

BULLETIN

PRAGUE COLLEGE

CENTRE FOR RESEARCH &

INTERDISCIPLINARY STUDIES

CRIS

2016/01

7

**WOMEN
DOCUMENTARY
FILMMAKERS:
FRAMING WAR AND
'POST-CONFLICT' ZONES**

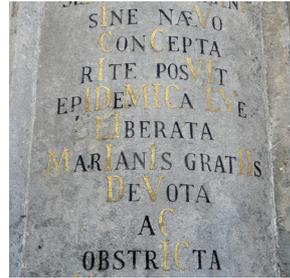
Maša Hilčičin



17

**DIGITAL SIGNATURES
OF THE BAROQUE:
THE CULT OF THE
CHRONOGRAM IN 18TH
CENTURY BOHEMIA**

Alex Went



29



**FAIRNESS, TRUST, AND
THE REMOVAL OF
DISSATISFACTION**

Dave Gannon

45

**A CRITIQUE OF
COSMOPOLITANISM
IN RELATION TO ITS
APPLICATION TO
GLOBAL ETHICS ISSUES**

Bruce Gahir

Cosmopolitanism comes in many forms, originally a normative doctrine promoting world citizenship, it has gradually tended to become, in late political reasoning to mean basically a moral standpoint where each person is an object of concern from an equal standpoint.

55

**COST OF EQUITY IN
EMERGING MARKETS:
BUSINESS EVALUATION**

Tamara Ayrapetova &
Ksenia Larionova

Emerging markets have been gaining extreme importance in international markets and have become one of the regions where new opportunities are found. With the GDP growth and productivity growth slowing down in advanced economies, emerging markets are commonly viewed as the place for positive future economic prospects.

THEMATIC KEY



Art & Design



Business & Economics



IT & Computing



Humanities

HEAD OF CRIS & COORDINATOR

Stefano Cavagnetto

COMPUTING AND BUSINESS

EDITORIAL BOARD

Bruce Gahir

Dave Gannon

Anna Boguszakova

FINE ARTS AND DESIGN

EDITORIAL BOARD

Pascal Silondi

George Allen

Jorge Boehringer

CONTENT EDITOR

Leah Adler

DESIGN & LAYOUT

BAB design studio | www.babds.com

To submit your work, please contact the
project coordinator of CRIS:

Stefano Cavagnetto <cris@praguecollege.cz>

© 2016 - 2017 Centre for Research
and Interdisciplinary Studies, Prague College

ALL RIGHTS RESERVED. No part of this
publication may be reproduced, transmitted,
stored or used in any form by any means
without the prior written permission of the
publisher.

Names, logos, brands, and other
trademarks featured or referred to within
this publication are the property of their
respective trademark holders.

Printed in Prague, Czech Republic.

ISSN 1805-5109

PREFACE

The Centre for Research and Interdisciplinary Studies (CRIS) was founded with the idea of developing interdisciplinary research crossing several fields and subject areas underlying the academic curricula at Prague College, and its main purposes are:

- To promote a medium of participation and discussions by means of regular interdisciplinary workshops and seminars.
- To promote and to encourage the collaboration among different schools and programmes in the design and creation of multidisciplinary courses in the college.
- To provide a means of publishing research work for both students and staff as part of a quarterly academic bulletin and e-journal.
- To cooperate with other education institutions and organisations in the development of common projects of interest.

The Centre was developed from projects initiated by Stefano Cavagnetto in the context of his role as Head of the School of Business and the School of Computing, by Bruce Gahir, Principal Lecturer in the School of Business and Computing, and by Pascal Silondi, Director of Libat and Principal Lecturer in Interactive Media. Beginning in 2009, research in the following areas had been initiated:

1. Game theory and its application to economics, business, philosophy, and international relations.
2. The history of programming languages and history of computers.
3. Experimental media (Prague College and the CRIS, formerly PCRC, is an associate partner for Underground City XXI an international interdisciplinary EU project).
4. The history of cryptology and the science of enciphering.
5. Art and mathematics: a profitable relationship in history - from classical geometry to fractals and topology.

By combining academic study with practical training, the CRIS aims to create an environment where personal achievement goes hand-in-hand with social responsibility. Strategically, this offers students the chance to actively collaborate in several research areas with the support of faculty members and lecturers of the college.

Since 2010 a quarterly Bulletin has been published detailing progress in relevant research activities of lecturers and students. This bulletin forms an integral part of the CRIS and provides a medium whereby the research activities of the centre can be documented. Faculty members, lecturers and students belonging to every school of the college are welcome to submit their work for publication.

You can find the published Bulletins of CRIS on Ebrary (electronic library), in the college library, in six Prague libraries (Narodni knihovna, Knihovna Narodniho muzea v Praze, Ministerstvo kultury CR, Parlamentni knihovna, Mestska knihovna v Praze, Knihovna a tiskarna pro nevidome K.E. Macana), Moravska zemská knihovna in Brno, Stredoceska vedecka knihovna in Kladno, Jihoceska vedecka knihovna in Ceske Budejovice, Studijni a vedecka knihovna Plzenskeho kraje in Plzen, Severoceska vedecka knihovna in Usti nad Labem, Krajska vedecka knihovna in Liberec, Studijni a vedecka knihovna in Hradec Kralove, Moravskoslezska vedecka knihovna in Ostrava, Vedecka knihovna in Olomouc, Krajska knihovna in Pardubice, Havlickuv Brod, Zlin, and Karlovy Vary.

Deadline for the next issue in 2017 is 31st December 2016.



WOMEN DOCUMENTARY FILMMAKERS: FRAMING WAR AND 'POST-CONFLICT' ZONES

MAŠA HILČIŠIN

The representation of mass rape, other forms of torture, and forced exile along with psychological and social consequences of war on women and girls reveals essential elements which have to be brought more into the current public discourse. In contemporary documentary cinema, this discourse is built on a major dichotomy: victims/survivors and perpetrators, representation and signified reality, and recollection of subjective impressions and aestheticism over documentary text. Exploring a range of cinematic representations of war and post-conflict¹ zones raises many issues of universal and basic human concerns. Critical discourse and the complex relationship between the filmmaker and subject embody some of the key ethical challenges in documentary cinema. By raising issues of sexual violence, deprivation, devastation, threats, and death in a representational mode of documentary cinema, ethics concerns and burdens become one of the core issues for documentary filmmakers. In displaying vulnerable subjects and harsh traumas, documentary text constructs vivid reality which shifts from representational to indexical reflection and steers away from imaginary reflection of the constructed world that might exist, but refer to the world that the viewer actually lives in. Filmmakers selected for this paper opted for an approach based on evidence, factual material, and highly resonant emotional responses. This develops strong rhetoric and appeal on conditions addressed in documentary text. Female documentary filmmakers provide mapping of some of the most critical current issues in politics and society and specific access to human stories and interpretations which grew at the intersection of political activism, feminism, and documentary discourse.

Representation of war and the exploration of political conflict over documentary film text are discussed through recent documentary productions of Lisa F. Jackson's *The Greatest Silence: Rape in the Congo* (2008), Annetta Papathanassiou's *Playing with Fire: Women Actors of Afghanistan* (2014), and Yasmin Fedda's *Queens of Syria* (2014). Each of these documentary texts assembles the specific nature of documentary cinema and its anticipation of massive violence against women emanated by the politics of war. All of them received major documentary film awards for outstanding achievement in directing and advocating human rights.

THE CONGO RAPES

The first extensive interrogation of mass rape committed in the Democratic Republic of the Congo was documented by documentary filmmaker and activist Lisa F. Jackson whose journey was focused on Eastern Congo, its provinces, and villages. Although estimations vary, according to data published by the American Public Health Association, it has been estimated that "more than 400,000 women ages 15 to 49 experienced rape between 2006 and 2007 in the Democratic Republic of Congo. That is equivalent to 1,152 women raped every day, 48 women raped every hour, or four women raped every five minutes" (International Campaign to Stop Rape and Gender Violence in Conflict, 2011).

In participatory mode Jackson has spoken to a number of women who have been repeatedly raped, mutilated, and tortured by soldiers. War in the Congo involved several armies from Rwanda, Zimbabwe, Angola, Namibia, Chad, Libya, and Sudan. According to the estimations published by the organisation 'World Without Genocide', war and bloodshed caused immense human losses, "since 1996, the Democratic Republic of the Congo (DRC; Congo) has been embroiled in violence that has killed as many as 5.4 million people. The conflict has been the world's bloodiest since World War II" (World without Genocide, 2012).

¹ Term 'post-conflict' was quoted by the author of the text. Although, the term is employed by the UN and adopted by many political theoreticians as 'post-conflict societies' still in many countries and regions affected by the war conflict remains present on a large scale even when war was officially over. Manifestations of those are continuous rape, active armed groups, and the rise of political tensions in the Democratic Republic of the Congo, or fighting between the Taliban and government and killing of civilians in Afghanistan. Similarly, it applies to other countries and regions such as rising nationalism in Bosnia and Herzegovina or the killing of civilians and artillery attacks in Iraq.

Through the specific access to reality and personal stories, the film text becomes an element of signification and re-construction of ideology (ideology as corpus of concepts based on patriarchal codes). What Jackson explores here is the role of the patriarchal domain which provides legacy and uses rape as a sexual weapon of war. Although there are different understandings and notions on how rape is used as a weapon of war and as an extreme act of violence based on gendered power. Academic Kyle Alexandra (2010, p. 17) argues that current definitions of war rape, including those that define rape as a 'weapon of war', or explaining rape based on sociobiological grounds are "insufficient when it comes to exploring ways to prevent war rape". Alexandra (2010, p. 17) elaborates war rape as "a complex dynamic encompassed by layers of meaning which vary between conflicts. Feminist theory points to the gendered social, political, and economic hierarchies that produce misogynistic cultural norms which are exacerbated in the chaos of war." This supplies important elements to public critical discourse on wartime sexual violence. Researchers Maria Eriksson and Maria Stern took a different direction in exploring and defining war rape. Their research book *Sexual violence as a weapon of war?* was primarily based on the case of the Congo. Eriksson and Stern (2013, p. 17) offer a critical reading of 'rape as a weapon of war' which is commonly used with the two explanatory frameworks to work with; they address the "biological urge/Substitution Theory" (the 'Sexed' Story), and then the narrative explaining the interconnections between gender and militarization (the 'Gendered' Story), which is seen to supplant it, and which underwrites the dominant framing of conflict-related sexual violence."

In Jackson's documentary text, war rape is primarily researched how it is instrumentality used to conquer and humiliate. One of the central questions in *The Greatest Silence: Rape in the Congo* (2008) is what is happening to survivors of rape and how to collect necessary evidence in and outside of documentary text. Their narratives of war are ghastly images bravely rendered through personal experience which Jackson embroiders in film text. Jackson inverts the expository and participatory mode of representation. She exposes material evidence of disturbing archive images stamped by her own narration and active verbal exchange with subjects. Textual meaning shifts towards the subjects presented in the frame and their stories and comments become central to the film text.

Introduced by the documentary film theoretician, Bill Nichols (1991, p. 107), the expository mode of documentary "relies on interviews with witnesses" utilising also the role of narrator, while participatory mode is situated and centered around "the actual encounter of filmmaker and other" (Nichols, 1991, p. 44).

In *The Greatest Silence: Rape in the Congo* both of those documentary norms are respected as the filmmaker collects major evidence by interviewing survivors of rape on the one side and perpetrators on the other side, adding personal audio portions to the film text. Conversations with women are centered and structured around present circumstance determined by a complex political reality. All of these conversations convey severe narratives of sexual violence experienced during the war, whether we reflect on 34-year-old Marie Jeanne raped in her home by five soldiers while being in the fifth month of her pregnancy or on 18-year-old Immakilee who was fifteen when she was raped and gave birth as a result of rape; or on 42-year-old Marie Jeanne raped by several soldiers after seeing her husband being killed and his whole body cut into three parts, or Safi who was eleven years old when she was raped (*The Greatest Silence: Rape in the Congo*, 2008).

The submission of questions has primacy over the established narrative. Jackson starts most of her interviews with the present condition followed by subtle deeper diving into the lives of the subjects. The film positions the female body as a political text, inscription of war, and signified territory of systematic political abuse. This is the hidden layer, displayed as internal evidence. The first, more explicit and visible layer, is explained by the biological urge. Jackson confronts both of these 'frameworks' giving the primacy to re-defining gendered militarisation over the female body. This critical point is recorded in stories and narratives provided by women where rape was used to conquer, humiliate, and torture.



Figure 1: Marie Jeanne. *Rape in the Congo* (2008)

The structure of the narrative flows from testimonies of survivors done in subtle empirical research which combines conversations, experience, and observations, to random and less structured meetings with perpetrators. "Just ask him to tell me what he did", asks Jackson. "To women?", responds one of the perpetrators. "If she says no I must take her by force. If she is strong, I'll call some friends to help. All this is happening because of the war" (*The Greatest Silence: Rape in the Congo*, 2008). In the same movie sequence there are about six soldiers, each of them showing with fingers how many women they raped: five, three, seven, ten...

Ethics of representation is experienced here in a continuous effort to collect. Jackson also offers personal space in documentary text by exposing her own experience of gang rape which she survived in 1976 in Washington, D.C. (USA) (*The Greatest Silence: Rape in the Congo*, 2008). Public space/politics is confronted with private space/female body, which Jackson uses not only to support her own strong argument against ignorance, violation, and moral contradiction, but also as one of the major tools in gaining trust among filmed subjects. Here, the viewer experiences the axiographic physical space as one of the great measures of reality being told (water canals filled with bodies, impoverished areas, modest hospitals and shelter centres, impoverished villages) in documentary film text. Jackson's constant presence in the image (physically in front of the camera, in narration, behind the camera while her voice talking to women could be heard) constitutes an ethics and evidence important for the viewer. Axiographics as a term was introduced by Nichols in order to explore and justify camera gaze and ethical codes identified in documentary mode. Nichols (1991, p. 78) stresses "how the documentary camera gaze takes on distinctive qualities and poses concrete issues of politics, ethics, and ideology in terms of space". In Jackson's documentary narrative, the viewer is directly invited into the film text and challenged by politics of violence. The images that Jackson produces provide valuable evidence on behalf of her argument as well as her own political and human ethics.

Those stories are unforgettable accounts where signified reality becomes a body of images forced by torture/trauma/shame/guilt/abandon. Random (unstructured) conversations with perpetrators are heightened and associated with different elements of realism. This realism supplies different layers of evidence which requires more research and which also reveals devices used in rape, and addresses key geographical areas controlled by armed rebellious groups.

Jackson introduces helpers at later stages of the film (Panzi Hospital in Bukavu), and those subjects built the last, third layer, of the film text. There are not any additional stylistic devices used in the film. Camera narrates subject with the same dynamic as editing. Slower pacing provides specific markers of the socio-historical world imposing the main ethical responsibilities on viewers, the way we relate to those horrifying images, and what we do with them after seeing the film. Hence, Jackson invites us directly to be part of the film as social and political space.



Figure 2 (top): Panzi Hospital. *Rape in the Congo* (2008)

Figure 3 (bottom): Women for Women International - DRC workshops for women. *Rape in the Congo* (2008)

PLAYING WITH FIRE

Playing with Fire: Women Actors of Afghanistan (2014) reminds the viewer that socio-historical context enters documentary text in a distinctive way by providing important sub-text and conceiving discourse which seeds different ethical and political perspectives on the female body, fundamentalism, patriarchal traditions, and repeated violations of women's rights.

Documentary filmmaker Annetta Papathanassiou produces multiple subjects who are layered by the main paradigm of the documentary text. Images and narrative which unfold a continuous presence of the filmmaker within the text (by narration and interviewing as a part of diegetic conversations), and visual representation of spatial/personal/vivid/transformational/ethical/political build together multiple dimensions of the film narrative. Papathanassiou shifts nuances of narrative by exposing vivid spatial representation and placing subjects in different realms.

The dichotomy between public (stage) and personal (home) space breaks linear order of narrative and shifts codifications of different spaces and their significations. In *Playing with Fire*, the public (stage) becomes self-narrated past, vivid present, sharing the untold while personal (homes) confronts safety, and punishment by family. Echoing the complex political situation, Papathanassiou explores the lives of women actors

in Afghanistan referring to their voices and her narration in real terms. The UN Women reflected on recent years and the current status on women's rights in Afghanistan. Data exposed shows that violence continues to spread on a large social scale affecting the security, health, and economic status of women, "although considered to be under-reported, over 4,000 cases of violence against women and girls were reported to the Ministry of Women Affairs (MoWA) from 33 provinces of the country in 2010-2012" (UN Women, 2012).

Subjective experience of actresses Breshna Bahar, Roya Heydari, Sajida Nayibee, Leena Alam, humiliated by communities and threatened by fundamentalism and/or by their families, becomes central to the documentary narrative. Real time and subjective time interlace within the thematic plane of the film. Subjectivity transfers here on a different plain as the filmmaker reads the letter sent and signed by the member of the Islamic Taliban Movement (exposed by subject Bahar). Papathanassiou combines expository and participatory modes of representation by bringing together archive images, rhetorical narration, direct addressing, interaction, and empathic identification with the subjects. Logic of the documentary text is built on exchanges between the subjects, interviews, statements, and spatial settings. Axiographics addresses representation of space by shifting towards subjectivity where the representation of politics over the female body becomes central to the film's argument (evidenced by the interview conducted with Enayatullah Baleegh, Professor of the Islamic Law at Kabul University). This constitutes the position of the filmmaker, her presence in the frame, and in the acoustic portions of voice-over narration. The configuration of space stamps the historiographic space of Kabul main Mosque, vivid outdoor markets, theatres, busy Kabul's streets, and Paghman Theatre and Kabul Nendari National Theatre in ruins.

The human gaze constitutes in the film text a way of pointing out the 'signified' and the construction of signifier. The signified is determined by a patriarchal paradigm, acknowledgment of continuous interaction between the filmmaker and subjects, ambivalent personal (home) space, and recollection of memories and experiences. All of them were embodied in vivid staging of Moliere's *Georges Dandin*, Sophocles' *Antigone*, and Shakespeare's *Romeo and Juliette*. Papathanassiou constructs an argument and elaborated reflection by negotiating the distance between her, the subjects, and the viewer's gaze which is justified by the filmmaker's strong response to a socio-historical world and calling for action. She does not develop any specific conventions which relate to expository and/or participatory modes, but renders her own presence in the documentary text as an embodied medium which is actively involved in a contingency of real events. The presentation of the subject could invoke an impression for the viewer that the subject is portrayed as a powerless victim (which is especially arguable during the interview with Breshna Bahar who was attacked by her nephews and ended up in the hospital because of injuries) where the filmmaker remains behind the camera and retains the controlling voice by displaying different questions, but Papathanassiou's subject is not nameless, and her representation provides an important piece of evidence of dreadful pressures and complexities of religious fundamentalism. The film's argument is carefully treated here and it provides close witnessing of the represented reality. The other voice, the voices of perpetrators could be also placed within this framework for evidential support.

Violence and threats as storylines are exposed to fill a narrative function. This is revealed in the thematic plain of the film: the authority of leading local politicians, personal active participation of the filmmaker, and enduring lives of women provide a dramatic device and climax with a powerful conclusion. An ideological approach in constitution of one's own subjectivity is transferred here on a wide social plane. Papathanassiou does not steer away from constitutive subjectivity; instead she offers a platform which explores mythological/historical/tangible evidence/recollected statements and thoughts/sociohistorical fragmentarity. The ontological claim of a subjective approach refers to the representative strategies used in the film, on the one side. On the other side, the political plane relies on argumentative interrogation of the subjects' lives and their personal rhetoric. Subjects structure an imminent field of norms and values confronting identities of 'fatherland', 'family', and 'otherness'. The evidentiary status of *Playing with Fire* lies within a larger system of political and subjective dimensions of documentary text.



Figure 4 (top): Breshna Bahar. *Playing With Fire* (2014)

Figure 5 (bottom): Kabul Nendari National Theatre. *Playing With Fire* (2014)

QUEENS OF SYRIA

In framing the devastating war in Syria, director Yasmin Fedda offers a different framework in further exploration of the burning conflict. She places her subjects on the stage to perform their own narrative. The basis for the narrative was used from the mythological ground of "The Trojan Women". Originally written by Greek playwright Euripides, *The Trojan Women* is ancient testimony with ontological propositions to women's suffering in war. Ontological is found in person-to-history transaction of experience, involving transition of knowledge, socio-historical reality, and personal evidence of trauma as one of the major tools to go through three arcs of mythological tragedy. In *Queens of Syria* (2014) an apparent subject is exploration of mythological social platform within the intersection of contemporary warfare. But in sharing that narrative together with other women, the filmmaker shows serious attention to causalities of the war in Syria underlying and mirroring catastrophes and horrors from both tragedies.

Fedda's subjects are dozens of Syrian women who were forced to exile, to flee from war and find their base in Amman, Jordan. While staging "The Trojan Women" they share stories of violence, enslavement, and tremendous losses. Fedda operates from the inside, providing a vivid realm of personal narratives. She is not visible in front of the camera, yet her device is in every corner of physical space. The presence of Syrian women serves as an index of their relationship to the filmmaker. A historical world re-created by subjects

becomes the main scene of the documentary text. The camera's gaze produces here two distinct frames: one is mechanical which allows the viewer to experience the physical realm of rehearsals and plays in the process of creation. Another one is the metaphorical, which transfers and interlaces deep personal connotations formed upon complex social and political circumstances. The Syrian Centre for Policy Research (SCPR) displayed statistics of the death toll and displaced people in the report 'Alienation and Violence: Impact of Syria Crisis Report 2014':

"Over half the population (52.8 per cent) were dislodged as they left their homes looking for safer places to live or better living conditions elsewhere... The appalling loss of life continues to be among the most horrific feature of the armed-conflict, as the death toll increased in the past year to reach 210,000 persons killed. Together with the 840,000 people who were wounded, 6 per cent of the population were killed, maimed or wounded during the conflict" (The Syrian Centre for Policy Research, 2015).

Fedda's ethical response is rooted in empathy and observation of the human experience rather than in intervention while respecting public space and stage space. Both of these spaces confront recurring examples as a constant reminder of reality being told through narrative comprehensions: expressions, recurring lines, movements, and repetitions. Fedda's intervention operates more in the quiet exploration of Fatima's, Suaad's, Maha's, and other stories. This is the intervention of searching for untold stories, hidden 'measurements' of human suffering, corners of refugees homes, souls that yearn for lost homes and a happy past, loss of their relatives, collection of memories, shelling, and funeral rites. This intervention is not actuated by a mechanical or narrative device, but by human need to look for more layers exploring the complexity of the human experience in war. The subjective camera displays personal refugee homes in Amman. "Look at me. You will find a tragedy walking on two legs", says Suaad in *Queens of Syria* (2014).

The politics of personal space maintains boundaries which Fedda constitutes throughout the whole film. The presentation of subjects on a stage and during rehearsals is revealed in observational mode of representation, placing the subjects in the centre of socio-historical reality. Fedda establishes her own ethical and normative codes, shifting the spatial representation which serves to contextualise public/personal, theatre space/home space, mythological past/harsh present. Long and medium shots renders spatial positioning of refugees' homes and the modest surroundings inhabited by women and their families who managed to escape the war. The invisible filmmaker who observes subjects on the theatre stage and during rehearsals becomes an exhaustive observer and almost becomes like another subject of the film by persistent multiple takes of inside space, providing insights into personal lives and psychological depth of wounds, scars, and exodus. This causes even more need for the viewer to get access to the inside space, outside of the stage.

Fedda applies linear narrative which chronologically employs three arcs of structure. Each arc gradually brings elements of personal women stories to the whole catharsis in performing their own tragedies. Catharsis in *Queens of Syria* is not the final; it is the stage of around 30 of women who stayed until the end of the production, who renders theatre space, dressed in black, lighted with basic lighting, sitting in the same row and telling their stories. Catharsis here is open, and unfinished as the conflict itself in Syria, and as additional testimony to other stories of women who were systematically neglected and under-told. Representation and documentary text provides here that physical capacity which offers historical construct and women's narrative on war. Spatial representation operates here as a matter of ethics and confronts the viewers with the core issues, conscience, and social responsibility. It implies ontology and importance of historical and contemporary placement of eternal themes and tales of women as symbols of concurred territories, political realms, and literal plane of women's struggle to survive in the aftermath of war.



"I have a scream I want the whole world to hear...
But I wonder if it will be heard?"

– Suad, cast member

Figure 6 (top) & Figure 7 (bottom): Screenshots from *Queens of Syria* (2014)

INDEXICAL BIND AND BREAKING THE SILENCE

Factual materials presented in all three analysed and displayed documentary texts (witnesses, testimonies, and documents) are persuasive strategies applied by filmmakers and subjects of the films in building the solid ground of evidence. Evidence creates an indexical bond between the images presented in the films, their rhetoric, and signified function. In the essay "Mirrors Without Memories", Linda Williams reflects on complexity of the notion of truth in documentary text. She notices how truth in the documentary tradition cannot be purely transparently transmitted and guaranteed concerning representational aspect of documentary mode. However, Williams (1998, p. 386) elaborates that "instead of careening between idealistic faith in documentary truth and cynical recourse to fiction, we do better to define documentary not as an essence of truth but as a set of strategies designed to choose from among a horizon of relative and contingent truths."

The juxtaposition of compelling images and alarming testimonies attach feelings of responsibility and social conscious in an immense way. Each of these documentary texts demonstrates persuasive cases of damaging and devastating violence happening against women in war and post-conflict zones. Documentary narratives here tend to be structured around factual merits of rape and other forms of physical and psychological violence. Evidence displayed has the ability to convince flows from one image/statement to another in exposing severe problems and violations of human rights. Rhetoric includes argumentative aspects of the documentary film text by facing the 'other side', questioning perpetrators, and confronting leading local politicians.

Another level of proof is the author's proof which heavily depends on narrative constructions employed over the film text, and quality and accuracy used during the process of representation. A message comes here from the structured interviews, archive resources, and ethical space. Recurring images of rape survivors' testimonies, exile, warfare, beatings, and death threats unfold disturbing representations and indexical connection signs and connections to the real. Although many film theoreticians emphasise the importance of seeing documentary as representational medium and subjective device. In addition to that, film theoretician Stella Bruzzi (2000, p. 4) stresses the role of the representational when negotiating reality between spectatorship and documentary film text, "the spectator is not in need of signposts and inverted commas to understand that a documentary is a negotiation between reality on the one hand and image, interpretation and bias on the other." Those filmmakers provide valuable and important access where documentary film narrative excess realm of representation and becomes dynamic notion of plural conceptions (text, movements, image design, narrative) in order to display how the war and post-conflict world feel like. Such calls make an emotional appeal and social consciousness. The question remains whether those calls will ever fully resonate with the rest of the world. ■

REFERENCES

Alexandra, Kyle (2010) 'War, Society, and Sexual Violence: A Feminist Analysis of the Origin and Prevention of War Rape', *Hohonu - A Journal of Academic Writing*, 8, 17.

Bruzzi, Stella (2000) *New Documentary: A Critical Introduction*. London: Routledge.

Eriksson, Maria and Stern, Maria (2013) *Sexual violence as a weapon of war? Perceptions, prescriptions, problems in the Congo and beyond*. London: Zed Books.

International Campaign to Stop Rape and Gender Violence in Conflict (2011) *Stop Rape in Democratic Republic of Congo*. Available at: http://www.stoprapeinconflict.org/dr_congo (Accessed: 11 July 2016).

Nichols, Bill (1991) *Representing Reality*. Bloomington: Indiana University Press.

The Syria Trojan Women Project (2016) *Queens of Syria UK Theatre Tour*. Available at: <http://www.syriatrojanwomen.org/index.html> (Accessed: 12 July 2016).

The Syrian Centre for Policy Research (2015) *Alienation and Violence: Impact of Syria Crisis Report 2014*. Available at: <http://scpr-syria.org/publications/policy-reports/scpr-alienation-and-violence-report-2014-2/> (Accessed: 15 July 2016).

UN Women (2012) *Afghanistan*. Available at: <http://asiapacific.unwomen.org/en/countries/afghanistan> (Accessed: 13 July 2016).

Williams, Linda (1998) *Mirrors without Memories: Truth, History, and The Thin Blue Line*. Edited by Barry Keith Grant and Jeannette Sloiowski. Detroit: Wayne State University Press.

World Without Genocide (2012) *Democratic Republic of the Congo*. Available at: <http://worldwithoutgenocide.org/genocides-and-conflicts/congo> (Accessed: 11 July 2016).



DIGITAL SIGNATURES OF THE BAROQUE

THE CULT OF THE CHRONOGRAM IN 18TH CENTURY BOHEMIA

ALEX WENT

The embedding of coded dates (chronograms) in religious and secular memorial inscriptions became something of an obsession in the early 1700s, especially in the Czech lands. This essay proposes a number of possible reasons for the fashion and further suggests that the appeal of the chronogram had less to do with intellectual vanity – though this played a part – and more with the acknowledged power of inscription itself, particularly when it came in the form of a public prayer.

By examining several notable examples, the author seeks to demonstrate that chronograms were more than simply word-games; they provided an essential link between the reader, the context of contemporary intellectual thought, and the classical heritage from which it was descended.

THE RULES OF COMPOSITION

Five years after moving to the Royal Court of Dresden, the Bohemian-born composer J.D. Zelenka produced a choral mass for his employer, Augustus II, Elector of Saxony. It was the musician's second published work (ZWV 2¹) and it survives today only in an incomplete form. On one page of the manuscript the composer has appended his full name in its Latin form:

Ioannes LVCas IgnatIVs DIsmas zeLenka

The inscription is interesting for two reasons: firstly, Zelenka, a Catholic composer in a newly Catholic court islanded in protestant Saxony, shows his devotion by adding to his birthnames (Lukáš Ignác) the name of Dismas, the 'good thief' of the crucifixion story. Secondly, certain letters are picked out in capitals, highlighting their dual function as Roman numerals, and giving the entire inscription the air of a riddle. And indeed, when added together, these letters give the year of composition:

$$\mathbf{I+L+V+C+I+I+V+D+I+M+L = 1714}$$

Such encoded dates – known as 'chronograms' from the Greek for 'time writing' – flourished in eighteenth-century Europe, particularly on memorials and medals, but also in books and manuscripts. Zelenka's is not only typical of the period and region, but also a pleasing example of the perfection of the art. The accepted system of chronogrammatic encoding depends on an understanding that all letters that can be read as Roman numerals will be included in the final count; it is not considered good practice to be selective. James Hilton, compiler of the magisterial 1882 survey *Chronograms, 5000 and More in Number*, warns the reader – with typical Victorian severity – that "no such letters may be passed over to suit the convenience of the composer", adding that "surplus letters would assert too much and carry the date beyond its limits."

A further convention dictates that the solution to any given chronogram is arrived at only by mathematical addition; combinations such as 'IV' or 'CM' – in which the smaller numeral precedes the greater, implying subtraction – do not count in these cases. For instance, the 'IV' in 'IgnatIVs' will always be read as 6 and never 4. To create a chronogram that so neatly fits the composer's name is therefore no easy matter. In the example quoted above, Zelenka was fortunate that each of his first three names contained at least one Roman numeral. It is a matter of interest that had he not adopted the name of Saint Dismas, the chronogram would have been 1,501 years short of the correct date.²

Word-games evidently appealed to Zelenka, who appears to have been a somewhat introverted character as well as a highly innovative composer. Like his near-contemporary J.S. Bach (the composer of several pieces whose musical notes punned on his surname B-A-C-H) Zelenka plainly took pleasure in the lexical, mathematical, geometrical, and numerological possibilities afforded by the setting to music of certain texts. An example of such playfulness appears in Zelenka's canon for four voices (ZWV 179) composed in 1722, which sets the (appropriate) text "Vide Domine et considera laborem meum" – "See, Lord, and consider my labour". The simplicity of this little piece belies its artful construction: not only do we hear the complex overlaying of voices typical of a canon, but halfway through the piece the melody is reversed, to create an exact musical palindrome, or mirror-image:

Vi - de Do - mi - ne et con - si - de - ra
 Vi - de Do - mi - ne et con - si - de - ra
 la - bor - em me - um.
 la - bor - em me - um, la - bor - em me - um.

Figure 1

When Zelenka revised his canon six years later for publication by the composer Georg Telemann in the latter's *Getreue Musicmeister*, a series of singing exercises, he prefaced the work with the following multiple chronogram:

**LeCtor MI VIDere LIBet qVae seqVVntVr
 VrtVosI possessorIs honorI apponere ILLa VoLVIt Iohannes DISMas zeLenka
 FIDVs In prInCiplo In fine aMICVs et serVVs
 DabantVr Vero ILLa In DresDa noVa tertIa aprILIs In abItV soLIIs**

Reader, it pleases me to see what follows:

*Johannes Dismas Zelenka – faithful friend and servant
 at the beginning and at the end – wished to
 attribute these [items] to the honour of their
 virtuous possessor; these [items which] were presented
 indeed in Dresden at sunset on the third of April*

Zelenka openly names the precise date and time of day at which he presented the composition to Telemann (the presumed 'virtuous possessor'). The year, on the other hand, is to be found only by adding the chronogrammatic elements: in each individual line of the dedication; the Roman numerals add up to 1728. The exquisite pleasure that such puzzles give to both setter and solver is part of the process of memorisation. These coded messages offer to pass on more information than they at first sight reveal. Given sufficient knowledge, the puzzle will last beyond the grave, so long as future generations possess the key.

However, diverting such word-games, though, not everyone was impressed. Contemporaries mocked the intellectual conceit of chronogram-makers. Despite his own skill in Latin verse composition, the English essayist and satirist Joseph Addison, writing in 'The Spectator' of 9 May 1711, sniped at an activity which he considered an inessential display of vanity:

For as some of the Letters distinguish themselves from the rest, and overtop their Fellows, they are to be considered in a double Capacity, both as Letters and as Figures. Your laborious German Wits will turn over a whole Dictionary for one of these ingenious Devices. A Man would think they were searching after an apt classical Term, but instead of that they are looking out a Word that has an L, and M, or a D in it. When therefore we meet with any of these Incriptions, we are not so much to look in 'em for the Thought, as for the Year of the Lord.

Addison's view that chronograms lack imagination – being examples of what he calls 'false wit' – prevails even today: Roy Stokes, in *A Bibliographical Companion* (1989), is not alone when he writes that chronograms "were not intended to be serious attempts at concealment but solely for mild jocularity".

Yet the sheer abundance of central European chronograms in the seventeenth and eighteenth centuries suggests that the trend was more than simply a private display of intellect by 'German wits'. There were also valid public reasons for chronogrammatic inscriptions, among which are the invocation of God or the saints as protectors, for example in times of plague; and the commemoration of monarchs and nobles as patrons.

WHY BOHEMIA?

Hilton attributes the best chronogram-making to Zelenka's adopted homeland of Saxony. In fact, as his compendium makes clear, encoded dates started to appear on vernacular architecture between the Rhine and the Danube from the late 1500s onwards. But the real craze appears to have been concentrated in Bohemia, the composer's country of birth, originating in the mid-seventeenth century and reaching its peak in the early-to-mid-eighteenth. I propose a number of reasons for this phenomenon.

Firstly, an emphasis on dedicatory inscriptions – particularly in Latin – coincided with the wave of baroque architecture which dominated Europe during the seventeenth century. In Bohemia, the baroque style was strongly identified with the resurgence of Catholicism after the Thirty Years' War (1618-1648), as evidenced, for example, in the statues erected on Prague's Charles Bridge in the second decade of the eighteenth century. The idea, common in classical and biblical texts, was that 'the stones will speak' ('saxa loquuntur'), with inscriptions below the statues transmitting the truths of their time to future generations. Secondly, Bohemia lay on a fault line between the Holy Roman Empire and that brand of protestantism which had originated in the sermons of reformers including Jan Hus and, later, Martin Luther. Although chronograms were employed by Catholics and Protestants alike, it is tempting to associate their rise with the Europe-wide trend for coding and encryption which grew up as a result of the need to conceal or equivocate in matters of religious faith.

Thirdly, chronogrammatic inscriptions, with their appeal to classical learning and patterning, would have been seen as a representation of the power of God, particularly in those inscriptions where the Roman numerals are both enlarged and picked out in gold. More importantly these academic puzzles would have expressed the power of the Church itself by emphasising the intellectual distance between a book-learned clergy and an ignorant laity. For Anna Kapuścińska and Piotr Urbański, co-authors of a paper on the Lutheran poet Paul Zacarias, chronograms "seem to work as intellectual stimuli intended to engage the reader in a sort of divine game, which invigorates the mind and aims to inspire righteous thoughts, leading to the spiritual improvement and moral purity".

A supportive context for many, if not all, of the above arguments can be found in the following observation concerning the process of Bohemian re-Catholicization:

The Jesuits ... aimed at optical and content unification of sacred buildings to emphasize true presence of Jesus Christ and all the saints ... [In] a form of sculptural series and architectonically created sceneries they have converted the city – image of the world – into the theatre of the world. [A] new language of architecture, symbols and signs created a true present image in city and above it a mental image of 'Bohemian heaven' based on emphasis on Bohemian patrons. ... The Jesuits introduced the whole system of visual communication through [a] system of signs and symbols.

Blanka Altová: 'The City of Kutná Hora as a Bohemian baroque space'



Figure 2

PATRONS, PLAGUE AND PROPITIATION

Chief among those patron saints was the fourteenth century priest John Nepomuk (Fig. 2, p. 21), whose elevation to the sainthood in the eighteenth century led to a profusion of chronogrammatic outpourings, far more so than to Wenceslas, Agnes, Vojtěch, or other spiritual protectors.

Nepomuk's beatification took place at the height of what might be called a period of chronogram fever in Bohemia; but his popularity as a subject for chronogrammatic treatment may also allude to the arcane circumstances of his martyrdom, which came about because he refused to reveal to Wenceslas IV what the queen had told him in confession. What more appropriate epitaph than a hidden message to commemorate a priest who exercised the right to silence? A typical early example can be seen on the Nepomuk statue in Vršovice, a village which became incorporated into the city of Prague at the start of the twentieth century. A mirror image of Jan Brokoff's statue of the same saint on the Charles Bridge produced in 1683, this less well-known version of two years later is one of the oldest extant religious artefacts in the locality.

Carved into the pedestal of the statue is the following memorial inscription, which translated reads "The town of Vršovice consecrated [this statue] to Saint John Nepomuk, special defender of their homeland":

**SANCTO IOANNI NEPOMVCENO SPECIALI PATRIAE PATRONO
CIVITAS VRŠOVICENSIS SACRAVIT**

Although in this comparatively crude carving the all-important Roman numerals are not elevated in any special way, and they still operate according to the acknowledged principles of chronograms outlined above, resulting in this case in the year of construction:

C II MVC CILI I CIVI VVICI CVI = 1685

Nepomuk was finally beatified by the recently-elected Pope Innocent XIII on 31 May 1721, an event recorded on a number of medallions struck especially for the occasion. One shows the Church and Bohemia personified on either side of an altar, with the inscription:

Vno Is CLementIs sVb sIDere fVLsIt In arIs (=1721)

*"He shone upon the altars under the single star of Clement"
(a reference to the papal arms of Innocent's predecessor)*

As a key weapon in the arsenal of the Counter-Reformation, further statues of Nepomuk, many of them likewise adorned with chronograms, were set up throughout Bohemia as well as in Italy, Germany, Lithuania, and Poland. Comprehensive illustrated catalogues featuring multiple examples can be found online.³

Of all the chronogrammatic art in Bohemia, perhaps the most celebrated example is the plague column of Kutná Hora (Kuttenberg), an important city to the east of Prague which was home to the Royal Mint and a renowned silver mining town. The seventeen metre column was conceived by the Jesuit sculptor František Baugut. Its foundation stone was laid on 15 June 1714, and the dedication took place eighteen months later on 15 December 1715.

Baugut's curious, organic sculpture fulfils numerous simultaneous functions. As it ascends through multiple twisted tiers, it acts as a memorial to the dead of the plague of 1713, a celebration of the city's mining industry, and a propitiation in stone to the saints of Bohemia, and to the Mother of God in particular. Centrally placed on the column is a lengthy dedication to the Virgin Mary. As with the Vršovice statue, the town itself is named as the donor:



Figure 3

MATRI DEI
SEMPER VIRGINI
SINE NÆVO
CONCEPTA
RITE POSUIT
EPIDEMICA LVE
LIBERATA
MARIANIS GRATIIS
DEVOTA
AC
OBSTRICTA
KVTTENBERGA

DE MORTIS
TELO
IN PROPRIO
VVI NERE
CONFRE
GIT

Figure 4 (left); Figure 5 (right)

**MatrI DeI | seMper VirgInI | sIne naeVo | ConCepta | rIte posVIt
epIDeMICa LVe | LIBerata | MarIanIs gratIIIs | DeVota | aC
obstrICta | kVttenberga (= 6146)**

The devoted and dutiful Kutttenberg, liberated from the epidemic by Mary's grace, ceremonially placed (this monument) to the Mother of God, ever the Virgin, the immaculate conception.

In this case, the chronogram reveals not a calendar year, but instead a tally of 6,146 – usually taken to indicate the number of plague victims. Below the main inscription, four kneeling miners at each corner carry shields with their own inscriptions, indicating the years of the column's foundation and dedication:

De MortIs teLo⁴ In proprIo VVLnere ConfregIt

Through His own wounds He has snapped in sunder the arrow of death (=1714)

pestIferos LIBItIno Morbe De VLCere sanaVIt

He has cured those plagued with death from the sickly ulcer (=1715)

Contra VirVs In braChIo potentIaM ostenDIt

He has shown strength with His arm against the plague (=1715)

gLorIosa poenItentIa pesteM LoCI DetVrbaVIt

With glorious penitence He has toppled the plague in (this) place (=1715)

Repeated chronograms of this type – usually one on each face of the column's pedestal – are not unusual in the Czech lands. Similar examples survive on the plague column in Prague's Malostranské náměstí (1713), the Nepomuk memorial column in Brno (1729), and the Holy Trinity column in Olomouc (1754). Whichever way you face, the plague is there.

'TIME HAS TRANSFIGURED THEM INTO UNTRUTH'

It is particularly striking that the Kutná Hora verses closely mirror the liturgical text of the Magnificat ('Fecit potentiam in brachio suo': 'He hath shown strength with His arm') and Psalm 76 ('ibi confregit potentias arcuum telum': 'There broke He the arrows of the bow'). The implication is that the subject of each of the four sentences should be taken to be Almighty God. Surprisingly, one recent paper⁵ suggests that the sculptor himself is the subject of the first verse, concluding that Baugut must have succumbed to, and subsequently recovered from, the plague. The same paper goes on to make the equally unusual claim that 1715 refers not to the year of the column's completion, but to the number of citizens who rallied from the plague, a misconception that has since taken root in a number of online guides to the town.

It is a matter of regret that what little serious research there is on the plague column tends to perpetuate similar errors and assumptions. In his 1887 *Guide to Kutná Hora and its surroundings*, the historian Petr Milošlav Veselský not only miscalculates these same chronograms (finding, instead of 1715, the years 1615 and 1710); he also postulates instead of 'Confregit' the nonsensical 'Corn Eregit', leading to the somewhat unlikely interpretation that a certain 'Korn' [*sic*] erected the column. Such mistakes are not confined to modern commentators. When in 1667 the Holy Roman Emperor Leopold I arranged for a copy to be made of the Marian column in Vienna, the part of the chronogram containing the title of his father Ferdinand III was changed from 'fernanDVs tertIVs' to 'fernanDVs III', inadvertently subtracting three years from the correct date.

These errors of reading call to mind the poem 'An Arundel Tomb' by the English poet Philip Larkin. In it, he bemoans the fact that those living in today's 'unarmorial age' lack the necessary skills to interpret memorial inscriptions with any degree of accuracy. As he examines the memorial effigy of the tenth earl of Arundel and his wife lying 'side by side', the poet remarks

*Such faithfulness in effigy
Was just a detail friends would see:
A sculptor's sweet commissioned grace
Thrown off in helping to prolong
The Latin names around the base.*

As Larkin understands only too well, leaving messages for posterity is an essential act of cultural transmission. Yet, however permanent the inscription – and memorials have outlasted many a marriage – the message of the couple's fidelity is effective only so long as it is 'read' correctly; otherwise they may as well be 'lying' in stone as well as lying in stone. We have come to a point in history, Larkin says, where people can no longer be certain of the past because they have lost the key to interpret it:

*They would not guess how early in
Their supine stationary voyage
The air would change to soundless damage,
Turn the old tenantry away;
How soon succeeding eyes begin
To look, not read.*

CONCLUDING REMARKS

The fashion for chronograms lasted for only a century or so, with the majority composed between the end of the seventeenth century and the middle of the eighteenth. These carefully-contrived puzzles combined an intellectual appeal (for Protestants and Catholics alike) with a decorative function that sat easily within the aesthetic of the late Baroque. The statues of Bohemia, and those manuscripts which – like Zelenka's – happily survive, originated in a world where religion and philosophy combined to win souls and minds; a world whose artefacts artists hoped to preserve against the ravages of time by stamping them, paradoxically, with a concealed date. The composers of Bohemia's thousands of chronograms must have lived and died in the hope that their mysterious, cabalistic, transformation of texts into numerical codes would assert the power of divine thought for ever.

Ironically, just as any inscription is both a mark of confidence in one's own artistry and at the same time an admission that all such art will turn to dust ('Look on my works, ye Mighty, and despair!'), so these elaborately-wrought riddles, which seemed to be written for all time, have become little more than an oblique footnote in today's less questioning age. But without them our understanding of Bohemia during a crucial period in its religious and architectural history would be considerably impoverished. ■

ACKNOWLEDGEMENTS

Thanks to John Godwin and Matthew Clark for their assistance in translation. For theories surrounding Zelenka's use of chronograms, see the discussion by the present author and others at: <http://www.jdzelenka.net/forums/archive/index.php/t-127.html>

NOTES

¹ Zelenka's compositions are traditionally identified by the letters ZWV (*Zelenka Werkverzeichnis*) and a number, indicating their position in the catalogue edited by Wolfgang Reiche.

² So-called 'pure chronograms' contain one numeral per word, while 'natural chronograms' read sequentially from the largest available number to the smallest. Both forms are rare. The well-known and rather beautiful English example on the death of Elizabeth 'My Day Closed Is In Immortality' – which counts only the initial letters in sequence to form the year 1603 – is not a true chronogram since it contains additional Roman numerals such as the two 'm's in 'Immortality'.

³ The fullest list of chronograms in Bohemia is to be found at <http://geo.mff.cuni.cz/latina/>, with a subsection devoted to John Nepomuk at <http://geo.mff.cuni.cz/latina/svJanove.htm>. A catalogue of Polish Nepomuk statues and chronograms is to be located at <http://nepomuki.pl/nepomuk/chrono.htm>

⁴ It is a matter of considerable interest that in order to ensure a viable numerical solution, chronograms frequently exhibit grammatical emendations or corruptions. In the first of the above verses, for example, we find 'telo' instead of the expected 'teluM', whose accusative ending would give the wrong answer.

⁵ Oravová, Lenka, 'František Baugut a jeho dílo na kutnohorskú' (Brno, 2007), p. 23: "Dozvídáme se z nich datum vročení sousoší (1714), údaje o počtu obětí (6146) a uzdravených (1715) a s textem, ze kterého vyplývá, že Baugut byl v roce 1714 morem také nakažen, ale uzdravil se."

REFERENCES

- Addison, J. (1711) 'The Spectator' no. 60
- Altová, B. (2009) *The City of Kutná Hora as a Bohemian baroque space*. Available at: <http://lidemesta.cz/archiv/cisla/11-2009-1/mesto-kutna-hora-jako-cesky-barokni-prostor.html> (Accessed: 20 April 2016).
- Hilton, J. (1882-5) *Chronograms, 5000 and More in Number*.
- Kapuścińska, A. and Urbański, P. (2013) 'Poesis Artificiosa ad Gloriam Dei: Paul Zacharias and his Disticha Sacra', in *Poesis Artificiosa. Between Theory and Practice*.
- Keyssler, J.G. (1760) *Travels through Germany, Bohemia, Hungary, Switzerland, Italy and Lorrain*.
- Larkin, P. (1964) 'An Arundel Tomb', in *The Whitsun Weddings*.
- Louthan, H. (2011) *Converting Bohemia: Force and Persuasion in the Catholic Reformation*. Cambridge: Cambridge University Press.
- Oravová, L. (2007) 'František Baugut a jeho dílo na kutnohorskú'
- Seifert, O. and Mottlová, N. (2014) *Kutnohorské sochy světců*.
- Slouka, J. (2010) *Mariánské a morové sloupy Čech a Moravy*
- Stockigt, J.B. (2000) *Jan Dismas Zelenka: A Bohemian Musician at the Court of Dresden*. Oxford: Oxford University Press.
- Stokes, R. (1989) 'A Bibliographical Companion', *Current Research in Library and Information Science*, 10, p. 184.
- Veselský, P.M. (1877, reprinted 1999), *Průvodce po kr. horním městě Hoře Kutné a nejbližším okolí*

IMAGES

FIGURE 1: Zelenka: Vide Domine (ZWV 179)

FIGURE 2: Brokoff: Saint Jan Nepomuk (copy, 1685, Saint Nicholas Church Vršovice) photograph by the author

FIGURE 3,4,5: Plague column at Kutná Hora, photographs by the author



FAIRNESS, TRUST, AND THE REMOVAL OF DISSATISFACTION

DAVE GANNON

INTRODUCTION

"The thing that makes us love our jobs is not the work that we're doing, it's the way we feel when we go there. We feel safe, protected; we feel that someone wants us to achieve more and is giving us the opportunity to prove to them and to ourselves that we can do that" (Simon Sinek, cited in Chapman, 2015).

Yet, despite the optimistic viewpoint expressed above about what our working experience should be, many people find a very different experience. According to the CIPD (2015a, p. 5), when questioning employees about their desire to change their workplace, one fifth indicated that they were looking for alternative employment, with fifty-four percent of those indicating it was to look for increased job satisfaction. This is a situation which is rather odd, as if we recognise that as above it is often the experience of work rather than the work itself which gives job satisfaction; it seems that organisations are perhaps making mistakes or errors in their handling of employees and creation of company culture. Another CIPD report, this one looking into workplace conflict (CIPD, 2015c, p. 19), adds that "what is at stake is not only the technical aspects of employment contracts, but the wider psychological contract that underpins the employment relationship" when examining the causes for workplace conflict. If employees feel that the 'psychological contract' is broken, then de-motivation is often the main outcome, which can of course lead to lower productivity and even to the loss of the employee.

Surprisingly, despite a great deal of literature devoted to this subject, organisations continue to make mistakes in their approach to employees. Perhaps one of the most appropriate for discussion of this situation is Frederick Herzberg's Two Factor Theory, especially his discussion of hygiene factors, which can lead to dissatisfaction if ill-considered or ignored, resulting in the removal of the opportunity for motivation to happen, no matter the practice or offer by the organisation. This article will examine this issue and then add in a further factor which is not always overtly discussed, not just the actual dissatisfaction which may exist in the workplace, but also the 'perceived' dissatisfaction which exists, whether it is based on a reality or not. This article will argue that if both causes for dissatisfaction are addressed, both real and perceived, then the organisation has a better chance of engaging its employees, removing dissatisfaction, and being in a place to motivate them and providing them with something which resembles the experience as described by Sinek above.

HERZBERG'S TWO FACTOR THEORY

Frederick Herzberg, in his article on motivation in the *Harvard Business Review* (1968) attempted to make it clear that for organisations and managers to engage and motivate their staff, they first had to understand that "the factors involved in producing job satisfaction (and motivation) are separate and distinct from the factors that lead to job dissatisfaction", and that unless the basic conditions exist in the workplace that result in no job dissatisfaction, the conditions for motivation will not exist where job satisfaction is the result. He made clear that job dissatisfaction and job satisfaction are not opposites, but two different concepts. As he remarked (HBR, 2003, p. 5), "the opposite of job satisfaction is not job dissatisfaction but, rather, *no* job satisfaction; and similarly, the opposite of job dissatisfaction is not job satisfaction, but *no* job dissatisfaction."

In essence, if factors in the workplace/experience of employees create job dissatisfaction, the possibility of later creating job satisfaction is not possible. Herzberg's investigation (and others) (HBR, p. 6) identified the following as hygiene factors which affected job attitudes (dissatisfaction or no dissatisfaction) directly; company policy and administration; supervision; relationship with supervisor; work conditions; salary; relationship with peers; personal life; relationship with subordinates; status; and security. The four most promi-

ment, playing the greatest role in producing job dissatisfaction were (HBR, p. 6) company policy, supervisors, relationship with supervisor, and salary. This is something which can be seen in CIPD (2015c) reports on employee experience and workplace conflict which identify similar factors which lead to dissatisfaction.

Therefore, in order to move to a place where a discussion of job satisfaction (motivation) can begin, these hygiene factors need to be addressed first of all.

REMOVAL OF DISSATISFACTION

According to Halogen and the CIPD (2015) employee outlook report, fifty-five percent of employees stated that they would prefer to work in an "organisation with a family feel, held together by loyalty and tradition". The report further states that one third of all employees feel that the most important behaviour line managers should display is 'fairness' in how they treat them, the second most important is to be 'open and honest'. What this indicates is that the idea of being treated fairly is one that needs attention, particularly if unfair treatment is provided – line managers taking credit for the work of others, unfair distribution, etc. – and even if this is perceived rather than reality. In essence, it seems as a breach of trust by employees, leading to dissatisfaction.

There is perhaps room to think more about specific components which Herzberg identifies and examine how they might work in practice, where awareness might lead to greater understanding and thought concerning creating conditions and management behaviour in the workplace. One area in particular worth examination is that of 'trust', as defined as (Oxford Dictionaries) a "firm belief in the reliability, truth, or ability of someone or something", and its role in creating dissatisfaction where trust is broken, by either the organisation or its representatives, thereby preventing the potential for motivation.

Herzberg's argument is quite clear: the existence of dissatisfaction in the workplace precludes the possibility for motivation to occur. It does not mean that motivation will occur if dissatisfiers are removed, simply that the conditions will be present where motivation could occur. In a sense it is possible to model it to:



Or, as:



By removing elements leading to dissatisfaction such as a lack of fair treatment in terms of compensation, supervision and status, working conditions and administrative practices, job security, we create the conditions where motivational practices can be applied - the conditions exist where an organization may be able to motivate its employees. What we can take away from this is that if an organisation understands that dissatisfaction exists, they can take steps to eliminate it, improving the conditions of the workplace and employee engagement thereby creating conditions for the implementation of motivation strategies. Such an implementation might be through the following:

1. PROCEDURAL FAIRNESS – The organisation consistently applying rules and transparency to its employees, in terms of salary, evaluation, selection, promotion, etc. A major cause of workplace dissatisfaction often stems from the idea of being treated unfairly, whether this actually takes place or not. According to the BIS (2009, p. 64), thirty-four percent of respondents reported being treated unfairly compared to others at work. When questioned as to what the unfair treatment was related to, the following was reported (BIS, 2009, P. 71), twenty-five percent reported it due to being ignored, eighteen percent reported it due to the type of work being given, seventeen percent indicated it was in terms of workload whilst fourteen percent indicated that it was to do with assessment of work, performance, and appraisal. Therefore, by applying the rules equally to all and creating an internal culture whereby all employees and managers make strenuous efforts to treat others equally it will have the potential to remove dissatisfaction on the part of those employees who might feel less favourably treated or slighted.

2. DISTRIBUTIVE FAIRNESS - The organisation consistently providing fair distribution of compensation, rewards and consequences for all members of the organisation, no matter their position or role. Yet, the BIS report (2009, p. 62) states that the two largest areas for grievance when it came to employment rights were problems with pay and receiving a contract or written statement of terms and conditions for the job. It is not enough simply to have policies in place, but to actually carry them out and understand the importance of them for the employees of the organisation. Yet it should go beyond this, with a sense of transparency in the organisation so that any potential 'negative perception' does not have room to grow. One simply has to imagine the reaction of an employee to finding out that a colleague receives different remuneration for the same task to understand the importance of this issue. Firstly, that they are paid a lower amount resulting in feeling unappreciated and under-valued; secondly, that this is institutional policy, and the organisation encourages unfairness as policy.

3. INTERACTIONAL FAIRNESS – The organisation, through its managers and decision-makers interacting with employees in a manner which is seen as fair, consistent, and appropriate. Whilst a rather obvious idea, sadly, the workplace experience does not always conform to such ideas. The BIS report (2009, p. 77) indicates that those who reported experiencing negative behaviour pointed to a range of experiences, the most common incidents were those who reported unreasonable management demands in terms of workload and deadlines, followed by personal attacks, of being treated in a disrespectful or rude way. Such behaviour, especially if it has built on a previous sense of unfairness, will of course lead to dissatisfaction and its attendant issues for the organisation. Managers and decision-makers simply have to put themselves in the employee's place to see how such behaviour might be taken. Whilst some managers may feel that or subscribe to the idea that 'if you want something done quickly, give it to someone who is busy' or that setting unrealistic expectations leads to challenges and improved performance, for many employees it will have the opposite effect and goes against the idea of respect and fairness in the workplace.

Therefore, if we follow the reasoning of creating a culture of fairness encompassing procedures, distribution and interactions, thereby removing elements leading to dissatisfaction, or as Hope-Hailey (2014) states, "the best we can hope for is that we eventually stop talking about trust and we return to a situation where trust is a taken-for-granted assumption within the workplace and beyond", we could get the following:



Or, if not done or suitably addressed:



Yet, whilst it seems rather straightforward, the organisation simply identifying those elements or behaviours which lead to employee dissatisfaction, there is perhaps a failure here to consider 'perception', the way in which (Oxford Dictionaries) "something is regarded, understood or interpreted". Past treatment, such as being ignored, brushed off, disrespected, or over-looked (as mentioned in the previous discussion) will give the individual employee a sense of having been treated in an unfair manner. By being treated in their eyes 'unfairly', then, perhaps they will not feel they are treated justly, even when treatment changes. As Robinson (1996, p. 576) states it is the "employee's belief that a breach has occurred that affects his or her behaviour and attitudes, regardless of whether that belief is valid or whether an actual breach took place". The psychological contract, which an employee feels has been created between them and the organisation is vital, and if its terms are broken, it is seen as a breach of trust. If an employee has had a negative prior experience, then (Robinson, 1996, p. 577) they are more likely to "look for, find and remember incidents of breach, even in the absence of objective breach, because it is consistent with his or her low prior trust". What it might entail, something which the organization wishes to avoid if possible, is the following conditions:

When an employee perceives a contract breach by the employer, he or she perceives an inconsistency between the employer's words and actions. As a result, the employee loses confidence that the contribution made today will be reciprocated as promised, by the employer in the future and the employees motivation to contribute to the firm declines. (Katz, 1964, cited in Robinson, 1996, p. 579)

If we attempt to see this in operation in the workplace, we might find something like the following situation:

A customer service agent is required to complete 14 pieces of work per day – responding to customer queries. One day they decide to solve a case that has been accumulating for 4 years, spend the whole day on one piece of work but in the end they solve it. However, as they did not achieve their quota they were heavily criticised by their line manager and given a warning. That particular customer service agent may feel that their commitment to providing their customers service has been disrespected, and they feel that the management reaction was un-just – in essence, they may feel a sense of betrayal – a breach of trust as they went to work expecting that in return for doing their best they would be treated with respect and appreciation. Furthermore, due to the nature and application of Key Performance Indicators (KPI's) often being based on quantitative methodologies and a failure to consider that only a (CIPD, 2014, p. 4) "combination of hard and soft data that together... provide useful insights", a lack of apparent appreciation for the work completed was created. Perhaps due to the design and implementation, in this case by only using one metric, a negative reinforcement has occurred, their trust in the ability of the organisation has been broken as well.

Therefore, as they feel they have been treated unfairly, dissatisfiers are present in the workplace for them. Actions which are taken by the manager later, an apology or praise for other work, will not have the desired effect as there exists the perceived view of dissatisfaction stemming from their previous experience. People will seldom feel treated justly even when treatment changes as the perception of injustice has caused damage which may take a longer time to repair.

In the case of our customer service agent above, perhaps they will be given a new position by the organisation, for example, responsibility for long-term issues. Will they see it a positive? In some instances, due to the previous sense of injustice, they will see the new role not as a positive but as a negative job enlargement or simply a device to keep someone working without any genuine commitment to it. As Nisbett and Ross (1980, cited in Robinson, 1996, p. 594) argue "even when faced with evidence that should disconfirm their prior beliefs, individuals are able to devise causal explanations for that evidence that allows the prior belief to remain intact."

The aim is to avoid this:

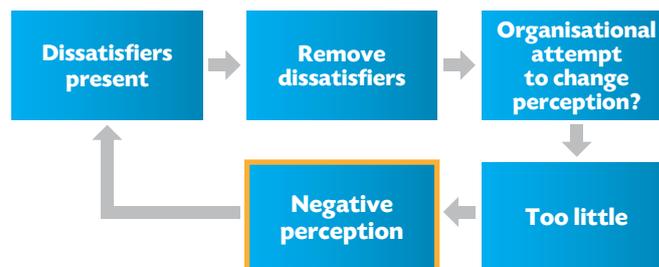


And to try and get here:



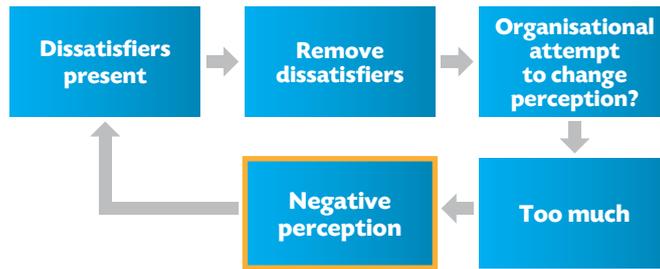
What the organisation can learn is that it is not simply a matter of removing dissatisfaction, but also if they have existed, removing 'perceived dissatisfiers'. They basically have to rebuild a positive relationship with their employee, to rebuild the sense of fairness and trust, a new challenge and not something easy to accomplish immediately or in the short-term. This challenge depends on a number of variables, the individuals involved, their connection to their organization, and not least the recognition by the organisation that action needs to be taken. If a typical example of someone who has a sense of injustice, the organisation being aware decides to take action, the following might occur.

Doing too little.



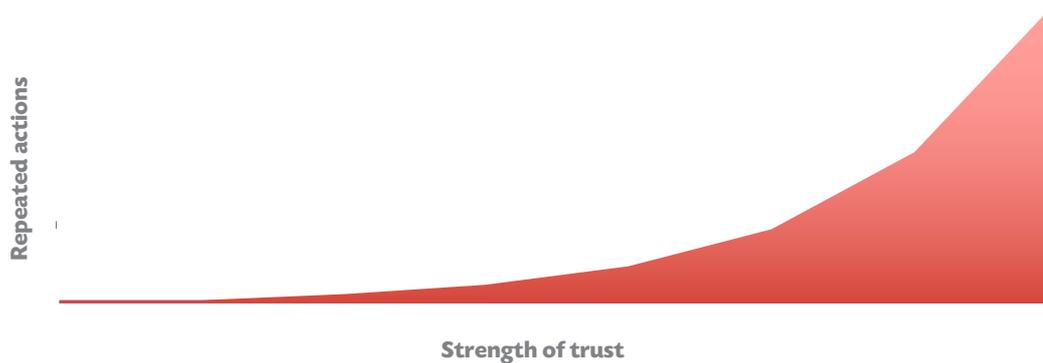
In this case, doing too little – a one-time effort, or no continued development – does not lead to change in perception - a dissatisfied employee continues to be dissatisfied. The attempt does not seem serious or seems false in the mind of the individual.

Doing too much.



In this case, doing too much – exaggerated effort to create trust – also results in a negative perception. Negative treatment often leads to a negative interpretation, even of positive treatment, as in the case of the customer service agent above. Again, the behaviour seems false in the mind of the affected individual.

The question then is for the organisation to break the cycle and to find the correct approach to change the perception from negative to positive. Perhaps the most common mistake here is to believe that a one off reward will provide a 'fix'. For many people, trust is not restored so quickly, and it is due to repeated actions where trust will be restored incrementally as in the representation below. As the CIPD (2012, p. 37) notes, "a loss of trust can happen swiftly but its repair can take a lot of time and energy."



With employers reporting increasing difficulty in attracting and recruiting talent, with the CIPD (2015b, p. 4) reporting that of the organisations questioned, "over three-quarters experienced recruitment difficulties last year", can organisations really afford not to pay attention to creating a workplace environment which removes dissatisfaction? There are still those organisations and managers who feel that putting such effort is rather a waste of resources. They may point to the orientation of the firm, to individual motivation of employees, to not understand how to go about such activities, etc. However, despite the objections they raise, it can still be argued that it is worth creating a positive work environment in order to remove dissatisfaction, both 'perceived' and 'real'. As David Guest (CIPD, 2016, p. 6) argues in the CIPD's collection of thought pieces "a positive employment relationship at the individual level, will be characterized by perceptions of high trust, fairness, employment security, a positive and fulfilled psychological contract and a high quality of working life." The result of such conditions can lead to (CIPD, 2016) "higher commitment, citizenship behaviour and individual performance".

A simple answer on how to do this would be to ask employees, to examine the issues which they report on as increasing dissatisfaction at work. Studies, such as those carried out the CIPD and the UK government, reveal rather clearly what employees look for and what they would like to avoid in the workplace. As the CIPD (2015c, p. 4) notes, "we need robust cultures in which it is possible to challenge and hold each other to account, and do so without undue risk of creating damaging relationship conflict." The key points here being; holding each other to account; meeting responsibilities; and engaging in discussion without causing negative conflict, whatever the situation of the organisation or employer.

Employee Cultural Background – One argument which can be made is that some cultures see power distribution inequality as more acceptable/normal than others. What might be inferred from this, is that treatment or unequal treatment may be seen as a norm and therefore not cause dissatisfaction, or that trust is gained back faster or is actually not necessary as such behaviour is seen as a normal part of working. Furthermore, in cultures where there is a sense of commitment to the success of the organisation as a whole rather than to individual goals, a commitment to fairness and removal of dissatisfaction may not be deemed immediately necessary on the part of the organisation.

However, as such organisations tend to have a longer term focus, there is a need to attract employees for the future and an organisation which does not treat its employees well or pays little attention to their needs and the workplace environment might struggle with this. Furthermore, whilst the organisation may not experience high turnover of staff due to attitudes to work, the inputs provided by employees may be lessened, and the organisation may struggle to achieve its strategic goals. Expecting a commitment from employees but showing no commitment in return, such as laying off employees in difficult economic times will hardly engender a sense of trust or commitment to those who remain.

Employee Engagement – Another possible consideration is the reason behind choice of workplace by the individual. Despite discussions in Human Resources for searching for those employees who 'buy-in' to the organisation, with (HBR, 2013, p. 1) seventy-two percent of employers seeing the need to engage employees and have them identifying with the organisation, the simple truth is that many employees may take employment for a multitude of other reasons – gaining experience, simply receiving a salary or wage, etc. If the organisation is dealing with such an employee as in the latter case, and their employment is tied to other reasons, will such trust building activities actually work or have any impact? In fact, the concept of dissatisfaction may not actually apply in the sense that that the experience of particular employment may be a dissatisfier, as they wait for alternative employment or fulfill their goal of being there – saving money, gaining experience for a CV etc. Although, it does require an organisation to actually know the motivations for its employees to be in the workplace. With the CIPD (2015a, p. 4) reporting that thirty-six percent of employees are feeling engaged, either people are taking jobs or organisations are failing in their attempt to engage with them. Whilst fifty percent expressed satisfaction with their jobs, again, the large amount who did not indicate this again highlights an issue. The reasoning here might be that spending time and effort on those who intend to leave might be a waste.

Yet, whether this is a sensible approach is not clear. With employers reporting that they are facing in difficulties in reporting, employee retention and development would seem to be crucial to filling their needs. Therefore, by creating a culture of trust, removing dissatisfiers and negative perceptions, employees who might otherwise be lost to the organisation, may engage with the workplace and begin to see it as a place of work with potential for them, buying in to the culture and perceived values of the organisation. Even if they gained employment for other reasons, the positive experience they may have within an organisation with a positive culture may allow for a shift in attitudes, and what was once seen simply as a means to an end may now become something different, a desire to stay within the organization and to make a contribution.

Employee Career Focus – Research and studies tend to indicate that different generations have a different attitude to careers and length of stay within an organisation. For example, "ninety-one percent of Millennials (born between 1977-1997) expect to stay in a job for less than three years, according to the Future Workplace", according to Meister (2012). Will dissatisfaction in the workplace actually impact these employees, or if it does, will any activities undertaken by the organisation have any effect? Are they even necessary, despite perhaps an issue with employer brand which a lack of activity may entail?

Yet, in today's working environment, can an organisation take such an attitude? Can it afford to let millennials go – according to a Deloitte survey in 2016, "Forty-four percent of Millennials say, if given the choice, they would like to leave their current employers in the next two years". Yet, it also reports that those who are "likely to remain longest share their organization's values, and are more satisfied with its sense of purpose and support of professional development". Putting effort in the activities generate greater loyalty and less dissatisfaction. Conversely, with older employees indicating a willingness for longer term employment, with older workers looking to, according to the DWP (2013, p. 5) "planning to work beyond the state pension age", it would again seem important that to keep them, the necessary environment should be created or re-established, attracting a more diverse workforce allowing the organisation to pursue its goals.

Employee Contract Terms – With the rise of the flexible organisation and the division between core workers and contractual fringe, the question which could be asked is whether the contractual fringe employees would have the same feelings as those employed full-time, and whether the organisation needs to concern itself with them. For example, a temporary worker hired by an agency to fill a function during a busy time – customer billing, etc. – whilst given the same responsibilities as a full time employee, is often provided less than the benefits and rewards of their full-time colleagues. Firstly, the obvious question raised is whether such the unequal treatment/nature of their employment is going to impact how they see the organisation and view the treatment they receive, especially if they are doing the same work as everyone else. Will a sense of unfairness pervade and will it impact their motivation for doing the work? Secondly, as Robinson argues, if they go into an organisation with a negative viewpoint (as perhaps created by their temporary working status) will unequal treatment impact them as someone who has chosen to work for the organisation full-time? Or does the very fact that they are temporary, mitigate against this?

To counter this, one argument that perhaps could be made is the fact that treatment as a temporary employee will impact their desire to transition to that organisation – in either a positive or negative way. Perceiving others (full-time employees) gaining more, better conditions and perks may motivate them to want the same – especially if they have been working for the organisation for some time and have developed a stake/attachment to the organisation/work. In this case then, the argument goes that unequal treatment would be in a sense beneficial. Yet, to what extent would this actually work? Surely someone who has received unequal treatment is more likely to go elsewhere where conditions may be better. Due to unequal terms and conditions, which do not happen just from poor management practice, but from an organisational level, might develop a sense that conditions of employment are unfair and there is no wish to work for the organisation. A 1999 study by Industrial Relations Services cited by Eurofound, reported that half of the companies surveyed for the research perceived temporary staff as being less reliable, less committed and less well trained than permanent employees. A quarter reported that costs had increased as a result of using temporary employees. A loss, especially as this individual will probably have been invested in terms of training and service delivery. Is it wise to let them go and start again with someone new?

A further point to consider is whether a temporary employee who feels they have been treated unfairly in some respect will actually care or be interested in any remedial actions the organisation takes to try and repair the damage, as they often have the ability to release themselves from their work obligations fairly easily. To make the same point as above, contractual workers require training and investment and to keep repeating the same exercise with new employees would seem to be a wasted investment. With organisations tending to trim training budgets in difficult economic times, is this a wise course of action to take?

A further consideration to make is the need for all employees to provide quality work and consistency. Whether they are core employees or contractual fringe, their work plays a vital role for the organisation, whether interacting with internal or external customers, and a loss of quality will impact the operations, reputation, etc. Therefore, with the need to provide consistency and quality from all employees (no matter their status) the environment, conditions and atmosphere should be the same in order to gain identification with the work/organisation and fulfill the function for which they were hired effectively.

Employer Commitment – Beyond the individual employee and their feeling/motivation for work, the organisation needs to be examined. Whilst we may assume that any business is looking for long-term sustainability, the truth is that many organisations exist simply for the short-term to meet a specific goal, and therefore for these organisations such an interest in employee well-being and ensuring dissatisfiers are absent from the workplace and may not actually be a concern as they are simply looking for a short-term commitment from their employees, and therefore greater effort or consideration is unnecessary. The offering of high rewards for such work may be seen as a way to mitigate the need for any commitment. There is another question which needs to be asked, whether the organisation sees value in the engagement of its employees or not? Whilst an older example would suggest that in certain industries such as manufacturing, employee engagement is less of a requirement or of less necessity, such attention to employee well-being and the health of the organisation may not be part of their strategy or even consideration. If the situation occurs where employees are seen as disposable, easily replaceable, then it might not be in the interests of such a business to invest in the necessary changes to the working environment, removal of dissatisfaction through the creation of trust.

Yet, such an organisation may struggle to leverage more than the minimum effort from its employees. If productivity and quality are important, someone who has experienced dissatisfaction is less likely to make more than a basic input. If there is recognition that employees 'are' the organisation, that innovation and development stems from people, not technology, then an organisation which fails to consider the implications of dissatisfaction in the workplace is unlikely to maximise the contribution its employees can make. However, even if this is true, in order to maximise the abilities and contribution of employees, even in a short time frame, certain conditions need to be met. Promises have to be kept and basic conditions have to be present in order to leverage the skills of employees. It would seem that even here, an organisational culture committed to providing fairness, removing dissatisfaction would lead to better results than those without, surely the point for any organisation with this kind of vision.

Employer Brand and Initial Sense of Trust and Expectation – There is a great deal of discussion on the concept of Employer Brand and its importance, especially for sourcing talent, attracting those candidates who will 'buy-in' to the values or the organisation, etc., if an employee has an initial sense of trust then they are more likely to ignore potential breaches of trust, as Robinson (1996, p. 594) notes, "employees with low initial trust in their employer experience a greater decline in their trust following a perceived breach than did employees with high initial trust in their employer." The issue though is the attitude of the employer towards its creation, numerous businesses whilst professing its importance indulge in activities which often damage it, and the extent to which it is a factor in employees using it is as a factor in choosing employer.

Research would indicate that it does, as the CIPD (2015b, p. 5) explains, "organisational values and good working practices are the elements of employer brand most commonly seen to be important for attracting candidates", if so, then it may prevent "perception of dissatisfaction" in the workplace. Although it might also be argued that an organisation with a good employer brand is probably going to be better at managing employee expectations in the first place. What it indicates is that if an organisation pays attention to its culture, its working practices, its brand as an employer will improve and will improve in terms of attracting talent and retaining those skills of its existing employees. One further consideration is that organisations are making a mistake in believing that by offering 'physical gimmicks' they are seen as an attractive employer to work for. Whilst nice surroundings may be pleasant to work in, studies have repeatedly shown what was first understood by the Hawthorne studies of the 1930s was that change of physical surroundings does not improve productivity and attitude, organisations which pay an interest in people do.

Management Ability – One argument that could be made is an organisations inability to find managers who have the requisite skills and attitudes for such a change or simply believing that existing management abilities are suitable when they are plainly not. The CIPD (2015c, p. 11) reported that the largest number of issues and conflict that employees had was with their line managers and superiors, an indication that perhaps this is not quite true. However, having policies in place, organisational awareness of dissatisfaction amongst employees is one thing, the normal day-to-day work of implementing such policies of regaining trust often fall on line managers, the question then being raised is whether they as individuals possess the ability and skills to implemented them in a genuine way. After all, they are just as human as everyone else, subject to their motivations for being in that particular employment with their own views on individuals which work as part of their team. With the wrong management, such policies will often be impossible to implement successfully and trust will not be regained.

Assumptions of managers towards their team and employees will often impede or blunt their ability to regain trust. It does require an organisation having a set of managers with the underlying assumptions in order to implement policies to regain or create trust, never more so than when the organisation faces difficult times. Whilst discussions around assumptions tend to be contentious, the fact is an organisation needs management who believe in what they are doing as any pretense will often be uncovered as managers fall back on older practices/ideas when faced with challenges, undermining the efforts to win back the trust of employees and remove dissatisfaction. As Schein (2011, p. 161) has argued, "there is no point in suggesting content to people because if it does not fit their assumption sets they would not do it anyway or they will do it in an incongruent way and will fail."

Such people with the appropriate assumptions do exist; it is however the challenge for the organisation to amend its practices in searching for such people who have the abilities, to rethink recruitment practices, that assumptions are important not experience and the CV. If an organisation can recognise this, then such arguments will be less likely to be made. As Fernandez-Araos (HBR, p. 49) argues, "I am convinced that organizations and their leaders must transition to what I think of a new era of talent spotting – one in which our evaluation of one another are based not on brawn, brains and experience, our competencies but on potential." Only those people who have the appropriate underlying assumptions will be able to implement any change within the organisational culture, behave in such a manner as to establish or re-establish trust with employees through their actions. It is up to the organisation to decide on its behaviour and select those who have the ability to implement it accordingly.

Influence of Informal Team Leaders – In any organisation or team, there are the official leaders in terms of appointed supervisors, team-leaders, line managers, etc., but an informal leadership also exists within the employees themselves, those that others recognise as the essential glue holding the team together, those others look to. Without these employees being on board and trusting the organisation then efforts to remove dissatisfiers for others will often fail. It does raise the argument over whether an organi-

sation should be targeting its efforts or not, but if dissatisfaction is present already, perhaps it is realistic to believe that not everyone is going to respond, and that greater impact can be had by directing efforts to 'on-boarding' those who others will pay attention to. It could be argued that not everyone will be salvageable, therefore is it prudent to input effort into those where a return is impossible?

The answer here again is 'yes'. If a system of targeting is utilised, the unintended consequence is that the efforts will often fail on those the organisation is trying to 'save' as they will be able to observe the continuance of unequal treatment and effort. In a sense it can be equated to survivor guilt, having to work with those who receive less will not lead to a better experience, rather a continuation of dissatisfaction. Whilst some organisations might create a policy of a uniform culture and on-boarding and engagement with some, still there is a disparity of experience to be observed, reinforcing negative perceptions in some, and potentially a sense of guilt in others. Treatment and effort need to be the same, even if some employees will continue to be resistant.

REBUILDING TRUST AND REMOVING DISSATISFACTION

If any awareness of dissatisfaction amongst employees exists, that there has been/is a lack of fairness within the organisation, then a response has to be made. However, it is not enough to simply direct that response to a particular team or level of the organisation, there needs to be an organisational commitment to the removal of dissatisfaction within the organisation.

In order to rebuild trust, the establishment of fairness, action required by all levels needs to be authentic action, continually made over time for the following:

1. Organisational Level – Creation of a specific Culture of Trust and Fairness things start from the top, for any culture to permeate or be given more than pure lip-service; it not only needs to be derived from the leaders and decision-makers in the organisation, but they have to be seen practicing it, not just preaching it. There cannot be one rule for one level and one for others. The culture needs to be authentic and evident.

In terms of removing dissatisfaction, a good starting point is to look at the organisations (1) procedural fairness – the policies and practices in place (and especially their implementation at all levels) – to see whether they provide a transparent and equitable arrangement for employees or whether the system is misinterpreted or applied. Basically, to follow through on what has been promised (terms and conditions, workload, and responsibilities, etc.) and to ensure that it is applied consistently to all employees. At the same time, to consider (2) distributive fairness – to ensure that policies and practices of reward are appropriate for the tasks being undertaken by the employees (such as a qualitative element for our customer service agent discussed earlier as reflection of their work), but not only this, that it is implemented fairly and consistently with the removal of personal bias or influence. Finally, that (3) interactional fairness is consistent – that the implementation and day-to-day implementation of policies and practices by management – from senior management to line-managers and supervisors is consistent with the desired culture of the organisation.

2. Removing dissatisfaction and perceived dissatisfiers through a bridge of an internal vision. If a genuine decision is made to enact change, to build a culture of fairness and transparency, it needs to be communicated effectively, but not just as an exercise in internal public relations, but shown through examples and reinforced through organisational policies and actions to changes in the business environment.



In terms of removing dissatisfaction, it is not enough to simply enact change and assume that everyone will notice or buy-in, but it also has to be shown through the actions of the organisation, especially in terms of confronting challenges. For example, during the 2007/2008 financial crisis, organisations downsized their workforce, reduced salaries of employees, etc. Yet this response, especially the redundancy option, hardly demonstrates the culture of empathy which an organisation might profess. In such a situation, the response has to meet the principles of fairness. In terms of procedural fairness (1), if decisions are made which impact the organisation, they should be in line with stated practices and policies, not something simply done ad hoc and fall evenly on all shoulders, not just those of a few or specific group. (2) Actions taken should be shared by all within the organisation, not simply limited to specific groups and levels. If, for example, a pay-cut has to be introduced, then all members should take one. But of course, it is not enough simply that everyone loses ten percent of their salary; higher earners should have a reduction commensurate with their overall salary compared to those at lower levels on lower amounts. (3) Again, if there is an idea of an internal vision, then it is something which has to be expressed through the levels of management. It is not enough to express it though, it has to be shown through example and practice. With employees noting that dissatisfaction stems from dealings with line management in many cases, the day-to-day approach has to be considered and updated in order to 'live' the vision.

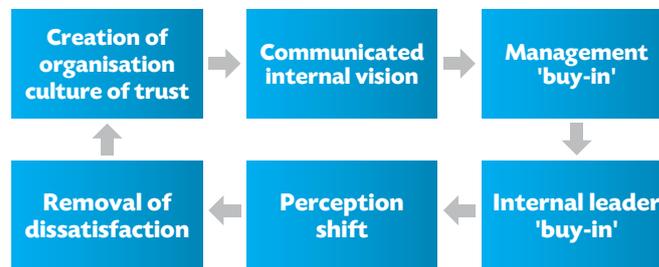
3. Individual Management Levels need to understand, adopt, and follow through on the vision created by the organisation, again so that it is implemented and as they are the ones in direct contact with the employees of the organisation are instrumental in disseminating it.

From a procedural point of view, (1) this approach would have implications with the organisation needing to start from the outset by creating a set of systems, policies and procedures which reflect the approach taken by the organisation. Simply adding to existing systems would most likely not be enough, but require an examination to assess their alignment with the vision which has been created and any identified gaps filled. Beyond this, these policies and procedures need to be communicated and acted on and a system for evaluating their implementation needs to be designed to ensure consistency across the organisation.

(2) Going beyond a purely procedural approach, a distributive approach is needed to ensure that all elements and levels of the organisation are acting upon and successfully complying with the vision which has been created. Finally, (3) from an interactional point of view, every day contacts between colleagues, employees, and managers (whatever the level) need to be reflecting the ethos on which the organisation has derived. Not only this, the organisation needs to assess the implementation of such ideas through the collection of data, etc. regarding employee health. Open and frank reviews are necessary to ensure it is working appropriately.

The culture which should be created should stress how it cares about the concerns of others, has the ability to listen, understand others' perceptions, and creates a culture of empathy. The culture should also embody consistency – its reactions whether organisational or individual in the face of challenges should be in line with its communicated culture of empathy. Finally, the culture should embody integrity, staying true to its stated values when challenged.

Which can be expressed as the following:



Unfair treatment, the breaking of a psychological contract can lead to dissatisfaction, and 'perceived' dissatisfaction which limit the ability of the organisation to leverage the abilities of its employees to their full extent. Removing dissatisfaction from the working environment allows for the potential for motivation of employees, and only motivated and engaged employees will add significant benefit to the organisation, allowing it to reach its goals. Creating a culture where this can take place stems from the top of the organisation and is required to permeate all levels and practices, and to be seen as authentic, the organisation and its representatives not just 'preaching it', but implementing and actually 'living it' in their daily work and practices. If an organisation can do this, and culture change is not always easy, then the organisation will most likely be in a place to remove those factors that lead to dissatisfaction and inhibit their attempts to motivate and leverage the skills of their employees, and only through authentic practice over time will memory of slights be eased and removed allowing employees to 'buy-in'.

Through this, then perhaps it will be possible for the organisation to create the situation which we started with in the introduction, creation of a workplace which people enjoy going to, looking for challenges, and to achieving more than they thought possible. By providing procedural fairness effectively, we can make our employees feel 'safe', by providing distributive fairness we can make them feel 'protected' and by the proper application of interactional fairness, we can make them want to 'achieve'. ■

THANKS AND ACKNOWLEDGEMENTS

This article was originally delivered as a seminar to the business faculty of Prague College in 2015; I would like to thank my colleagues for their feedback and comments during the follow-up session which allowed this idea to be taken further.

REFERENCES

- Chapman, B. and Sisodia, R. (2015) *Everybody Matters: the extraordinary power of caring for your people like family*. New York: Penguin Random House.
- CIP (2012) *Where has all the trust gone?* [Online]. Available at: https://www.cipd.co.uk/binaries/where-has-all-the-trust-gone_2012-sop.pdf (Accessed: 1 August 2016).
- CIPD (2014) *Cultivating Trustworthy Leaders*. [Online]. Available at: [http://www.cipd.co.uk/binaries/6525%20Cultivating%20trustworthy%20leaders%20\(web\).pdf](http://www.cipd.co.uk/binaries/6525%20Cultivating%20trustworthy%20leaders%20(web).pdf) (Accessed: 26 July 2016).
- CIPD (2015a) *Employee outlook - Employee views on working life*. [Online]. Available at: http://www.cipd.co.uk/binaries/employee-outlook_2015.pdf (Accessed: 15 June 2016).
- CIPD (2015b) *Resourcing and Talent Planning*. [Online]. Available at: http://www.cipd.co.uk/binaries/resourcing-talent-planning_2015.pdf (Accessed: 18 June 2016).
- CIPD (2015c) *Getting under the skin of workplace conflict: Tracing the experiences of employees*. [Online]. Available at: http://www.cipd.co.uk/binaries/getting-under-skin-workplace-conflict_2015-tracing-experiences-employees.pdf (Accessed: 26 June 2016).
- CIPD (2016) *Moving the employee well-being agenda forward*. [Online]. Available at: http://www.cipd.co.uk/binaries/moving-employee-well-being-agenda-forward_2016%20.pdf (Accessed: 29 July 2016).
- Deloitte (2016) *It's not too late to earn Millennials' loyalty. The Deloitte Millennial Survey 2016* [Online]. Available at: <http://www2.deloitte.com/global/en/pages/about-deloitte/articles/gx-millennials-how-to-earn-millennials-loyalty.html#perfect> (Accessed: 24 July 2016).
- European Union. Eurofound (2002) *Non-permanent employment, quality of work and industrial relations* [Online]. Available at: <http://www.eurofound.europa.eu/observatories/eurwork/comparative-information/non-permanent-employment-quality-of-work-and-industrial-relations> (Accessed: 27 July 2016).
- Fernandez-Araoz, C. (2014) '21st Century Talent Spotting', *Harvard Business Review*, June 2014.
- Great Britain. Department for Business Innovation and Skills (2009). *Fair Treatment at Work Report: Findings from the 2008 survey* [Online]. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/192191/09-P85-fair-treatment-at-work-report-2008-survey-errs-103.pdf (Accessed: 26 July 2016).
- Great Britain. Department of Work and Pensions (2013). *Employing Older Workers. An employer's guide to today's multi-generational workforce* [Online]. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/142751/employing-older-workers.pdf (Accessed: 1 August 2016).
- Halogen Software (2015) *Employees want a 'family feel' at the heart of the organisations culture* [Online]. Available at: <http://www.halogensoftware.com/uk/company/news/employees-want-a-family-feel-at-the-heart-of-their-organisations-culture-finds-latest-employee-outlook-survey> (Accessed: 27 July 2016).
- Harvard Business Review (2013) *The Impact of Employee Engagement on Performance* [Online]. Available at: https://hbr.org/resources/pdfs/comm/achievers/hbr_achievers_report_sep13.pdf (Accessed: 27 July 2016).
- Herzberg, F. (1968) 'One more time: how do you motivate employees?', Reprint. *Harvard Business Review*, September-October, 1987.
- Meister, J. (2012) 'Job Hopping is the 'New Normal' for Millennials: Three Ways to Prevent a Human Resource Nightmare', *Forbes*, 14 August [Online]. Available at: <http://www.forbes.com/sites/jeannemeister/2012/08/14/job-hopping-is-the-new-normal-for-millennials-three-ways-to-prevent-a-human-resource-nightmare/#1b6113ae5508> (Accessed: 15 July 2016).
- Robinson, S.L. (1996) 'Trust and breach of the psychological contract', *Administrative Sciences Quarterly*, 41 (4), pp. 574-599.
- Schein, E. (1967) 'Introduction', in McGregor, D. *The Professional Manager*. New York: McGraw-Hill, pp. xi-xiv.



A CRITIQUE OF COSMOPOLITANISM IN RELATION TO ITS APPLICATION TO GLOBAL ETHICS ISSUES

BRUCE GAHIR

Cosmopolitanism comes in many forms, originally a normative doctrine promoting world citizenship, it has gradually tended to become, in late political reasoning to mean basically a moral standpoint where each person is an object of concern from an equal standpoint.

However, moral cosmopolitans, when facing challenges in current global issues, tend to move away from such a normative viewpoint and to deny that as agents we have limited scope with limited moral duties. Such demarcations on the application of normative ethical frameworks in areas of global ethics tend to highlight the general problem of applicability of a traditional top-down approach in applied ethics, where ethical norms are "applied" to understand practical ethical issues at different levels.

The aim of this paper is twofold. Initially it is primarily critical, to provide areas of criticism and support the claim that normative ethical approaches, such as cosmopolitanism, when applied to global ethics issues, tends not to satisfactorily explain the relevant moral motivation behind individual and collective action relating to human rights. Secondly, the wider scope of this work is to motivate a series of papers that will aim at elaborating on the above discussion and developing an alternative ethical framework grounded in a more social interpretative approach with the aim at providing a framework to explore issues in global ethics.

The main question when considering issues in global ethics from a political perspective is: what are the bounds of justice and morality? For example, do political borders, such as state, regional or national borders, have any bearings on our moral duties? Do we have more duties to those whom we have more in common with, for instance, fellow nationals? If moral duties are influenced by political and social structures and boundaries, then are current systems fit for the purpose?

We start by considering moral cosmopolitanism, which, as its name proposes, holds that there is an "ethical sphere" that rises above national or social limits and subsequently that ethical commitments have a global aspect. The term "cosmopolitan" originates with the Stoics and is derived from "*cosmos*" meaning "world" and "*polis*" meaning "state" or "city". The Stoics, from whom the term "stoical" is derived, were a school of ancient Athenian philosophers founded in the third century BCE, who argued for universal reason of nature (*logos*). In keeping with this view of nature and humans' part in it, the Stoics claimed that they were citizens of the world, and identified themselves with, and owed allegiance to, all humanity, not just their local geographical, religious, ethnic or cultural group. The "Stoic's" conviction that they were "citizens of the world" still captures the essence of cosmopolitanism; they all considered the ethics to be global in nature with an emphasis of their group having to extend responsibilities across borders.

The first defining feature of cosmopolitanism is that the moral sphere is global with responsibilities that tend to emphasise actions motivated by responsibilities that extend beyond national borders. The second is the accentuation on the individual: the conviction that the individual has moral worth. The third element of cosmopolitanism is fairness: all people have a measure of good worth. These three elements are standard in different definitions of cosmopolitanism. The final, fourth feature of cosmopolitanism, which is little discussed in political theory (perhaps because it is assumed), is that it focuses on the political realm.

The third and fourth criteria of cosmopolitanism imply that it is global in scope and tends to consider political structures and institutions. Its main concerns are to address the relationships of groups and institutions as well as individuals, and in addition it focuses on structural networks and frameworks of governance as well as individual duties. Therefore, as well as focusing on the rightness and wrongness of individual actions, cosmopolitanism considers the political and practical aspects of carrying out such actions. For example, cosmopolitans will consider how rights are best attained and how duties can be fulfilled and needs met as well as what those rights and duties might be. Accordingly, it is no surprise that cosmopolitans concern themselves primarily with the institutions that are responsible for ensuring moral practices and political and legal mechanisms by which justice can be attained.

Cosmopolitan theorists therefore focus on the content and weight of obligations across state boundaries. In moral discourse the focus is on duties of individual agents to other individual agents; whereas in political discourse obligations are seen particularly in terms of political structures, hence the aim being to combine moral theories with political theories.

These four claims commit you not to a position where all obligations of justice are global, but rather to a more minimal view that there are at least some global obligations that go beyond national borders. This view is sometimes termed as "weak cosmopolitanism", by contrast "strong cosmopolitanism" holds that the global sphere is the primary moral sphere. On this view, all duties of justice are motivated from a global perspective and national or regional borders are considered to be morally and ethically insignificant from a global perspective. For a strong cosmopolitan, principles of justice that apply within society or nation should apply globally as there are no local or community deciding factors concerning who gets what in terms of goods, resources or rights.

To understand the foundations behind cosmopolitanism and the emergence of global ethics one needs to understand contemporary approaches to justice as a key focal point of political theory. To do this, one must consider the work of John Rawls, particularly in his 1971 book, *A Theory of Justice*, where he has informed the most prominent contemporary theories of global justice and has been especially influential in the work of current cosmopolitan theorists and proponents of global ethics, including Broc, Caney, Moellendorf, and Pogge. Although Rawls did not consider his theory of justice to be applied on a global scale, it is his theory and his proposed principles of justice that have inspired much current cosmopolitan thinking.

Rawls' *A Theory of Justice* sets out principles of justice that are intended to be adopted by all. Rawls argues that fair principles of justice are those that would be agreed in what he calls the "original position". The original position is a hypothetical agreement that Rawls proposes as a means to work out what the principles of justice should be and to ensure that once determined they would be binding. Rawls claims that principles derived from the original position were those that all free and rational persons concerned with their own self-interest would agree to. Once the principles had been decided in this way, then, they would be applied to all further situations to determine the just or fair solution. These principles, in a normative sense, would then be used to constitute the foundation of a just and national society.

The original position is essentially a thought experiment that Rawls believed resulted in fair principles of justice that would be accepted by all. In the thought experiment, those who are considering what is just are blinded to their own situation in order that they come up with fair principles for all, rather than biased principles that benefit people and groups in one situation and circumstance. Key to the original position's claim to fairness, in the design of the principles of justice, is the veil of ignorance (being blinded to your own situation). Crucially, those behind the *veil of ignorance* do not know if they are rich or poor, strong or weak, black or white, male or female and so on. Essentially, the aim is to remove any concern that arises as a result of a person's actual situation or social circumstances in order to ensure that the final developed principles are unprejudiced.

The veil of ignorance strips individuals of their particular characteristics, biases, and concerns and assumes that, rather than cater to their own particular needs and attempt to skew the system to benefit themselves or their own group, principles of justice that are fair to all will be devised. The claim is that the veil of ignorance makes the principles of justice free from economic, social, cultural, religious, gender, and class biases. In Rawls' (1999a) words, "the veil of ignorance ensures that all are equal in the original position."

The scope of Rawls' principles of justice and the fact they include commitments to civil liberties as well as to distributive justice requires that issues of practice are addressed as well as theory. Accordingly, a pressing question is how the principles of justice are to be implemented. For Rawls, the principles apply fundamentally to what he calls the "basic structure" of society: that is, the key institutions that define rights and shape the way we can and cannot live our lives in society; in other words to the structure of society and the governance mechanisms, for instance, legal frameworks and political institutions.

Rawls' methodology, and the position he seeks to establish by using it, is expressly liberal. The focus of the original position thought experiment is on formulating principles that then ensure a fair arrangement for all persons and liberty for each of them. This approach has been widely and critically discussed. One problem worth mentioning is that it appears to overlook the social relationships in which the hypothetical parties will inevitably end up in actual society. Rawls says that although the parties are divested of knowledge of their particular social role or status, the parties must know that there are all sorts of different roles and statuses, one of which each will come to occupy. But could a party in the original position not rightly worry not just about which particular position she is going to occupy, but also about the relationships of her position to other positions; in other words, about what society and her relationships within it will be like? This leads us to an important question that is the focus of this paper: would the relevant parties choose the principles Rawls thinks they would?

This question leads us to the point about the exclusion of social relationships from Rawls' normative framework that also underpins a more general concern about the conception of the individual person in Rawls' and other liberal positions; namely, whether it conceives of moral persons in an unrealistic and undesirably isolated and individualistic way that directs their different roles within society. The point of view presented in this paper is that such normative frameworks and their use to ground the fundamental principles of human rights in global ethics need to incorporate a social domain since its relevance is inherently part of the humanity that concerns itself with issues in global ethics.

"Rights exist when one party can effectively insist that another deliver goods, services, or protections, and third parties will act to reinforce their delivery" (Tilly, 1998, p. 56). Thus, universal human rights as developed within the domain of global ethics are principally held against the state, which has a correlative duty to respond, and there is a growing array of international instruments and institutions dedicated to their recognition and enforcement. However, rights in their concrete functioning and relevance are inherently social, and hence have a broader significance in that "rights imply a respect that places one in the referential range of self and others, that elevates one's status from human body to social being" (Williams, 1992; cited in Baynes, 2000, p. 451). In other words, rights function as both a legitimising expression of, and a dynamic influence upon, the nature of relationships between individuals, and between the individual and society. As Hynes et al. (2010, p. 812) state: "human rights are not seen as beyond social life, rather they are invoked and reproduced through struggles at the heart of social life."

In general, social theory has been typically skeptical about the existence of a "human nature" held in common where universal rights are declared, and about its status as the source of a universal conception of justice and human rights and obligations. Instead the emphasis tends to be rather on the importance of a particular social context in specific times and places, which generate different systems of values and beliefs pertaining to different modes of life. Indeed, the conceptualisation of both "human" and "rights" is commonly argued to have emerged from a particular social and historical moment in western thought (Pagden, 2000; 2003). In this sense, social theory is essentially questioning about the idea of trans-historical, trans-cultural, "human nature", being more focused upon the social forces which construct individuals and social beings and on the human rather than the natural origins of both legal and moral norms (Fine, 2013). Indeed, Fine argues that the denaturing of social relations has led to a dismissive or hostile attitude towards the very idea of human rights in the global ethics arena.

Indeed, Durkheim's insistence on social facts have tended to revise normative considerations and offer an inclusion of social facts in the generation and realisation of human rights, and this may offer a better solution to the "problem" of normativity and the value dimension of human rights. Rights may therefore be construed as functioning in the social structure that contributes to shaping the interpersonal relations and mutually guiding perceptions of members of society.

One needs to appreciate that aspects of cosmopolitanism, as discussed earlier, embrace both the expansion of rights and the conception of society beyond national boundaries on the basis of universal ideals. However, there needs to be a transformative aspect to cosmopolitanism scholarship that combines a normative position with social analysis. This will require the emergence, at a national level, of a different kind of cosmopolitanism linked strongly to human rights principles as detailed in Habermas (1998) and of the development of the idea of cosmopolitan citizenship similar to that advocated by Isin and Turner (2007) that may support struggles over rights that can extend beyond borders.

In such a framework, civil society is directed with a key role that acts as the driving force for change; according to Habermas (1996), such a civil society is vital to ensure the promotion of areas of public concern and to provide methodologies where neglected issues and underrepresented groups will tend to be mo-

tivated to showing a willingness "to go beyond self-defence and take a universalist stand against the open or concealed exclusion of minorities or marginal groups" (Habermas, 1996, p. 376). If normative ethical frameworks such as cosmopolitanism can be constructed in this manner then there is a greater scope in their application to global ethics issues. For example, the Universal Declaration of Human Rights (UDHR), which is not legally binding, clearly dictates the right for an individual to seek and enjoy asylum. However it directs no necessary obligation upon countries to offer asylum; in a similar manner, the European Convention on Human Rights provides directives of basic rights, but many may be subject to limitations, necessary qualifications, and conditions. In such declarations and conventions, although the language of universal human rights tends to convey a sense of ethical certainty, in contrast the actual practice of human rights shows itself to be a less stable and certain ground.

Access to necessary rights is generally managed by the state, and a minor number of rights ensured in existing trans-national declarations are those that tend to be fraught with detailed requirements and deliberate complicated interpretations. A portion of the purported all inclusive human rights can be qualified with reference to national security, open wellbeing or the financial prosperity of the nation, while even those rights which are supreme bring up troublesome issues of utilisation. Other "lesser" rights which are in any case incorporated into the UDHR, for example, the privilege to work, to welfare, or to medicinal services, might be complementary and in this way restricted to nationals of co-signatory states only. The practical demonstration of such human rights and their incorporation into universal declarations is seen currently in the flow of migrants and asylum seekers across Europe. Beck (2006) describes this as one of the important consequences of the "cosmopolitanisation" of society. Although Beck's writing in this area is largely concerned with the right to be different, he argues that such examples of migrants and asylum seekers demonstrates a universalism based on the respect for others as equals that categorically neglects the importance of differences of identity and social standing amongst different societies. Exploring current academic work in this arena of cultural rights, one finds that the majority of academics seem to assume that such identity statuses have already been successfully incorporated in prior considerations of developed ethical frameworks (e.g. Taylor, 1994), when in fact experience shows the contrary; that most trans-national migrants must first undergo a lengthy and uncertain process of scrutiny and selection. Human rights claims and declarations in the arena of global ethics therefore tend to function more as a source of power and control rather than ethical frameworks that consider the rights of individuals equally; hence by their very nature their work in contrary to their claims to universality. It has often been argued that such rights represent a "false universal" (see Philips, 1992; Lister, 2003; Richardson, 1998). An analogous claim can be made with respect to the ethnocentric nature of the efficient functioning of many rights and, in the case of trans-national migrants, it may be that cultural differences combined with patterns of social disadvantage and discrimination tend to yield the kind of implementation inefficiency noted above. Mutua (2002, p. 3) writes, "the human rights corpus as a philosophy that seeks the diffusion of liberalism and its primacy around the globe can ironically be seen as favourable to political and cultural homogeneity and hostile to difference and diversity."

Mutua puts forward a persuasive argument and states that the current framework of institutionalised human rights together with its universal normative implications cannot effectively respond to the needs of less developed countries as it is insufficiently sensitive to indigenous cultural and social practices. For him, the development of the UDHR can be observed as being sporadically tarnished by the brutal history of the colonial powers that pressed for its "universal" adoption, while the international law-making authorities tended to traditionally be out of reach of Third World countries. Mutua also writes of the coercive initiatives that use developmental assistance, aid, and trade as a means to enforcing compliance with a western human rights agenda. In fact, contemporary anthropological writings (Wilson, 1997; Wilson and Mitchell, 2003; Goodale, 2006) bring the argument full circle in documenting a process of what Merry (2006) terms "vernacularisation" and "indigenisation" whereby human rights ideals are reframed and presented in terms of existing cultural norms, values, and practices. To this extent, the discipline of anthropology has recently

undertaken an ethnographic study of human rights, and it has categorically rejected the prevalent definition of "universal" rights adopted by the American Anthropological Association in 1947 (Goodale, 2006). This development has motivated a variety of interesting studies that focus on the particular usages of human rights discourse and principles to address matters of local concern within an international framework of ethics.

Having presented several arguments that tend to support the inclusion of societies and their plurality within a universal framework of human rights, let us now return back to Rawls and see what attempts have been made by different scholars to re-formulate his framework. Rawls envisaged his principles as binding both "liberal-democratic peoples" and "burdened societies"; the long term aim was to bring all societies under the Law of Peoples, but dealing with outlaw states is seen to depend on political wisdom, and thus to lie outside the terrain of political philosophy. As to burdened societies, the principles that Rawls proposed include a duty to assistance, and Rawls considers whether such support presupposes a degree of affinity. The nurturing of such affinity is also held to be the task of statesmen, and is not viewed as a fixed thing, such that "as co-operation between people proceeds, they may come to care more about each other, and affinity between them becomes stronger. Hence they are no longer moved by self-interest but by mutual concern" (Rawls, 1999, p. 113). Rawls argues that the crucial elements here are not resources but political and civic virtues; burdened societies can solve their problems internally by becoming better "ordered".

Beitz (2004, p. 206) has commented on Rawls' proposal and says that he finds no answer here to the question of what it means to guarantee such rights. Beitz instead imagines an original position composed of representatives of peoples who are sensitive to the interests of the individuals who make up their collectivity. He then conjectures that these representatives would agree to establish a human right to an adequate standard of living, including a duty of international contribution to the costs, thus establishing the right as an element of the Law of Peoples and a requirement of international justice. Again, this argument resonates with Turner's (1993) approach which sees a foundation for human rights in the shared condition of bodily frailty, such that we see in the plight of others our own possible (future) misery. Beitz makes an important and related remark on the limited status of human rights in Rawls' model, noting that Rawls (2004, p. 201) explicitly disowns a notion of human rights based on "a teleological, philosophical, or moral conception of the human person" but offers no foundational theory for the rights he proposes. In Rawls' (2004, p. 202) model they may serve as a "shared basis for public action", but according to Beitz (2004, p. 210), "human rights are not simply desirable goals but are morally necessary ones" and should feature as such in the international arena relating to human rights.

Nussbaum (2007) also offers a much wider ranging critique of *The Law of Peoples*, starting from the assertion that an adequate refashioning of the existing international order would require much more radical thinking about the status of national borders and basic economic arrangements, as well as a different conception of human interests. More fundamentally she argues against a universal procedural approach to justice based on the assumptions of cooperation for mutual advantage, and instead seeks to advance an argument rooted in human dignity, sociability, moral worth, and an "impelling desire for fellowship" (Nussbaum, 2007, p. 36). Nussbaum argues that Rawls, in contrast, "eschews any assumption of altruism or benevolence on the part of the parties to the social contract" (2007, p. 34), and that in working from an initial choice situation, contract theory can offer no prior independent account of rights. This might, for example, be rooted in foundational principles, or arrived at intuitively by thinking about what human beings need to live a richly human life. Thus, rather than seeing cooperation as dependent on having something to gain, which poses a problem for trans-national justice, she argues that in the basic sociability, which is a characteristic of human life, we find an interest in sharing as an end in itself. She therefore favours a scheme of public moral education which could support the appropriate extension of benevolent sentiments in social life and be part of a fundamental framework for human rights.

Because human beings are political animals, Nussbaum not only sees their interests as bound up with others throughout their lives, but also recognises that for parts of their life, and in some cases throughout life, people will depend on others. This possibility of dependence - either within or between "peoples" - is not addressed in Rawls' model; the framers of the contract are viewed as independent and equal, as coming together for mutual advantage, and as themselves recipients of the contract. While the reliance on "people" in Rawls' model is intended to allow the attribution of moral motives, and Nussbaum argues that it serves rather to mask unwarranted assumptions of homogeneity of principles, beliefs, resources, and status, and in so doing to eliminate queries about the representative claims of the framers. In addition, it fails to take into account the existing interdependencies of the global economic system, the terms on which it operates, and the disadvantages it imposes on poor nations who are expected to solve their problems internally (Pogge, 1994; Nussbaum, 2007). Thus the idea of self-contained "peoples" coming together to strike a contract to their mutual advantage is fundamentally flawed, even granted that it is an exercise of the imagination intended to help reconceiving existing relations between states.

Furthermore, while the restriction of the contracting parties to exclude "burdened societies" is a necessary element in securing mutual advantage for the rest, this device seems to surrender at the start some of the functions that "Law of Peoples" might perform. Indeed, as Nussbaum observes (2007, p. 250) excluding poor nations from the contract is in line with the current world order, and a contract of mutual advantage can never include them as equal partners; yet if they are to be included as recipients of charity, then a different account of the purpose of social cooperation would be required. This most basic failing of the model brings into question its universal application to issues in global ethics.

Summing up Rawls' position on international justice, O'Neill (2004) remarks on a feature of *A Theory of Justice* which recurs in his later work on justice beyond borders; that is the idea of society as a closed system. The same assumption in *The Law of Peoples* is argued to render an account of "international" justice as based on a contract between bounded territories, which undermines any ambitions for a more thoroughgoing treatment of global inequality. O'Neill therefore looks for alternative perspectives, and focuses her attention on the problem of duties. Her ironic observation is that many respected accounts of justice with cosmopolitan aspirations assume without argument that the primary agents of justice will be states, but in so doing they undermine their own orientation and objectives. While such accounts may embrace the principle that justice is owed to all, they nevertheless see obligations as strongly constrained by state boundaries and states' internal commitments to inhabitants. One example of this uneasy combination is UDHR, which assumes that the counterpart obligations for the fulfillment of human rights are held by states, and generally speaking are obligations owed to their citizens or members. O'Neill argues that we need a clearer grounding of both rights and obligations which she views as mutually dependent. A realist approach to this issue is that rights are only meaningful when there are clearly identified correlative duties assigned to states. However, many states prove unable or unwilling to deliver on obligations of justice to their own citizens, while in the realm of international justice the full cooperation of states is even less certain. "Obligations cannot be coherently ascribed to agents or agencies that are incapable of carrying them... both institutions and individuals can have obligations if and only if they have adequate capabilities to fulfill or discharge [them], (O'Neill, 2004, p. 251).

O'Neill recognises that when states do not have the capacity to secure the rights of their populations this does not mean that the individuals affected have fewer rights, but simply that their rights cannot be fully realised. Here she sees a role for non-state actors, notably trans-national Corporations and Non-governmental Organisations (NGOs), which may be seen as secondary agents of justice. It is unclear from this argument, however, how such secondary obligations would be grounded, while the original focus on trans-national duties gets lost in concern about the capacities of weak states to fulfill their internal obligations. These issues have been pursued in a more radical manner by other writers.

Sen (2004) sees a disjuncture between the strong moral appeal of human rights, the "softness" of its conceptual grounding, and the problem of obligation, all of which have particular significance for the status of economic and social rights. He is wary of an approach to human rights which is overly legalistic and starts instead from the view that human rights are primarily ethical demands rather than legally established obligations. Their significance relates to the achievement of certain human freedoms, which can be construed both in terms of process and of opportunity, and thus embrace both civil and political, and social and economic rights. These ethical rights then generate reasons for action that can support both perfect and imperfect obligations. For Sen, proclamations of human rights such as the UDHR are to be seen as ethical articulations and not putative legal claims couched in ethical language. Although the demands contained in such declarations take the form of perfect obligations, Sen argues that there are related imperfect obligations which place an onus on all to help achieve the goal expressed by the right. Legalisation and institutionalisation may have been the principal focus for the realisation of such rights, but an ethical understanding of rights means that they represent moral claims that can be advanced in a variety of ways, and there is a responsibility on everyone to consider their own imperfect obligations. Thus social recognition of a right has a moral power even when there is no practical means of enforcement, and here Sen, like O'Neill, sees an important role for non-governmental organisations (NGOs).

The question of how to more effectively engage public morals and sentiment in the mitigation or prevention of global inequality has caught the attention of a good many social theorists, and Pogge (2007; 2008) has become identified with a specific approach which elaborates a minimal requirement - to refrain from doing harm. Pogge's starting point is that human rights should be construed as a set of moral requirements which exist independently of supporting institutions; that is the line of dependence runs from the moral commitment to its observance and institutionalisation, not vice versa. The respect for human rights is therefore sustained not by legal and political systems alone, but by the attitude of the people, which is in turn shaped by the system of education and economic distribution under which they live. Pogge makes the distinction between an interactional understanding of human rights, in which each right requires a corresponding duty, and which maximally applies to all individuals in a position to affect the right; and an institutional understanding in which the social system is organised, as far as reasonably possible, to secure the human rights of all its members. One interesting focus of Pogge's work, that is particularly relevant to our criticism of the universal application of normative ethical theories to global ethical issues, has been our capacity to remain untroubled by the severe poverty experienced by almost half of the world's population, and his intuition comes close to more general thinking on the sociology of denial. See for example, his argument that "unconsciously, at least, people tend to interpret their moral values in their own favour and tend to select, represent, and connect the facts so as to facilitate the desired concrete judgements. This rationalising tendency is much stronger in people surrounded by others whose relevant interests resemble their own" (Pogge, 2008, pp. 4-5).

Pogge (2008) considers the superficial reasons commonly put forward as justifications for avoiding the normative demands of global poverty on our moral conscience, borrowing Hirschman's (1991) typology of *futility*, *jeopardy*, and *perversity*. The force of *futility* rests on the assumption that we cannot meaningfully contribute to a solution, given the scale of the problem; *jeopardy* relates to the view that we cannot eradicate world poverty at a cost the rich countries could bear; and *perversity* is rooted in the argument that assistance would lead to over-population and increased poverty. These reasons as motivations towards collective non-action are generally not present in the formulation of the original position of Rawls. These common sentiments can all be contested, as Pogge shows, but the puzzle is why these denials seem to have such a constraining effect on our moral and social imagination.

This is now a pressing issue in the public arena amongst groups such as Oxfam and Amnesty International, for whom action is the issue, and who seek to address the problem of how to break the syndrome of denial before the uncomfortable facts can be filed away, and to turn this knowledge instead into action. In relation to any catastrophe there will always be those who do act, and who may do so in the face of strong peer pressure in the opposite direction. So the question for advocacy groups has been one of how to break the impulse to turn away from terrible suffering in distant places, and how to challenge a "powerful meta-rule"; to look after your own people first. Cohen (2001, p. 276) states that the psychological concept of denial cannot unproblematically be transposed to the political level, but nor is the process he describes an inevitable process, universally inscribed in the process of the brain. It is rather made up of a variety of highly contextualised linguistic devices and cultural practices which vary over time and space, and as such, must be amenable to change by consciousness raising, education, and other forms of intervention, the implication being made here is that compassion can be taught and it needs to be incorporated and taken into account in any developments that focus to explain the moral motivation behind the application of normative ethical frameworks to issues in global ethics.

The urgent problem of extending justice to all world citizens, showing theoretically how we may realise a world that is just as a whole, in which accidents of birth and national origin do not wrap people's life chances pervasively and from the start requires a serious approach that does not only take a classical framework, but incorporates as its roots the social challenges that society brings, the classical theory of the social contract cannot solve such problems adequately.

We observe, some of the discussion presented earlier that the majority of the major Western theories of social justice tend to begin from the nation or the state as their basic starting point, it is however highly unlikely that new theoretical structures of global ethics can be adequately developed where the social challenges prevalent are not incorporated. A theoretical framework may be truly great at providing adequate explanations for moral motivation, and yet have serious limitations in some areas relating to the sociological sources of such motivation. For example, the development of classical theories that rested on the public and private distinction historically tended to contain severe problems when it came to confirming the equality of women. We need to appreciate that such problems are not simply problems in the domain of academic philosophy to be discussed in the philosophical "ivory towers" but that the doctrines of the social contract have a deep rooted and broad influence in our social and political lives. The social development of our identities and different cultural influences define who we are and why we get together; this shapes our thinking about what emotional, ethical, social, cultural, and political principles we should favour in directing our lives and what we should be involved with in their mental framing and motivation. Such choices have been the basis of human civilizations and the common beliefs that some citizens are parasites on society and others "normally productive," are the offshoots of a cultured hierarchical social structure that erroneously bring about, in the popular imagination, the belief of the idea of society as a scheme of cooperation for mutual advantage.

Although the initial intention of this paper is to question the effective exploratory nature of traditional normative frameworks relating to questions concerning human rights, in attempting to do so it engages with fundamental philosophical ideas, paying particular attention to the relevant social and cultural complexities that play a moral motivational role in societies, it is also intended as a paper in practical philosophy which may offer some direction in guiding us back to some richer ideas of social cooperation that do not involve such difficulties and in the process developing further ethical frameworks to attend to these difficulties.

Although people can certainly engage in living their practical life and deal with all its related matters coping with all these issues without such a detailed philosophical investigation, I am inclined to believe that the detailed investigation proposed in this paper is fundamentally helpful, both because it shows respect for people motivated by the values we hold as being part of our humanity, and further it is always helpful to see exactly how our socialisation experiences as a species have motivated our moral behaviour. ■

REFERENCES

- Baynes, K. (2000) 'Rights as critique and the critique of rights', *Political Theory*, 28(4), pp. 451-68.
- Beck, U. (2006) *Cosmopolitan Vision*. Cambridge: Polity Press.
- Beitz, C.R. (2004) 'Human Rights and the Law of Peoples', in D.K. Chatterjee (ed.) *The Ethics of Assistance*. Cambridge: Cambridge University Press, pp. 193-216.
- Cohen, S. (2001) *States of Denial*. Cambridge: Polity Press.
- Durkheim, E. (1975) 'Individualism and the intellectuals', in W.S.F. Pickering (eds.) *Durkheim on Religion*. London: Routledge & Kegan Paul, pp. 59-73.
- Fine, R. (2013) 'Natural right and critical theory: bringing rights back in', in R. Fine and D. Chernilo (eds.) 'Natural Law and Social Theory', Special Issue, *Journal of Classical Sociology*, 13(2), pp. 222-38.
- Goodale, M. (2009) *Human Rights: An Anthropological Reader*. Oxford: Blackwell.
- Habermas, J. (1996) *Between Facts and Norms*. Cambridge: Polity Press.
- Habermas, J. (1998) *Inclusion of the Other*. Cambridge: Polity Press.
- Haynes, P., Lamb, M., Short, D. and Waites, M. (2010) 'Sociology and human rights: confrontations, evasions and new engagements', Special Issue, *International Journal of Human Rights*, 14(6), pp. 811-32.
- Hirschman, A.O. (1991) *The Rhetoric of Reaction*. Cambridge, MA: Harvard University Press.
- Lister, R. (2003) *Citizenship: Feminist perspectives*. Basingstoke: Palgrave Macmillan.
- Mutua, M. (2002) *Human Rights: A Political and Cultural Critique*. Philadelphia, PA: University of Pennsylvania Press.
- Nussbaum, M. (2007) *Frontiers of Justice*. Cambridge, MA: Belknap Press.
- O'Neill, O. (2004) 'Global justice: whose obligations?', in D.K. Chatterjee (ed.) *The Ethics of Assistance*. Cambridge: Cambridge University Press, pp. 242-59.
- Pagden, A. (2000) 'Stoicism, Cosmopolitanism and the legacy of European Imperialism', *Constellations*, 7(1), pp. 3-22.
- Phillips, A. (1992) 'Universalist pretensions in political thought', in M. Barrett and A. Phillips (eds.), *Destabilising Theory*. Cambridge: Polity Press, pp. 10-13.
- Pogge, T. (1994) 'An egalitarian law of peoples', *Philosophy and Public Affairs*, 23(3), pp. 195-224.
- Pogge, T. (2008) *World Poverty and Human Rights*. Cambridge: Polity.
- Pogge, T. (ed.) (2007) *Freedom from Poverty as a Human Right*. Oxford: Oxford University Press.
- Rawls, J. (1993) *Political Liberalism*. New York: Columbia University Press.
- Rawls, J. (1999) *The Law of Peoples*. Cambridge, MA: Harvard University Press.
- Rawls, J. (2002) *A Theory of Justice*. Oxford: Oxford University Press.
- Sen, A. (2004) 'Elements of a theory of human rights', *Philosophy and Public Affairs*, 32(4), pp. 315-56.
- Richardson, D. (1998) 'Sexuality and citizenship', *Sociology*, 32(1), pp. 83-100.
- Taylor, C. (1994) 'The Politics of Recognition', in A. Gutman (ed.) *Multiculturalism*. Princeton, NJ: Princeton University Press, pp. 25-74.
- Tilly, C. (1998) 'Where do rights come from?', in T. Skocpol (ed.) *Democracy Revolution and History*. Ithaca, NY: Cornell University Press, pp. 55-72.
- Turner, B.S. (1993) 'Outline of a theory of human rights', *Sociology*, 27(3), pp. 485-512.
- Turner, B.S. (2009) 'A sociology of citizenship and human rights: does social theory still exist?' in Morgan, R. and Turner, B.S. (eds.) *Interpreting Human Rights: Social Science Perspectives*. London: Routledge, pp. 177-99.
- Williams, P.J. (1992) *The Alchemy of Race and Rights*. Cambridge, MA: Harvard University Press.
- Wilson, R. and Mitchell, J.P. (eds.) (2003) *Rights in Global Perspective: Anthropological Approaches*. London: Pluto.

COST OF EQUITY IN EMERGING MARKETS

BUSINESS VALUATION

TAMARA AYRAPETOVA & KSENIA LARIONOVA

In the past 20 years emerging markets have been gaining extreme importance in international markets and have become one of the regions where new opportunities are found. With the GDP growth and productivity growth slowing down in advanced economies, emerging markets are commonly viewed as the place for positive future economic prospects. Moreover, liberalisation of trade and free movement of capital have allowed financial institutions, companies, and individual investors to consider these places as possible assets in their portfolios. As the results of such shifts, the tools and methods used by the businesses/financial institutions as well as individual investors who are using emerging markets either as diversification tool or as a main stream of income have to also be adjusted.

In this paper, the authors compare and contrast different approaches to business valuation, keeping in mind the specific settings of the emerging markets such as high return volatility, low integration, and asymmetric returns distribution. As the area of business valuation is very broad, it is important to highlight that this paper focuses on the problem of estimation of cost of equity for the emerging markets; specifically, it examines such measures as CAPM by evaluating their assumptions and variables. Furthermore, it looks at alternative models such as Local CAPM, International CAPM, Godfrey and Espinosa Model and Estrada Simple Approach that can be applied for the emerging markets and provides a comprehensive overview of their limitations.

To conclude, it is evident that the area of business valuation is still under great development. Thus, a lot of areas are still under debate and one of such areas is the estimation of cost of equity adjusted to the realities of the emerging markets. Currently, available models are still based on the CAPM and therefore carry its main limitations.

1. INTRODUCTION

In the past 20 years, emerging markets have been gaining extreme importance in international markets and have become one of the regions where new opportunities are found. With the GDP growth and productivity growth slowing down in the advanced economies, emerging markets are commonly viewed as the place for positive future economic prospects. Moreover, liberalisation of trade and free movement of capital have allowed financial institutions, companies, and individual investors to consider these places as possible assets in their portfolios. As the result of such shifts, the tools and methods used by the businesses/financial institutions as well as individual investors who are using emerging markets either as diversification tool or as a main stream of income have to also be adjusted to reliably express all of the region specific factors.

Over the past four decades we have seen a stable trend of using the model suggested by of William Sharpe (1964) and John Lintner (1965) – CAPM (Capital Asset Pricing Model). It is widely applied by professionals from developed economies for measuring the cost of capital for firms as well as valuing stock and portfolios worldwide as well as locally. The results received are later used to estimate WACC value of the firm or project, and as a result, playing a crucial role in the success of the business operations. CAPM is a very intuitive model in the way it builds a relationship between the risk and the expected returns. However, as any model, its assumptions are limiting its application only to a certain spectrum of problems. The main question this paper will try to answer is connected to reliability and applicability of the CAPM to emerging market settings. The authors will look at various adjustments to this model such as Local CAPM, International CAPM, Godfrey and Espinosa Model and examine possible alternatives such as downside risk measures suggested by Estrada (2000) or credit rating models.

2. MEAN-VARIANCE BEHAVIOUR AND EMERGING MARKETS

When we are talking about measuring risk, CAPM is one of the most intuitive ways of explaining the relationship between returns and risk. It is based on the efficient market portfolio theory suggested by Markowitz (1952) also called Modern Portfolio Theory, where the investors are assumed to be risk averse and therefore would aim to reduce the amount of risk. To do so, the theory proves that it is better to choose assets not based on their individual characteristics, but rather based on the way they behave in a bundle with other assets in your portfolio. This idea plays a crucial role for the development of the CAPM and for financial risk management overall, and is called diversification. Markowitz argues that it is possible to construct an optimal portfolio that would give the highest return for a given level of risk that would not be possible owning only one asset. The whole idea of the relationship between the assets is expressed through correlation coefficients while the risk and returns are expressed through variance and mean returns, respectively. Such a relationship is generally called Mean-Variance Behaviour (MVB), where the utility of the investor is defined by the variance and the main returns. The risk of an individual asset can be expressed through the following mathematical equation:

$$\sigma_i = \sqrt{E[(R_i - \mu_i)^2]}$$

This equation represents standard deviation of the assets returns. However, usually investors hold more than one asset and in this case instead of standard deviation of the asset i we would have standard deviation of a portfolio (in this case consisting of 2 assets):

$$\sigma_P = \sqrt{w_1^2 \sigma_1^2 + w_2^2 \sigma_2^2 + 2w_1 w_2 \rho_{1,2} \sigma_1 \sigma_2}$$

As one can see, the standard deviation of a portfolio is a product of standard deviations of the assets with their respective weights and the correlation between the assets represented by $\rho_{i,2}$. The lower the correlation coefficient is, the better it is for the diversification process. However, in reality it is not that easy to find uncorrelated assets since stock returns as well as global markets tend to be correlated at least to some extent. However, one cannot imagine this asset in isolation since most of the time these assets are part of a portfolio; therefore one has to consider its covariance with the market.

$$\sigma_{iM} = E[(R_i - \mu_i)(R_M - \mu_M)]$$

One of the main limitations of covariance as a measure of risk is that it is un-bounding, meaning that the numbers can range from $-\infty$ to $+\infty$, furthermore it is scale-dependent, and therefore does not directly tell us how much the variables are synchronised. As the result, usually correlation coefficient is used to measure risk. To arrive at correlation coefficient, we need to divide the covariance of asset i with the market by the product of their standard deviations.

$$\rho_{iM} = \frac{\sigma_{iM}}{\sigma_i \cdot \sigma_M} = \frac{E[(R_i - \mu_i)(R_M - \mu_M)]}{\sqrt{E[(R_i - \mu_i)^2] \cdot E[(R_M - \mu_M)^2]}}$$

As one can see by performing these operations, we achieve a correlation coefficient between the assets i and the market M . Alternatively, we can divide the covariance of the asset i with the market by the variance of the market and we would arrive at the beta coefficient:

$$\beta_i = \frac{\sigma_{iM}}{\sigma_M^2} = \frac{E[(R_i - \mu_i)(R_M - \mu_M)]}{E[(R_M - \mu_M)^2]}$$

Which can also be rewritten as:
$$\beta_i = \rho_{im} \cdot \frac{\sigma_i}{\sigma_m}$$

The CAPM builds on this crucial idea of diversification, and it suggests that there are two types of risks; one is called systematic risk and it is connected to the overall market volatility, which influences all of the firms regardless of the industry or specific region. Examples of such risk factors could be macroeconomic risks such as government default or financial crisis. It is not possible to eliminate this risk through diversification. On the other side, unsystematic risk, also called firm specific risk, can be diversified away by including assets of various origins into your portfolio. This concept can be represented in graphical terms (see Figure 1). As one can see with increasing number of assets, the firm's specific risk is diversified away; however, the market risk cannot be eliminated. Therefore, based on this crucial assumption, CAPM suggests that an investor has to be rewarded only for systematic risk that cannot be eliminated.

REDUCTION OF UNSYSTEMATIC RISK THROUGH DIVERSIFICATION

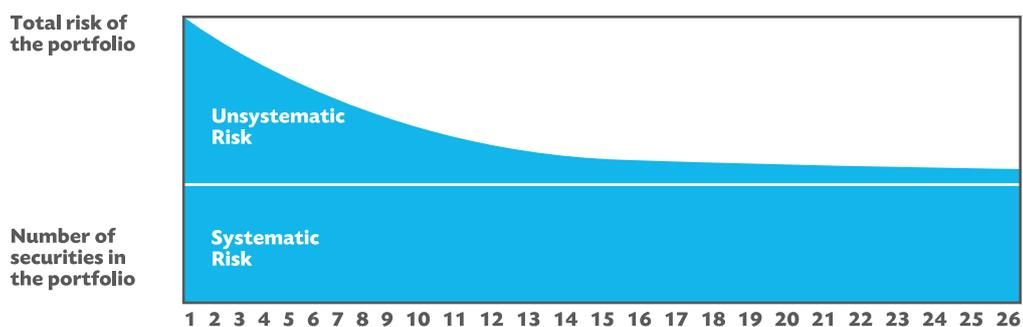


Figure 1: Systematic vs. Unsystematic Risk

As we have mentioned above, the modern portfolio theory suggests that it is better to choose less correlated assets since this will reduce the risk (standard deviation). When we are looking from the broader perspective at the correlation of the markets, it is crucial to highlight that investors based in Europe or USA will search for the markets that are less correlated with their own to reduce the risk associated with their home markets. In the table below, one can see a correlation matrix provided by Duff and Phelps (2010) which suggests that the European market has the lowest correlation with the emerging markets (see Figure 2). The same trend we can see for the US investors. Therefore, based on the efficient portfolio theory as well as behavioural finance, both of the groups would prefer to invest in the emerging markets to reduce correlation between the stock returns.

**CROSS CORRELATIONS OF HISTORICAL MONTHLY RETURNS:
JANUARY 1988 - AUGUST 2010; CURRENCY = €**

	Europe	Emerging Markets	USA
Europe	1.00	--	--
Emerging Markets	0.70	1.00	--
USA	0.78	0.69	1.00

Figure 2: Cross Correlation of Historical Monthly Returns

As the result of such findings, we can see the reason why the importance of emerging markets risk assessment is gaining more and more value. When we are talking about the cost of equity estimations in the emerging markets with the use of the common tools such as the CAPM, it is important to keep in mind the assumptions that are underlying the theory and the current market conditions. In the diagram below one can see the volatility of the stock/equity returns for advanced and emerging markets. In this case, the suggestion would be to focus on negative volatility since this is the biggest concern for the investor. As one can see, the lowest stock returns in the US are -34.4%, and in Europe -43.3% whereas in emerging markets the average is -50.8%. Of course, here one should also look at the maximum and emerging markets that offer greater return opportunities than advanced economies summed together. However, this proves that the volatility of the markets is not the same. Therefore, the distribution of the returns most likely is also not the same.

**AVERAGE ANNUAL, HIGHEST ANNUAL, AND LOWEST ANNUAL EQUITIES
RETURN (IN PERCENT); 2001 - 2009; CURRENCY = €**

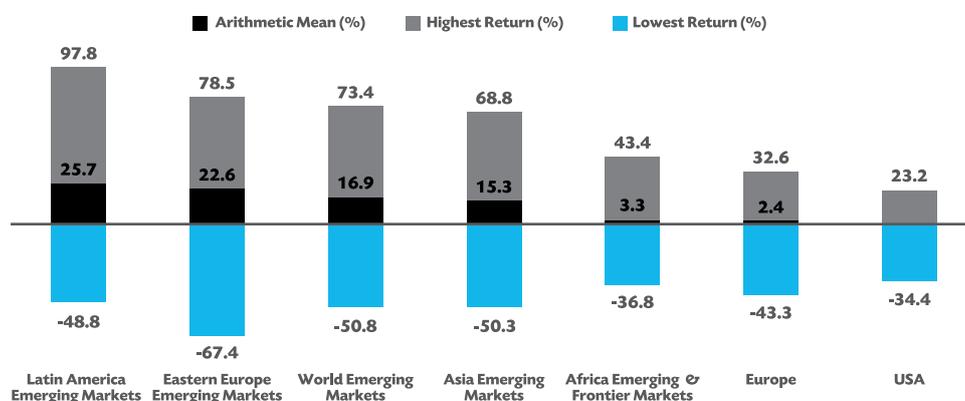


Figure 3: Equity Returns

Not only do emerging markets have greater return volatility (see Figure 3), but they also prove to be segmented. As the result of the segmentation, company or project in a less developed or developing countries (which may be less integrated in the regional or world economy) can be highly influenced by local market volatility (Duff and Phelps, 2010). This idea of higher influence by the local market than the world market defends the lower correlation coefficients, but also puts in question the usual measures of risk such as, for example, beta coefficients. It has also been proven that in emerging markets there is no correlation or weak correlation between the beta and the returns. According to Harvey (1995), the regression analysis granted an R^2 equal to zero. This puts in question the reliability of CAPM when applied to emerging markets. Furthermore, when we consider distribution of the return in the emerging markets they are found to be skewed, or in other words, they are not normally distributed and often suffer from 'fat tails'. In Figure 4, one can see the results of the research performed by J.P. Morgan in 2010 that proves that argument. The distribution of equity returns in the emerging markets is not following the bell-curve and does not show symmetry, which implies that there is unequal negative volatility. All of this is even more augmented by the short history of these markets, which result in difficulties of market return estimations.

EMERGING MARKETS EQUITIES - "FAT" LEFT TAILS IN HISTORICAL RETURNS

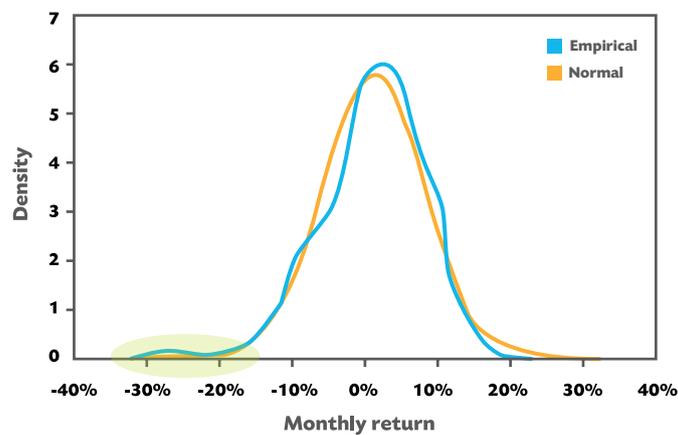


Figure 4: Equity Returns Distribution in Emerging Markets

3. CAPM MODEL

The cost of capital has been studied by a number of academics throughout the years, focusing on empirical studies to more advanced analysis. The Capital Asset Pricing Model (CAPM) is a core element of the cost of capital. Sharpe (1964) and Lintner (1965) derived this model and Mossin (1966) highlighted that the principles of the model were based on diversification.

The CAPM is widely taught and used in today's financial services industry and has become a powerful and intuitive approach in estimating the riskiness of a stock in relation to the expected return and risk. However, the CAPM is not flawless; there have been many academics that have proved theoretical failings in the model, mainly due to the simplified assumptions which are taken into account. The CAPM was built on from the Markowitz (1959) model and turned into a testable predictor of the expected return in relation to the risk for an individual stock. The CAPM makes the assumption that there is complete agreement about returns and that all investors will see the same opportunity set. There is also the assumption that there is unrestricted risk-free borrowing and lending, quite an unrealistic assumption. There have been a number of tests performed on the CAPM, which have involved cross sectional or time-series regressions

to estimate the parameters for the model. Furthermore, the tests have assumed that the expected returns on all assets are linearly related to their betas, and that the beta is a positive premium. This should be assumed to ensure that the key assumptions underlying the CAPM are fulfilled.

The original equation suggested looks as follows:

$$\text{Cost of Equity or } E[R] = R_f + \beta \cdot (R_m - R_f)$$

Beta in this case represents the covariance of the firm returns with the returns of the market. When beta is equal to 1, it means that firm moves identically to the market. Beta is the **only firm-specific magnitude**. There are numerous extensions of the model that add additional variables aimed to better adjust to the risk such as size and book-to-market value ratios. The most famous are Ibbotson Premium (size), Fama French Model (add 2 additional factors) and the Duff & Phelps Model. This model proved to be reliable to some certain extent in developed markets. However, there are very strong assumption that we must take into account. As mentioned above, the CAPM expresses a relationship between risk and return. This model is based on the idea of two types of risk: *systematic* or also called market risk and *unsystematic* or also called firm-specific risk. Figure 5 describes some unsystematic and systematic risk.

Unsystematic risk factors	Systematic risk factors
A company's technical wizard is killed in an auto accident.	Oil-producing countries institute a boycott.
Revolution in a foreign country halts shipments of an important product ingredient.	Congress votes a massive tax cut.
A lower-cost foreign competitor unexpectedly enters a company's product market.	The Federal Reserve steps up its restrictive monetary policy.
Oil is discovered on a company's property.	Long-term interest rates rise precipitously.

Figure 5: Systematic vs. Unsystematic Risk

This model implies that the investor should be compensated for taking the extra risk that is specific to the firm, and it should be therefore be accounted for in a *risk premium*. Moreover, investors should also be compensated for time value of money and loss of their purchasing power, which is represented by the risk-free rate. This risk-free rate is usually taken from an appropriate maturity governmental bond.

The CAPM is based on the following assumptions: investors hold diversified portfolios, single-period transaction horizon, investors can borrow and lend at the risk-free rate of return in a perfect capital market. In more detail, it can be described as follows:

- **Investors hold diversified portfolios:** This assumption means that investors will only require a return for the systematic risk of their portfolios, since unsystematic risk has been removed and can be ignored.
- **Single-period transaction horizon:** A standardised holding period is assumed by the CAPM in order to make comparable the returns on different securities. A return over six months, for example, cannot be compared to a return over 12 months. A holding period of one year is usually used.
- **Investors can borrow and lend at the risk-free rate of return:** This is an assumption made by portfolio theory, from which the CAPM was developed, and provides a minimum level of return required by investors. The risk-free rate of return corresponds to the intersection of the security market line (SML) and the y-axis. The SML is a graphical representation of the CAPM formula.

- **Perfect capital market:** This assumption means that all securities are valued correctly and that their returns will plot on to the SML. A perfect capital market requires the following: that there are no taxes or transaction costs, that perfect information is freely available to all investors who, have the same expectations, that all investors are risk averse, rational, and desire to maximise their own utility, and that there are a large number of buyers and sellers in the market. This includes that all investors are sufficiently similar across different countries in terms of their preferences and beliefs.

Following formulas express CAPM fundamentals, where r_f stands for the

$$r_e = r_f + \beta \cdot (r_m - r_f)$$

The above formula stands for the Market Risk Premium $MRP = r_m - r_f$

It is important to keep in mind that the CAPM only covers the systematic risk, and modification for size and unsystematic risk are possible. In practice the CAPM can be used by fund managers. They can use it for estimation of the return for given risk of a portfolio, and when the actual return is greater than the predicted value of the CAPM, it will demonstrate that value is being added, this is also true for projects.

4. LOCAL CAPM

Local CAPM is said to be the most common way used to estimate the cost of equity. Especially when we talk about managers. Local CAPM holds on the same assumptions that were described in the previous section.

The local CAPM is defined by the aggregate asset holdings of the all investors within a country. This model assumes that the assets of a country are held by the investors who reside in that country. For example, the beta for UK equities that is listed on the London Stock Exchange would be calculated when it is relative to the value-weighted market return on the London Stock Exchange. Moreover, the assumption that the assets are only held by individuals who reside in that country mean that there is no international diversification of risk, and countries' capital markets would be totally internationally segmented.

The cost of equity is then defined as:

$$E[r_{ix}] = \gamma_{fx} + \beta_{ix} (E[r_{mx}] - \gamma_{fx})$$

Where r_{fx} risk free rate in the country x ; $E(r_{mx})$ is expected return on the market x . Beta is the sensitivity of the returns on the asset i to the market x . All of the variables in this model are taken from the local country, or in other words, the country of investment. This model is theoretically sound; however, it has issues with dealing with the segmentation of emerging markets.

Some of the CAPM empirical failings are examined by Fama and French (1992) using cross-section regression analysis, where they confirm that the size, earnings-price, debt-equity, and book-to-market ratios all have an impact on the expected share price returns, which will in fact be influenced by the beta. These studies were performed on the US market. They also performed a further study, which illustrated similar results in a later paper by Fama and French (1996).

There was a simple empirical test of the CAPM performed on the UK data set by Yurtsever and Zahor (2007). They found evidence for the relationship between the expected return on a security and its risk non-linear for individual securities; however, no evidence was found for the portfolios. In addition, they

argued that the condition for higher risk is associated with higher expected return, and risk aversion is only applicable for securities and not portfolios. Therefore, they could find little evidence for the CAPM to be used. Reliable risk-free rate in a sense that we are used to may not exist in emerging markets. Either the government might not issue debt or there is some default risk. Other limitations of this model are incorporated in the difficulty of calculating the accurate beta and market returns. Calculation of beta can be constrained by finding comparable company. It is difficult to find companies in many lines of business since usually only a limited number of firms are traded in the stock markets. Additionally, emerging markets exhibit thin trading (lower trading frequency) and illiquidity, which may bias the results of regression due to information on prices which is infrequent and irregular and many prices (for the periods the securities were not traded) are unknown. In addition, short market histories and the past might not be representative of the future returns.

Calculation of market returns is constrained with difficulties with the short history of the markets. Additionally, as mentioned earlier, the stock indices are strongly biased towards a few stocks, which are weighted heavily in the market. Therefore, betas do not mirror risk with respect to the market, but with respect to a biased basket of securities.

5. INTERNATIONAL OR GLOBAL CAPM

The International CAPM is the central model for well-diversified international investors. This model presumes investors with hard currency consumption baskets.

$$E(R_{ix}) = R_f + \beta_i \cdot [E(R_M) - R_f]$$

Where $E(R_{ix})$ is the expected return (discount rate) in base currency of investment i in country x , R_f is the risk free rate of the base currency (e.g. the US dollar), β_i is the beta of investment i with respect to a proxy for the world market portfolio such as the MSCI (can be found by regression of unleveraged stock returns against the returns on the chosen index) and $E(R_M)$ is the expected return of the proxy for the world market portfolio.

One study by Mishra and O'Brien (2001) examined different costs of capital estimates focusing on local and global CAPMs. They found that on average the cost of equity in US dollars of the single-factor CAPM differed, from those of the local US-CAPM by 48 basis points for the sample of US stocks used. In their findings, they discover that the developed markets had a more significant difference than the emerging markets. Nonetheless, they conclude that "the different models do not make a substantial difference in cost of equity estimates" (Mishra and O'Brien, 2001). Nevertheless, the choice of model does make a significant economic difference in estimations of the cost of equity for a number of firms. The findings of O'Brien and Dolde (2000)¹ sum up the process of choosing the model stating that if investors diversify internationally, they should use the international CAPM; however, if investors do not diversify internationally, they should use the local CAPM.

5.1 MODIFICATIONS

Garcia-Sanchez and Preve (2010) argue that the CAPM does not reflect the impact of risk on a specific business. They recommend to start with the Global CAPM and estimate the unconditional cash flows, then using Monte Carlo simulation techniques to help considering different expected effects of country risk; this allows them to obtain a distribution of net present values instead of one single valuation. Garcia and Preve (2010) recognise the limitations of their approach as it does not solve the general criticism toward the CAPM; moreover, it still uses estimates for comparable companies in the developed economies.

Under the CAPM we use $Ke = Rf + \beta \cdot MRP$, where Rf stands for risk free rate, β accounts for the systematic risk, and MRP for the market risk premium. These parameters are arduous to estimate even for developed economies and even more challenging for the emerging markets. Moreover, a dilemma in relation to the set of information that one should use to calculate cost of equity is faced by both practitioner and scholars. The person performing the valuation has to choose between global market data or local data. However, several issues arise when choosing local data. Firstly, is the data available and dependable? Secondly, are the volumes of trade and liquidity on this market sufficient, and are prices and returns approaching the values which they would have under free market conditions?

In practice, due to the markets' segmentation and the deficiencies in local data, the global data is used and then it is usually adjusted for additional sources of risk.

6. CRITICAL VIEW OF CAPM

The original CAPM deals with non-diversifiable risk. Scholars agree that if the original CAPM was to be applied for the emerging economies, this method would not provide them with the effect of other risks which are specific to emerging markets. The most current way to deal with this problem is to introduce the country risk (CR). In most of the cases researchers use a sovereign bond spread, which is the spread between the sovereign bonds of the assessed country and US treasury bonds.

The Global CAPM formula after these adjustments appears as follows:

$$Ke = Rf + \beta_{indus} \cdot MRP + CR$$

In this formula, Rf represents the US risk free rate, β_{indus} is the beta for the comparable firm or the industry in the US, MRP is the US market risk premium, and CR is the country risk.

This method is often used as it is easy to compute and gives a more or less relevant image. Nonetheless, the limitations of this model consists in its costs and a few blind spots, more precisely the issues that arise from its assumptions. As was already discussed in the section above, the discounted cash flow technique is meant to be applied on unconditional expected cash flows, which are then discounted using the appropriate discount rate, which would account for the risks corresponding to these cash flows.

$$Value\ of\ company = \frac{Expected\ Cash\ Flows}{Rf + \beta \cdot MRP}$$

The formula above summarised the standard practice for valuing companies in developed markets. This approach as we see cannot properly reflect the probable impact of an economy-wide crisis. In the emerging markets, investors face other risks additionally to the standard volatility. They face such risks as risk of political, legal, social, and economic issues. As such, the impact cannot be reflected in an increase of volatility; rather it should be accounted for by a decrease in expected cash flows to reflect the costs of financial distress that would be expected in case of crisis. For this reason, the previous formula should be modified as follows:

$$Value\ of\ company = \frac{Expected\ Cash\ Flows\ | \ No\ Crisis\ Events}{Rf + \beta \cdot MRP}$$

In other words, instead of using the unconditional cash flows, we will be using the conditional expected cash flows; the cash flows that are expected assuming that no crisis will occur, which would be then adjusted by the CR. Nevertheless, in this case Garcia-Sanchez and Preve (2010) criticise this approach arguing that the implied assumption that all the businesses will be affected to the same extent is oversimplified. They add that for businesses whose income is mainly derived from export this CR should not be applied. Moreover, they argue that country risk may not in fact be well represented by the sovereign bond.

In summation the differences between the investing in developed and emerging economies are that the projects in emerging countries are perceived by investors as more risky in comparison to a comparable opportunity in the developed economy. Secondly, the impact of political, legal, social, and economic issues has to be added to the standard volatility. Thirdly, the lack of appropriate methods that would be fully adapted to the needs of emerging markets have not yet been developed. Even though, scholars tried to adapt the existing methods by adding a new factor to the discount cash flows that is supposed to capture the exposure to Country Risk. Fourthly, the oversimplifying the view on Country Risk, assuming that it will have the same impact across all industries and businesses or that sovereign bond spread will represent it correctly.

The simulation approach proposed by Garcia and Preve (2010) suggests to first estimate the unconditional cash flows applying the simulation technique using the following inputs: probability of crisis and the recovery value. Probability of crisis can be estimated using the default probability which is implied in in sovereign bond pricing. Recovery value is what shareholders can expect to receive in case of a crisis. This value will strongly depend on the fundamentals of a particular business and the level of the government intervention. The recovery rate can be a number or assigned probability distribution.

One or more variables in this simulation will have to be defined as random. Their probability should be calculated using the binomial distribution with two possible outcomes: crisis and no crisis, where the probability of crisis is equal to the default probability. Once the unconditional cash flows are estimated, they should be discounted with a rate that accounts only for the market volatility risk, using a global CAPM rate. The simulation will then analyse thousands of possible outcomes and assigning the value of 1 of the scenario with crisis and 0 to a scenario with no crisis. In a no crisis scenario, the company will generate normal standard projected cash flows. In a crisis scenario, the cash flows will be projected reflecting the recovery value. The modelling process allows the recovery value can be modeled to capture analysts' assumptions. In each iteration of this process, there would be a particular value for Free Cash Flows (or flow to equity), when it is then discounted with an appropriate rate the equity value or NPV of the project can be estimated. The discount rate in this case does not include the Country Risk.

7. INSTITUTIONAL QUALITY INDEX

Institutional quality index measures several important aspects including political stability, regulatory quality, rule of law, control of corruption, voice and accountability, and effectiveness in governance affect capital structure decision and the value of investments in emerging markets (FPO, 2016). Differences in institutional quality indexes between countries can have a significant effect on how projects in that country are financed and ultimately will affect the value of investments. The equity risk premium depends on the investor's risk aversion (which we argue is correlated with IQI) and the average risk of the project (FPO, 2016).

When we are talking about CAPM, model institutional quality is reflected in equity risk premium. It is set to be that countries with higher institution quality have lower risk and therefore require lower return on the investment. According to FPO (2016), the most common factors included into the IQI are voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and

control of corruption. Firstly, voice and accountability (VA) measures the extent to which a country's citizens freely participate in selecting its government, freedom of association and media as well as freedom of expression. This relates to whether firms are usually informed by government officials about changes in policies affecting their industry; and whether newspapers can publish stories without fear of censorship or retaliation.

Secondly, political stability and absence of violence (PV) measures the likelihood that the government may be destabilised or overthrown by unconstitutional means or a coup d'état. Thirdly, government effectiveness measures the quality of public services and the degree of independence from political influence. Fourthly, regulatory quality, which measures the ability of the government to formulate, and implement policies that promote private investment including favourable tax policy on cash flows to debt holders and equity holders, and a free enterprise system. Since the seminal work of Modigliani and Miller (1963), tax treatment of income to debt holders and equity holders affects capital structure choices. Fifthly, rule of law measures the extent to which agents abide by the rules of society. La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) point out that common law countries offer external investors (both debt and equity) better protection than civil law countries and more so if the legal system has sufficient integrity. Thus, firms in common law countries will attract more external equity (FDI) and longer term debt than otherwise. However, a firm in a legally weak country may attract higher FDI and longer maturity debt by cross listing its security offerings in a stronger legal environment. Finally, control of corruption measures the extent to which public power is abused for private gain, the integrity, and enforceability of the law. We argue that short-term debt is used more often than equity-like financing in countries with a high corruption perception index. Demirgüç-Kunt and Maksimovic (1999) find that firms have longer-term debt in countries where the legal system has more integrity as measured by the law and order index prepared by the International Country Guide.

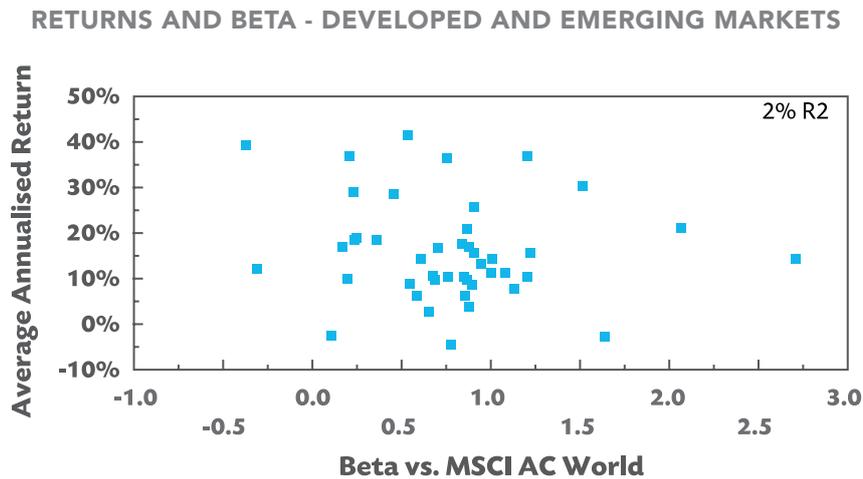
One of the most recent approaches to estimation of *ERP* argues that one cannot estimate *ERP* for emerging markets based on the historical data, but would rather have to combine future expectations of the investors. In this case, the common suggestion is to incorporate World Bank Indicators (WBI) that we are calling *IQI* into the calculation of *ERP*. Following this logic *ERP* can be estimated in the following way:

$$ERP = AvRP + IQI$$

Where *AvRP* refers to average market risk premium of key investors, therefore in this case *IQI* can be compared with the Country Risk Premium.

8. HARVEY, ERB AND VISKANTA CREDIT RATING MODEL

Until now, we have considered measuring systematic risk in emerging markets as similar issue to the measurements that are carried out in the developed economies. However, the studies performed by Harvey (1995) suggest that emerging market returns have no relationship with the betas measured in respect to world market portfolio (see Figure 6). When doing regression analysis between the average returns and average betas, it produced an R-squared equal to zero. The research has also found out that there were positive pricing errors, which means that the model predicted too low of an expected return in each country. As the result, one can conclude based on these findings that the realised return was much higher than the expected return predicted by the model. This study was performed in 1985-1992, after this period there were drastic changes in the emerging markets price levels, and Harvey revisited his conclusions in 2000. However, the conclusions stayed the same. Harvey (2000) suggested that the variance is much better measure of risk than beta in terms of explaining returns in the emerging markets. This serves as another argument against the CAPM.



Period: January 1990 - March 1997, or inception if later.
 Monthly Total Returns: MSCI & IFCG US\$ (Unhedged).

Figure 6: Returns and Beta Correlation

On this basis, Erb, Harvey and Viskanta (1995) have suggested a different approach to estimation the cost of equity, which was based on credit rating. According to Harvey (2001), this measure allowed to base the risk measures not only solely on the equity market as it was done previously, as well as allows receiving data that is more frequent than the macroeconomic data released irregularly and quite substantially revisited. The main source is the country credit rating that is based on a semi-annual Institutional Investor's survey of bankers. This survey is published twice a year in March and September and represents responses of approximately 75-100 bankers. The aim of the survey is to ask the bankers to give country a rating from 0 to 100, 100 being the least risky in terms of default.

Most of the time these bankers are part of the credit analysis staff; the aim of this department is to estimate the probability of a default on the loans. One of the parts of this analysis is estimation of sovereign credit risk. The logic follows that the higher is the credit risk of the borrower's country, the higher is the interest rate for borrowing money. There are many factors that are incorporated into credit rating such as political risk, inflation, exchange-rate volatility, etc., and as the result this measure of risk is not only focusing on equity market risks but also macroeconomic risks. The importance of each of the variables is changing through time. This approach also avoids previous misconceptions where past data is used to predict the future; in this case, credit risk is forward-looking.

The idea of the Erb, Harvey and Viskanta can be expressed in the following mathematical relationship:

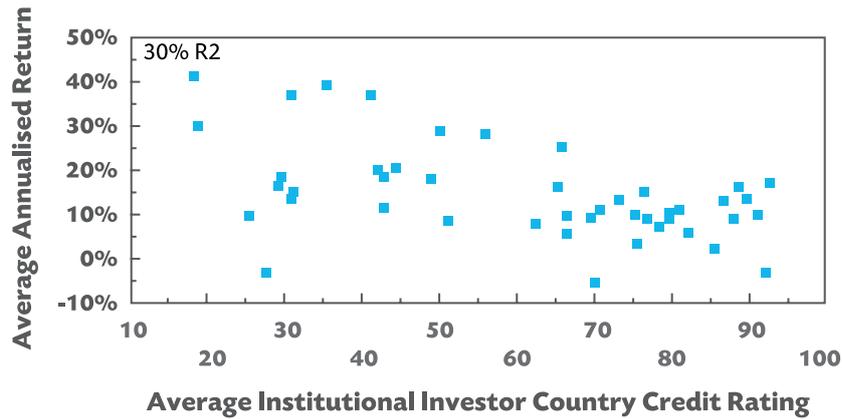
$$R_j = a_0 + a_1 \log(CCR_j) + \epsilon_j$$

Where R_j is the expected semi-annual return in US dollars for country j ; $\log(CCR_j)$ is the natural logarithm of the country credit rating and ϵ_j regression residual. Many times this model is represented as a linear regression:

$$E(R_{ix}) = \gamma_0 + \gamma_1 \cdot CR_x$$

However, according to Harvey (2001, p. 10) it is crucial to use natural logarithm instead since once the credit rating gets really low, the expected return might rise much faster than a linear model suggests. Through empirical testing, it was proven that the lower credit rating results in higher expected return and vice versa (see Figure 7). As the result of the study, it has been concluded that approximately 40% of the equity variation can be explained through credit rating. The main advantage of this model is that one does not have to estimate beta. The model is therefore not based on historical data, but rather on the forward-looking credit rating information.

RETURNS AND COUNTRY RISK - DEVELOPED AND EMERGING MARKETS



Period: January 1990 - March 1997, or inception if later. Figure 7: Equity Returns and Country Credit Rating
 Monthly Total Returns: MSCI & IFCG US\$ (Unhedged).

However, several limitations are connected to this approach. Firstly, the credit rating has to be available for all 135 countries in a timely manner. Secondly, a credit rating might not be the best measure of risk due to the inclusion of qualitative variables that makes the measure quite sensitive to subjectivity. Furthermore, credit rating is not direct measure of equity risk and it does not take into consideration stock exposure to global and local movements. Finally, yet importantly, this measure cannot not be used on company level and does not give any specific risk adjustments. As a result, it can be used only on a countrywide level.

9. GODFREY AND ESPINOSA MODEL 1995-1996

The Godfrey and Espinosa Model is one of the most used and misinterpreted version of the CAPM. This model is often modified by adding extra premiums or adjusting beta coefficient. The original model suggested in 1995 was based on three types of risk:

- Political risk
- Business risk
- Currency risk

To account for currency risk, the model suggested to take risk free rate in a base currency such as for example the US dollar. The other two risks would then require changes in the CAPM that one can see in the formula below:

$$E(R_{ix}) = R_f + \beta_{adj} \cdot [E(R_M) - R_f] + CR_x$$

Where:

$E(R_{ix})$ is the expected return of investment i in country x

R_f is the risk free rate in the base hard currency

β_{adj} is an "adjusted beta" that can be expressed mathematically as:

$$\beta_{adj} = \frac{\sigma_x}{\sigma_M}$$

$E(R_M)$ is the expected return of the base currency stock market

CR_x is a credit (or "country risk") spread for country x (e.g. the spread of a long-term T-Bond issued by country x in US\$ over a long-term US T-Bond).

As one can see this model is based on two sets of data. Firstly, the risk free rate is taken from the home country, but later on the spread between the yield of EM sovereign bond denominated in USD and the yield of a comparable US bond is added to adjust for political and business risk. Notice that the model suggests adjustments to come that are equal to the following reformulation:

$$\beta_i = \frac{\sigma_{iM}}{\sigma_i \cdot \sigma_M} \cdot \frac{\sigma_i}{\sigma_M} = \rho_{iM} \cdot \frac{\sigma_i}{\sigma_M}$$

From that expression, it is clear that to arrive to adjusted beta that Godfrey and Espinosa suggest, we have to assume that the correlation coefficient between the base market and the local market has to equal to 1. Of course, this is quite an assumption since as we have seen previously advanced and emerging market returns are not correlated. Furthermore, we assume the above the model can double-count certain unsystematic risks in its Country Risk premium and the beta.

The model was therefore criticised for incorporating credit risk spread in its adjusted beta. In 1996, Godfrey and Espinosa acknowledged that there can be a correlation between the political and economic risk measures and the credit quality and therefore based on the research of Erb, Harvey and Viskonta (1995) suggest to reduce beta by 40% of previously estimated correlation between the two. The adjusted model can be seen below:

$$E(R_{ix}) = R_f + (0.60 \cdot \beta_{adj}) \cdot [E(R_M) - R_f] + CR_x$$

However, even the modified version of the model has common limitations with the original. One of the main limitations of this model is that country risk premium may not be the proper measure of equity risk. The credit risk assesses the ability of the government to meet its obligations; however, one should not forget that equity risks have other components incorporated such as general market movements. Looking at the country risk premium, one of the main concern is that it is not the same for all of the companies and projects. Some activities might have higher country risk such as for example agricultural business where governments often interfere through price controls and other policy measures, whereas certain industries do not experience heavy regulation.

Moreover, Country Risk is not fully systematic or non-diversifiable. Since public stock returns in emerging and developed markets are not sufficiently correlated, at least some portion of this risk can be diversified by including more assets into your portfolio. As the result, the idea of Country Risk premium goes against the main base of the CAPM that suggests that investors should not be compensated for unsystematic risk. The last, but not the least, important problem with the Country Risk premium has to do with its estimation. Not all of the countries issue debt denominated in dollars, which can complicate the calculation or even make it impossible. This was one of the reasons why Erb, Harvey and Viskanta suggested basing this difference on the country risk rating that is available for more countries.

Another problem of adding Country Risk into the equation is that usually managers also count it in the cash flow estimations. This is very common when making a cash flow forecast. Therefore, as the result the country risk is double-counted. In this model it is hard to estimate how much risk is double-counted as we adjust both beta and country risk premium. It is also important to remember that since we have adjusted beta, it represents the average local equity risk instead of firm specific risk. In addition, it is not clear how to make proper modifications to it.

10. SIMPLE APPROACH ESTRADA

The so-called 'Simple Approach' was suggested by Estrada in 2000 in his paper "The Cost of equity in Emerging Markets: A Downside Risk Measure". The main idea of the model was grounded on proving that beta is not a representative measure of risk, especially in emerging markets, due to the skewness of return distributions and so-called 'fat tails'. The model looks very similar to CAPM and is based on the Modern Portfolio Theory; however, there is one important addition, which is the notion of aversion to losses that come from behavioural finance. Estrada (2000, p. 20) argues that investors do not mind upward/positive volatility, but what they are concerned about is the downside volatility of the returns. Similar approaches can be seen in microeconomics when we are talking about utility measures. Investors would care more for losing 100\$ than gaining them. The model can be mathematically represented by the following equation:

$$RR_i = R_f + (RP_w)(RM_i)$$

All of the variables are the same except for the risk measure in this case represented by (RM_i). This model can be used for various measures of risk not only systematic such as beta, but for total risk measures (standard deviation) or downside risk measures such as semi-deviation, etc. Based on his research, Estrada identified the most well correlated mean return risk measures, which one can see below (total risk, systematic risk, and downside risk):

$$RM_{SR} = \beta_i / \beta_w \Rightarrow CE_{SR,i} = R_f + (RP_w)\beta_i$$

$$RM_{TR} = \sigma_i / \sigma_w$$

$$\Rightarrow CE_{TR,i} = RR_{TR,i} = R_f + (RP_w)(\sigma_i / \sigma_w)$$

$$RM_{DR} = \sum_{\mu,i} / \sum_{\mu,w}$$

$$\Rightarrow CE_{DR,i} = RR_{DR,i} = R_f + (RP_w)(\sum_{\mu,i} / \sum_{\mu,w})$$

According to the study that was carried out between years 1997/1998 beta is the weakest measure of risk out of standard deviation and semi-deviation. The highest correlation with the mean returns was shown by the semi-deviation, or in other words the downside risk. After this paper was published in 2000, the model did not gain extreme popularity within business fields. However, Estrada published a few other papers in 2001 and 2004 that elaborated on this model to create a more comprehensive and empirically proven model called D-CAPM. This model has been acknowledged in a recent report on cost of equity produced by Duff and Phelps (2015) as one of the most reliable models for integrated and semi-integrated markets.

11. D-CAPM AND MEAN-SEMIVARIANCE BEHAVIOUR (MSB)

In the above sub-section, we have briefly discussed the main ideas behind measuring downside risk, in this section we will have a deeper look into the way the model has been developed and tested. D-CAPM suggests a new so-called mean-semivariance behaviour (MSB) approach where the utility of investor is defined as:

$$U = U(\mu_p, \Sigma_p^2)$$

Where the μ_p the mean returns and Σ_p^2 is the downside variance of the returns or semivariance. If we look at a single asset, then the risk would be measures by the downside standard deviation that can be stated as:

$$\Sigma_i = \sqrt{E\{\min[(R_i - \mu_i), 0]^2\}}$$

Or
$$\sigma_1^2 = E[(R_i - \mu_i)^2] = (1/T) \cdot \sum_{t=1}^t (R_{it} - \mu_i)^2$$

The above expression can be expressed in relation to any benchmark of returns. Therefore, it can be stated as:

$$\Sigma_{Bi} = \sqrt{E\{\min[(R_i - B), 0]^2\}}$$

In this expression, we replace the mean returns with any benchmark returns that we would like to achieve denoted by B . This allows adjusting the model according to the needs of the management or the investor. Similarly, as in MVB, we would like to see how the asset moves together with the market. In MSB, this relationship is represented by downside covariance or cosemivariance (Σ_{iM}).

$$\Sigma_{iM} = E\{\min[(R_i - \mu_i), 0] \cdot \min[(R_M - \mu_M), 0]\}$$

Since cosemivariance holds the same properties as variance (un-bounded and scale-dependent), practitioners prefer to use correlation or in this case downside correlation:

$$\Theta_{iM} = \frac{\Sigma_{im}}{\Sigma_i \cdot \Sigma_M} = \frac{E\{\min[(R_i - \mu_i), 0] \cdot \min[(R_M - \mu_M), 0]\}}{\sqrt{E\{\min[(R_i - \mu_i), 0]^2\}} \cdot E\{\min[(R_M - \mu_M), 0]^2\}}$$

Downside correlation can be achieved by dividing cosemivariance of assets returns with the market by the product of their semi-deviations. Alternatively, we can divide cosemivariance by the markets semivariance to receive downside beta - β_i^D .

$$\beta_i^D = \frac{\Sigma_{im}}{\Sigma_M^2} = \frac{E\{\min[(R_i - \mu_i), 0] \cdot \min[(R_M - \mu_M), 0]\}}{E\{\min[(R_M - \mu_M), 0]^2\}}$$

Or
$$\beta_i^D = (\Sigma_i / \Sigma_M) \Theta_{iM}$$

As a result, the downside beta can be imbedded in a CAPM-like model to grant the following relationship:

$$E(R_i) = R_f + MRP \cdot \beta_i^D$$

To prove credibility of this model and the previous so-called 'Simple Approach', several empirical tests were conducted. The first one took place in 2000, when the first model was suggested, and the results of this research advocated that beta was the weakest measure out of total risk measures and downside risk measures. After this research, Estrada has written several other papers; in 2004 he published research on Internet Stock in the European Journal of Finance. The paper concluded that semi-deviation gives better explanation of cross-section of returns on Internet Stock than beta. Based on this conclusion, the author also argues since internet stock and emerging markets have similar characteristics, such as short market returns history and high volatility, and the model can be useful for both cases (Estrada, 2004, p. 249). In this paper, we are going to look at the results presented in the paper published in 2007.

11.1 EMPIRICAL TESTING

The data used in the study was taken from Morgan Stanley Capital Indices (MSCI) database for both DM and Ems dated 2001. At that time, the database included 23 DMs and 27 EMs monthly returns. Countries are classified into DM or EM based on the MSCI classification. The returns represented by this index are expressed in dollar terms and include both capital and dividend gains. As we know for calculation with need to know market returns; therefore, in this case study, this is represented by the MSCI All Country World Index. Since this index goes back as far as 1988, this year is used for all other returns as well. You can see all of the data in the following table.

Market	MR	σ	ρ	β	Σ	Θ	β^p	SSkw	Start
Australia	0.86	5.63	0.57	0.77	3.94	0.70	0.89	0.24	Jan/88
Austria	0.54	6.92	0.38	0.63	4.81	0.63	0.98	0.67	Jan/88
Belgium	1.05	4.94	0.58	0.69	3.44	0.70	0.78	1.46	Jan/88
Canada	0.83	5.15	0.72	0.89	3.86	0.79	0.98	-3.28	Jan/88
Denmark	1.17	5.37	0.59	0.76	3.81	0.72	0.89	0.13	Jan/88
Finland	1.65	9.74	0.55	1.29	6.66	0.67	1.43	0.95	Jan/88
France	1.13	5.66	0.69	0.94	4.01	0.79	1.02	0.12	Jan/88
Germany	1.00	6.04	0.65	0.95	4.46	0.79	1.14	-1.57	Jan/88
Greece	1.55	11.34	0.27	0.72	6.67	0.60	1.28	8.63	Jan/88
Hong Kong	1.44	8.45	0.59	1.19	5.80	0.67	1.26	1.37	Jan/88
Ireland	0.99	5.69	0.66	0.90	3.98	0.75	0.96	0.53	Jan/88
Italy	0.72	7.06	0.52	0.88	4.79	0.67	1.04	1.41	Jan/88
Japan	-0.01	7.06	0.76	1.29	4.71	0.80	1.21	2.14	Jan/88
Netherlands	1.18	4.50	0.76	0.82	3.42	0.82	0.90	-3.20	Jan/88
New Zealand	0.35	7.08	0.49	0.84	4.86	0.68	1.06	1.59	Jan/88
Norway	0.88	6.74	0.59	0.95	4.93	0.71	1.13	-2.22	Jan/88
Portugal	0.43	6.66	0.46	0.74	4.42	0.60	0.86	3.20	Jan/88
Singapore	0.94	8.55	0.64	1.32	6.06	0.73	1.42	0.45	Jan/88
Spain	0.96	6.36	0.70	1.07	4.48	0.83	1.19	-0.33	Jan/88
Sweded	1.39	7.37	0.72	1.27	5.33	0.81	1.40	-1.29	Jan/88
Switzerland	1.17	5.14	0.66	0.81	3.63	0.77	0.90	-0.25	Jan/88
UK	0.89	4.69	0.77	0.87	3.21	0.80	0.83	1.43	Jan/88
USA	1.22	4.09	0.81	0.79	3.04	0.88	0.86	-2.23	Jan/88

Argentina	2.96	18.19	0.15	0.66	10.17	0.56	1.82	10.78	Jan/88
Brazil	2.91	17.37	0.35	1.44	11.55	0.58	2.16	2.51	Jan/88
Chile	1.74	7.56	0.32	0.57	5.27	0.56	0.95	-0.42	Jan/88
China	-0.72	12.72	0.37	1.13	7.92	0.54	1.39	4.27	Jan/93
Colombia	0.29	9.68	0.14	0.32	6.55	0.38	0.81	1.41	Jan/93
Czech Rep.	0.24	9.28	0.30	0.66	6.59	0.69	1.29	0.23	Jan/95
Egypt	0.46	8.69	0.25	0.53	5.18	0.61	0.90	4.94	Jan/95
Hungary	1.68	11.84	0.54	1.53	8.17	0.82	1.91	0.94	Jan/95
India	0.42	8.88	0.26	0.54	6.04	0.56	1.10	1.09	Jan/93
Indonesia	1.26	17.08	0.24	0.97	9.88	0.50	1.60	10.38	Jan/88
Israel	0.76	7.13	0.37	0.63	5.42	0.49	0.87	-2.01	Jan/93
Jordan	0.16	4.45	0.11	0.11	3.11	0.32	0.32	-0.80	Jan/88
Korea	0.93	12.56	0.41	1.25	7.68	0.54	1.34	6.83	Jan/88
Malaysia	0.95	10.09	0.42	1.02	6.87	0.60	1.33	3.16	Jan/88
Mexico	2.40	10.41	0.45	1.12	7.67	0.60	1.47	-2.23	Jan/88
Morocco	0.70	4.95	-0.10	-0.12	3.35	0.41	0.39	1.62	Jan/93
Pakistan	-0.02	12.08	0.17	0.49	7.91	0.39	1.00	1.96	Jan/93
Peru	0.97	9.47	0.33	0.74	6.55	0.56	1.19	0.76	Jan/93
Philippines	0.71	10.36	0.44	1.10	6.94	0.63	1.40	2.78	Jan/88
Poland	2.59	17.86	0.39	1.66	10.03	0.62	2.02	11.00	Jan/93
Russia	3.59	22.22	0.50	2.69	15.27	0.65	2.85	0.56	Jan/95
South Africa	0.78	8.20	0.56	1.10	6.02	0.68	1.33	-1.90	Jan/93
Sri Lanka	0.10	10.44	0.24	0.61	6.67	0.51	1.11	4.16	Jan/93
Taiwan	1.27	12.47	0.29	0.87	8.19	0.57	1.49	2.44	Jan/88
Thailand	0.72	12.73	0.46	1.41	8.80	0.62	1.75	1.25	Jan/88
Turkey	2.34	18.90	0.23	1.04	11.86	0.56	2.13	4.47	Jan/88
Venezuela	1.33	14.65	0.24	0.85	10.18	0.44	1.46	-0.23	Jan/93

Avg. DMs	0.97	6.53	0.61	0.93	4.54	0.74	1.06	0.43	N/A
Avg. EMs	1.17	11.86	0.31	0.92	7.77	0.55	1.38	2.59	N/A
Avg. all	1.08	9.41	0.45	0.93	6.28	0.64	1.24	1.60	N/A
World	0.78	4.17	1.00	1.00	3.11	1.00	1.00	-2.14	Jan/88

Figure 8: Monthly Stock Returns

After the data was collected, the first step is to find the average return for each of the markets for a given period (1988-2001), and here we are going to use arithmetic mean. The results can also be seen in the first column in Figure 8 represented as "MR". From the Table #, we can also see respective standard deviation, semi-deviation, correlation coefficient, and beta and downside beta, and downside correlation. What is important to highlight here is the difference between the beta and downside beta coefficients. As one can see even for developed economies downside beta is most of the times higher than standard beta. We can also see that the main justification why this can be so is due to a much higher downside correlation with the market.

We can also see the same pattern in emerging markets where on average downside beta is higher than standard beta by 0.46 points. In the developed markets, the difference is a bit smaller, 0.13. However, important conclusion can be made that downside beta is at least as good measure of risk as beta. Since the relationship between the data (returns) and risk measure can be measured by correlation coefficient, it is crucial to consider this in the study. Below one can see results for all four measure that are going to be used:

- MVB standard deviation and beta
- MSB semi-deviation and downside beta

As one can see, two measures are coming from the mean-variance model and the other two from the mean-semivariance model.

As one can see from Figure 9, the highest correlation with the mean returns is represented by downside beta, followed by semi-deviation. It is also essential to highlight that standard deviation in this case better explains returns than beta. The final step would be to use results for beta and downside beta calculated for all of the markets to estimate cost of equity by using standard CAPM and comparing results with the D-CAPM. One can find results in Figure 10.

	MR	σ	β	Σ	β^D
MR	1.00				
σ	0.58	1.00			
β	0.54	0.53	1.00		
Σ	0.59	0.98	0.59	1.00	
β^D	0.69	0.88	0.83	0.90	1.00

Figure 9: Correlation Matrix

The results received prove the argument made by Estrada that downside beta and D-CAPM give higher cost of equity results for emerging markets. It can also be seen that the same implies to developed economies where the difference between the results is sufficient, 0.72 points. With the emerging markets the situation is even more advanced the average difference in the required return is 2.54.

As a result, one can conclude that this model is a plausible measure of cost of equity in emerging markets and represents more precise results than the original CAPM. However, it still carries similar limitation as the original model due to the assumptions of integrated and efficient markets as well as estimation of beta is still based on the historical data opposed to future estimations. As to the results, this means that the results can still be biased by the past data and short history of the markets. The model can be further developed by looking at additional premiums.

Market	β	β^p	CAPM	Alternative	Difference
Australia	0.77	0.89	9.28	9.93	0.65
Austria	0.63	0.98	8.49	10.43	1.94
Belgium	0.69	0.78	8.81	9.30	0.49
Canada	0.89	0.98	9.93	10.43	0.50
Denmark	0.76	0.89	9.19	9.92	0.73
Finland	1.29	1.43	12.13	12.89	0.76
France	0.94	1.02	10.22	10.62	0.40
Germany	0.95	1.14	10.24	11.28	1.04
Greece	0.72	1.28	9.00	12.06	3.06
Hong Kong	1.19	1.26	11.57	11.95	0.38
Ireland	0.90	0.96	9.97	10.32	0.34
Italy	0.88	1.04	9.86	10.73	0.87
Japan	1.29	1.21	12.14	11.67	-0.47
Netherlands	0.82	0.90	9.55	9.99	0.44
New Zealand	0.84	1.06	9.64	10.88	1.24
Norway	0.95	1.13	10.25	11.24	0.99
Portugal	0.74	0.86	9.08	9.76	0.68
Singapore	1.32	1.42	12.28	12.82	0.55
Spain	1.07	1.19	10.93	11.59	0.66
Sweded	1.27	1.40	11.99	12.72	0.73
Switzerland	0.81	0.90	9.48	9.96	0.48
UK	0.87	0.83	9.82	9.60	-0.22
USA	0.79	0.86	9.40	9.77	0.37
Argentina	0.66	1.82	8.64	15.06	6.42
Brazil	1.44	2.16	12.96	16.92	3.95
Chile	0.57	0.95	8.18	10.25	2.08
China	1.13	1.39	11.24	12.67	1.43
Colombia	0.32	0.81	6.80	9.49	2.69
Czech Rep.	0.66	1.29	8.68	12.15	3.47
Egypt	0.53	0.90	7.93	9.98	2.05
Hungary	1.53	1.91	13.42	15.52	2.10
India	0.54	1.10	8.02	11.06	3.04
Indonesia	0.97	1.60	10.37	13.85	3.48
Israel	0.63	0.87	8.49	9.82	1.33
Jordan	0.11	0.32	5.66	6.77	1.11
Korea	1.25	1.34	11.89	12.42	0.53
Malaysia	1.02	1.33	10.65	12.34	1.69
Mexico	1.12	1.47	11.21	13.12	1.91
Morocco	-0.12	0.39	4.38	7.18	2.80
Pakistan	0.49	1.00	7.74	10.54	2.80
Peru	0.74	1.19	9.12	11.60	2.47
Philippines	1.10	1.40	11.06	12.73	1.67
Poland	1.66	2.02	14.16	16.12	1.97
Russia	2.69	2.85	19.82	20.69	0.87
South Africa	1.10	1.33	11.10	12.34	1.24
Sri Lanka	0.61	1.11	8.37	11.14	2.76
Taiwan	0.87	1.49	9.79	13.25	3.46
Thailand	1.41	1.75	12.79	14.64	1.85
Turkey	1.04	2.13	10.77	16.74	5.97
Venezuela	0.85	1.46	9.69	13.07	3.38
Avg. DMs	0.93	1.06	10.14	10.86	0.72
Avg. EMs	0.92	1.38	10.11	12.65	2.54
Avg. all	0.93	1.24	10.12	11.83	1.70

Figure 10: Required Returns on Equity

CONCLUSIONS

In the current world of globalisation and financial integration where deregulation has played a crucial role in stimulating free movement of capital, one can observe increasing relevance of modifications of current methods of estimation of cost of equity. This paper aimed at providing comprehensive overview of the key approaches that are currently used by practitioners and are suggested by academics. It specifically focused on the most well-known and popular business valuation approach – income approach. Under which the main methods called Discounted Cash Flow methods are used to perform firm valuation as well as project and stock valuation. From the paper, it can be concluded that one of the key factors that influence the preciseness of the results is the discounting factor that is used to discount cash flows to the present value. In a great majority of the cases, practitioners as well as academics suggest to use WACC as the estimation of the discount rate. As a result, we are facing an issue of proper estimation of cost of equity, which is the main focus of this paper.

At the moment, we can see a trend of using CAPM as the main method of cost of equity estimation in advanced economies. However, this tool is very controversial when it comes to estimation of cost of equity in emerging markets. As we have seen, emerging markets have different macroeconomic, political, and financial backgrounds that are particularly famous for higher volatility, thin trading, illiquidity, mispricing of assets, and last but not least important, asymmetric and non-normally distributed equity returns. As a result of these, factors of the CAPM that are based on symmetric return assumption as well as perfect markets usually yields lower expected returns and cost of equity for the emerging markets than it would be required. We have seen that the averages provided by Estrada's research are even lower than for advanced economies, which contradicts the main assumption behind any financial model that higher risk has to yield higher returns.

As we have seen in this paper, to adjust to the country specific risk, there were several variations of the CAPM that were suggested such as Local CAPM, International CAPM, and Godfrey and Espinosa model; however, all of these models still share the issue of assumption of fully integrated markets or fully segmented markets as in the case of Local CAPM. They have also used a standard systematic risk measure beta that according to the research performed by Harvey in 1995 and 2000 has zero correlation with the equity returns and as the result is not representative measure of risk in emerging markets. On the other hand, the model suggested by Harvey, Erb and Viskanta (1995) tried to move away from the CAPM structure and variables such beta and risk free rate also showed its limitations (Credit Rating Model), that were mainly connected to subjectivity of the credit rating measure, and its countrywide application that did not adjust for the company specific risk.

Lastly, this paper considered a new approach to risk assessment that was based on behavioural finance and tried to incorporate the difference between the upward and downward volatility. This approach was suggested by Estrada in 2000, and it argued that due to being risk-averse, the investors are not against upward volatility; what matters to them is only downward volatility. As the result of this argument, the author developed so called 'Simple Approach' that was based on downside risk measures such as semi-standard deviation, cosemivariance, and later on emerged into so-called D-CAPM based on downside beta. As one of the main advantages of downside beta over the standard beta was that it took into account 'fat tails', or in other words, asymmetric returns distribution and skewness. Moreover, it provided the same quality results for normally distributed returns. As the result of the research done by Estrada in 2004, it can be concluded that D-CAPM and downside beta are plausible risk measures and are better estimates than the standard models. Furthermore, it can be concluded that standard deviation as a measure of total risk, proves to be more relevant than beta. However, one has to keep in mind that D-CAPM is still based on the same assumption as CAPM, meaning we are still applying beta risk measures that are based on historical data, that as we have seen can be biased in case of emerging markets as well as the risk free rate that is hard to estimate. Therefore, this model is plausible for integrated or semi-integrated markets. Currently, there is no one way or method that academics and practitioners can agree has superior advantage over other methods, but as this paper has shown downside risk measures might become one of them. ■

REFERENCES

- ACCA (2015) *The Capital Asset Pricing Model*. Available at: <http://www.accaglobal.com/an/en/student/exam-support-resources/fundamentals-exams-study-resources/f9/technical-articles/CAPM-theory.html> (Accessed: 26 April 2016).
- Bekaert, G. and Harvey, C. (1995) *The Cost of Capital in Emerging Markets*. Available at: https://faculty.fuqua.duke.edu/~charvey/Research/Working_Papers/W16_The_cost_of.pdf (Accessed: 26 April 2016).
- Duff and Phelps (2010) *Cost of Capital Estimation in Emerging Markets What you need to know*. Available at: <http://www.duffandphelps.com/insights/publications/cost-of-capital/cost-of-capital-estimation-in-emerging-markets> (Accessed: 26 April 2016).
- Duff and Phelps (2015) *Estimating Cost of Capital- Issues Confronting the Practitioner*. Available at: https://fmc.home.pl/upload/news/pdf_news_1429864830.pdf (Accessed: 26 April 2016).
- Erb, C., Harvey, C. and Viskanta, T. (1995) 'Country risk and global equity selection', *Journal of Portfolio Management*, pp. 74–83. [Online]. Available at: https://faculty.fuqua.duke.edu/~charvey/Research/Published_Papers/P26_Country_risk_and.pdf (Accessed: 26 April 2016).
- Estrada, J. (2000) *The Cost of Equity in Emerging Markets: A Downside Risk Approach*. Available at: https://faculty.fuqua.duke.edu/~charvey/Teaching/BA456_2001/Estrada.pdf (Accessed: 26 April 2016).
- Estrada, J. (2004) 'The cost of equity of Internet stocks: a downside risk approach', *The European Journal of Finance*. [Online]. Available at: <http://web.iese.edu/jestrada/PDF/Research/Refereed/CoE-IStocks.pdf> (Accessed: 26 April 2016).
- Estrada, J. (2005) 'Mean-semivariance behavior: Downside risk and capital asset pricing, International Review of Economics and Finance', *ELSEVIER* [Online]. Available at: <http://web.iese.edu/jestrada/PDF/Research/Refereed/MSB2.pdf> (Accessed: 26 April 2016).
- Fama, E. and French, K. (2004) 'The Capital Asset Pricing Model: Theory and Evidence', *Journal of Economic Perspectives*. [Online]. Available at: http://www.maths.usyd.edu.au/u/UG/IM/MATH2070/r/FamaFrench_JEP2004.pdf (Accessed: 26 April 2016).
- Finance Train (2015) *Standard Deviation and Variance of a Portfolio*. Available at: <http://financetrain.com/standard-deviation-and-variance-of-a-portfolio/> (Accessed: 26 April 2016).
- FPO (2010) *Capital structure, institutional quality index and valuation of projects in emerging markets*. Available at: <http://www.freepatentsonline.com/article/Journal-International-Business-Economics/237358536.html> (Accessed: 26 April 2016).
- Goldman Sachs (2006) *Emerging Markets Equity: Structural Opportunities for Investors*. Available at: http://www.goldmansachs.com/gsam/pdfs/USTPD/education/core_ememarkets_structural.pdf (Accessed: 26 April 2016).
- Harvey, C. (1995a) 'Predictable risk and returns in emerging markets', *Review of Financial Studies*, 8, pp. 773–816. [Online]. Available at: https://faculty.fuqua.duke.edu/~charvey/Research/Published_Papers/P32_Predictable_risk_and.pdf (Accessed: 26 April 2016).
- Harvey, C. (1995b) 'The risk exposure of emerging markets', *World Bank Economic Review*, pp. 19–50. [Online]. Available at: https://faculty.fuqua.duke.edu/~charvey/Research/Published_Papers/P30_The_risk_exposure.pdf (Accessed: 26 April 2016).
- Harvey, C. (2001) *12 Ways to Calculate the International Cost of Capital*. Available at: (https://faculty.fuqua.duke.edu/~charvey/Teaching/BA456_2006/Harvey_12_ways_to.pdf) (Accessed: 26 April 2016).
- Jenner, M. (2008) 'Calculating the cost of equity in emerging markets', *The Finsia Financial Journal*. [Online]. Available at: http://webpage.pace.edu/pviswanath/articles/aeg4e43/riskreturn/emerging_mkts_costofequity.pdf (Accessed: 26 April 2016).
- J.P. Morgan (2010) *Non-normality of Market Returns: A framework for asset allocation decision-making*. Available at: [file:///C:/Users/Tamara/Downloads/AM_Non-normality_of_market_returns%20\(2\).pdf](file:///C:/Users/Tamara/Downloads/AM_Non-normality_of_market_returns%20(2).pdf) (Accessed: 26 April 2016).
- LaPorta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R.W. (1998) 'Law and Finance', *Journal of Political Economy*, 106 (6), pp. 1113-1155.
- Mishra, D. and O'Brien, T. J. (2001) 'A Comparison of Cost of Equity Estimates of Local and Global CAPMs', *The Financial Review*, Eastern Finance Association, 36(4), pp. 27-47.
- O'Brien, T. and Dolde, W. (2000) 'A currency index global capital asset pricing model', *European Financial Management*, March, pp. 7-18.
- Sabal, J. (2003) *The Discount Rate in Emerging Markets: A Guide*. Available at: http://proxymy.esade.edu/gd/facultybio/publicos/1311607688642The_Discount_rate_in_emerging_markets_A_guide.pdf (Accessed: 26 April 2016).
- Yurtsever, C. and Zahor, T. (2007) *Empirical Test of CAPM using UK Stock Market*.

EDITORIAL IMAGES

PAGE 3 (TOP RIGHT) & PAGE 41: HumanResourcesOnline.net (2012) *Singaporeans second most unhappy employees worldwide* [Online]. Available at: <http://www.humanresourcesonline.net/singaporeans-second-unhappy-employees-worldwide/> (Accessed: 12 December 2016).

PAGE 3 (TOP RIGHT) & PAGE 30 (TOP): michaeljung / 123RF (2017) *Stock Photo - attractive afro american businesswoman and team looking up* [Online]. Available at: https://www.123rf.com/photo_23152780_attractive-afro-american-businesswoman-and-team-looking-up.html?term=23152780 (Accessed: 17 January 2017).



PRAGUE COLLEGE

Polská 10
120 00 – Prague 2, Vinohrady
Czech Republic

Tel.: (+420) 222 101 020
(+420) 222 722 544
Fax: (+420) 222 718 813

www.praguecollege.cz
info@praguecollege.cz

ISSN 1805-5109

2016/01

CRIS