information about market concentration of service industry is certainly useful to governmental agencies or regulatory bodies, companies, and research academics, and of course each one for its own different purposes. Factually, the major concern of the interested parties has been whether the level of competition in the audit services market was reduced after each merger. Academic research into these concerns has typically focused on two key inter-related areas: first, the impact of mergers on the level of concentration in the market for audit services and, second, the impact of the mergers on the level of competition in the market (Bond K.D. 2010).

As it is well known, a substantial portion of demand in the market is mandated. Publicly traded firms are compelled to purchase audit services, and there are no services from outside the industry that can legally serve as substitutes. The market's supply side is highly concentrated.

Among publicly traded companies in the U.S., for example, the majority of audit engagements and almost all audit fees involve just four audit firms - the Big 4. In 2010, the Big 4 handled 67% of audit engagements and collected over 94% of audit fees. In addition, as stated in their research, Velte P. and Stiglbauer M., (2012), provided that audit markets in many other developed economies exhibit similar concentration.

Obviously, since 1988, the audit market has become increasingly concentrated, especially in the market for large national and multinational company audits, leaving these companies with fewer choices. These highly concentrated markets indicate that the Big 4 have the potential to exercise significant market power. Regardless of the ability of the firms to exercise market power or not, consolidation has limited the number of choices of accounting firms for large national and multinational companies that require firms with essential staff resources, industry specific and technical expertise, extensive geographic coverage, and international reputation. In addition the choices could be further limited due to conflicts of interest, independence rules, and industry specialization.

According to GAO, (2003) report, by any measure, the large public company audit market is a tight oligopoly, which is defined as the top four firms accounting for more than 60 percent of the market and other firms facing significant barriers to entry into the market. In the large public company audit market, the Big 4 now audit over 97 percent of all public companies with sales over \$250 million, and other firms face significant barriers to entry into the market. When comparing the top 25 firms on the basis of total revenues, partners, and staff resources, the Big 4 do not have any smaller-firm competitors, a situation that has given rise to renewed concerns about a possible lack of effective competition in the market for large company audit services.

The Big 4 accounting firms dominate internationally as well, with over \$47 billion in total global net revenues for 2002, according to a February 2003 edition of Public Accounting Report. Moreover, information provided by officials from foreign regulators suggests that the national markets for audit services to large public companies in the other countries tend to be as highly concentrated as they are in the United States, with the Big 4 accounting firms auditing a vast majority of these large public company clients. For example, according to regulatory officials the Big 4 audited over 80 percent of all public companies in Japan and at least 90 percent of all listed companies in the Netherlands in 2002, while the Big 4 firms were the auditors for virtually all major listed companies in the United Kingdom. According to Italian regulators, in 2001 the Big 5 audited over 80 percent of listed companies in Italy. (GAO, 2003).

Certainly, the smaller accounting/audit firms face considerable barriers to entry into the Top-tier of audit firms, such as the lack of capacity and capital limitations, when competing for the audits of large national and multinational public companies, in contrast to the Big 4, which have established global operations and infrastructure. First, smaller firms generally lack the staff resources, technical expertise, and global reach to audit large multinational companies. Second, public companies and markets appear to prefer the Big 4 because of their established reputation. Third, the increased litigation risk and insurance costs associated with auditing public companies generally create disincentives for smaller firms to actively compete for large public company clients. Fourth, raising the capital to expand their existing infrastructure to compete with the Big 4, which already have such operations in place, is also a challenge, in part because of the partnership structure of accounting firms. The firms, including the Big 4, all stated that they did not foresee any of the other accounting firms being able to grow to compete with the Big 4 for large national and multinational public company clients in the near future.

2.2.4 The effects on the merged accounting/audit firms

Ding R. and Jia Y., (2012), through their research have identified four distinctive areas being affected, regarding the audit size and audit quality, as a result of a large scale merger. The specific areas include:

- i. Client specific quasi-rents
- ii. Auditors liability
- iii. The influence of important clients
- iv. Auditor wealth

i. Client-specific quasi-rents quasi

Although audit technology is characterized by significant client-specific start-up costs, DeAngelo (1981), argues that larger auditors (based on the list of clients) have reduced the incentive to “cheat” to retain any individual client because auditors lose quasi-rents from all other clients when lower-than-promised audit quality is detected and disclosed. Apparently, large auditors have more to lose than their smaller competitors under such circumstances. It follows logically that the merged firms (big 4 audit firms) with an enlarged client base has more incentive to supply audit services of higher quality.

ii. Auditor's liability Dye (1993), presents that the importance of an audit comprises of two components: an “informational” component, which refers to the value of an audit to improving

resource-allocation decisions, and a "liability" component, which represents the option value of the claim financial statement users have on the auditor in the event of an "audit failure." For auditors, their largest liability derives from clients who subsequently experience financial distress because investors of financially distressed firms regard the auditor as an associated party that has to compensate for their loss. In their research, Jones F. and Raghunandan K. (1998) show that top-tier auditors were less likely to serve as independent auditors for financially distressed firms and high-tech firms in 1994 relative to 1987 because these auditors tried to reduce their exposure to litigation by avoiding more risky clients. Due to the fact that large auditors have more exposure to litigation risk, merged (large) auditors are better motivated to deliver audit services of higher quality to prevent potentially substantial losses arising from "audit failure."

iii. The influence of important clients

In contrast to their smaller rivals, which sometimes heavily depend on a small number of "important clients," big 4 with a more diversified customer base are less likely to compromise when facing pressure from individual clients, partly because large auditors have enhanced negotiation power over their clients. Furthermore, a merger, which substantially increases the size of an auditor, creates synergies by effectively combining the resources of different firms, thus enabling the merged firm to supply even more comprehensive service to clients. Thus, resource reallocation is less likely to be a problem for large auditors in the event of client switching. Overall, the influence of individual clients is perceived to be a decreasing function of auditor size, indicating that large auditors are less likely to sacrifice audit quality when under pressure from clients.

iv. Auditor wealth

It is expected that an auditor's wealth is positively associated with its reputation. This wealth will lose value in the case of audit failure. Dye (1993), suggests that wealthier auditors suffer more from "scandal" and litigation risk and thus have greater incentive to supply high-quality service to protect their reputations and wealth. Furthermore, wealthy auditors are more capable of attracting the best professionals in the industry and committing more resources to training and research, enabling them to provide service at a higher level. Following the existing literature, we use the earnings quality of clients to reflect audit quality. It is expected that the merger that created PWC led to increased audit quality because the merged firm (with strengthened auditor independence) is more capable of constraining its clients from opportunistic earnings management. According to the research of Ding R. and Jia Y., (2012),

the effects of the PWC merger spread to other big auditors: all of them are able to charge higher fees, and the average client size for each firm increased in the post-merger period. This suggests that big 4 auditors gained more market power, which enables them to become more independent and thus more effective in constraining their clients from earnings management.

CHAPTER 3: MARKET AND INDUSTRY ANALYSIS

3.1 Introduction

Cyprus is currently facing profound and unique challenges. The economy is suffering its second recorded recession since 1974, unemployment has risen to record highs, especially among the young, and the government failed to refinance its debt and recapitalize the bank sector without external assistance and for first time in the Euro zone the unpredictable scenario of a "bail in" on deposits over 100.000 euros, has been imposed.

While the Cyprus economy has traditionally bounced back from difficulties, as a member of the European Union and the euro area, Cyprus can again successfully meet the challenge of being part of the enlarged European family and this is evidenced by the positive and favourable evaluations and comments of the European Commission, the International Monetary Fund and other international organizations such as Standard & Poor's financial services, Fitch Ratings and Moody's Investor Service.

The purpose of the Chapter 3 is to critically review the business and the financial environment in Cyprus, to look into the professional services industry and into the authorities that are responsible for regulations and supervision.

3.2 Business Environment

Cyprus has a certain political stability and is well placed at the eastern-most point of Europe, occupying a key strategic position at the gateways of Europe, Asia and Africa. Its geographic location together with the Cypriot tax and business environment make Cyprus the ultimate country for investors and businesses moving into Europe and for European business expanding internationally. Cyprus offers many key benefits that contribute to the success of business and investments.

The crisis has damaged the image of the island's financial institutions, as well as its reputation of an international business center, but Cyprus' potential has not changed. The advantage of Cyprus as a jurisdiction over other direct competitors – Malta, Luxemburg, and Ireland – have to do with the low corporate tax rate, the excellent network of double tax treaties, as well as a

number of other benefits related to an efficient tax system. Another important advantage of Cyprus though is the excellent human capital possessed, with highly-educated professionals working in the field of law, accounting (audit and taxation), as well as other corporate services.

Cyprus is a small and adaptable free-market economy built upon tourism, financial and professional services and real estate, which account for almost 85% of the island's total GDP. Despite the challenging economic environment that Cyprus currently faces, the financial assistance recently received from the European Support Mechanism (ESM) fully covers Cyprus' debt repayments and expected budgetary requirements for the near future. Structural reforms are already taking place both in the banking sector as well as in the public and private sector that will significantly improve the competitiveness of Cyprus. Despite the current economic short-term challenges, the discovery of significant quantities of natural gas in Cypriot exclusive economic zone raises the prospect of a resurgence of the Cypriot economy in the medium to long term. (Deloitte, 2015).

Cyprus has a highly advanced telecommunications infrastructure system with a number of companies providing modern telecommunication products and solutions. Furthermore the two international airports in Cyprus are served by over 35 international airlines. New airport terminals at both Larnaca and Pafos international airports can serve up to 10 million passengers per annum. A high standard of living, the low cost base center and skilled workforce Economic indicators place Cyprus amongst the few international financial centers with low operational costs. The costs of setting-up and maintaining a structure in Cyprus are low when it comes to incorporation costs and fees for meeting Cypriot tax and company law compliance obligations. The cost of labor, rents and other infrastructure are highly competitive and often lower than in other European countries. Cyprus has a young and flexible work force, with university education obtained predominantly in the UK and the USA.

Cyprus has a mixed legal system of English common law and civil law. The regulatory framework is as robust as for most of EU partners. Being a British colony until 1960, Cyprus' system is mainly based on its English counterpart. With a highly skilled legal and accounting profession, comprising mostly of lawyers and accountants that are members of the UK Block and Chartered Institutes, who are under external monitoring and abide to the highest of standards on regulatory and ethical matters, it is merely a misconception and no doubt unfair, for Cyprus to have the stigma of sub-standard integrity. (Christoforou C., 2013, p.21)

3.3 Professional Services Industry

During the last decades, the economy has shifted from agriculture to light manufacturing and professional services. Economic liberalization was enhanced in 2004 with membership in the European Union, although privatization has yet to occur in key sectors as telecommunications, electricity providers and other utilities.

The financial and business services sector has been a main driver of the economy and source of employment for the past few decades and, with traditional industries in decline and some years to wait before Cyprus' energy resources can be commercially exploited; it has to be the main driver of the economy's recovery.

Despite the current economic situation in Cyprus, the professional services sector continues to be strong. Staffed by experienced and highly qualified professionals, this sector is supported by a favourable and constantly updated tax regime and is the backbone supporting foreign investors in Cyprus. The expertise of the country's lawyers, accountants and other specialists – often UK or US trained – offer full and efficient services in all aspects of company law and tax planning. With around 80% of Cyprus' economy based on the provision of services, this sector is one of the most important in the country. Cyprus was the first country in the world for the Institute of Chartered Accountants in England and Wales (ICAEW) and the Chartered Institute of Management Accountants (CIMA) to set up training outside the UK – strengthening Cyprus' reputation as a center of excellence for professional services.

3.3.1 The Structure of Professional Services Industry

The Cypriot audit sector now has more than five hundred registered audit firms and more than three thousand five hundred active registered accountants (ICPAC, 2015). The numbers prove the existing intensive competition in the specific sector. The big 4 (PwC, Deloitte, E.Y and KPMG), are also the leading audit firms in Cyprus - as worldwide, evidenced by the numbers and performance of the big 4 represented in Table 3.1.

Table 3.1

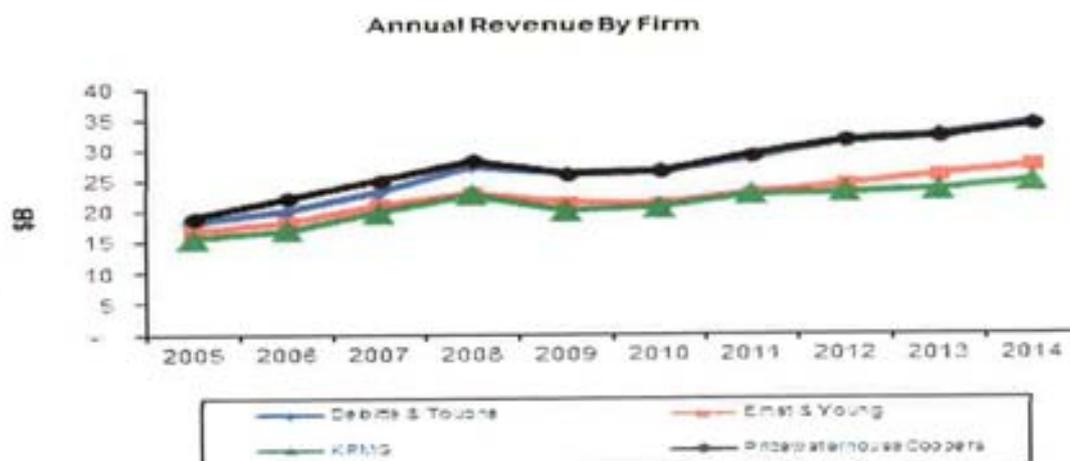
AUDIT FIRM	EMPLOYEES IN CYPRUS	EMPLOYEES WORLDWIDE	NUMBER OF COUNTRIES OPERATE IN	REVENUES WORLDWIDE (billion \$) 2014
PWC	903	180.000	158	34
KPMG	767	152.000	156	24,8
DELOITTE	500	210.000	150	34,2
ERNST & YOUNG	176	152.000	150	27,4

Table 3.2 and the graph in Figure 3.1 provide a comparison of the big 4 of the historical revenue performance during the periods 2009 to 2014 and 2005 to 2014 respectively. The views show that big 4, despite the global crisis, continue to grow and increase their yearly total revenues.

Table 3.2

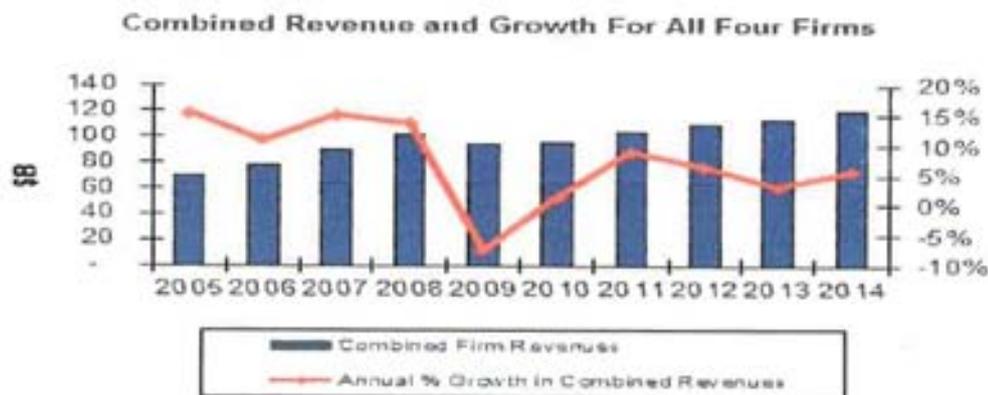
In Billions of US\$	2009	2010	2011	2012	2013	2014
Deloitte	26.1	26.6	28.8	31.3	32.4	34.2
E&Y	21.4	21.2	22.9	24.4	25.8	27.4
KPMG	20.1	20.7	22.7	23.0	23.4	24.8
PwC	26.2	26.6	29.2	31.5	32.1	34.0
Combined Firms	93.8	95.1	103.6	110.3	113.7	120.3

Figure 3.1



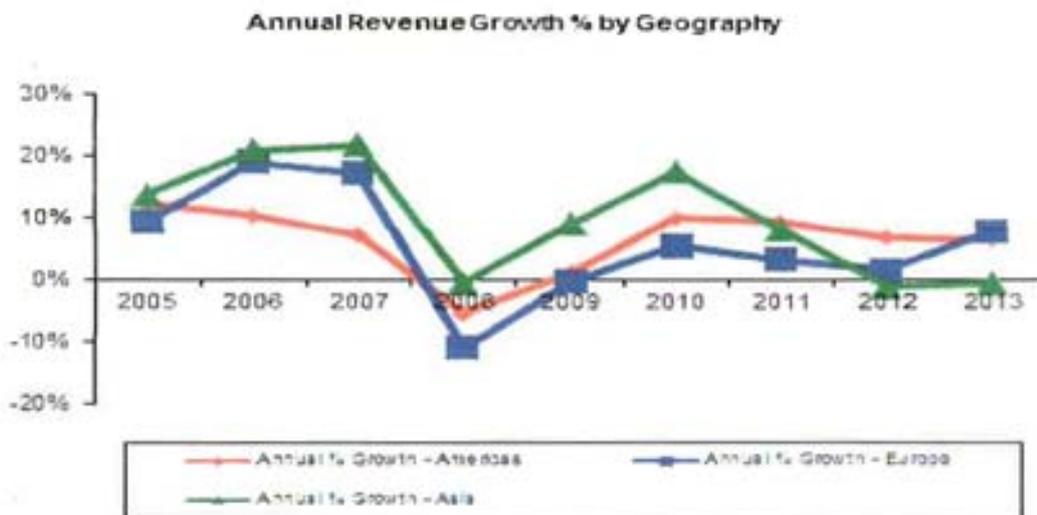
The combined revenue of the big 4 is presented in the graph Figure 3.2, providing a continuous increase through the period 2005 to 2014 with the only exception in year 2009. Furthermore the combined growth percentage (%) confirms the observation for continuous growth of combined revenue.

Figure 3.2



Observing the trend of annual revenue growth % by area (America, Asia and Europe), as it is provided by graph Figure 3.3, it is obvious that more or less the trend is similar to all geographical areas.

Figure 3.3



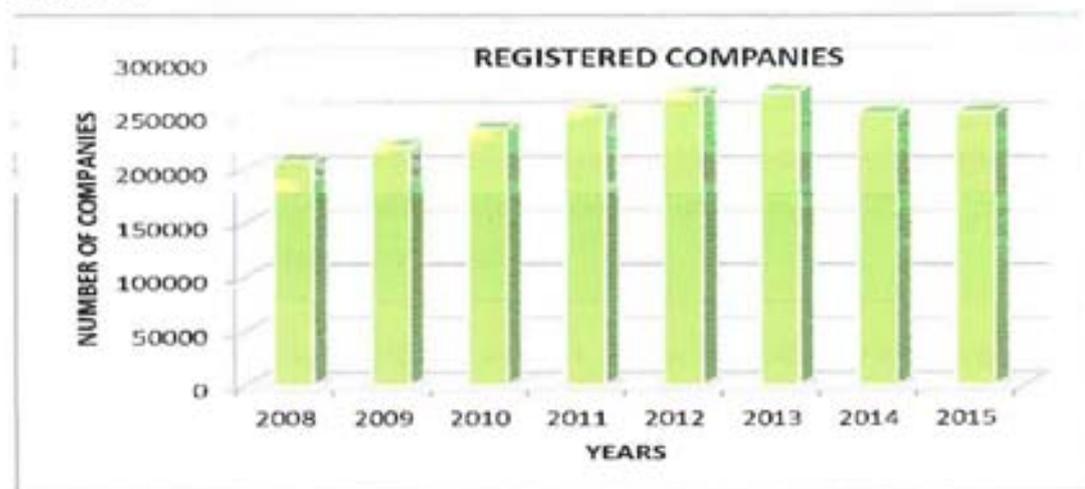
3.3.2 The Market for Professional Services Industry

According to the Department of Registrar of Companies and Official Receiver there are up today, over 252.871 registered organizations (companies, partnerships, business names and oversea companies) in Cyprus. Table 3.2 and graph Figure 3.4, show the number of total registered companies in Cyprus for the period 2008 to 09/2015. In 2004 there is a reduction in the total number of organizations registered, mainly due to the Cyprus' economic and political crisis in March 2003, which resulted in massive bankruptcies and liquidations. Certainly, there is a recoup in the following year, evidenced by the increase of the registered companies up to 09/2015.

Table 3.2

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>09/2015</u>
TOTAL REGISTERED COMPANIES	207.614	221.089	237.372	254.227	269.345	272.157	251.748	252.871

Figure 3.4



According to Companies Law (Cap 113), all Limited Liability companies either public or private are required to have a statutory annual audit by a resident approved auditor as the annual Company Income declaration to the Director of Inland Revenue needs to be based on

audited accounts in order to be accepted. As from 1st January 2006 a self-employed person whose turnover exceeds the threshold of €70,000 must submit audited financial statements to the Director of Inland Revenue. According to the Social Insurance Services, the number of the registered self-employed persons was 28.211 by the end of 2014.

Privatization of Cyprus Telecommunication Authorities (cyta) and Electricity Authority of Cyprus (EAC) obviously will increase the demand for statutory audits in the next few years. Furthermore, according to the General Auditor of the Republic of Cyprus, financial and managerial control of about 450 municipalities, community councils, water works, drainage boards, School Boards, provident funds and other organizations will be taken by private audit firms because of staff shortages and the accumulation of large volumes of older cases in the Audit Office of the Republic of Cyprus.

3.3.3 Regulatory Body

The Institute of Certified Public Accountants of Cyprus (ICPAC) has a solid presence in the economic and social life of Cyprus, cooperating with organizations like the Government, the Central Bank, the Cyprus Stock Exchange, the Securities and Exchange Commission, the University of Cyprus, the Cyprus Investment Promotion Agency (CIPA) and the Cyprus Chamber of Commerce and Industry.

The adoption of law 76(I)/2001 by the House of Representatives, which harmonized the Cyprus legislation with the EU Directives and assigned ICPAC as the competent body to regulate and supervise the accountancy profession in Cyprus, as from February 2002, was probably the most important step in the Institute's evolution.

In particular, ICPAC is a competent authority for the licensing and monitoring of its members under the Law Regulating Companies Providing Administrative Services and Related Matters (2012). The Institute is the only recognized by the Council of Ministers body of accountants in Cyprus and the competent authority for the licensing of statutory auditors and audit firms. The Institute is also a competent authority for the exercise of other activities as provided by relevant laws and by powers assigned to it by the Council of Ministers, a Minister or other authority.

The Institute's principal objectives include the provision of an organizational framework for all professional accountants, the support and the promotion of the activities and interests of the accountancy profession, the safeguarding of the reputation of the profession and adherence to the Code of Ethics by all its members, as well as the continuous professional development and updating of the members on issues relevant to accounting, auditing and other business matters.

Every licensed firm/statutory audit firm is obliged to comply with the provisions of the International Financial Reporting Standards, the International Standards on Auditing, the Code of Ethics for Professional Accountants (identical to the IFAC Code), ICPA's Directive on the prevention and suppression of money laundering activities and all the technical standards and guidelines that are applicable to the accountants' work. Moreover, audit monitoring visits to the audit firms are carried out by authorized persons of the ICPAC at least once every six years.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

The Research work is mainly based on gathering information and the practical analysis of that information. The first part of Research Paper is literature review, where all the aspects regarding M&A activities are examined on a theoretical basis.

This chapter aims to give in detail how the research for this dissertation will be conducted. Detail information is provided about the collection of both primary and secondary data along with the methods used for its collection and analysis. Also, information is given about the content and the layout of the questionnaire such as the types of questions used and the purpose of each of the questions included. An extensive report is also included about the determination of the size of the sample and how this is going to be selected.

This chapter also refers to the type of the interviews used in the research along with the way they were arranged and undertaken. In-depth interviews with Partners of audit firms were conducted in order to have a complete view of the previous experience and lessons learned. During the data collection more attention was given to ascertain the validity of data and also in order to capture the interviewees' opinion concerning the research questions. The interviews were analyzed for regular issues and content analysis to highlight and underline the impact of M&As on big 4 and other small and medium audit firms in Cyprus and identify possible areas of improvement regarding future M&A activities.

For the development of this dissertation both primary and secondary researches were conducted. Primary and secondary data was gathered, analyzed, and afterwards presented.

The process that was followed for gathering and analyzing the data includes:

- i. Gathering of secondary data
- ii. Decision on the methods to be used
- iii. Testing of the questionnaire
- iv. Selecting the sample
- v. Giving the questionnaire on a large scale
- vi. Preparing for the interviews
- vii. Undertake the interviews
- Viii. Analyze the results of the interviews and the questionnaire

4.2 Research Approach

When selecting a research approach, there are mainly two research types: i. deductive approach and ii. inductive approach. The main difference between deductive and inductive approaches to research is that whilst the deductive approach is aimed at testing theory, an inductive approach is concerned with the generation of new theory emerged from the data. Deductive approach is usually used when the researcher develops a theory and hypothesis and designs a research strategy in order to test that hypothesis. The inductive approach is used when the researcher gathers data and develops a theory as a result of the data analysis. The main purpose of this research work was not to make a simple theory but by using a combination of both approaches to investigate certain variables in depth in order to provide a better understanding of the research subject. (Burney A.M and Mahmoud N.,2006).

4.3 Description of the Business

The survey was applied to seventeen local accounting/audit firms in Cyprus, including two from the big 4.

There were not any important difficulties of applying the sample survey – except the time pressure, due to the willingness and of course the educational level of the interviewees. The questionnaires were given to forty senior managers and partners in the seventeen audit firms and answered by thirty of them, in four different departments and specifically of accounting department, audit department, tax and consulting departments.

4.4 Secondary Research

The gathering of secondary research was done in two different phases.

Phase 1

During the initial stage of the secondary research extensive literature on M&A activities was reviewed in order to:

- Decide on the main areas to address;
- Prepare the questionnaire;
- Design the questions for the interviews.

Moreover, during this stage, literature on how to research an area was reviewed. This was done in order to decide on how to conduct the primary research, analyze the primary data, and present it.

Phase 2

During this stage information was collected on two main areas:

- Mergers and Acquisitions worldwide;
- The effects/impact of M&As.

This stage of the secondary research was conducted to accomplish the following:

- To decide upon the accounting/audit firms to examine;
- To decide on the numbers of people to be approached;
- To decide on the numbers of people to be interviewed and from which accounting/audit firms.

4.5 Primary Data

The gathering of primary data is necessary for exploring the section of this research work which concerns the need for Mergers and Acquisitions of accounting/audit firms in Cyprus and possible impacts. For better results, the primary research was arranged conducted by following specific steps.

4.5.1. Decision on the Methods to be used

For the collection of the primary data it was decided to use two methods since mixing methods provides more perspectives on the phenomena being investigated.

(a) Selected Methods

The two methods that were selected for the collection of primary data are the following:

i. Questionnaire

The data collection method chosen for the research is the method of questionnaires survey - a sample of the questionnaire is given in Appendix 1. The main reasons for selecting and using the questionnaire are because of limited time and it is a fast method of collecting data and once it is prepared, it can be given to several people simultaneously, and thus time can be saved.

Additionally the questions must be standardized as it is applied to people with specific academic and professional qualifications and this could be done more effectively through a questionnaire.

(ii) Interviewing

Interviewing was selected as the second method of gathering primary data because of the flexibility that it gives to the interviewer to do the following:

(A sample of the interview questions is given in Appendix 2).

- To ask supplementary questions when needed in order to get a better understanding of the interviewees' ideas and views;
- To identify some non-verbal clues (e.g. the inflection of the voice, the eye movements, and the facial expressions) which help in drawing more conclusions;
- To explain the questions to the interviewees whenever any doubts on them arise;
- To avoid misunderstandings by asking for clarification when uncertainties arise.

4.5.2 Preparing the Questionnaire

When preparing the questionnaire attention is denoted on two main areas:

- ❖ The contents of the questionnaire;
- ❖ The layout of the questionnaire.

(a) Contents of the questionnaire

The questionnaire that was prepared is composed of the following parts.

i. Preamble

The questionnaire begins with a preamble which informs the respondents about the subject of the investigation. In the preamble it is stated that since the respondent's answers are given anonymously, they cannot be tracked back to them in any way. The reason for making this statement is to increase the response rate and to make sure that the respondents will not hesitate to tell the truth.

ii. Instructions

A small paragraph giving brief instructions on how to complete the questionnaire follows the preamble. The aim of this paragraph is to make it easier for the respondents to complete the questionnaire.

iii. Questions

The main part of the questionnaire is the actual questions, whose wording, type, purpose, and sequence were chosen very carefully.

Wording of questions

The wording that was used for the questions was simple. Also, "leading" questions which suggest indirectly what the right answer might be were not included.

Type of questions

The questions are distinguished based on two different criteria: whether they are "closed" or "open-ended" questions and whether they are personal questions or questions of opinion.

i. "Closed" questions

For the "closed" questions the respondents were simply asked to tick boxes. All the possible (choices) were prespecified. "Closed" questions were used because they are quick to complete and analyze, they provide answers that are easier to interpret, and they help avoid bias.

The primary aim of these questions is to get a "quantitative" result (e. g. 40% of the sample prefer M&A, while 60% of them do not).

ii. "Open-ended" questions

"Open-ended" are the questions that were left open in order to let people respond in the way they wanted, without restricting them. Contrary to "closed-questions", "open-ended" questions can reveal more because respondents are not constrained in their answers. Since the respondents can answer in their own words, unanticipated perspectives on several issues can be obtained. For example, by asking the respondents to state their expectations from M&A activities without giving them any options, some answers can be obtained which it would be impossible to be included as options.

iii. Personal questions

These questions ask for the biographical details of the respondents and all of them were closed.

iv. Questions of opinion

Questions of opinion are those for which there is no correct or wrong answer. The respondents are free to state their own opinion. Some of these questions were "closed" while more of them were "open-ended".

Purpose of the questions

The questions and the reasons for presenting them in the questionnaire are presented below:

Questions 1 to 6 ask for personal information. These questions are necessary for profiling the respondents.

Question 7 aims to find out whether respondents agree or disagree with the statement that the economic environment in the country during the last five years has generally deteriorated businesses' operations. The answers to this question will help to confirm the bad economic conditions existed in Cyprus' economy.

Question 8 aims to find out how the respondents' clients have been affected by the current economic environment and in what degree.

For question 9, respondents are asked to confirm or not the stability of the Cyprus' economy and economic environment and the improvement of the business environment during the last year.

Question 10 asks for the initial expectations of the respondents, whether there would be good prospects for Cyprus' economy in the next five years. The expectations or not can indicate whether they are ready to accept changes in their organizations.

Questions 11, 12 and 13, try to find out whether the Regulatory framework has stringent during the last years and whether ICPAC has become more demanding from audit firms.

Question 14 also aims to see how respondents agree or disagree with the statement that a possible M&A deal would have positive impact upon the merged companies. According to literature, a good percentage of M&As have a positive impact to the combined entities.

Questions 15, 16 and 17 aim to confirm the importance of motives and factors for successful M&As for the respondent audit firms, and the expectations regarding the performance of the combined organizations.

Questions 18, 19 and 20 are open questions that aim to see how audit firms think about mergers and acquisitions and their views whether there is a need for M&As regarding accounting/audit firms in Cyprus.

(b) The layout of the questionnaire

The questionnaire was produced in such a layout that it seems very easy to complete. More specific the same boxes were used for all the "closed" questions and instructions and questions were differentiated by varying the typeface.

4.5.3 Testing the Questionnaire

Before the questionnaire is administered on the target group, it will be pre-tested on five people to check whether the ideas in each question are clear to the respondents, whether the sequence is good and whether any other changes are necessary.

4.5.4 Selection of the Sample

Before the questionnaire is given on a large scale, it is necessary to determine who the sample is and its number as well as how the participants have been selected.

Determination of sample size and who the sample is certainly is very important for all the procedure. Forty questionnaires have been given to be answered on a voluntary basis and strictly confidential, by senior managers and partners. The questionnaires written in English were administered to four different departments of the seventeen audit firms, and a total of thirty completed questionnaires were returned (75 percent response rate). The sample consists of 92.5 percent male and 7.5percent female. Regarding the age, 1.33 percent were within 22-31 age group, another 36.67 percent in 32-41 age group, 50 percent within 42-51 years and 10

percent within 52-61 years. The participants were not obliged to answer (as mentioned before the participation was entirely voluntary) and were not required to identify their self in any way.

The participants have been selected through a probability sample. This method was chosen because the chances of each case being selected from the population are equal for all cases. The technique used for selecting the sample is the simple random sampling. Simple random sampling is about selecting the sample randomly from the sample population. Each in the sample population was numbered with a unique number. Random numbers were used as they allow unbiased selection of the sample. In this way the selected sample can be considered representative of the whole population.

The participants have been selected through a probability sample. This method was selected because the chance of each case being selected from the population is usually equal for all cases. The process followed for the probability sampling was divided in three stages:

- Identify a suitable sampling frame based on the research question;
- Decide on a suitable sample size;
- Select the most appropriate sampling technique and select the sample.

4.5.5 Giving the Questionnaire on a large scale

After the questionnaire is tested and the sample is selected, the respondents will be given the questionnaires and they will be asked to fill them out in a specific period of time.

4.6 Preparing for the Interviews

For this stage the following steps were followed:

- The type of the interviews was decided;
- The interviews were arranged;

(a) Decide on the type of the interviews

It was decided to use a semi-structured type of interviews. The reasons for selecting this type are the following: Since some of the questions would be structured, the most basic things would be stated, thus there was no chance of forgetting something important. Also, every interviewee

would be asked similar questions. In addition, some flexibility would be allowed for the discussion of matters that may arise.

(b) Arrange the interviews

All of the interviewees will be arranged in advance. The interviewees were informed about the subject of the research. Then it was arranged the time and the place of the interview (in all the cases the interviews will take place in the offices of the interviewees).

4.7 Analyze the Results of both Methods

After gathering the raw data from the questionnaire and the interviews, it will have to be analysed in order to be converted into information. The way in which the data will be analysed is presented below:

(a) Questionnaire

Firstly, all of the questions of the questionnaire will be analysed individually. For the "closed" questions, for each opinion it will be counted the percentage of the respondents who had selected it. The results for each of the closed questions will be presented in matrixes. For the "open-ended" questions, the answers that will be given by the respondents will be written down and grouped. When all the questions will be analyzed individually, some of them will be examined in relation to other information as well in order to draw some more conclusions. The results of the questions will be stated afterwards on the questionnaire to give the whole picture of the obtained information.

(b) Interviews

The analysis of this data will be done based on the notes that will be taken during the interviews. The data will be summarized and the main points will be stated under several headings.

4.8. Test Validity and Reliability

Whenever a test or other measuring device is used as part of the data collection process, the validity and reliability of that test is important, therefore it is very important to ascertain whether the research study is both valid and reliable.

Validity refers to the degree in which the test is truly measuring what is intended to measure. Validity means that a tool measures what it sets out to measure. There are several measures of validity that provide evidence of the quality of a study. Internal and external validity relate to the overall study design.

Reliability is the degree to which an assessment tool produces stable and consistent results. Reliability is an essential component of validity but, on its own, is not a sufficient measure of validity. A test can be reliable but not valid, whereas a test cannot be valid yet unreliable. Reliability, in simple terms, describes the repeatability and consistency of a test.

4.9. Summary of Research Objectives

The research objectives of the dissertation are:

- (a) To analyze and review the new specific economic environment and regulatory framework, in which audit firms operate, and how these factors affect them in relation to a decision for M&As.
- (b) To evaluate the impact and possible outcomes of possible M&As in this sector, on accounting/audit firms in Cyprus.
- (c) To draw conclusions on the suitability of M&As for the accounting/audit firms in Cyprus.
- (d) To make recommendations for suitable M&As.

4.10 Ethical Considerations

Certainly ethical considerations are another important issue that should always be considered during the conduction of a research. First of all, permission of the seventeen audit firms and / or people that will be studied to conduct research involving them is necessary. No action should take place that could cause physical or emotional harm to the audit firms and / or people under study. More specific, in case that the results are published and are beyond the expectations of the audit firms under study it may cause bad publicity for them. Therefore confidentiality is a major ingredient not only for the good of employees and the organizations' but also for a reliable research based on accurate information and answers. Furthermore objectivity is considered to be a source of professionalism, and should be expected in all aspects of research.

CHAPTER 5: ANALYSIS OF RESULTS

Following is the analysis of the results, the presentation and discussion of the information obtained from the questionnaires, also various graphs and tables are used in order to make it easier for the reader to understand.

5.1 Results from Questionnaires

The analysis of results from the questionnaires begins with the characteristics of the respondents. Details are provided about their sex, age, academic qualifications, professional experience and job position. What follows is the presentation of the opinions on economic environment and expectations of the respondents regarding the prospects for Cyprus' economy in the next five years. Also, the respondents' judgments in relation to the regulatory framework and regulatory body in Cyprus are posted. Also provided the various views about the impact of M&As, the importance of motives and factors for successful M&As, and the need for M&As regarding accounting/audit firms in Cyprus. What follows is the presentation and discussion of qualitative findings obtained from interviews.

5.1.1 Profile/Characteristics of the Respondents

The sample consists of 92.5 percent male and 7.5percent female. Regarding the age, 1.33 percent were within 22-31 age group, another 36.67 percent in 32-41 age group, 50 percent within 42-51 years and 10 percent within 52-61 years, The participants were not obliged to answer (as mentioned before the participation was entirely voluntary) and were not required to identify their self in any way.

The majority of the respondents of this questionnaire are people between 42 and 51years old, who have started their career in the professional services sector in the last fifteen to twenty years.

5.1.2. Economic Environment

As presented in the graphs (figure 5.1 and figure 5.2) and in accordance to the questionnaires, more people from Big 4 strongly agree and agree about conditions existed in the economic environment, deteriorating businesses' operations, the percentages reached to 90% and 10% respectively. Regarding the respondents from other audit firms, the 75% of people strongly agree with the statement about the economy, whilst the other 25% just agrees. Similarly both groups confirmed the existence of bad conditions in economic environment which had led to

the worsen of businesses' operations. It must be noted, that there was no respondent to answer strongly disagree or simply disagree.

Graphs present the views of big 4 and other audit firms regarding the economic environment in Cyprus during the last 5 years

Economic Environment has deteriorated businesses' operations in Cyprus

Figure 5.1

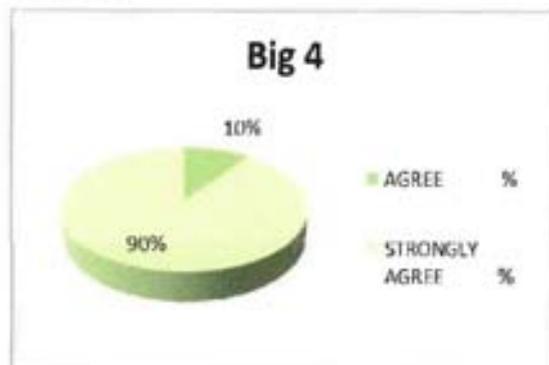
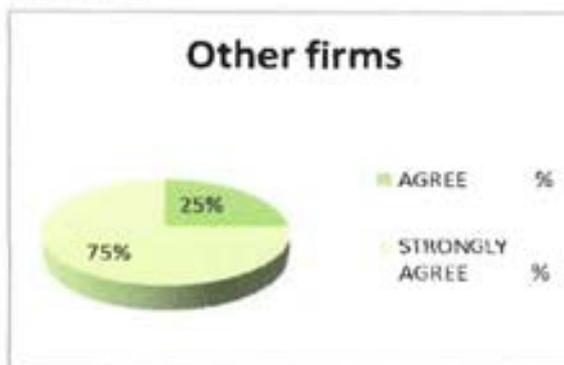


Figure 5.2



Regarding the statement that economic environment has affected audit firm's customer base, it can be observed that the majority of Big 4 – 93% stated they strongly agree that their customer base has been affected. A moderate percentage of 7% they just agreed with the opinion. Obviously the percentages are consistent with the previous question number 7. On the other hand as presented in the graphs (figure 5.3 and figure 5.4) and in accordance to the questionnaires, the respondents from other audit firms answered that 75% agree with the statement and the rest 25% strongly agree. This seems not to be consistent with their previous answers; the rationale behind this is that other firms' customer base is mainly comprised of small and medium enterprises (SMEs) including self-employed people that possibly suffered fewer losses than larger and bigger companies. This explains the reason why big 4 customer base has been affected in a greater degree, as it is comprised of larger and bigger companies.

Graphs: Figure 5.3 and Figure 5.4 present the views of big 4 and other audit firms regarding how the economic environment in Cyprus during the last 5 years has affected their firms' customer base.

Economic Environment has affected audit firm's Customer base

Figure 5.3

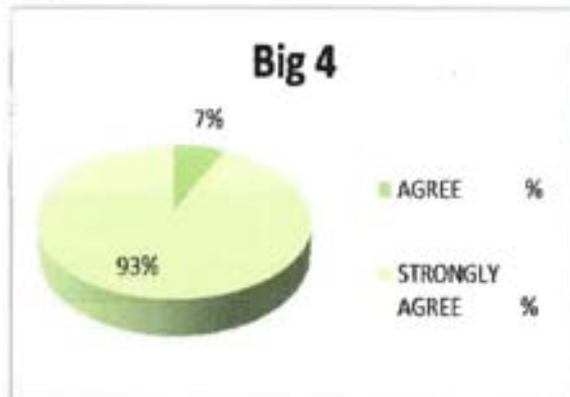
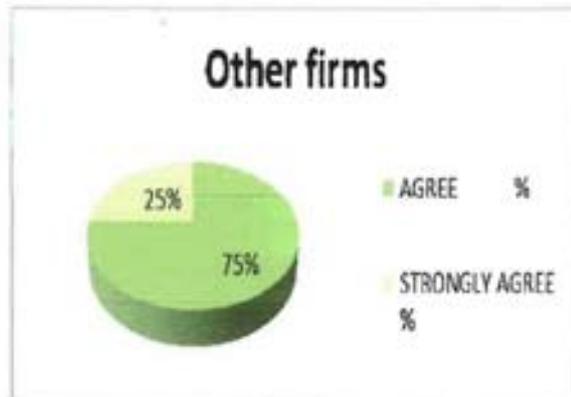


Figure 5.4



As presented in the graphs (figure 5.5 and figure 5.6) and in accordance to the questionnaires, 50% of Big 4 and 49% of other firms simply disagree with the perception of stability, whilst 21% and 13% respectively strongly disagree. Furthermore a 29% of Big 4 and 38% of other firms simply agrees with the statement of stability. Notably there was no answer by both groups regarding strongly agreement.

Graphs: Figure 5.5 and Figure 5.6 present the views of big 4 and other audit firms regarding the stability of Cyprus' economy and economic environment and whether there is an improvement in the business environment.

Economic Environment for stability of Cyprus' economy and improvement in the Business environment

Figure 5.5

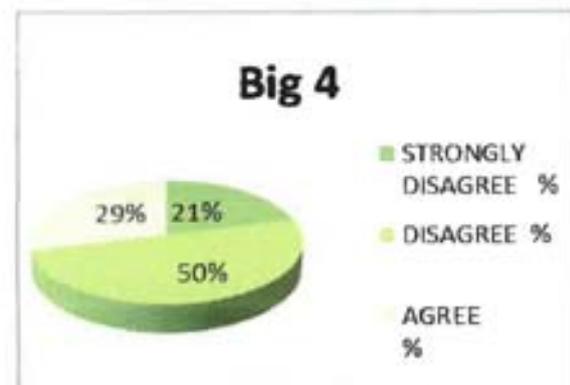


Figure 5.6



Regarding the prospects of Cyprus' economy in the next five years the views were varied: 71% of Big 4 and 63% of other firms agreed 22% and 6% respectively strongly disagree, 7% and 25% respectively simply disagree. A 6% of other firms strongly disagree about the prospects of the economy in the next 5 years.

Table 5.1 Analysis of the respondents for Economic Environment: prospects and stability

			STRONGLY DISAGREE %	DISAGREE %	AGREE %	STRONGLY AGREE %
7. The economic environment in Cyprus in the last 5 years has deteriorated businesses' operations.	Audit Firms	Big 4	-	-	10	90
		Other	-	-	25	75
8. The economic environment in Cyprus in the last 5 years has affected your firm's customer base.	Audit Firms	Big 4	-	-	7	93
		Other	-	-	75	25
9. Cyprus' economy and economic environment have been stabilized during the last year and the business environment has improved.	Audit Firms	Big 4	21	50	29	-
		Other	13	49	38	-
10. There are good prospects for Cyprus' economy in the next 5 years.	Audit Firms	Big 4	-	7	71	22
		Other	6	25	63	6

Source: Questionnaires, 2015.

5.1.3 Regulatory Framework

As presented in the graphs (figure 5.7 and figure 5.8) and in accordance to the questionnaires, 93% of the Big 4 and 82% of other firms strongly agree that Regulatory Framework for audit firms has become stringent in the last five years. With this statement the 7% and 18% respectively from the respondents they just agree. Through the literature review someone can confirm that after the dissolution of Arthur Andersen in 2002 and after the collapse of Lehman Brothers and the beginning of world economic crisis in 2008, the regulatory framework for audit firms has become stringent worldwide.

Graphs: Figure 5.7 and Figure 5.8 present the views of big 4 and other audit firms regarding the Regulatory Framework. It is suggested that Regulatory Framework has become stringent in the last five years.

Views on Regulatory Framework has become stringent

Figure 5.7

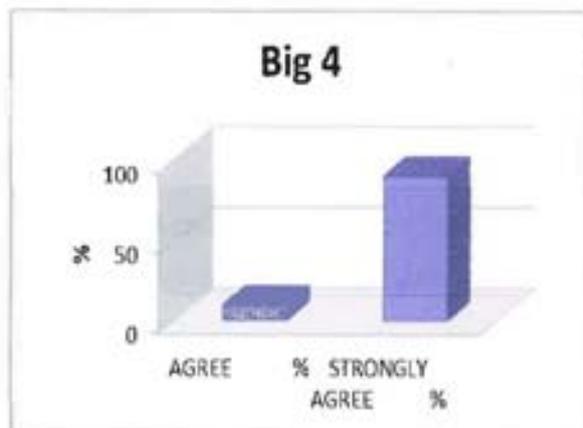
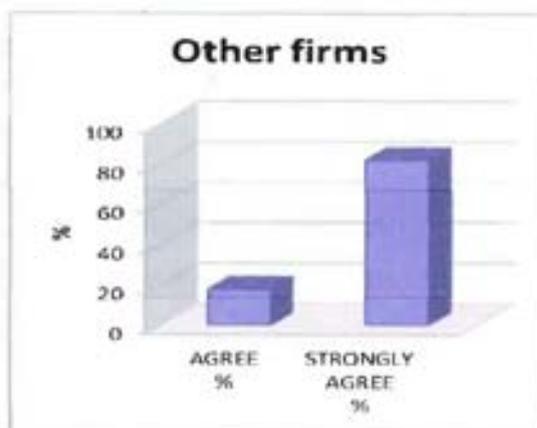


Figure 5.8



At this specific statement of ICPAC's monitor controls, it can be observed that both groups share more or less the same opinions, that is ICPAC – the Cyprus' Regulatory Body has increased the number of monitor controls, more specific 93% of Big 4 and 87% of other firms strongly agree with this statement, whilst 7% and 13% respectively, just agree.

Graphs: Figure 5.9 and Figure 5.10 present the views of big 4 and other audit firms regarding the monitor controls performed by ICPAC. It is suggested that the Regulatory Body has increased the number of monitor controls to the audit firms and at the same time is being more demanding from them.

Views on ICPAC's (Regulatory Body) has increased the number of monitor controls to the audit firms

Figure 5.9

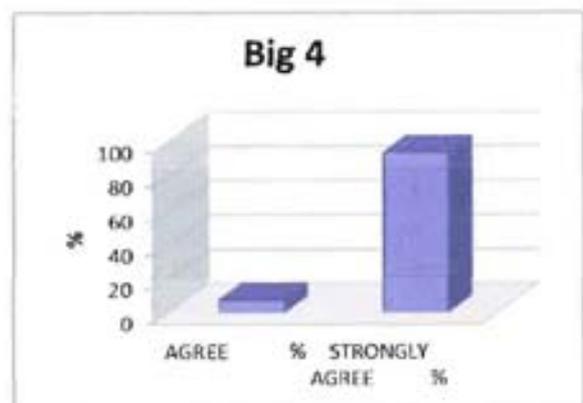
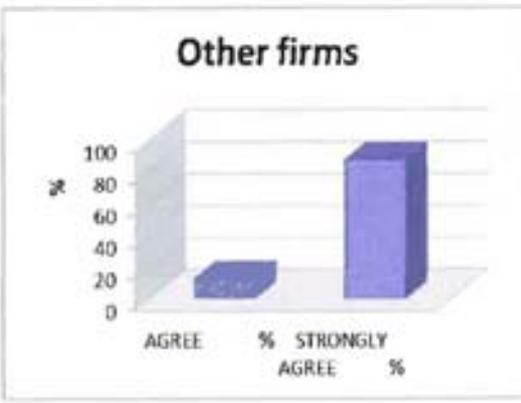


Figure 5.10



According to the questionnaires and as presented by the graphs (Figure 5.11 and Figure 5.12), the respondents from Big 4, in majority believe (22% strongly agree and 71% agree) that certainly ICPAC encourages mergers between audit firms. Similarly, respondents from other audit firms – in a smaller percentage (6% strongly agree and 63% agree) have the same opinion. On the other hand, 7% of Big 4 and 31% of other audit firms disagree with the specific opinion.

Graphs: Figure 5.11 and Figure 5.12 present the views of big 4 and other audit firms, on the issue whether ICPAC encourages audit firms' mergers, so as to ensure high quality audit assignments.

Views on the opinion that ICPAC encourages mergers between the audit firms

Figure 5.11

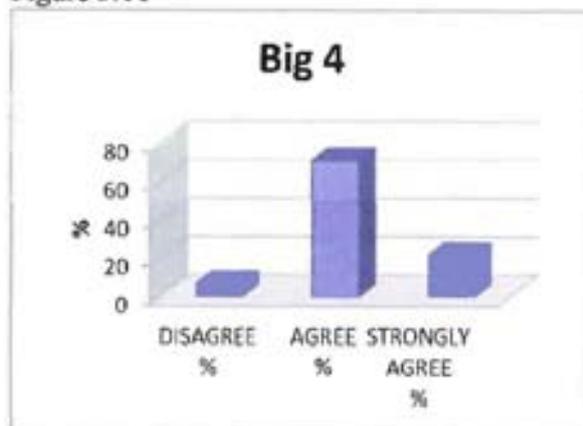


Figure 5.12

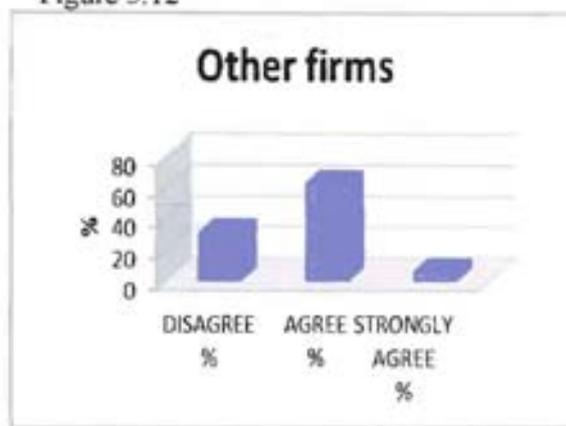


Table 5.2 Analysis of respondents for Regulatory Framework

			STRONGLY DISAGREE %	DISAGREE %	AGREE %	STRONGLY AGREE %
11. Regulatory Framework has become stringent in the last 5 years.	Audit Firms	Big 4	-	-	7	93
		Other	-	-	18	82
12. ICPAC performs more monitor controls to the audit firms.	Audit Firms	Big 4	-	-	7	93
		Other	-	-	13	87
13. ICPAC encourages audit firms to merge so as to ensure high quality audit assignments.	Audit Firms	Big 4	-	7	71	22
		Other	-	31	63	6

Source: Questionnaires, 2015.

5.1.4. Mergers and Acquisitions

At the specific statement, that a possible M&A deal between accounting/audit firms, would have a positive impact upon the merged companies, it can be observed that both groups share more or less the same opinions. The respondents from Big 4, in majority believe (22% strongly agree and 71% agree) that a possible M&A deal between accounting/audit firms, would have a positive impact upon the merged companies. Similarly, respondents from other audit firms – in the same total percentage (19% strongly agree and 74% agree) have the same opinion. On the other hand, 7% of Big 4 and 7% of other audit firms disagree with the specific statement and they do not believe that there would be a positive impact.

Graphs: Figure 5.13 and Figure 5.14 present the views of big 4 and other audit firms on their expectations of a possible scenario that audit firms' mergers have occurred and had a positive impact upon the merged companies.

Views on the statement that a possible M&A deal would have a positive impact upon the merged companies

Figure 5.13

Figure 5.14

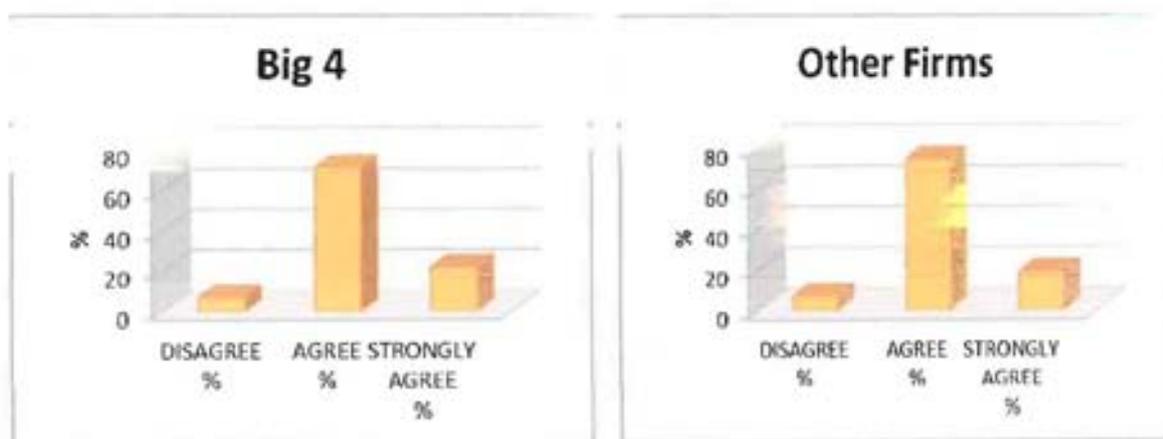


Table 5.3 Analysis of respondents for a possible M&A deal

		STRONGLY DISAGREE %	DISAGREE %	AGREE %	STRONGLY AGREE %
14. A possible Merger & Acquisition deal between accounting/audit firms, would have a positive impact upon the merged companies.	Big 4	-	7	71	22
	Other	-	7	74	19

5.1.5. Motives/Objectives for M&As

Table 5.4 presents the attitudes of the respondents relating to the importance of motives/objectives for the accounting/audit firms. As indicated by the results of the research for most of the motives/objectives, the majority of respondents have answered that these are important for their firms, whilst in some cases Big 4 answered that they are not of such importance.

Table 5.4 Attitudes of respondents relating to motives/objectives of M&As

			NOT IMPORTANT (%)	SLIGHTLY IMPORTANT (%)	IMPORTANT (%)	VERY IMPORTANT (%)
i. Faster growth of the acquiring company	Audit Firms	Big 4	-	-	65	35
		Other	-	-	44	56
ii. Broaden the acquiring company's customer base	Audit Firms	Big 4	-	-	57	43
		Other	-	-	44	56
iii. Capture scale economies to save costs through combining two or more audit firms	Audit Firms	Big 4	-	57	43	-
		Other	-	-	18	82
iv. Expansion of audit firm's operations at less cost than organic growth	Audit Firms	Big 4	-	65	35	-
		Other	-	-	18	82
v. Exploit synergistic attributes of the acquired company with reference to the acquiring company	Audit Firms	Big 4	-	65	35	-
		Other	-	-	44	56

Source: Questionnaires, 2015.

Presentation of attitudes for every motive/objective

Motive/Objective 1: Faster growth of the acquiring company.

Obviously for both groups of respondents growth is important, as complete 100% considers growth at least important. More specific 56% of other firms think that growth of acquiring company is very important whilst 44% just important. Respectively, for Big 4 the percentages are 35% and 65%. The difference between the two groups regarding the percentages and the choice of importance possibly is due to the fact that Big 4 have already a big size due to previous consolidations worldwide, in contrast for other firms growth is considered much more important.

Motive/Objective 2: Broaden the acquiring company's customer base.

Both groups of respondents have almost similarly answered about this. More specific the percentages of importance for other firms are exactly the same as for motive/objective 1. For Big 4 the percentage of those that consider very important the broaden of the customer base for the acquiring company, increased to 43% in relation to 35% of the previous motive. Certainly for other firms the increase of customer base is considered much more important than to Big 4. The rationale behind this is that the small medium audit firms need more incentives than bigger firms.

Motive/Objective 3: Capture scale economies to save costs through combining of audit firms.

For Big 4 this issue is slightly important (57%) to important (43%), as already have done mergers and acquisitions in the past, so it seems now that this motive/objective it could be more important for small and medium firms. This is proved by the percentages given by other firms and specifically 82% consider this motive very important whilst the remaining 18% consider the issue just important.

Motive/Objective 4: Expansion of audit firm's operations at less cost than organic growth.

The percentages are more or less the same with the motive/objective 3. The logic behind the answers to this issue is that other firms see it more as an opportunity for expansion with lower risk, as organic growth is considered to be a more risky investment. For Big 4 this issue is slightly important (65%) to important (35%).

Motive/Objective 5: Exploit synergistic attributes of the acquired related to the acquiring one.

Regarding this motive, Big 4 due to their size maybe do not have in such a degree the benefits of exploiting synergistic attributes that smaller firms can have. Therefore their percentages remain to 65% - slightly important and 35% - important. In contrast for other firms, certainly due to the benefits the percentages are 56% - very important and 44% just important

5.1.6. Factors for successful M&As

Table 5.5 presents the attitudes of the respondents relating to the importance of various factors for successful M&As. As indicated by the results of the research, answers vary depending on which group the respondents belong.

Table 5.5 Attitudes of respondents relating to factors for successful M&As

			NOT IMPORTANT (%)	SLIGHTLY IMPORTANT (%)	IMPORTANT (%)	VERY IMPORTANT (%)
i. Size of the new combined accounting/audit firm	Audit Firms	Big 4	-	7	64	29
		Other	-	-	44	56
ii. Strategic relatedness between the audit firms to be merged	Audit Firms	Big 4	-	72	21	7
		Other	-	-	18	82
iii. Relatedness, connectivity and compatibility of information systems infrastructure	Audit Firms	Big 4	-	72	21	7
		Other	-	-	18	82
iv. Culture relatedness	Audit Firms	Big 4	-	72	21	7
		Other	-	-	18	82
v. Identify potential financial, operating and managerial synergies	Audit Firms	Big 4	-	72	21	7
		Other	-	-	44	56
iv. Identify potential demand for the services of combined firm over the next five years	Audit Firms	Big 4	-	7	64	29
		Other	-	-	44	56
vii. Identify potential improvements in brand & reputation	Audit Firms	Big 4	-	72	21	7
		Other	-	-	18	82

Source: Questionnaires, 2015.

Factor 1: Size of the new combined accounting/audit firm.

For both groups of respondents the size of a new combination is important. "Very important" have answered 29% of Big 4 and 56% of other firms, 64% and 44% respectively, have answered "important", whilst a small percentage of 7% of Big 4 answered "slightly important".

Factor 2: Strategic relatedness between the audit firms to be merged.

It seems that this factor is more important for other small and medium firms, as 82% answered that is very important and 18% just important. In contrast for Big 4, very important answered only 7% of the respondents, important is considered by 21% and 72% answered slightly important. Due to their size, Big 4 consider that despite any strategic relatedness or not the other firms to be merged with, will obliged to follow Big 4's disciplines.

Factor 3: Relatedness, connectivity and compatibility of information systems infrastructure.

The percentages are more or less the same with the factor 2. The logic behind the answers to this factor is that, other firms see it more as an opportunity for expansion with lower risk and reduction of costs. On the other hand, for Big 4 this issue is mainly considered as slightly important (72%), because in prospective M&As with other firms, they probably expect that their Information Systems infrastructures will be maintained amongst the audit firms to be merged.

Factor 4: Culture relatedness.

The percentages regarding this factor still remain the same as factors 2 and 3. The logic behind the answers to this factor is that, other firms see it more as an essential ingredient for a successful M&A, the absence of which could damage the integration processes. On the other hand, Big 4 probably expect that their Business Culture will be the dominant one; this is the reason why 72% answered as "slightly important".

Factor 5: Identify potential financial, operating and managerial synergies.

Obviously this factor is more important for other audit firms (56% very important and 44% important) than for Big 4 (7% very important, 72% important and 21% slightly important). This is again due to the different size of audit firms and their different perceptions on M&A activities

Factor 6: Identify potential demand for the services of combined firm over the next five years.

Certainly, both groups share more or less the same opinions on this factor for successful M&As, for majority of respondents of both groups this factor is important for a successful M&A deal.

Factor 7: Identify potential improvements in brand & reputation

The percentages on this factor indicate that groups have different perceptions on the importance of the specific factor. Other small and medium audit firms provide that potential improvements in brand and reputation are vital (82% very important and 18% important) for a successful M&A deal. In contrast, Big 4 have already established brands and reputation and for them is not such an important factor, this is also proved by their answers; 7% very important, 21% important and 72% slightly important.

5.1.7. Expectations from a successful M&A deal

Table 5.6 presents the attitudes of the respondents relating to their expectations after a successful M&A deal. As indicated by the results of the research, answers vary depended in which group the respondents belong.

Table 5.6 Expectations of respondents after a successful M&A deal

			NO CHANGE (%)	SLIGHTLY INCREASE (%)	MODERATE INCREASE (%)	SIGNIFICANT INCREASE (%)
i. Accounting Profits (i.e., ROCE, ROI, ROA)	Audit Firms	Big 4	-	7	64	29
		Other	-	-	44	56
ii. Cash Flow (i.e., Operating Cash Flow)	Audit Firms	Big 4	72	21	7	-
		Other	-	-	18	82
iii. Market price of the new entity (if it is listed)	Audit Firms	Big 4	72	21	7	-
		Other	-	-	18	82
iv. Operating Efficiency	Audit Firms	Big 4	72	28	-	-
		Other	-	44	38	18
v. Market Share	Audit Firms	Big 4	72	21	7	-
		Other	-	-	44	56

Source: Questionnaires, 2015.

i. Accounting Profits (i.e., ROCE, ROI, ROA)

Both groups expect changes regarding the accounting profits. For other firms 56% of respondents answered that expects significant increase whereas 29% of Big 4 answered in the same way. Moderate increases are expected by 44% of other firms and 64% by Big 4 though there is a 7% answered "slightly increase".

ii. Cash Flow (i.e., Operating Cash Flow)

It seems that this factor is more important for other small and medium firms, as 82% answered that they expect significant increase and 18% moderate increase. In contrast, for Big 4, moderate increase answered only 7% of the respondents slightly increase is considered by 21% and 72% answered slightly important. Due to their size, Big 4 are not expecting to have material changes regarding the cash flow.

iii. Market price of the new entity (if it is listed)

The percentages are more or less the same with the factor ii. The logic behind the answers to this factor is that, other firms see it more as an opportunity for expansion which will lead to positive results.

iv. Operating Efficiency

Obviously this factor is more important for other audit firms (18% significant increase and 38% moderate increase and 44% slightly increase) than for Big 4 (28% slightly increase and 72% no change). This is again due to the different size of audit firms and their different perceptions on the impacts of an M&A deal.

v. Market Share

For Big 4 the percentages regarding this factor still remain the same as factors ii and iii. The logic behind the answers to this factor is that, Big 4 probably do not expect to have significant changes regarding their market share, as they are the key players in the market. Obviously this factor is more important for other audit firms (56% significant increase and 44% moderate increase), which expect to increase their market share after a successful M&A deal.

5.1.8. The need for Mergers and Acquisitions of audit firms

According to the survey, respondents from other small and medium firms believe that an M&A deal at this period of time would be appropriate, as it would lead to increase of market share, broaden the customer base, improve accounting profits, faster growth with lower risks and generally more potentials are available. Furthermore, respondents of Big 4 consider that an M&A deal with small sized firms, could help mainly regarding regulatory purposes and increase in the operational effectiveness.

For the prospective scenario of CYTA's and EAC's privatization and the decision for municipalities and community councils to be audited by the private sector, where the demand for professional services will be increased, other small and medium audit firms think that even a combined entity through an M&A cannot take advantage of these opportunities. For Big 4 this fact not only does not change their opinion for M&As but also could enhance their capacity for dealing with the additional demand for professional services.

An M&A activity should provide a useful tool for small and medium sized audit firms to compete with the Big 4. It is difficult enough to cope with increasing regulatory requirements for small and medium sized firms operating in Cyprus. A merger and acquisition will result in a combined entity which will control more resources and have more capabilities than the individual firms distinctively. In this way the combined company can offer more reliable services to its client and be able to compete in the current economic environment. Big 4 consider that for other small and medium audit firms is much more crucial to think about merging with other firms, especially with large firms like Big 4.

5. 2 Findings from the Interviews

The information obtained from the interviews concerning the issue of mergers and acquisitions of accounting/audit firms in Cyprus, is presented below. The information obtained from the interviews, mainly serves as complementary to the information gained through questionnaires survey, enhancing the attempt to reach to safe conclusions about M&As in Cyprus.

5. 2. 1. Factors driving the need for M&As

This is a confirmation of what has already been noted about the motives and objectives behind M&A activities. M&As are a key part of many organizations' growth strategies for several reasons:

- They are a way to grow market share, or provide access to new markets and services.
- They may provide the audit firms with new capabilities, access to technology or know-how, or access to talent needed to drive growth
- They help audit firms capture operational synergies:
 - i. Audit firms may identify opportunities to achieve competitive advantage through increased scale or scope to improve operations.
 - ii. They may look to boost revenue and margin growth through leveraging specific customer focused initiatives to create long-term value.
 - iii. They may deploy M&A as a strategic tool for transforming the business by creating new ways of doing business to sustain or improve competitive positioning.

In essence, whether or not to pursue a merger or an acquisition is all about having a clear view early in the deal process and throughout the execution of the integration process of the new opportunities to create competitive advantage and value.

5. 2. 2. The best of times

Contrary to popular belief, the interviewees say that a depressed economy is no obstacle to the firm's growth. In answering the question when is the best time to do a M&A deal, typically the answer is when the need meets the opportunity. As noted in the answer to the previous question, a need arises when the B.O.D and executive management identify opportunities to achieve or sustain competitive advantage that can be realized through M&A activity.

When market conditions are favorable, and necessary financing and a suitable target or willing audit firms with the right strategic fit are both available, the opportunity meets the need. Thus, the entire focus on timing is driven by the enterprise's strategic needs and a market and target conducive to those needs. Furthermore, if there is a change in market fundamentals driven by technology, globalization, regulation or other competitive forces, M&A may become a necessity. For example, if the industry is converging, management and the B.O.D may decide to become an early mover to avoid being left behind.

5. 2. 3. Past Mergers and Acquisitions

According to Big 4, experience gained through many mergers and acquisitions performed in the previous years, shows that difficulties and obstacles overcome and what stays are the growth and progress which are reflected in the performing results of the combined entity. Therefore, generally there is more than satisfaction with previous mergers of audit firms, which were considered as good "investments".

5. 2. 4. Key risk areas in an M&A transaction

Not having a clear view as to the purpose of the acquisition, both early in the deal process and throughout the integration, can cause the transaction to fail to meet expectations. Avoiding that, companies emerge as high performers from M&A activity when they recognize the true expected value of their synergy and growth opportunities, and capture that value in the negotiation and integration planning and execution processes.

5. 2. 5. Board of Directors' role in M&A transaction

As directors are responsible for approving the audit firm's strategic plan, they should evaluate proposed acquisitions in the context of that plan and the firm's risk appetite. Therefore, the board should understand the strategic underpinnings of a proposed M&A transaction to evaluate management's assessment of the deal's benefits. If the strategy envisions growth through acquisitions, the board needs to satisfy itself that the management team includes individuals with the requisite skills to execute transactions and integrate the audit firms to be merged. In effect, the board should be constructively engaged with executive management in formulating the company's M&A strategy and ensuring any M&A activity is consistent with the strategy.

The Board needs to understand the risks inherent in the deal and the cultural and people issues involved. Most important, directors need to understand, and agree with, why the deal is being done in the context of strategic fit and incremental value-add. Before approving the deal, the board should carefully review management's integration plan to ensure there is clarity around why integration is necessary, how it is to be achieved and who is leading the integration efforts.

5. 2. 6. M&As : the choice of audit firms

Interviewees from small and medium audit firms provide that they would prefer M&A deals with similar size audit firms. The reason is that they would feel more comfortable to negotiate and reach to a fair deal with other partners of similar size firms, furthermore it would be a real merger of companies and not an absorption by larger firms.

In the question whether they believe that merging with any of Big 4 would be a better deal for their audit firms, there were various answers. Some suggested that merging with Big 4 it would be an opportunity for expansion with lower risks, as Big 4 are the dominant established audit firms worldwide. Some others suggested that merging with Big 4, may cause a significant percentage of their customers not follow or leave, due to the existing perception that professional services provided by Big 4 are comparatively expensive. Smaller firms are more anxious about merging up with larger firms for several reasons such as: loss of control, loss of their job or a substantial reduction in their role, being forced to market when they have not done so in the past, higher performance expectations, bureaucracy.

The majority of interviewees from Big 4 have stated that there is no specific preference for mergers to either small / medium audit firms or between the Big 4 firms. Of course they noted that mergers between the Big 4 firms cannot be done solely in any country in the world, and if this is the case it should be done worldwide.

CHAPTER 6: CONCLUSIONS

The purpose of this Research Paper was to identify whether there is a need and space for mergers and acquisitions regarding accounting/audit firms in Cyprus. The study refers to the impact of possible mergers and acquisitions on Big 4 (PWC, KPMG, E.Y, Deloitte & Touche) and other small and medium audit firms operating in Cyprus. More specific the research study aimed to identify and understand the factors influencing decisions for mergers and acquisitions amongst accounting/audit firms in Cyprus and the possible outcomes. The research questions used for dealing with the research aimed to identify the changes and/or existing conditions of the i. Economic environment and ii. Regulatory framework in Cyprus, affecting the accounting/audit firms, especially after the economic and political crisis in Cyprus in 2013, and the possible impacts or/and outcomes of mergers and acquisitions on accounting/audit firms.

Certainly, the current difficult economic conditions existed in Cyprus' economy, especially after the economic and political crisis in Cyprus in 2013, could influence decisions for mergers and acquisitions amongst accounting/audit firms. Research findings provide that the economic environment in Cyprus in the last five years has significantly deteriorated businesses' operations. As a direct consequence, audit firms' customer base has more or less been affected-with Big 4 having more reductions in audit fees than the small and medium audit firms. In addition, some indications that Cyprus' economy and economic environment have been stabilized during the last year and that the business environment has improved, can also positively affect decisions for mergers and acquisitions regarding audit firms.

Regarding the Regulatory Framework and according to the research findings, despite the fact that all have agreed that Regulatory Framework has become stringent in the last five years, there is no regulation or provision that could impose audit firms' mergers or acquisitions. On the other hand, ICPAC- the Regulatory Body not only has increased the number of monitor controls to the audit firms but also is being more demanding regarding the quality of audit assignments and compliance to Regulatory Framework. This evidence indicates that ICPAC encourages audit firms to merge so as to ensure high quality audit assignments. Therefore it is clear that either with legislation or not the only Regulatory Body in Cyprus is promoting mergers or acquisitions amongst the audit firms in the country.

The research has proved that a possible M&A deal between accounting/audit firms, would have a positive impact upon the merged companies. There is also strong evidence that audit firms independent their size are willing to proceed with an M&A deal-which can be seen as an opportunity and taking advantage of all the benefits involved in such activities. Experience gained through many mergers and acquisitions performed in the past in this specific professional services sector, shows that difficulties and obstacles overcome and what stays are the growth and progress which are reflected in the performing results of the combined entities. Therefore, M&As of audit firms are considered as good long-term "investments".

Future M&As of audit firms could have positive impact on merged companies and more specific can lead to: faster growth of the combined entities, broaden the customer base, increase the size of the new combined audit firm, capture scale economies to save costs, expansion of audit firms' operations at less cost and risks than organic growth, exploit synergistic attributes (financial, operating and managerial) of the merged firms and improve in brand and reputation. The small and medium audit firms can be positively affected in terms of becoming bigger and be in a good position to compete the Big 4 audit firms. Especially, at this specific period of time when demand for professional services is expected to increase due to privatization of CYTA and EAC, and the decision for providing professional services to community councils and municipalities. In addition, Big 4 merging with small and medium audit firms can reach to appropriate sizes in order to comply with the stricter laws and regulations.

There are also some other issues that should be noted, for example mergers between large firms in any sector always attract critical attention, because of fears about concentration and possible monopolistic pricing. Auditing is a particularly interesting industry in this regard because of the difficulties in determining excess profitability. Literature provides the context of the audit industry restructuring that occurred during the 1980-2003 period as a result of mergers between large audit firms and as a result of the Arthur Andersen's dissolution.

These findings are subject to a number of limitations. In particular, one may be unable to generalize the results to other countries and time periods because of differences in the structure of the markets and changes in the economic climate. Due to the lack of available data, we are unable to investigate the effect of mergers on auditors' revenues in Cyprus. Furthermore it lacks financial data from mergers of other small and medium firms to verify the economic benefits and increased efficiency, if there are any, as a result of those mergers that the firms underwent.

The findings may not be comparable to the existing literature which is mostly based on megamergers between very large international firms (convert of Big 8 to Big 4). Despite these limitations, however, this study offers a valuable perspective to both the literature and practice; many of the issues discussed in this study including conditions and factors affecting decisions for mergers and acquisitions of audit firms and their resultant outcomes remain of high interest areas among today's practitioners and academics.

CHAPTER 7: RECOMMENDATIONS AND FUTURE RESEARCH

7.1 Recommendations

Mergers remain an area of extreme interest for many public accounting/audit firms. The following provide an overview of the rationale for mergers of accounting firms and some key points for pursuing this strategy to the audit firms. Most firms are pursuing mergers either upstream, i.e., looking for a firm to merge into, usually a larger firm, or looking for mergers as a means to expand their firms. Many mergers are a combination of a merger and an acquisition providing an exit strategy for the senior partners and a long-term growth strategy for the younger ones.

There have been many mergers pursued for reasons that are not adequately justified. Often, this can lead to an unsuccessful merger. Some firms consider merging for the single purpose of reducing overhead. There may be better ways to use up excess overhead, including getting rid of it. The benefits of overhead reductions are short lived and will probably not sustain a merger if the combination of the cultures is not going as smoothly as hoped.

There are many advantages of being part of a larger audit firm, i.e. Big 4. But bigger is not always better, some clients are with a firm because they like one that size. Some partners of smaller firms may find it difficult to accept the accountability often required by a larger one. If "bigger is better" is the primary objective for a merger, then "bigger" should help the partners attain personal, financial, professional, and life-style goals without sacrificing clients and staff who like the current culture of the two smaller firms. Otherwise, some of these key people will not be retained (assets leaving).

Poor chemistry should be avoided as M&As are like marriages. A good, simple rule of thumb is: If you do not want to eat lunch with someone, do not merge with them! The values and service approaches for both practices should be as much as possible compatible.

Practitioners should identify the goals for merging before starting the process. Unfortunately, many practitioners start by considering a specific merger opportunity and then attempt to make a plan around it. A better approach is to develop an understanding and agreement within the firm for all the critical reasons to seek a merger. The plan should include identifying the characteristics of potential targets or affiliates that will help the firm achieve its goals.

7.2 Future Research

The research work that was done was adequate for answering the research question that was preset. Regarding the M&As topic, certainly there are some areas that were not covered, concerning for example cross-border M&As and the impacts on Cyprus' professional services sector. It seems quite difficult but if managed to reach to primary information then different views and perceptions could be obtained, enhancing our knowledge regarding the specific issue. Another topic for further research could be the impact on mergers and acquisitions of government regulatory bodies, which want to prevent unfair competition in the marketplace. This topic was partially covered in our research work but there are many more areas that can be examined.

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APPENDICES

APPENDIX 1

QUESTIONNAIRE SAMPLE

My name is Theodoros Christodoulides and I am an MBA student at Neapolis University Pafos. As part of my studies I am doing an investigation about Mergers and Acquisitions of accounting/audit firms in Cyprus. I would, therefore, be most grateful if you could answer the following questions. Please note that as your answers are given anonymously, they cannot be tracked to you in any way.

Please, answer the following questions either by ticking or by filling in the blanks.

Part A

DEMOGRAPHICS

1. Gender

Male Female

2. Age

22 – 31

32 – 41

42 – 51

52 – 61

62 +

3. How long have you been in your current position?

less than 1 year

10 years - 15 years

1 year - 5 years

15 years - 20 years

5 years - 10 years

over 20 years

4. What is the number of years you have worked for the accounting/audit firm?

less than 1 year

10 years - 15 years

1 year - 5 years

15 years - 20 years

5 years - 10 years

over 20 years

9. Cyprus' economy and economic environment have been stabilized during the last year and the business environment has improved.

Strongly Disagree	Disagree	Agree	Strongly Agree
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<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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10. There are good prospects for Cyprus' economy in the next 5 years.

Strongly Disagree	Disagree	Agree	Strongly Agree
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<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Part C

REGULATORY FRAMEWORK

11. Regulatory Framework has become stringent in the last 5 years.

Strongly Disagree	Disagree	Agree	Strongly Agree
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<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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12. ICPAC performs more monitor controls to the audit firms.

Strongly Disagree	Disagree	Agree	Strongly Agree
----------------------	----------	-------	-------------------

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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13. ICPAC encourages audit firms to merge so as to ensure high quality audit assignments.

Strongly Disagree Disagree Agree Strongly Agree

Part D

MERGERS & ACQUISITIONS

14. A possible Merger & Acquisition deal between accounting/audit firms, would have a positive impact upon the merged companies.

Strongly Disagree Disagree Agree Strongly Agree

For the following statements please circle one number for each item.

Please note: 1: Unimportant 2: Slightly Important 3: Important 4: Very Important

15. How important are the following different motives/objectives of Mergers and Acquisitions for your accounting/audit firm?

	Motives / Objectives				
i	Faster growth of the acquiring company	1	2	3	4
ii	Broaden the acquiring company's customer base	1	2	3	4
iii	Capture scale economies to save costs through combining two or more audit firms	1	2	3	4
iv	Expansion of audit firm's operations at less cost than organic growth	1	2	3	4
v	Exploit synergistic attributes of the acquired company with reference to the acquiring company	1	2	3	4

16. How important are the following factors for a successful M&A deal for your accounting/audit firm?

	Factors for a successful M&A				
i	Size of the new combined accounting/audit firm	1	2	3	4
ii	Strategic relatedness between the audit firms to be merged	1	2	3	4
iii	Relatedness, connectivity and compatibility of information systems infrastructure	1	2	3	4
iv	Culture relatedness	1	2	3	4
v	Identify potential financial, operating and managerial synergies	1	2	3	4
vi	Identify potential demand for the services of combined firm over the next five years	1	2	3	4
vii	Identify potential improvements in brand & reputation	1	2	3	4

17. After a successful M&A deal between accounting/audit firms, in what degree are you expecting the following factors to increase or improve?

Please note: 1: No change 2: Slightly increase 3: Moderate increase 4: Significant increase

	Performance Factors				
i	Accounting Profits (i.e., ROCE, ROI, ROA)	1	2	3	4
ii	Cash Flow (i.e., Operating Cash Flow)	1	2	3	4
iii	Market price of the new entity (if it is listed)	1	2	3	4
iv	Operating Efficiency	1	2	3	4
v	Market Share	1	2	3	4

18. Do you believe that an M&A deal for your accounting/audit firm would be appropriate?

.....

19. After the decision for privatization of CYTA (telecommunications) and E.A.C (electricity authorities), and the decision for municipalities and community councils to be audited by the private sector, the demand for professional services will be increased. Could this fact change your opinion for M&As? Give some details.

.....

20. Do you believe that there is a need for Mergers and Acquisitions regarding accounting/audit firms in Cyprus?

.....
.....
.....

Thank you very much for your time!

APPENDIX 2

INTERVIEWS' QUESTIONS

The following identifies the information required from interviews with senior managers and partners from Big 4 and other small and medium firms operating in Cyprus. The people answering the questions will be asked to talk about mergers and acquisitions of accounting/audit firms in Cyprus.

1. What drives the need for accounting/audit firms to consider mergers and acquisitions?
2. When is the best time to do an M&A deal?
3. Are you satisfied with previous mergers of audit firms?
4. What are the key risk areas in an M&A transaction?
5. What is the B.O.D's role in an M&A transaction?
6. Is there any preference for which audit firms would you like to cooperate and reach to M&A deals?
7. Do you believe that merging with any of Big 4 would be a better deal for your audit firm?
(This question is only attended to other small and medium audit firms)