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Contents

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An Explanation of the Current Condition of the American Economy

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ABSTRACT

The purpose of this paper is to clearly demonstrate that the current economic problems facing the US economy are grounded in the wars in Afghanistan and Iraq. These wars have been increasing government spending on militarism, which generates a higher rate of inflation and a lower exchange rate of the dollar. The two wars are increasing the prices of oil, which contribute toward the increasing cost of doing business. For their own survival, businesses have to increase prices and cut cost. All these private and public actions cumulatively generate stagflation and economic stagnation.

Introduction

When the wars in Afghanistan and Iraq started, many individuals thought that the basic goals of these wars would be accomplished in a very short period of time. Consequently, there would be no negative consequences on the nation. In fact, some politicians thought that after eliminating the regimes in Afghanistan and Iraq, the mission should be continued to topple other regimes such as the regimes in Iran and Syria. Some of those politicians thought that the country has the military might and financial resources to fight in five wars simultaneously.

It is true that the country has the technology, the military, and the wealth to be involved in wars for eliminating terrorists and defending the national security of the nation. No one disputes this proposition and every American will sacrifice for achieving peace and security. But it has been unfortunate that many scholars and politicians have not stated the negative economic consequences of long run or permanent wars. Indeed, the two current wars are taking the shape of becoming permanent wars, because people of these two countries do not like foreign occupation. Past history has demonstrated to all people of the Middle East and other countries such as Afghanistan, China, and India, to mention a few, that foreign invasion and occupation will eventually impede and slow down the developmental process. The simple reason for this economic slowdown is the transfer of domestic actual economic surplus to other places; hence, the occupied country is deprived from the use of its national saving in the process of capital accumulation.

It follows logically that a need is rising to analytically investigate some of the negative economic consequences of the permanent wars, and this paper aims at providing such an objective and an honest analysis to the phenomenon. Section two provides the theoretical framework of this paper, a framework that is grounded in Veblen's theory of the business cycle. Section three provides evidence to substantiate the conclusions of the theoretical framework. A summary and conclusion is provided in the last section.

The Theoritical Framework

Many theories of the business cycle are available and can be used to provide an explanation for the current economic performance of the US economy. In this paper, however, an explanation which is fundamentally grounded in Veblen's theory of the business cycle is used. Veblen (1904, 1923, and Mouhammed 2003 and 2005) provides a provocative analysis for the theory of the business cycle in a capitalist economy, an analysis explaining the recession and expansion according to the principles of increasing (decreasing) cost and reducing (increasing) revenue.

For an economic expansion (or prosperity), Veblen suggests various causes for the reduction of the cost of restricted output. He (1923: 97) contends that a "ceaseless advance of the mechanical technology has…the effect of lowering the production cost of the necessary equipment, as also the (physical) cost at which raw materials may be had." So, a reduction in prices of capital goods and raw materials such as oil generates a lower cost of production for business enterprises. A reduction in the cost of production will increase the aggregate supply curve.

One of the initial effects of introducing technology is to replace workers and reduce wages to keep production-costs down (Veblen 1923: 220 and 287). In the same context, Veblen thinks that the business community intends "to buy the industrial man-power as cheap as may be, and to sell the means of living ...as dear as may be." (1923: 200). This statement clearly means that profit inflation is augmented at the expense of the community. Moreover, lower wages that are associated with increased productivity cut the cost of labor per unit of output.

This behavior of raising productivity and of as cheaply as possible paying workers implies a lower share of labor in the Gross Domestic Product (GDP) and an inequality in income distribution in favor of the business community or absentee owners. This inequality creates output that cannot be sold domestically, as working people have less income to spend, an idea that was originated by Thomas Malthus. Therefore, a tendency to go globally by peace and force to sell the output is created, and governments have to make that tendency a reality. Governments can go globally for serving the business interest by diplomatic efforts and by using military forces, but historically the military approach has been very popular because it benefits the military and oil corporations.

Mitchell (1913, 1951, and Mouhammed 2008) includes other detailed sources reducing the cost of production such as interests, administrative cost, rents, insurance premium, healthcare cost, taxes, and the like. For Veblen (1923: 393), his basic point is: "The earnings of enterprise and invested capital are always eventually to be drawn from the margin of sales-price over production-cost, it is incumbent on all business management to curtail production-cost so far as may be." Simply, entrepreneurs have to reduce all elements of cost in order to be efficient.

On the revenue side, Veblen (1923: 287) argues that the fundamental objective of business enterprises is "to increase their sales without lowering prices". Sales can be augmented by several methods. Salesmanship which consists of advertising and personal bargaining according to Veblen (1923: 311) is used to increase sales and revenues. In fact, this method emphasizes the importance of the business fields of marketing. It is also true that new techniques of marketing products and new ways for finding markets are crucially important for the business enterprise. Due to their importance, Schumpeter (1934) considers them essential elements of innovations furnished by entrepreneurs and prosperity.

Debt is needed for generating higher demand and prices, so is an increased supply of money (or precious metal according to Veblen). New credits provide funds for people whether they are business or not to spend. Consumers can obtain some credits to spend for consumption items. The increased consumption spending will stimulate producers to produce more output to accommodate the growing demand. Consequently, induced investments will be materialized and many industries producing capital goods will have new demand for their machines and equipment. In other words, credits create a process of cumulative causation that help the entire economy. It follows that central banks, or the Federal Reserve Bank (Fed) in the United States of America, must stand ready to accommodate the economy with a sufficient amount of liquidity represented by a high supply of money in order to grease the wheels.

Of course this accommodation of people by money through the Fed is needed when the economy is in the process of moving out of a recession. During that phase of the business cycle, many financial institutions can become innovative in finding ways to provide people with liquidity to purchase goods and services and assets. Indeed finance in this context becomes an engine for prosperity and growing economy. But it should be stated that some financial abuses and dishonesty may occur. For example, the sub-prime financial business contains abuses and financial dishonesty. It abused borrowers by charging them higher interest rates for loans. On mortgage loans, interest rates were more than 12 percent. By the same token, the sub-prime provides borrowers with false information that their interest rates would not rise significantly. Some may have called these practices as financial innovations, but innovation means benefits for the entire community at lower cost. Using this criterion, sub-prime lending and borrowing is not an innovative practice, because it has damaged the economy and borrowers, given the fact that it stimulated the economy since 2000 to increase investments in the housing sector, which helped the economy to stay in expansion for sometime.

Thus, given a low cost of production, Veblen (1923: 400) correctly thinks that profit "is widened by raising the level of sales-price; both by efficient salesmanship in the merchandising trade and by a continued expansion of the outstanding volume of purchasing-power through a continued creation of credit." When profits are widening, employment and income will rise, and the economy is prospering. Governments can obtain more tax revenues from people, as prosperity continues. If taxes are used to maintain and develop the infrastructure, then the entire country will benefit, including business enterprises, as they can minimize their production cost when new roads, training centers, communications, and bridges are built.

Governments can increase business revenues as well. Government, as an important institution serving the interest of absentee ownership (Veblen 1923: 432), enhances "prices by contributing to the security" (Veblen 1923: 400). Veblen (1904: 250-56 and 1923, 34-5 and 398-411) thinks that security is maintained by spending on police and military; both of these expenditures generate high aggregate demand that enhances prices and business revenues. For example, many industries can benefit when the government spends more on military hardware. The defense industries can produce tanks, bombs, airplanes, missiles, and other necessary equipment for the military and soldiers. Other industries such as the auto industry also benefit because they can provide more cars and trucks to the military institution. As predicted, these items do not last long during a war and more of their production is generally needed. Hence, the engine will be working as long as a military hostility exists.

Revenues can be augmented by merger and consolidation (Veblen 1904: 240-44 and Veblen 1923: 337) and by enlargement of domestic and foreign markets (Veblen 1923: 287), where the latter is achieved by imperialism (or globalization). Merger and consolidation, while they eliminate some producers, do increase profitability and revenues as they increase prices and cut costs. Many redundant costly operations are eliminated, and most likely during merger firms can augment their market power by charging higher prices for their products. Thus, profits are increasing. Similarly, finding or enlarging foreign markets can also increase profits. Foreign markets generate more sales for firms operating globally. That is to say, exports of the country will rise; consequently, domestic employment and income will be rising affecting other domestic industries and the economy positively. It is also true that foreign markets can provide inputs to be processed. These inputs can secure the production process of many firms using these inputs to produce their products. For example, finding oil and other materials in some foreign markets will make oil companies and other firms producing products such as petrochemicals able to generate more profits and revenues.

In short, economic prosperity results by increasing revenues and decreasing costs, a situation called by Sherman and Kolk (1996) a nutcracker whose two sides open (close) when profits are high (low) during the expansionary (recessionary) phase of the business cycle. Stated somewhat differently, this means that the increase in aggregate demand and supply will create prosperity for business enterprises and people. At any rate, for Veblen, high profits explaining the internal dynamics of prosperity mean higher earnings and capitalization, as business enterprises issue more outstanding securities. The result is that some of these enterprises become over-capitalized (Veblen 1904: 220-21 and 1923, 182-83, 221f and 334).

In contrast to the prosperity condition, if the elements of cost such as wages (and a reduction in labor productivity), interest payments, rents, and prices of intermediate (material) inputs increase and revenues decline, the nutcracker closes its two sides, squeezing profits and earnings. Usually, as the economy prospers and profits rises, firms demand more workers. Logically, money wages will rise. During this condition productivity slows down, and when this happens given the fact that money wages are rising, the labor cost per unit of output will be rising. It is also true that as prosperity continues, demand for capital funds will be rising. Hence, the interest rate will be increasing.

Schumpeter (1934) correctly thinks that the increased interest rate will kill the expansionary process the economy generates, because rising interest means higher costs for many firms and consumers. It should be stated that the interest rate will increase due to the expectation of higher rates of inflation. For creditors, when inflation is expected to rise, the nominal rate of interest has to increase to keep the purchasing power of debt from declining. In other words, if firms have difficulty in obtaining cash to pay their debts, they will have to face higher interest payments, and consequently financiers will squeeze producers even further.

Mitchell (1923 and 1951) thinks that during the expansionary phase of the business cycles, rents, insurance cost, office cost, money wages, and prices of raw materials will all be rising. Normally, as demand for offices and raw materials rise to accommodate the growing demand, rents and prices of inputs will be increasing. It follows that the cost of production will be increasing.

This period of profit reduction creates financial problems (fragility) for some business enterprises, as they have to pay the fixed charges for the means of debt created during the expansion. Consequently, a liquidation process starts, and many firms will be bankrupt. This indicates the starting period of a recession (See also Mouhammed 2003). During this period some firms started in the late part of the expansionary phase of the cycle will try to sell their products, but the economy is slowing. Their only option is to cut prices in order to get cash. All these indicators will reduce confidence in the economy and firms have to cut production which means less investment expenditures and a higher unemployment rate which in turns means less consumption spending. Both consumers and investors form a condition of fear and send the economy into a recession.

There are several reasonable justifications for choosing the validity of this Veblenian explanation of the business cycle. First, this explanation is based on the microfoundations of macroeconomics. It considers the American economy mostly as an economy dominated by large corporations aiming at making money. In this economy, the financial magna and the Fed control finance, interest rates, and credits; hence, they influence the productive capacity of the economy, as well as employment and the business cycle. It is also correct that this explanation can be applied for the survival of a firm. For example, the firm tries to find the necessary means to increase its revenues and at the same time tries to be very efficient in order to minimize its cost of production. In other words, the firm must generate the necessary level of profitability to survive, a situation that requires sound entrepreneurship and leadership.

Second, this explanation is more general than the existing models of the business cycle, for it takes into account all variables (economic, political, technological, and the like) affecting revenues, costs, and profit margins. That is, it analyzes the business cycle endogenously and exogenously as complementary sides of the dynamics of capitalism. For example, the Veblenian explanation takes profit, actual and expected demand, labor market variables such as rising wages and productivity (variables of the income distribution and aggregate supply), changes in money supply, government spending, sabotage such as tariffs and terrorism, cutting production and misinformation, downward price inflexibility, market power of large corporations, prices of raw materials and technology, and financial fragility, as the significant endogenous causes generating the business cycle.

Along with these factors, the Veblen's explanation considers political institutions such as the state, technological advances, innovations, and imperialism (or globalization), as factors affecting the business cycle. If some of these factors are considered shocks or exogenous elements by modern models of the business cycle, the Veblenian explanation does take them into consideration in analyzing the business cycle. For example, an oil embargo, as a shock, generates a higher price of oil, which increases the cost of production and reduces revenues and profits, affecting an economic expansion negatively. Globalization is also useful for finding markets for products and places for obtaining economic resources, as well as opportunities for profitable investments. Hence, it affects the business cycle.

Empirical Facts

We can use the previous theory to explain the current economic performance of the U.S. economy. It must be understood that current means a situation that has evolved to its current status from forces operating over sometime ago. At any rate these are the facts.

Wages have not increased relative to productivity, and the cost of labor per unit of output has been on the decline due to a higher growth rate of productivity and a low growth rate of wages resulted from the process of outsourcing. Actually, productivity rose by about 5.4 percent over the last three years and real labor compensation per hour increased by 4.2 percent, indicating that the real wage rate has been declining compared to productivity (see *BusinessWeek*, June 18, 2007). If inflation is taken into consideration with a rate of more that 4.2 percent for the working people, then actually the real wages did not increase, leaving the employed worse off than before. Consequently, in either case the profit was increasing, and the rise in the stock market during 2007 reflected this fact.

The interest rates have increased many times between June 2004 and August 2007. The federal funds rates increased from 1.0 to 5.25 percent, and these increases were engineered by the Federal Reserve to control the inflation rate. These increases, given the economic conditions, pushed the long run interest rate to rise as well. This also led to increases in adjustable mortgage rates and has also bankrupted many individuals who borrowed funds at these rates. This is because their monthly payments increased tremendously and many borrowers defaulted. For example, some mortgage monthly payments increased from $1200 to $2300, an increase that many borrowers could not afford to pay.

Since August 2007 the impact of the previous increases in interest rates on the U.S. economic performance has been disastrous. Higher interest rates created credit crunch. Many bankers have developed fear toward lending money to individuals and business firms that are in need for credits for consumption and investments. Consumer confidence was very weak in September 2007 and February 2008 because of the housing market, the increased oil prices, and the tightened credit market. Many home owners have been facing foreclosure, and others have already left their houses. Simply, a higher interest rate creates a financial burden on individuals and business enterprises, and at a minimum it will increase the rate of unemployment and will reduce the Gross Domestic Product. This is because it reduces consumption spending and contributes significantly to the reduction of private domestic investments. It is true that the Fed has reduced the short run interest rates (0.75 of one percent) twice, but the economic performance has been weak.

Despite the early increases in interest rates, the dollar continues to decline against the euro and other leading currencies, and this decline has been intensified over the last five months when the Fed cut the short term interest rate. This decline increases the U.S. exports and reduces imports, a situation that reduces the deficit in the U.S. international trade balance and increases domestic prices. Higher prices of U.S. imports do eventually contribute for increasing the rate of inflation. Other countries exporting goods and services to the United States of America such as the European countries will be affected negatively, as their exported goods and services become expensive in the U.S. economy. Hence, their economies will suffer from a reduction in export revenues and a rise in the unemployment rate. The declining dollar also increases profitability in dollar values when profits generated globally are converted from other expensive currencies to the dollar, a situation that makes the stock market look more reasonable. The danger of the declining value of the dollar, however, is that many countries and investors holding dollars may be forced to dump (or switch from) the dollar for other alternative currencies, and consequently the dollar will collapse and other leading currencies will be appreciated. In other words, investors have to diversify their portfolios for higher returns by holding a smaller amount of dollars. An interesting behavior is China. China is purchasing more dollars by yuan, a behavior that keeps the value of the yuan in terms of dollar low. Hence, China's exports to the United States of America continue to increase.

Despite the previous increases in the federal funds rate, the inflation rate has been increasing. The Bush administration has created the budget deficit which has become a very important element for generating higher inflation rates. The deliberate increases in government spending on militarism, particularly after the occupation of Afghanistan and Iraq, have been responsible for increasing prices of commodities and services that have increased the domestic rate of inflation. This administration has been trying to finance the war in Afghanistan and Iraq through deficit financing or selling government bonds to domestic and foreign purchasers such as China. Usually, a war is financed by increasing taxes, but recently this has not been the case, because the Bush administration is reluctant to raise taxes, which is an inconsistent policy with the supply-side economics whose basic element is the reduction of tax rates to stimulate business enterprises. Consequently, these two wars have forced the government to increase spending and the expectations of higher future inflation have been formed.

Not surprisingly, there is a strong linkage between deficit spending, inflation, and the declining value of the dollars. When the Fed finances the government for its spending, the money supply will be increasing, as new high-powered money is injected in the economy. The increased money supply (or the deliberate reduction in interest rate) will push agents to hold the desired amount of money and spend the extra for purchasing domestic and foreign goods, services, and assets. More spending increases the inflation rate and affects the exchange rate of the dollar. As more dollars are dumped in the world market, the exchange rate of the dollar against leading currencies such as the British pound and the euro will decline. As indicated this situation will increase American exports and reduce imports. It is also true that when the exchange rate of the dollar falls, oil prices rise, because oil producers are not willing to sacrifice part of their revenues for the decline in the exchange rate of the dollar. That is, the Fed is responsible for the increased price of oil, which results from cutting the interest rate. The Fed has been practicing that policy in order to prevent the economy from drifting towards a recession.

The war expenditures however (which are estimated on November 13 to be $1.6 trillion, ignoring the cost suffered by the Iraqi and the Afghan population) have benefited oil corporations and the military complex, because the more bombs that are dropped in the Middle East, the higher the prices of oil will become, therefore increasing the demand for military hardware. Hence, very high revenues and profits for these industries (and other related ones) and financiers. The danger of this condition is that these corporations are very powerful and have their supporters every where in the world and will take a defensive position for their profits. They can play a crucial role to keep the military approach of the U.S. foreign policy. That is, these corporations can always influence a democratic government to use bombs and missiles in dealing with foreign affairs.

The increased prices of crude oil do increase the cost of intermediate goods (inputs), transportation, and production cost and reduce business profitability, generating higher prices of many commodities and services. For example, when the transportation cost increases due to a high price of gas, prices of food at grocery stores will rise. Consequently, a higher rate of inflation and a possible recession will occur, generating stagflation. Historically, higher oil prices did contribute for the occurrence of the 2001 recession in the U.S. economy, because it increased cost of production and reduced profitability of many business enterprises. The price per barrel of crude oil rose from $21.00 in 1999 to about $32.00 in December of the same year. The high price of oil continued until the first week of September 2001 then declined to about $24.00 after September 2001. Many arguments (including one by Mr. Greenspan) had been proposed suggesting that the American economy could not be affected by the high price of oil, because the economy was adjusted to absorb oil shocks, as a result of the development of advanced technology which required less oil. The sad reality turned out to be different, because higher oil prices did affect people's spending negatively and do increase the cost of production for business enterprises.

Currently (March 2007), oil prices have reached $109 a barrel and have increased the cost of production of many industries using oil as a basic input (such as the airline, auto, and food industries, to mention a few) for their operations. (In fact, the American auto industry is collapsing and cutting production, because people are switching towards small efficient foreign cars.) These increases have also deteriorated people's real income such that department stores suffered 15 percent decline in sales during the first quarter of 2008. Once these industries' profits are affected negatively, other related industries suffer as well, a situation that culminates in a severe slowdown in the economic activity. Furthermore, on the average an American annually spent more than $3000 on oil, and this high cost of oil absorbed a reasonable percentage of consumer's income, which deprive other industries from obtaining advantages of consumers' spending. In other words, demand for oil is inelastic, and when the price of oil goes up, total expenditures on oil will mount. Therefore, the only beneficiary institutions of higher oil prices are foreign oil producers and American oil corporations, and both have generated super profits. For example, Exxon/Mobile generated $41 billions in revenues during 2007.

It should be noted that the increases in oil prices play the same role played by the increases in corn prices during the early period of the 1800s. The increased corn prices helped landlords to increase their rents at the expense of the capitalists. Similarly, the current high oil prices are increasing profits of oil corporations at the expense of consumers and other capitalists. Consumers have to reallocate part of their expenditures to purchase oil at the expense of a reduction of their spending on other goods and services. Many capitalists have to pay higher prices for oil, a situation that raises the cost of production and reduces capitalists' returns. The danger of this situation can easily come when these increases in production costs generate cost push inflation.

Many other factors can lead to an increase in the cost of production, a situation that tends to generate a recession. Higher health costs and insurance premiums will increase the cost of production and will reduce net returns. These higher costs are contributing to force many capitalist firms to outsource their business operations to foreign countries. Immigration regulations which are important for capitalists have not yet passed by the Congress. If the new expected regulations are weak, wages of foreign labor in the United States will be low, a condition that will generate a lower cost of production and a higher rate of profit for many firms. In addition many firms such as Microsoft will try to bring foreign labor to work in the country at lower money wages. In contrast, if the proposed immigration regulations are strong, then the flow of immigrants will be significantly declined, a condition that will increase money wages in the U.S. economy. Hence, many business enterprises will experience a higher cost of production and a lower rate of profit.

In sum, the impacts of the earlier increases in the short-term rate of interest and the continued increases in costs of healthcare, oil, and education have affected the aggregate supply of the economy negatively. That means the aggregate supply will decline due to these high costs of production. These higher costs have also affected consumption and investment expenditures negatively. Given higher exports and government spending which affect the aggregate demand of the economy positively, then the condition of the economy depends on which effect outweighs the other. If the effect of the increase in the aggregate demand is larger than the effect of the reduction in the aggregate supply, then the economy can be in a growing condition with a very high rate of inflation. If the effect of the increase in the aggregate demand is the same as the reduction in the aggregate supply, then the economy is in a stagnating condition with inflation. If the effect of the increase in the aggregate demand is smaller than the reduction in the aggregate supply, then the economy is in stagflation: a higher rate of inflation and a lower rate of growth in the Gross Domestic Product (GDP). These outcomes are grounded in the wars which are bad for the American economy and people. (It should be stated, however, that if for an unpredictable reason a new technology or new methods of innovations are suddenly introduced in the economy by our entrepreneurs and are able to increase the aggregate supply significantly, then the GDP will rise and inflation will decline. But such a possibility is remote in the short run.)

The Bush administration and the Fed are banking on the first outcome which is a high rate of inflation with a high growth rate of GDP. In a global economy this case is unlikely to occur. The magnification effect of the increased government spending and exports will not be kept internally. This will weaken the multiplier effect. Second, the dollar will continue falling and the cost of imports will be rising, creating a very high rate of inflation. If the Fed does not increase the federal funds rate, hyperinflation will be created and the economy will be collapsing, as capitalists will go on strike.

Summary And Conclusions

The first conclusion is that when prices of oil continue increasing and when the government continues using the budget deficit to finance the military spending for the current two wars, then these important factors will generate higher prices of intermediate and final goods and services. The rate of inflation will rise, so will the rate of unemployment. The sum of both rates gives us the misery index. That is, fiscal policy is inflationary or ineffective.

The second conclusion is that if the government cuts taxes further in order to increase the aggregate supply to counter inflation, then the tax cut cannot be effective. If the economy has overproduced goods and houses, then tax cut will not stimulate producers to invest and expand the productive capacity to produce more houses and products. Stimulus works when the economy does not have overproduction.

The third conclusion is that when inflation is expected to rise or has occurred, the Fed will respond by increasing the short term interest rates. But higher interest rates will create credit crunch and reduce consumption and investment expenditures; hence, the economic condition will be transformed into a recession. In contrast, if the Fed cuts the interest rate, the inflation will be rising. People and business enterprises cannot borrow in this environment, because when they pay their debts and the inflation rate is low, then the real monetary value of their payments is much higher than the borrowed amount of money value during high inflation. By the same token, lenders do not lend funds at a low interest rate if they expect the inflation rate to rise, because they will be paid less money in real term compared to the amount they loaned. That is, expansionary monetary policy is ineffective, or there is a liquidity trap.

The fourth conclusion is that the Bush administration should search for a new way for fighting terrorism and should end the occupation of Iraq and Afghanistan. This is because the last five years have demonstrated clearly that the cost of the wars is greater than their benefits, and the basic beneficiaries of these two wars are the oil corporations and the military complex at the expense of the American people, the American economy, and the world community. If these wars are ended, inflation will decline, and public spending can be directed towards building the infrastructure of the country, fixing health care, developing innovations and education, and establishing a system of better social programs and national security.

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Corporate Disclosure Practices by Business Firms: A Corporate Cultural Approach

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ABSTRACT

This paper focuses on corporate culture and corporate disclosures in the annual reports of companies listed on the Helsinki Stock Exchange. The primary objective of the study is to examine the effect of the corporate cultures of the sample companies besides other corporate characteristics like corporate size, age, liquidity, leverage and profitability on corporate disclosures in the annual reports. The results of the study reveal that in addition to corporate characteristics like profitability, size and multinationality, corporate cultures associated with flexibility values are positively associated with corporate disclosure while those associated with control values are negatively associated with corporate disclosure. Other attributes like age, liquidity, leverage, shareholders and industry type are found to be insignificant to corporate disclosure. The study therefore contributes to earlier literature by considering corporate culture as another attribute influencing corporate disclosures in annual reports.

Introduction

The essence of corporate disclosure is to ensure that users are provided with sufficient explanations to enable them assess the performance and financial position of a company. Existing literature on corporate disclosure is filled with studies based on the research that uses structural performance and market-related variables such as firm size, listing status, sales, audit firm status, leverage, profitability and liquidity to explain the extent of disclosure in annual reports. Most of these studies have proceeded from a market or regulatory theories' standpoint which postulates that disclosure is a function of the incentives or disincentives that it generates (Owusu-Ansah 2000). The role of organizational culture in explaining corporate disclosure has not been addressed in disclosure literature given the fact that disclosure is an "...accounting activity involving both human and non-human resources or techniques as well as the interaction of the two" (Perera 1994: 268).

This paper therefore investigates the relationship between corporate culture, disclosure and corporate characteristics like corporate size, profitability, company age, ownership structure, multinationality, capital structure, industry type and liquidity on corporate disclosures in the corporate annual reports of companies listed on the Helsinki Stock Exchange.

Understanding why certain companies disclose the information they disclose and the cultures behind these companies is potentially useful to the users of this information and for the policy makers involved in specifying the form and content of accounting and reporting by companies. For example, it is important to the information users as they form expectations about the type and information provided companies and for policy makers like the stock exchanges and the International Accounting Standards Committee who set disclosure rules and regulations in targeting the efforts of inadequate disclosures and also finding possible ways of enhancing company disclosures.

Hofstede (2001) recognized that corporate culture is linked to organization theory in a way that not only organizations are culture-bound, theories about organizations are equally culture-bound. Organizations are specific collectivities of people whose activities are coordinated and controlled in and for the achievement of defined goals (Ashkanasy, Wilderom & Peterson 2000: 58). The emphasis here is on the socio-cultural qualities that develop within an organization, even though organizations themselves are fixed in a wider cultural context which cultural context has a bearing on organizational qualities. This conception of culture can be based on a structure in which patterns of dependent relationships are expressed to explain corporate disclosure as an alternative for survival. Organizations exist in a largely dependent relationship with their environment which presents essentials for behavior that managers perform in their organizations and later contributing to its overall systemic balance and effectiveness. If this study can identify how culture influences corporate disclosure, then it should be able to predict organizations with strong or weak task environments that enhance or reduce corporate disclosure. This study therefore contributes to accounting literature particularly on corporate disclosure by introducing corporate culture as another attribute influencing corporate disclosure. It also contributes to the general accounting literature by proving the argument raised by Violet (1983) that accounting practice can not be culture-free since accounting is a socio-technical activity involving the interaction of both human and non-human resources.

The reminder of this paper is organized as follows. Section 2 reviews earlier literature on corporate culture, corporate characteristics and disclosure. Additionally the research hypotheses are drawn on the basis of this literature review. Section 3 presents the methodology and data employed in the study. Section 4 reports the results of the study and finally section 5 provides the conclusions of the study.

Literature Review and Hypothesis Development

Earlier studies combining accounting and culture have found that cultural aspects are related to accounting practices (Jaggi & Low 2000; Salter 1995; Jaggi 1975; Gray 1988; Hofstede 1990). In the study by Jaggi (1975), he examined the impact of the cultural environment and individual value orientations on the reliability of information disclosures and thus hypothesized that the reliability of disclosure is not expected to be high in developing countries unless legal disclosure standards are set. Another study is that associated with Gray et al.'s (1988) theorization of a connection between Hofstede's (1990) cultural values and accounting values. Gray identified four accounting values namely; professionalism, uniformity, conservatism and secrecy. He hypothesized that, societies which have strong power distance and uncertainty avoidance cultures are bound to display low levels of professionalism as opposed to highly individualistic cultures. Those societies exhibiting strong power distance and uncertainty avoidance cultures are however bound to be highly secretive. He further hypothesized that the higher a country ranks in terms of uncertainty avoidance and power distance, and the lower it ranks in terms of individualism and masculinity, then the more likely it is to rank highly in terms of secrecy. Hofstede (2001) quoted Salter and Niswander (1995) to have operationalized and tested Gray's hypotheses on data from 29 countries and as a result finding out that secrecy was positively related to uncertainty avoidance but negatively related to individualism.

Sudarwan and Fogarty (1996) examined the relationship between cultural characteristics and reporting practices of Indonesian firms. They found that an empirical relationship exists between cultural values and accounting values. Power distance, uncertainty avoidance and individualism were found to have significant relationships with one or more accounting values. Specifically, uncertainty avoidance was found to be significantly associated with secretive accounting practice. Individualism is negatively and significantly associated with secrecy - a decreasing trend in individualism was found to be associated with an increasing trend in secrecy.

At a cultural level, values clearly help organizations and their members determine work-related attitudes and behavior and therefore depending on how organizations and their members view their work and its importance will have emphasis on certain value types. Organizational culture is a very important aspect within companies since the corporate values are installed in its workers and these help in explaining why certain things are done the way they are done. There are different organizational cultures associated with particular value types in relation to disclosure of information. These cultures are, rational culture (which reflects an orientation toward efficiency and profit with an emphasis towards planning, productivity and goal clarity), hierarchical culture (reflects bureaucracy and stability and emphasizes the enforcement of roles, rules and regulations), developmental culture (relies on adoptability and readiness to attain growth, innovation, and creativity) and group culture (which sees cohesion, team work and morale as a means of increasing development, empowerment and commitment of human resources). Rational and hierarchical cultures are associated control values (referring to predictability, stability, formality, rigidity, and conformity) while developmental and group cultures are associated with flexibility values (referring to spontaneity, change, openness, adaptability and responsiveness). Control and flexibility values represent two competing values which are considered to be attributes of organizational culture (Quinn 1988; Quinn & Rohrbaugh 1983). As described in the existing literature, control values promote tight control of operations, restricted flows of information and highly structured channels of communication throughout the organization. It is from this description therefore that this study considers control values to be an indicator of less information disclosure. On the other hand however, flexibility values promote loose and informal controls, open lateral communication channels and free flow of information throughout and thus this study considers them to be associated with high disclosures. It is therefore hypothesized from the above discussion that;

H1a: Organizations operating under cultures associated with flexibility values disclose more information in their annual reports.

H1b: Organizations operating under cultures associated with control values disclose less information in their annual reports.

Corporate attributes have been used by a number of writers as a basis for explaining the level of disclosure in the corporate annual report. As predictors of the comprehensiveness of disclosure, they have been classified into three categories (Wallace, Naser & Mora 1994). The categories are structure related, performance related and market variables. Structure related variables describe a firm on the basis of its underlying structure (size and gearing). Corporate size variables commonly studied are total assets and sales turnover. Performance related variables vary from time to time and represent information that may be of interest to accounting information users. They include liquidity, earnings return, and profit margin. Market related variables are qualitative in nature (Wallace et al. 1994) unlike the previous two categories that are quantitative. Market related variables might be time-period specific and/or relatively stable over time. They refer to a firm's behavior which results from its association with other firms in its operational environment. Variables identified in this category include industry type, listing status and auditor type. In the accounting context these corporate attributes are demand-side variables because they are a function of the need to report desirable or undesirable results. These attributes are discussed in the following text.

Corporate Size.

Prior studies have indicated that the size of a firm has a strong influence on corporate disclosures in Corporate Annual Reports (Archamdault 2003; Akhtaruddin 2005; Hossain 2000; Low 1998; Wallace and Naser 1995; Zarzeski 1996; Inchausti 1997; Lang & Lundholm 1993; Chow and Wong-Boren 1987; Cooke 1989, 1992; Raffournier 1995; and Owusu-Ansah 1998). The size variables considered in these studies include sales, total assets and number of employees. It has been argued that large firms compared to small firms are more motivated to provide more disclosures in their annual reports because of the such reasons as; having high competitive cost advantages (Lang et al. 1993; Lobo & Zhou 2001); having the expertise and resources for producing sophisticated reports, having a broad-based ownership and finally having the desire of enhancing their value (Lobo et al. 2001) which they do so by increasing the level of disclosure. This study therefore follows the hypothesis that larger firms disclose more information than smaller firms.

H2a: There is a positive relationship between company size and the extent of disclosure.

Profitability.

The association between corporate disclosure in annual reports and profitability has been of attention to many previous studies (Wallace et al. 1995; Inchausti 1997; Hossain 2000: Akhtaruddin 2005). These studies have used net profit of sales, return on assets and return on equity as proxies for profitability while measuring disclosures. Empirical results on profitability have mixed findings with studies by researchers like Owusu-Ansah (1998), Wallace et al. (1995), and Hossain (2000) suggesting that highly profitability firms are more likely to signal to the market its superior performance by disclosing more information in its annual reports than those with lower profitability. Wallace et al. (1994) on the other hand found no relationship between profitability and corporate disclosure. Lang et al. (1993: 250) note that the influence of a company's profitability level on disclosure can be positive, neutral and negative depending on its performance. Inchausti (1997) employs signaling theory to argue that management, when in possession of 'good news' due to better performance are more likely to disclose more information to the stock market since this news can lead to an increased share price valuation on the stock market and also support a continuance of companies' positions and remuneration. However, a counter argument is that unprofitable companies are also inclined to release more information to defend their poor performance (Owusu-Ansah 1998). This study considers the assumption that companies with high profits disclose more information in their annual reports than those with low profits.

H2b: There is a positive relationship between company profitability and the extent of disclosure.

Company Age.

The age of a company has also been considered as one of the corporate attributes influencing corporate disclosure. Owusu-Ansah (1998) in his study argues that older, more experienced and well-established companies are likely to disclose more information in their annual reports in order to enhance their reputation and image in the market than younger companies. He states that younger companies may suffer competitive disadvantage if they disclose certain items such as information on research expenditure, capital expenditure and product expenditure which may then be used by other competitors to disadvantage them. He further highlights that older companies may alternatively be motivated to disclose such information as their presentation may not affect their competitive position. Contrary to other studies, in the study of Akhtaruddin (2005: 410) no support was found for age as an influencing attribute on disclosure level. The current study follows the hypothesis that older companies disclose more information in their annual reports than younger companies.

H2c: There is a positive relationship between company age and the extent of disclosure.

Ownership Structure.

Distribution of ownership is assumed to be associated with disclosure of information. Investors owning large percentages of a company are more in position to obtain information directly from the company. Thus, a wider dispersion of share ownership is assumed to be associated with more disclosure (Cooke 1989; Owusu-Ansah 1998). This assumption is based on agency theory of accounting in which companies are characterized by a separation of ownership and management. This generates agency costs resulting from conflicting interests between management and owners and across classes of owners. Agency costs tend to be higher for companies with a large number of shareholders as they press for more adequate information for monitoring purposes. Such companies also employ professional managers who have an incentive to make adequate information disclosures. This professionalism also comes with the technical ability to produce such information disclosures as shareholders may demand. A contrary argument to the agency theory postulation above was expounded by Zeckhauser and Pound (1990), cited in Owusu-Ansah (1998) who argued that dispersed individual shareholders are not a frightening influence on corporate outcomes including disclosure policies and practices, even if the net benefits are great enough to provide significant incentives to become informed. Individual public shareholders, where share ownership is widely dispersed, do not have the power to access internal information of the company. Thus the following hypothesis is set.

H2d: There is a positive relationship between the ownership structure and the extent of disclosure.

Multi-nationality of the Firms.

Multi-national corporation status is yet another attribute believed to have an influence on corporate disclosure level. Research by Multinational companies are expected to demand more information because as a result of internationalization of businesses and of capital markets, firms are being challenged to meet the information needs of diverse groups of investors with different cultural backgrounds and in order to do so, firms will be required to disclose more detailed information. This attribute has had mixed results from earlier researcher with Depeors (2000), Raffournier (1995), Cooke (1992) and Cooke (1989) finding that multi-nationality increases disclosure levels while on the other hand Garcia-Benau & Monterrey-Mayoral (1992) found no relationship between multi-nationality and disclosure. This study therefore assumes a positive association between multi-nationality and disclosure.

H2e: There is a positive relationship between multi-nationality and the extent of disclosure.

Capital Structure (Leverage).

Capital structure is used to refer to the leverage of the company. Corporate information disclosure is often considered as an instrument to reduce the monitoring costs for creditors. Because of this, there is an expectation for a positive link between firm's disclosure level and its indebtedness since in the event of high leverage, creditors will urge the firm to disclose more information to help them handle their own credit risk (Hossain et al. 1994). Capital structure as one of the corporate attributes that have an influence on disclosure has had mixed results. Ahmed and Courtis (1999: 51), Jaggi et al. (2000) and Wallace et al. (1994) have reported a positive relationship between leverage and corporate disclosure levels. Zarzeski (1996) however argues that disclosure decreases with leverage on the ground that debtors would have direct access to information. This argument would however be valid if firms have private debt rather than public debt. In such a case, if firms have a higher level of public debt, debt-holders are more likely to have close relationship with the firms and consequently leading to an agency problem and hence requiring detailed information disclosure to ensure observance to debt contracts. Alternatively, in the case of public debt, a positive association would be expected as indicated by findings of several prior studies. Based on the above discussion, this study there hypothesizes as below.

H2f: There is a positive relationship between leverage and the extent of disclosure.

Industry Type.

Association between the level of disclosure and industry type also provides mixed results. The relationship between industry type and disclosure was not found to be significant in the findings of studies by Cooke (1992), Raffournier, (1995), Watson, Shrives & Marton (2002) and Owusu-Ansah's (1998). A significant relationship was however found in the study by Cooke (1989) who reported that manufacturing industries disclose more information in their annual reports than other industries. This study therefore follows Cooke (1989) and assumes that manufacturing companies disclose more information in their reports than those companies not in the manufacturing industry.

H2g: There is a positive relationship between industry type and the extent of disclosure.

Liquidity

Wallace et al. (1994: 49) has argued for a link between liquidity and the level of disclosure in the corporate annual report. According to Wallace et al. (1995), regulatory bodies, investors and lenders are particularly concerned with the going-concern status of companies. Companies that are able to meet their short-term obligations without recourse to liquidation of their assets, desire to make this fact known through disclosure in their annual reports (Belkaoui and Kahl 1978). Liquidity is usually measured by the quick ratio as it is a more stringent measure of corporate liquidity (Owusu-Ansah 1998). This study follows the same hypothesis on the effect on disclosure.

H2h: There is a negative relationship between liquidity and the extent of disclosure.

Methodology

Selection of the Sample

The research population of this study is based on companies listed on the Helsinki Stock Exchange. The total number of companies listed on the exchange is 135. Following prior research like Owusu-Ansah (1998) and Akhtaruddin (2005), this study is limited to non-financial companies and therefore excludes companies in the banking, insurance, and service as well as real estates industries which by law have different disclosing requirements. The number of companies is therefore reduced to 117. The study further excludes nine companies with missing (insufficient) data to estimate the research variables and hence reducing the total to 108. Further still, 58 companies from which no questionnaire responses were obtained are excluded from the study. The remaining 50 companies representing a significant proportion of 46% of the total population of non-financial companies listed on the stock exchange are the final sample for this study.

The two main data sources for the study are the company annual reports for the year 2005 used for data collection on company characteristics and the survey questionnaires used for the collection of data on the corporate cultural aspect of the study. The study employed the use of annual reports because as stated by Gray (1995), the annual report is viewed as the major official and legal document that a firm produces on a regular basis and acts as a significant forum for the presentation of the firm's communication with political, social and economic systems. For the sampling method used in the survey on corporate culture, respondents were selected on the basis of their expert knowledge in the subject under investigation (Sekaran 2000: 237; Saunders, Lewis and Thornhill 1997). To ensure homogeneity (Saunders, Lewis and Thornhill 1997), sampling focused on those persons responsible for reporting any form of information in the annual reports which comprised of members on top management of the companies in question. The cultural dimension scores were gathered from the cultural questionnaire (one used by Henri 2006) issued to the respondents via their email addresses. The addresses of the respondents to the cultural aspect of the study were got from their company web pages and the questionnaires were sent to two top management team members of each company using the E-lomake program.

The Disclosure Score

In related accounting research, both weighted (Botosan 1997; Buzby 1974; Chow et al. 1987; Eng et al 2001) and unweighted (Akhtaruddin 2005; Archambault 2003; Cooke 1989; Hossain et al 1994; Owusu-Ansah 1998; Raffournier 1995) disclosure indexes have been used to measure the extent of disclosure in annual reports. Both approaches to measuring disclosure have their weaknesses for example, using an unweighted disclosure index has been criticized for its fundamental assumption that all items are equally important to all information users and the use of a weighted disclosure index criticized because it may introduce a bias towards a particular user-orientation.

Following the view by Wallace (1988) that all disclosed items are equally important to the average users, this study uses the unweighted disclosure index approach. Under this approach, attention is given to all users of annual reports rather than particular user groups. It has also been argued that unweighted scores reduce subjectivity and may be considered the norm in annual report studies (Ahmed et al. 1999: 36). In this study therefore, voluntary information disclosures in annual reports for the year 2005 are considered and an item is scored one if disclosed and 0 otherwise. The total disclosure score TD for company i is therefore:

$$(1.1.) \qquad D_i = \sum_{i=1}^{m_i} d_i$$

where d_i is 1 if an item is disclosed and 0 if not; m_i is maximum number of items disclosed in the annual report by company *i*.

Organizational Culture Scores

Organizational culture is measured using the measurement method applied in the study of Henri (2006) where respondents were asked to distribute 100 points among four cultural types along the different cultural dimensions. The cultural-type score is collected for each culture by averaging the ratings obtained on the four cultural dimensions. The value score is then calculated for the control/flexibility continuum. From the results, a positive score then represented a flexibility dominant type while a negative score represented a control dominant type.

Statistical Analysis

The study uses univariate and multivariate analysis to assess the extent to which variability in the extent of voluntary disclosure is explained by the independent variables and hence hypotheses testing. The study employs the regression analysis method using the enter and stepwise model selection procedures. The stepwise procedure has been applied by some earlier studies examining disclosure (for example Watson et al. 2002; Depoers 2000; Giner 1997; Raffournier 1995). This regression procedure is useful in determining explanatory variables which are most correlated with dependent variable but less correlated among themselves (Depoers 2000). This study therefore uses the stepwise procedure in order to avoid collinearity problems between the two value variables measuring culture. Collinearity in this study is tested by the use of the Variance of Inflation Factors (VIF). The regression models below are used to explain the effect of the explanatory factors on corporate disclosure using the two model selection procedures. Model 1 uses the enter selection procedure while models 2 and 3 use the stepwise selection procedures with each of them including only one cultural dimension.

Model 1. $TD_i = \alpha + \beta_1 FLEX_i + \beta_2 CONT_i + \beta_3 MULT_i + \beta_4 LEV_i + \beta_5 AGE_i + \beta_6 PROF_i + \beta_7 LIQD_i + \beta_8 IND_i + \beta_9 LNSALES_i + \beta_{10} LNSHRS_i + \varepsilon_i$

Model 2. $TD_i = \alpha + \beta_1 FLEX_i + \beta_3 MULT_i + \beta_4 LEV_i + \beta_5 AGE_i + \beta_6 PROF_i + \beta_7 LIQD_i + \beta_8 IND_i + \beta_9 LNSALES_i + \beta_{10} LNSHRS_i + \varepsilon_i$

Model 3. $TD_i = \alpha + \beta_2 CONT_i + \beta_3 MULT_i + \beta_4 LEV_i + \beta_5 AGE_i + \beta_6 PROF_i + \beta_7 LIQD_i + \beta_8 IND_i + \beta_9 LNSALES_i + \beta_{10} LNSHRS_i + \varepsilon_i$

where *i* represents company *i*, TD_i represents total disclosure, $FLEX_i$ is the flexibility value, $CONT_i$ is the control value, $MULT_i$ is multinationality, LEV_i is the leverage, AGE_i is age, $PROF_i$ denotes profitability, $LIQD_i$ is the liquidity, IND_i represents industry type, $LNSALES_i$ denotes size, and $LNSHRS_i$ represents shareholders.

Results and Discussion

Descriptive Statistics

The descriptive statistics table (Table 2) presents statistics for both the dependent and explanatory variables employed in the study. These findings reveal that companies listed on the Helsinki Stock Exchange disclose large amounts of voluntary information (mean of 47.44) in their annual reports. These findings are in comparison with earlier studies like Depoers (2000) who obtained a mean of 29.02 and Chau & Gray (2002) who obtained means of 12.23 for Hong Kong and13.83 for Singapore respectively.

Correlation

Table 3 presents the correlation matrix of the dependent and independent variables used in the empirical test. The correlations between the dependent and independent variables are as predicted for example, corporate disclosure level is positively correlated with corporate size as measured by logarithm sales turnover, multinationality, leverage, profitability, logarithm of shareholders and industry type and significantly negatively correlated with liquidity. The results also reveal that age is not correlated to corporate disclosure. Further, these results show that corporate disclosure is significantly correlated with corporate culture as reflected by the positive and negative relationships between flexibility and control values respectively. The correlation results show that collinearity is evident between the explanatory variables associated with the organizational culture dimensions.

Table 1 Operational definitions of variables.			
Notation	**Variable investigated**	**Measurement**	**Expected sign**
Dependent variable			
TD	Total Disclosure score	Number of items disclosed in the annual report.	
Independent variablesCorporate culture			
FLEX	Flexibility values	Group + Developmental Organizational cultures	(+)
CONT	Control Values	Rational + Hierarchical Organizational cultures	(–)
Corporate characteristics			
LNSALES	Sales turnover	Logarithm of sales/turnover	(+)
MULT	Multinationality	Foreign sales ratio	(+)
LEV	Leverage	Equity/Total assets ratio	(+)
AGE	Company Age	Number of years in operation	(+)
PROF	Profitability	Return on invested capital	(+)
LNSHRS	Corporate ownership	Logarithm of shareholder	(+)
LIQD	Liquidity	Quick ratio	(–)
IND	Industry	1 if manufacturing and 0 otherwise	(+)

Table 2 Descriptive Statistics of variables.			
	N	**Mean**	**Std. Deviation**
TD	50	47.440	9.807
FLEX	50	47.010	20.130
CONT	50	52.465	20.406
MULT	50	0.659	0.293
LEV	50	46.196	49.251
AGE	50	60.550	45.862
PROF	50	10.443	72.861
LIQD	50	1.447	1.447
IND	50	0.180	0.388
LNSALES	50	19.543	2.142
LNSHRS	50	8.560	1.303

Regression Tests

Table 4 reports regression results of independent and dependent variables used in the study. Panel A of Table 4 reports regression results from the enter procedure (model 1. which includes all independent variables of the study). The results indicate that the model is significant at 0.003 with an R2 = 0.461. The results in this table however reveal that despite the significance of the model, non of the independent variables dominate the effect on disclosure as depicted by the significance values all above the three significance levels of 1%, 5% and 10%. This table also proves multicollinearity between the cultural dimension variables highlighted by the correlation matrix. A serious multicollinearity problem exists between these two variables as shown by the very large values of Variance of Inflation Factors (VIF) which are 81.088 for the flexibility values and 83.088 for the control values.

In the first regression (Table 4 Panel B), all variables of the study are included except the control values variable (CONT). When all other independent variables except CONT are examined together, the results show that the regression model is significant (at 1% level with an R2 = 0.370) with only Flexibility values (FLEX), size (LNSALES) and multinationality (MULT) variables dominating the regression and therefore having a significant impact on the extent of disclosure. The results of the VIF also indicate that there are no collinearity problems in this model. It is also observed that the effect of all other variables except for those entered into the model disappears simultaneously. The first variable entered into the stepwise regression procedure is the flexibility values variable which explains corporate voluntary disclosure by 24% and significant at 0.002. The second variable entered into the regression is the size variable significant at 0.059 and which when added results into an increase of the R2 to 0.33. The last variable entered into this regression is multinationality (significant at 0.093) which when added to the first two variables entered into the

Table 3
Correlations Matrix of Variables.

	FLEX	CONT	LNSALES	MULT	LEV	AGE	PROF	LNSHRS	LIQD	IND
TD	0.49**	-0.51**	0.44**	0.28*	0.28*	0.08	0.30*	0.29*	-0.28*	0.32*
FLEX	1.00	-0.99**	0.32*	0.001	0.17	0.15	0.04	0.18	-0.26	0.27
CONT		1.00	-0.33*	-0.09	-0.17	-0.13	-0.03	-0.19	0.27	-0.29*
LNSALES			1.00	0.28	0.22	0.36*	0.38**	0.56**	-0.55*	0.14
MULT				1.00	0.29*	0.05	0.18	0.28	0.016	0.21
LEV					1.00	0.04	0.82**	0.04	0.00	0.07
AGE						1.00	0.19	0.21	-0.22	0.19
PROF							1.00	0.06	-0.22	0.05
LNSHRS								1.00	-0.12	0.04
LIQD									1.00	-0.10
IND										1.00

** and * represent 1% and 5% significance level respectively.

regression results into an increase of the R2 to 0.370. It is therefore observed from this regression that these three variables (flexibility values, size and multinationality) explain 37% of corporate voluntary disclosure but with flexibility values having the most influence of 24%. These findings on disclosure are comparable to earlier studies like Raffounier (1995) who applied the stepwise method in his study and found that the same variables (size and multinationality) had an influence on disclosure.

In the second stepwise regression presented in Table 4 Panel C, all variables except flexibility values were added to the model. The results report that the model is significant at a 1% level with an R2 = 0.391 and with no collinearity problems. In this regression, apart from multinationality (which is significant at the 10% level) also entered in the panel B regression, the control value (CONT) and profitability (PROF) variables are the only variables entered into the regression. The control value variable dominates this model with an R2 = 0.258 and significant at the 1% level. An addition of profitability (significant at the 5% level) to the model creates an increase in the R2 by about 10% to 0.391.

Table 4—Panel A.
Regression results based on the enter method

R^2: 0.461
Adjusted R^2: 0.323
F-value: 3.341
Sig.: 0.003

Variables in equation	Regression coefficient	t	Sig.	VIF
(Constant)	67.02	1.20	0.24	
FLEX	-0.24	-0.47	0.64	81.09
CONT	-0.45	-0.87	0.39	83.09
MULT	5.51	1.19	0.24	1.39
LEV	-0.03	-0.67	0.51	4.67
AGE	-0.03	-1.04	0.30	1.26
PROF	0.05	1.47	0.15	4.72
LIQD	-0.31	-0.29	0.77	1.78
IND	4.09	1.24	0.22	1.24
LNSALES	0.31	0.34	0.74	2.86
LNSHRS	0.94	0.81	0.43	1.76

These results show that a number of variables are significant in explaining corporate disclosures. Companies operating under cultures with flexibility values ($p<.05$) disclose more information while those companies operating under cultures related to control values ($p<.01$) disclose less information in their annual reports. The positive association between flexibility values and corporate disclosure is certainly as a result that these companies openness and free flow nature of information. Contrary, the negative association related to control values is probably as a result of the restrictive and highly structured flow of information. The two hypotheses on culture based on the results of the study are therefore supported.

As hypothesized in H2a, company size has a positive significant relationship with the extent of disclosure. This hypothesis is supported at $p<.1$. Companies that are larger in size as measured by sales turnover disclose more information compared to smaller companies. This positive relationship is consistent with prior studies (see, e.g. Owusu-Ansha 1998; Wallace et al. 1995 and Lang et al. 1993).

Table 4—Panel B.
Results based on the stepwise method with all variables except CONT.

	Regression coefficient	t	Sig.	VIF
Results from and variables entered in step 1.				
R^2: 0.240 Adjusted R^2: 0.224 F-value: 15.177 Sig.: 0.000				
Constant	36.21	11.57	0.00	
FLEX	0.24	3.90	0.00	1.00
Results and variables entered in step 2				
R^2: 0.330 Adjusted R^2: 0.301 F-value: 11.550 Sig.: 0.000				
Constant	10.32	0.96	0.34	
FLEX	0.19	3.10	0.003	1.11
LNSALES	1.44	2.50	0.02	1.11
Results and variables entered in step 3				
R^2: 0.370 Adjusted R^2: 0.329 F-value: 8.999 Sig.: 0.000				
Constant	11.03	1.05	0.30	
FLEX	0.20	3.31	0.002	1.12
LNSALES	1.15	1.94	0.06	1.22
MULT	7.03	1.72	0.09	1.09
Variables excluded from equation				
LEV		0.86	0.40	1.14
AGE		-0.75	0.46	1.15
PROF		1.50	0.14	1.18
LIQD		-0.45	0.66	1.50
IND		1.143	0.26	1.13
LNSHRS		0.29	0.84	1.48

Table 4—Panel C
Results based on the stepwise method with all variables except FLEX.

	Regression coefficient	t	Sig.	VIF
Results and variables entered in step 1				
R^2: 0.258 Adjusted R^2: 243 F-value: 16.725 Sig.: 0.000				
Constant	60.26	17.94	0.00	
CONT	-0.24	-4.09	0.00	1.00
Results and variables entered in step 2.				
R^2: 0.342 Adjusted R^2: 0.314 F-value: 12.210 Sig.: 0.000				
Constant	59.60	18.58	0.00	
CONT	-0.24	-4.21	0.00	1.00
PROF	0.04	2.44	0.02	1.00
Results and variables entered in step 3				
R^2: 0.391 Adjusted R^2: 0.351 F-value: 9.841 Sig.: 0.000				
Constant	54.63	13.48	0.00	
CONT	-0.24	-4.21	0.00	1.00
PROF	0.03	2.12	0.04	1.04
MULT	7.54	1.92	0.06	1.04
Variables excluded from equation				
LEV		-1.20	0.24	3.48
AGE		-0.41	0.68	1.06
LIQD		-0.92	0.36	1.14
IND		1.08	0.29	1.14
LNSALES		1.21	0.23	1.41
LNSHRS		1.10	0.28	1.13

Similarly, the multinationality of a company is also found to be significant and positively related to corporate disclosure and thus providing support for H2e. Hence companies with a more multinational affiliation disclose more information in their annual reports. This result is consistent with prior studies like Depoers (2000) and Raffournier (1995). Hypothesis H2b is also supported by the results from the study. It is there evident that companies with higher profits disclose more information than those with lower profits.

From the results, it is reported that other variables like leverage, age, profitability, liquidity, industry and shareholders are not significant and therefore hypotheses H2c, H2d, H2f, H2g and H2h are not supported. Some of these results are consistent with earlier studies like Depoers (2000), Raffournier (1995) and Chow (1987) who found leverage to be an insignificant attribute to corporate voluntary disclosure, Patton & Zalenka (1997) found no significant relationship between industry type and disclosure.

Conclusions

This study investigates the effect of corporate culture in addition to company characteristics on corporate voluntary disclosures made by companies listed on the stock exchange. The first contribution made by this study is that it has modeled corporate disclosure as a function of corporate culture and therefore making corporate culture one of the important attribute influencing corporate disclosures. This is evident in the results obtained in the stepwise regressions from which the corporate culture dimensions are very important attributes as shown by there contribution to the R2 values of both models.

It is found that disclosure is significantly related to corporate culture, size, profitability, multinationality and corporate culture. Inversely there has been no significant relationship realized for other company characteristics like age, liquidity, leverage, shareholders and industry. Based on the R2 results obtained from the regressions, it is evident that there are other factors influencing corporate disclosure other than the ones employed in this study.

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Global Nonprofit Brands with Local Missions: The YMCA Across Three Countries

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ABSTRACT

Brand models developed for both the for-profit and nonprofit (NPO) sectors are utilized to examine a prominent, international NPO. Through interviews with the organization's managers and careful review of its electronic marketing communications the authors evaluate fundamental branding issues such as brand identity, personality and mission. Managerial challenges in the development of a global NPO brand and opportunities to strengthen the models intended to guide international branding activities are identified.

Introduction

Marketing literature contains numerous studies regarding the importance of global branding in the corporate domain (Aaker & Joachimsthaler, 1999; Batra, Ramaswamy, Alden, Steenkamp, & Ramachander, 2000; Blattberg, Buesing, & Sen, 1980; Hsieh, 2002; Quelch, 2003; Raman, 2003; Roth, 1995). The conclusions drawn in these articles form the premise that multinational corporations (MNCs) face choices and trade-offs between standardizing their brands for the benefit of scale economies and customizing their organizational image to fit local needs for the benefit of maximum effect. Fewer studies exist, however, on global branding for nonprofit organizations- NPOs (Laidler-Kylander, Quelch, & Simonin, 2007; Saxton, 1994; Tapp, 1996). The present manuscript applies research from the branding, global marketing, and nonprofit domains to analyze the application of branding principles across three national locations of one international NPO. Through this application we hope to provide feedback on the models with the intent of strengthening them relative to branding of international NPOs and the execution of organizational missions. The research is also designed to answer the following research propositions: Do large, international NPOs face a similar trade-off in standardization vs. customization of the brand? Does the transfer of branding principles to the context of an international NPO change the use or understanding of brand models?

We begin the investigation with a literature review, followed by a discussion of the standardization vs. localization decision faced by managers of global organizations. These concepts are then applied to a focal organization, the YMCA (Young Men's Christian Association), in three national locations. We conclude with a discussion of the paper's findings, limitations, and opportunities for future research. The paper contributes to the NPO branding research stream by investigating the applicability of established branding models relative to the subject organization in particular and international NPOs in general.

Literature Review

Global Branding

While the nuances of brands and brandings fill numerous manuscripts and books, there exists a generally accepted definition of a brand as a name, symbol, logo, personality, or promise that distinguishes one organization's offering from others and has the potential to add financial as well as customer-relevant value to the offering (Aaker, 1996). Applying this definition to the global environment, Aaker and Joachimsthaler (1999) define global brands as those whose positioning, communications strategy, personality, look, and emotional appeal are analogous across national boundaries.

Interbrand (Swystun 2005) concludes that taking a brand global should be based on strategic opportunities such as size and attractiveness of market, commoditization of the brand in the domestic market, economies of scale potential, profit margins and incentives, opportunities to capture share of mind, and prospects to increase innovation. As with most opportunities, global branding risks also exist. The most persistent risks include message confusion from different communication strategies or cultural meanings, over-simplification of brand, improper communication channel selection leading to poor budgeting and image, inconsistent internal expectations for the brand, and inadequate coordination of performance metrics with local demands (Aaker & Joachimsthaler, 1999; Swystun, 2005).

Organizations that minimize global branding risks through proactive global brand management find rewards of strong brand awareness, communication consistency, customer-value added through a meaningful emotional promise, market distinctiveness, increased leverage with channel partners, improved alignment across the organization, and adaptability to an ever changing market place (Barron & Hollingshead, 2004; Swystun, 2005). These outcomes generally result in increased profits and decreased per-unit marketing costs, the ultimate benefits for many stakeholders.

Nonprofit Branding

Several studies point to the global power of nonprofit organizations' brands (Laidler-Kylander et al., 2007; Quelch, Austin, & Laidler-Kylander, 2004; Ritchie, Swami, & Weinberg, 1999; Wootliff & Deri, 2001). DiMaggio and Anheiner (1990) emphasize that nonprofit organizations are neither homogeneous, nor categorized with the simplicity of industry codes. They further suggest that NPOs are a function of legal definitions, cultural connotations, and governmental policies, which necessitate caution when investigating the nonprofit sector as well as its marketing and branding strategies (DiMaggio & Anheiner, 1990). The highly-politicized restructuring of relationships among government, NPOs, and commercial enterprises pressures nonprofits to become more visible, efficient and accountable to numerous constituencies (Csaba, 2005). At the same time, NPOs need to recruit members, raise their public profiles, and attract attention in an increasingly fragmented media landscape. These demands make branding particularly appealing to the nonprofit sector.

In all contexts, branding implies increased emphasis on differentiation from competitors and development of unique positioning in the minds of donors and other stakeholders. Successful branding strategies in NPOs can refocus efforts from individual campaigns and fundraising drives to a concentrated effort to establish what the organization stands for over time. Such long-term orientation moves the NPO away from transactional donations to relationship building, thus enabling the brand to become an asset for the NPO, which can be leveraged for further benefit (Csaba, 2005). Maintaining the integrity inherent in an organization's 'nonprofit-ness' can be difficult, however, when branding – usually associated with for-profit endeavors – brings tensions between altruism, volunteerism, and grass-roots action (Hankinson, 2002). Nonprofit branding is much more complex than corporate branding. Nonprofit organizations "do not have customers; instead they have target audiences, a diffuse and more complicated group of people they need to reach" (Hall, 2006, p. 2). Furthermore, the budget with which to achieve their often auspicious goals is miniscule in comparison to corporate brand budgets.

The complications surrounding nonprofit branding are further exacerbated when the scale is global. Quelch and Laidler-Kylander (2006) assert that characteristics of strong global NPO brands include: (1) strength in domestic market with worldwide awareness, (2) consistent global positioning and focus, (3) emotional appeals based on universally shared values, (4) leaders that understand their temporary status as brand stewards, (5) leaders with high standards of integrity who increase stakeholders' expectations for all NPO activity, (6) worldwide operations and a brand that embody the mission, not the founder or funders. They also reiterate the challenges of global branding for NPOs, including the focus on mission vs. profit; increased diversity of stakeholders, and norms restricting aggressive competition for funds.

Recent attempts to quantify brand value (Quelch et al., 2004) and brand orientation (Ewing & Napoli, 2005) of NPOs have proven useful for NPO management and show the important link between branding activities and overall performance of NPOs. An investigation of brand personality's role in charitable giving further demonstrated the importance of branding as a method of differentiating among multiple NPOs in the marketplace and the potential positive influence on NPO donations (Venable, Rose, Bush, & Gilbert, 2005).

Thus the literature on global branding in the NPO domain is in agreement on the importance of branding for NPOs, the difficulties inherent in branding NPOs, the importance of measuring brand components as well as mission accomplishment, and the potential for positive performance outcomes for NPOs resulting from application of branding.

Local Adaptation vs. Standardization

Globalization brings pressure for change to governments, corporations, and NPOs. Both MNCs and NPOs must develop strategies that balance the advantages of scale economies gained from standardization across national boundaries with the need to customize offerings for various nations and local constituents/consumers. Pressures for local responsiveness arise from differences in physical and communication infrastructures, target market needs, as well as traditions and cultural norms (Bartlet & Ghoshal, 1991; Clark, 1990; Jain, 1989). Corporations exhibit no consistent strategy on brand standardization though some conclude that the focal point of the standardization (e.g., corporate brand vs. product brand) varies by national culture (Han & Schmitt, 1997). Historically, NPOs evolve in response to local community needs, yet global trends challenge all nonprofit organizations to rethink their mandate, mission and strategies (Edwards, Hulme, & Wallace, 1999, p. 134).

Methodology and Subject NPO: YMCA

The primary objective of this paper is to apply branding models under qualitatively different situations and thus provide feedback on the models with the intent of strengthening them relative to branding of international NPOs and the execution of organizational missions. To accomplish this, we apply recent branding models to a focal organization: the YMCA.

The present manuscript gathers much of the data for analysis through the organizations' websites. The three authors individually applied the models to the web-based information and met to discuss differences in opinion and arrive at consensus. Additionally, the direct involvement of the authors with the nonprofit community (as researchers, donors, users, consultants, and volunteers) in several states and countries provides a realistic base from which to corroborate interpretations and conclusions.

While the website is only one viewpoint on the organization, research suggests online presence is an important signal and tool used by stakeholders to draw conclusions about both for-profit (Edelman, 2007) and nonprofit (Long & Chiagouris, 2006) entities. Additionally, such research is rendered more feasible by the vast information available on most organizations' websites. Duriau, Reger, and Pfarrer (2007) note that establishments utilize websites to communicate with a variety of stakeholders, presenting substantial information about their values and organizational identity for researchers to scrutinize.

To ascertain the usefulness of this application of branding models to NPO managers/leaders and the focal organization (the YMCA) three semi-structured interviews were conducted with three experienced NPO managers. The first interview was with a subject expert in NPO management and training from a college-based Philanthropy and Nonprofit Leadership Center. This person has more than 15 years experience leading and managing NPOs of various types prior to her current position as Center Director. The second interview was with two YMCA leaders, a Regional President/CEO and a Vice President of Marketing & Communication located in the USA. The third interview was conducted in the UK with an Assistant Chief Executive Officer/Chief Operating Officer of a large regional YMCA.

In the interview with the subject expert, the conversation centered on two general concerns: Why is there a need for theoretical development in the area on nonprofit branding, particularly as it applies to global NPOs that face local mission demands? How would such a review help NPO leaders? When interviewing the YMCA executives, a set of broad questions on branding and communication was used to guide the discussion on the YMCA's mission, vision, branding, and the tensions between belonging to a global organization with specific, local needs.

Subject NPO: YMCA

Founded in 1844 in London, the YMCA immediately extended its reach to include Switzerland, USA, France, Canada, Germany, and the Netherlands. The organization is self-described as "a world-wide Christian, ecumenical, voluntary movement for women and men with special emphasis on, and the genuine involvement of, young people, which seeks to share the Christian ideal of building a human community of justice with love, peace and reconciliation for the fullness of life for all creation" (http://www.ymca.int/index.php?id=16). The YMCA has a long and successful history as a global NPO. This global entity has benefited from strong brand recognition and therefore makes a suitable choice for examination.

The World Alliance of YMCA

The World Alliance was established in 1855 as a central governing body for the YMCA and has grown to include local councils in over 124 nations (http://www.ymca.int/index.php?id=15). The original mission statement of the YMCA was developed at the 1855 Paris convention and subsequently revisited in 1973 and 1998. These directives as well as other centralized activities place the World Alliance at the core of the YMCA movement.

The far reaching influence of the YMCA is evident in their global coverage. From the battery of affiliates, three particular communities were chosen for scrutiny in this research: the Greater Cincinnati Area in the United States, the Federal District of Mexico (including Mexico City) and the Greater Nottinghamshire area in the United Kingdom. These affiliates were selected as a way to showcase the YMCA from different national culture and economic viewpoints. Each affiliate is different in terms of their national physical and communication infrastructures, target market needs, as well as traditions and cultural norms (Bartlet & Ghoshal, 1991; Clark, 1990; Jain, 1989).

Greater Cincinnati YMCA

There are currently 2,663 YMCA clubs in the U.S. that serve over 20 million people annually. Almost sixty percent of these establishments are located in communities where the median family income is below the national average. This holds true in Greater Cincinnati where the median household income is $36,672 versus the national average of $48,201 (http://www.census.gov/prod/2007pubs/p60-233.pdf).

Children and families are the two primary constituent groups targeted by the YMCA Cincinnati affiliate. Their mission places great emphasis on developing the character of kids, families and communities. Program diversity at the Cincinnati Area YMCAs includes child development, sports, wilderness camps, as well as health and fitness. The Cincinnati Area YMCA extends its reach through relationships with a variety of local social service organizations with similar missions.

Federal District of Mexico YMCA

The YMCA Mexico City is one of nine YMCA associations in the country and is the most southern of the locations. Officially, the nine organizations are joined in the Federación de ACJ de la República Mexicana, A.C. (ACJ Federation of the Mexican Republic). With an annual budget of over $15 million, the YMCA Mexico City is one of the oldest and largest YMCAs in Latin America and has been cited as one of the top three successfully managed international affiliates.

Exemplary leadership and vision has allowed this particular site to continuously grow and expand its focus. Direct involvement in a broad spectrum of local concerns—education, health, social wellbeing, family welfare, diversity, respect for individual differences, and equality for all ages—has allowed this affiliate to be at the forefront of addressing community needs. Specifically, the overall wellbeing of children, youth, and adults is a primary focus of the YMCA Mexico City. A myriad of programs are conducted at their three Sports Centers, five Community Action and Education Centers, Camp Camohmila (a residential camp for children, youth, and families located 90km from Mexico City), Special Education Center (Centro Santa Rosa), as well as homes for Young Scholarship Recipients (Casa Hogar) and for Youth Migrants.

Greater Nottinghamshire YMCA

Over 140 YMCA organizations exist within the UK, influencing more than 250 communities through affiliations and networked facilities. The Nottingham organization emphasizes "Helping young people build a future" (www.ymca.org.uk) by providing housing, health and fitness, as well as vocational skills training. While touching the lives of over 1 million young people, the Nottinghamshire YMCA places importance on creating a path that assists youth to build a better future. The YMCA of England's vision is prominently displayed on their websites as: "an inclusive Christian Movement, transforming communities so that all young people truly belong, contribute, and thrive" (http://www.ymca.org.uk/bfora/systems/xmlviewer/default.asp?arg=DS_YMCA_ABOUTART_19/_page.xsl/7). In order to accomplish this vision, the YMCA of England offers integrated services in many areas including: 1) Housing and Homelessness; 2) Sport, Health, Exercise and Fitness; 3) Crime and Safety; 4) Education and Skills; 5)

Money and Work; 6) Citizenship and Personal Development; and 7) Parenting and Family.

Application of Brand Models to the YMCA

Several models from the extant literature are used to analyze the subject international NPO, its brand, and the operationalization of branding strategies on the local level. The framework for this analysis is based on the following models (1) successful brand building (Aaker 1996), (2) measurement of brand personality (Venable et al., 2005), (3) guide for understanding the role of an NPO Brand (Laidler-Kylander et al., 2007), and (4) the parameters established for determining the need for local adaptation vs. standardization of brand strategies (Edwards et al., 1999; Hill, 2001).

Brand Identity and Personality

From a theoretical perspective Aaker (1996) establishes that successful brands are built through the careful development of brand identity and successful expression of the established identity. Thus successful brands identify how key constituencies perceive the brand as well as what core values and human characteristics a brand represents. In this regard, Venable et al., (2005) identified integrity, nurturance, ruggedness, and sophistication as meaningful attributes when describing NPO brand personality or identity. A description of each of these dimensions and their application to the focal NPO is provided in Table 1.

As the governing body of the global organization, the YMCA World Alliance is responsible for the establishment and control of the brand's image. The YMCA brand management method mirrors brand strategies recommended to for-profit organizations, and includes many of the pitfalls found there (Barron & Hollingshead, 2004). During the interview with the YMCA Regional President/CEO and Vice President of Marketing & Communication, reference was made to the YMCA 'brand book' (a copy of the book was given to the authors). The book explains rules of ad copy and iconography for all YMCA local affiliates. The YMCA leaders exhibited the same attitude (and probably behaviors) as Barron and Hollingshead (2004) suggest for-profit managers have when they "invariably choose what they want to use from the brand book and ignore the rest. [And] when the central organization pushes for greater adherence, the country managers respond with a classic refrain: 'But our market is different'!" In fact, the YMCA President stated "this book is more of a guideline than a rule, and besides, I report to a local board of directors, not the World Alliance." Thus one may anticipate observing differences between the central body of the YMCA and its affiliates in terms of brand identity and personality. To delve further into this issue, the discussion that follows reflects an analysis of how key branding variables are represented on the websites of the YMCA's governing organization and three affiliate sites.

The YMCA World Alliance

In general, the World Alliance places strong emphasis on nurturance through the use of words such as "human community, justice, building, love, well-being, renewal and fostering." A secondary focus is placed on integrity through the mention of the "socially relevant, honest, long-lasting, global and equitable" goals of the organization. Only one statement, rooted in their Christians ethos, can be classified under ruggedness, and no expression of sophistication is apparent from the World Alliance mission discussion. Perhaps the omission of this particular dimension, whether conscious or accidental, is reflective of the point made by the expert on NPO management and training who stated "many NPOs believe they have a captive audience and do not need sophisticated marketing and customer relationship skills to help clients." This might be especially true for NPO global governing organizations where routine interaction with the actual constituents served is minimal compared to what is required of its local affiliates.

Yet, this same expert did acknowledge the challenge of effectively positioning an NPO given the "difference between this user, stakeholder and another very critical partner, the donor." While the recipient of the NPO services may be a captive audience and may not need to be courted in a sophisticated manner, donors have countless opportunities for charitable giving and may well be swayed by the glamour, sophistication and status of an NPO brand. In summary, the YMCA World Alliance attempts to gain distinction as a brand that operates with the highest degree of integrity and nurtures those in need.

Nottinghamshire YMCA

To determine the degree to which the brand identity expressed by the YMCA World Alliance is standardized (or adapted) across international borders, the same analytical process was applied to the three community YMCAs. Of the three profiled locations, the mission of the Nottinghamshire, England affiliate proves to be very similar to that of the World Alliance. This UK-based partner, like its global leader, emphasizes *nurtur-*

TABLE 1
YMCA BRAND PERSONALITY (Venable et.al., 2005) BY LOCATION

Brand Personality	World Alliance	Greater Cincinnati	Mexico City	Nottinghamshire
Integrity: reputable, reliable, committed to public good, honest, positive influence	• Basis of mission the same since 1855 • World-wide • Socially relevant • Working to make an equitable society	• 20 locations, affiliated with National • 150 years of service to children, families, and community • Proud in the character and culture that help to define the *MY Y* community	• 1 of 9 locations in country • Founded in 1844 • One of most prestigious service organizations in MX	• Founded 1871 • 1 of over 140 clubs in the country • Core values of "honesty, respect & responsibility" • Changing people's lives
Nurturance: compassionate, caring, loving	• Building a human community of justice with love… • Spiritual intellectual and physical well-being • Empowering all • Promoting cultural renewal • Fostering dialogue and partnership • Seeking to be reconcilers and mediators	• Build healthy spirit/mind/body for all • Build character 1 kid at a time • Provides a safe and enriching environment	• Build healthy spirit/mind/body for all • Voluntary Org. • Focus on well-being of many groups	• Helping young people build a future • Helping all young people…in times of need. • Transforming communities so that all young people truly belong, contribute and thrive • Core value of "caring" • Development of individuals
Ruggedness: tough, masculine, outdoor, western	• Defending God's creation against all that would destroy it	• "for over 150 years…committed to developing character…" • "we build strong kids, strong families, and strong communities"	• Among the three strongest internationally in terms of leadership, vision, and financial management • Desire to "grow and expand the movement" • "We remain true to the complete development of our heritage as well as the material and financial resources needed by the institution"	• Provide housing (masculine)
Sophistication: good-looking, glamorous, upper class		• "coordinating resources across 20 different sites to meet the diverse community needs"	• One of most prestigious service organizations in MX • Budget of >$15m • Assets of >$40m • Involvement in diverse areas	• Offer high quality services across seven integrated areas

ance and *integrity*, while minimizing their attention on *ruggedness* and *sophistication*. The Nottinghamshire YMCA plays an integral role in transforming their communities and addresses local concerns related to the prevention of youth crimes and challenging youth to be more involved with social issues. These actions first and foremost accentuate nurturance.

Greater Cincinnati and Mexico City YMCAs

The remaining two locales' websites underscore long histories of service and good standing within their respective communities as evidence of integrity. While these sites are similar to the World Alliance in this dimension, they are very different on the dimensions of nurturance, ruggedness, and sophistication. Neither Cincinnati nor Mexico City highlights the nurturing trait to the extent that the global mission statement does, and each features ruggedness more prominently than the World Alliance.

Another notable contrast is the attention paid by these two local affiliates to the construct of sophistication. By focusing on the entire community served rather than just the youth segment, the Cincinnati YMCA elevates its status as a local provider of programs deemed key to the successful development of the overall Greater Cincinnati area. By focusing on macro-level community needs, the organization becomes a sophisticated partner with city officials and gains credibility with the general Greater Cincinnati populous. The tagline designed to communicate this innovative community partnership: "My Y Community" is prominently displayed as a choice of headers on the Cincinnati home page. Links to community resources and activities associated with each of the twenty locations are also provided.

Mexico City YMCA's website highlights their involvement in a wide range of programs. Logos for assets such as the YMCA University, educational centers, and housing facilities are prominently displayed and seem to be explicit attempts at positioning this affiliate as prestigious and 'good looking' in order to enhance the sophistication of the clubs' brand image. The recent establishment of the YMCA University and its mission: "to provide high quality education, promoting the research and diffusion of culture for the good of Mexican society" (http://www.uniymca.edu.mx/paginas/mision.html) clearly positions the YMCA Mexico City brand as an advanced, sophisticated organization that is reliable and reputable (i.e., has integrity). Finally, the prominent placement of the international relations link on the Mexico City YMCA homepage emphasizes the reach of the Mexico City YMCA beyond the nation's borders to a more cosmopolitan world.

In conclusion, the Nottinghamshire site appears to share more brand personality elements with the parent organization, World Alliance, than it does with its Greater Cincinnati and Mexico City siblings. Both the World Alliance and its UK offspring use words to emphasize their caring, compassionate and loving nature while accentuating the integrity of their long-standing reputation and reliability. The North American siblings underscore many of the same qualities of reliability and sound reputation (i.e., integrity) but de-emphasize the compassion, caring, and loving characteristics. In human terms, Mexico City and Cincinnati place more importance on facilities and assets as a means of projecting a tough, masculine organization operating with integrity in a sophisticated manner.

Building the Global NPO Brand

Laidler-Kylander et al., (2007) note that establishing and controlling elements of brand identity such as logo and slogan usage are critical to the building and protection of a strong brand but often prove to be difficult for a global NPO. Careful cross-case comparison of each YMCA website as well as comments made during the interview with YMCA local leaders provides support for this assertion. A distinctly different logo is used by each of the four affiliates. The stated missions, slogans and taglines of the four entities do not contradict, but branding adaptation is clearly more important than standardization. Only the reference to Christianity is consistent, and even this appears in just three of the four mission statements (See Table 2). Every location shares some common elements with at least one other, but no unifying principle or brand identity is consistently present in all four mission statements, logos, or slogans.

In the standardization versus local adaptation argument, Laidler-Kylander et al., (2007) suggest that many elements of NPO brand communication must be adapted to the needs and demands of the local community. Protection must be granted, however, to the presentation of the fundamental elements of the brand (e.g., logo, name, and positioning) as reflected in taglines and slogans. The YMCA reflects the difficulty global NPOs may have in abiding by this guidance.

Brand terminology employed by each affiliate has three major roles in relation to branding (Laidler-Kylander et al., 2007). First, the brand must reflect the mission of the organization (Aaker, 1996; Venable et al., 2005). Second, brand terms should facilitate trust building be-

TABLE 2
YMCA LOGO, MISSION, TAG LINE COMPARISON

	Logo Use	Mission Statement	Featured Tag Line
World Alliance [1]		The World Alliance of YMCAs (Young Men Christian Association) is a federation of YMCAs in 124 countries with a membership of over 45 million. YMCAs seek to share the Christian ideal of building a human community of peace with justice for all, irrespective of race, class, religion, or gender. Formed in 1844, the YMCA is one of the largest and oldest youth movements in the world.	none
Greater Cincinnati [2]		To put Christian principles into practice through programs that build healthy mind, body and spirit for all.	At the YMCA we build character....one kid at a time. For over 150 years, the YMCA has been committed to building character in children, families and the community.”
Mexico City [3]		OUR MISSION IS TO EFFICIENTLY SERVE individuals, families, and the COMMUNITY for the harmonious integration of mind, body, and spirit. We accomplish this by fostering programs creative in method but traditional in their values, with the ultimate goal of promoting volunteers and professionals in a secular movement to sustain the guiding principle: FOR ALL TO BE ONE (united). We remain true to the complete development of our heritage, in recognition of our skills, aptitudes and experiences, as well as the material and financial resources needed by the institution.	none
Nottingham-shire [4]		We aim to provide quality services and facilities in a Christian environment which promotes the development of individuals. Four core values: caring, honesty, respect, responsibility	“Changing People’s Lives”

Sources:

1. http://www.ymca.int/
2. http://www.cincinnatiymca.org/community/index.shtml
3. http://www.ymca.org.mx/
4. http://www.nottsymca.com/index.htm

tween the NPO and current as well as potential donors and users. Third, while accomplishing the two objectives above, the brand terms must also effectively address a broader brand audience that includes employees, volunteers, and potential collaborators.

Reflecting the Mission

Mission underscores the essence of the NPO proposition or the core benefit offered to stakeholders. When this mission/core benefit is clearly expressed in brand terms and symbols that are salient for donor groups, trust in the cause and loyalty to the brand are earned. If the organization effectively executes the mission and delivers promised services, trust is built between the NPO and the recipient users as well. Based on interview comments from local YMCA leaders, "the mission relevance to the local community and recipients of YMCA services trumps the need for consistency with the global brand identity." The resulting discrepancies in the actual mission statements were discussed earlier in the manuscript and are clearly illustrated in Table 2, Column 3. The evident localization of brand terminology (e.g., logos, slogans) may address local interpretation of the mission but obviously do not build a unified message. Thus the YMCA as a global entity faces the challenge of remaining relevant to its constituencies without diluting or confusing the core message. This case exemplifies the complexity of adhering to one critical element of effective brand building: successful, consistent expression of the brand identity (Aaker, 1996).

Building Trust with Users and Donors

The attempt to gain confidence with and remain relevant to a variety of constituents is even more challenging when the brand name itself, YMCA (Young Men's Christian Association), does not fully reflect the overall essence of the organization's work. Failure to adequately address this notion could impede the development of trust and subsequent relationships with potential contributors and clients. In fact, Nottingham YMCA felt it necessary to explain in detail, after the website's presentation of their mission statement, that their programs weren't exclusive to Young ("we pretty much work with all age groups"), Men ("we are open to all") and Christians ("we work with people from all faiths (and none)" (http://www.nottsymca.com/green_index.htm).

The Greater Cincinnati YMCA handles the connection between building trust and possible organizational name ambiguity by minimizing references to its Christian roots. While this location carries the same mission, "To put Christian principles into practice through programs…," this statement is easily overlooked on the Cincinnati site. Instead, the Greater Cincinnati YMCA focuses attention on logos for programs deemed important to their communities that coincide with the "diversity, culture and character that defines the My Y Community." Again, brand adaptation to increase trust and relevance in the local affiliate seems evident.

With a ninety percent Roman Catholic population, (http://www.inegi.gob.mx) one would expect the Mexico City YMCA to reference its Christian roots on its homepage, but none exists. Instead, the Mexico City YMCA website accentuates visual representations of their overall commitment to community needs through ever-expanding programs and facilities. Images of their impressive buildings surround children's photos.

In summary and as reflected in Table 2, while brand name consistency has never been an issue for the YMCA, there is clearly local adaptation to brand representation and brand terms. As expressed during the interview with YMCA leaders, each affiliate weighs its relationship with the community more heavily than its consistency with World Alliance understanding of the brand name and terminology. In other words, adaptation to perceived local needs and brand understanding is prioritized over standardization.

Addressing a Broader Audience

Nonprofit organizations face continual challenges to communicate with a dispersed target audience with frequently disparate objectives (i.e., users, employees, volunteers, donors, government). Each of the local affiliates pursues a distinct strategy in the use of brand terminology to communicate with their audiences.

The Greater Cincinnati YMCA utilizes their website to adequately build trust with users, but falls short in appealing to other stakeholders. While there is a link on the homepage to encourage individuals to volunteer and donate, there is no attempt to develop trust or build on-going relationships with potential donors. This is different from the Nottingham affiliate that provides direct links from their homepage to relevant information for donors and volunteers in hopes of developing relationships with both. Furthermore the desire of the local government to use the Nottingham YMCA as a key resource in addressing important issues as well as their reliability and dedication in doing so has helped to attract a solid, broad constituent base.

The YMCA Mexico City website has yet to develop links for donors or audiences beyond the users of the various facilities. Clicks through the homepage of this locale's site lead to "an initiative for the development of Mexican philanthropy," but the site has yet to be constructed (http://www.ymca.org.mx/fymex/fimex.htm).

Perhaps the limited connections with a broader base of stakeholders among the various affiliates reflects the challenge articulated during the interview with the YMCA Regional President/CEO and Vice President of Marketing & Communication when they stated the need to "get back to our charitable roots both as a source of income and as an outbound service organization." For all the YMCAs this means moving beyond the gymnasium image and using brand terminology and mission relevance to connect the retail front of the YMCA to the community's needs.

Conclusion

Through the application of branding models to one focal organization under qualitatively different situations, this study provides feedback on the models with the intent of strengthening them relative to branding of international NPOs and the execution of local missions. To accomplish this, we posed two questions at the outset: Do large, international NPOs, like MNCs, face a trade-off in standardization vs. customization of the brand? Does the application of branding principles to the context of an international NPO change the use or understanding of brand models?

After investigation of the three affiliates' websites in comparison to the centralized YMCA World Alliance website, one can confidently conclude that the YMCA struggles with balancing trade-offs in standardization vs. adaptation of the brand. The conclusion was strengthened by comments made during interviews with practitioners in the field of nonprofit leadership and training and well as YMCA leaders. Tables 2 and 3 succinctly summarize the variances in mission, brand personality, and brand symbols that exist among the four entities investigated. Thus as the literature predicts, the NPO managers at the focal organization struggle with the paradox of maintaining the global brand image, while appealing to diverse, local stakeholders.

In applying the brand models of Quelch and Laidler-Kylander (2006), Laidler-Kylander et al., (2007), and Venable et al., (2005) to the YMCA we realized relatively easy application of the models to the NPO while also uncovering interesting attributes of this global NPO.

Following Quelch and Laidler-Kylander (2006) we ask: Is the YMCA a strong brand? Intuitively we conclude that the YMCA has strength in their domestic market (operationalized as the UK) with worldwide operations and a brand that embodies the mission, not the founder or funders. Through various interactions with YMCA managers and non-affiliated NPO leaders and trainers it also appears safe to conclude that the YMCA has leaders with high standards of integrity who increase stakeholders' expectations for all NPO activity. However, present research concludes that the YMCA faces challenges in at least two of Quelch and Laidler-Kylander's (2006) characteristics of strong brands: (1) consistent global positioning and focus, as well as (2) emotional appeals based on universally shared values. We draw this conclusion from the application of Venable et al.,'s (2005) brand personality characteristics to the YMCA and Laidler-Kylander et al.,'s (2007) brand building and identity model.

As presented in the body of this manuscript and illustrated in Table 1, the YMCA is inconsistent in the expression of the four brand personality elements of integrity, nurturance, ruggedness, and sophistication (Venable et al., 2005). Such inconsistency, or local adaptation, may become problematic for the YMCA as global citizens become more mobile and look to global human service agencies for assistance. Furthermore, if the brand personality is not consistent across various markets, donors and volunteers may become confused and reduce relationship involvement. Thus, one can conclude that it is imperative for the YMCA to carefully craft a brand that is attractive to a wider constituency base. Barron and Hollingshead (2004) and NPO practitioners agree, however, uncertainty about which elements to standardize and which to adapt risks diluting the otherwise strong YMCA brand.

Global brand leadership and organization as recommended by Aaker and Joachimsthaler (1999) may be appropriate for the YMCA. As the brand champion, the YMCA World Alliance could move beyond the 'brand book' approach to one that encourages affiliate leaders to conduct broad-based constituency research and communicate in collaborative ways to support brand consistency. To accomplish a more coherent brand image and personality, responsibility must be assigned. The regional YMCA Vice President of Marketing & Communication interviewed for this research appeared willing to accept such an assignment. If such responsibility is allocated, the YMCA may also benefit from applying Aaker & Joachimsthaler's (1999) other steps to managing global brands: (1) stimulate sharing of best practices across countries, (2) support common global brand process; and (3) execute brilliant brand building strategies.

In assessing the use of the brand models and providing feedback on their applicability to the focal organization, a few conclusions are noted. In the process of investigating the YMCA brand personality we found some of the four categories difficult to operationalize; the characteristic of 'ruggedness' was particularly difficult to assess. It was unclear how 'outdoorsy' and 'western' could be applied to a human service organization. For the purpose of this project we focused instead on the adjective of 'masculine' particularly as it relates to the acquisition of wealth or other assets (e.g., buildings, facilities). Perhaps the model could be strengthened through broader application and refinement of the personality categories, with attention paid to global NPOs.

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Managerial Communication and Innovation: Strategies to Initiate Innovation Development by Workgroups

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ABSTRACT

Organizations must maximize "innovation" to survive in today's increasingly competitive business environments. The literature on organizational innovation suggests that workplace communication affects the creation and diffusion of innovations (Kanter, 1988; Robinson & Schroeder, 2006; Rogers, 2003). However, no empirical studies had investigated the communication tactics managers utilize to "spark" or initiate the creation of innovations by workgroups. Content analysis of questionnaire data (n=90) discovered 17 communication tactics managers can use to initiate innovation development by workgroups. These 17 tactics represent three, broader communication strategies: (a) establish a new structure conducive to innovation development, (b) acknowledge the competitive and organizational constraints the group must work within, and (c) foster a communication climate conducive to innovation development. Results were then contrasted with extant literature to interpret the findings and provide suggestions for managers.

Today's businesses face a convergence of variables threatening corporate viability including technological developments, fierce domestic and global competition, pressure to lower prices and maximize profits, more demanding customers, and an undereducated labor pool (Huber & Glick, 1993). Clearly, organizations must work smarter to avoid being abandoned by stakeholders and devoured by competitors. The smartest organizations will survive by maximizing their intellectual capital to respond to change and successfully implement innovations. Managers at every level are hungry for guidance on how to initiate and maximize innovation in their organizations.

Alerted to these challenges, the business and social-science disciplines are increasingly interested in organizational creativity, innovation, and change processes (Poole & Van de Ven, 2004). Scholars have argued that an organization's innovativeness can be tapped, developed, and implemented by strategically managing the communication structures, climate, and culture of an organization (see Lewis, Schmisseur, Stephens, & Weir, 2006; Malaviya & Wadhwa, 2005; Robinson & Schroeder, 2006; Zorn, Page, & Cheney, 2000). Scholars have begun to outline some of the communication processes of innovation including (1) the antecedent conditions and sources of innovation (e.g., Griffin, Rafferty, & Mason, 2004; Perry-Smith, 2006; Scott & Bruce, 1994), (2) the adoption, modification, and implementation of innovation (e.g., Klein & Sorra, 1996; Lewis, Hamel, & Richardson, 2001; Zorn, 2002), and (3) the diffusion of innovations (e.g. Johnson & Chang, 2000; Rogers, 2003).

Conceptualizing innovation as a communication process adds to the interdisciplinary dialogue on the subject. Kanter's (1988) often cited work on innovation proposed a four-phase model: (1) ideation, (2) coalition building, (3) ideal realization, and (4) diffusion. Ideation messages identify physical or social factors that are conducive to or require useful or novel change. Coalition building messages persuade others to perceive ideas as new, novel, and useful. Ideal realization messages encourage behaviors that develop formative ideas into concrete, useable prototypes. Diffusion messages link those who are familiar with an innovation with those who are unfamiliar in order to capitalize on its benefits across wider social networks (Kanter, 1988). While Kanter's model highlighted the communication goal of each innovation phase (Jarboe, 1999), it is unclear to what extent managers, workgroup members, or both are involved in negotiating these phases. Subsequently, managers still seek guidelines on how to lead workgroups to engage in the "ideation", "coalition building" or "ideal realization" phases. Although Kanter stated that innovation is "triggered by recognition of a new opportunity" (1988, p. 173), it is unclear which managerial communication tactics trigger workgroups to become innovative, recognize opportunities, and collaboratively develop useful innovations.

More recently, Rogers' (2003) model of innovation diffusion proposed that innovation initiation involves (1) agenda-setting activities that focus on problems to be solved and (2) matching activities that link extant innovations to problems identified by the agenda. Although Rogers' (2003) primarily describes how organizations adopt or modify innovations that are diffused into it, this model offers managers little advice on leading semi-autonomous workgroups to develop original innovations or develop new applications for existing innovations. Although group ideation techniques such as brainstorming, lateral thinking, and random-word techniques have been studied (Jarobe, 1999), it is not clear what additional dimensions of the workplace and workgroup set the stage for innovation generation, refinement, and adaptation. These investigations have overlooked the communication roles and strategies managers can employ to spark the workgroups innovative fire.

Perhaps some workgroups thrive at being innovative while others fail due their managers. Innovation is not simply the outcome of autonomous workgroups recognizing problems/opportunities and selecting the best solutions. The interaction between managers and workgroups must play a vital role in the initiating and facilitating the innovation process. Unfortunately, Kanter (1988) and Rogers (2003) minimize the manager's strategic role in the genesis of workgroup innovations. Clearly, managers play some role in setting the stage for workgroups to begin and succeed at the creative process of innovation development. Therefore, this study will provide empirical insight into the communicative tactics managers could use to initiate innovation development by workgroups.

RQ1: What communication tactics should managers use to initiate the creation of innovations by workgroups?

Method

Demographic and open-ended data were gathered from 90 MBA and M.S. in Organizational Communication students at a regional university. The sample was deemed appropriate for this exploratory study based on respondents' work experience and graduate degree foci. Of the 90 respondents, ages ranged from 22 to 55 (m = 27 years) and 59% were female. Sixty-eight percent reported having full-time work experience ranging from 1 to 33 years (m = 5.3 years), 91% indicated they had part-time employment experience, and 75% of respondents indicated that they were currently employed. Also, 60% indicated that they had management experience (range = 0.5 to 15 years, m= 3.3).

Each respondent was told to imagine him/herself as being a small-business entrepreneur meeting with three employees to initiate the group's innovation development—namely, creating an innovative business plan for a new/original restaurant. Respondents wrote what they imagined "saying" and "doing" to initiate the group's process of creating the innovative restaurant plan. By encouraging respondents to imagine how they would communicate as managers, this prompt generated a range of data about managerial messages and behaviors that may trigger groups to develop innovations.

Content analysis (Krippendorf, 1980) was used to analyze the questionnaire's open-ended data. Initial reviews of the data established early recognition of units of analysis—key phrases, terms, or sentences. Using a constant comparison method (Glasser & Strauss, 1967; Strauss & Corbin, 1990), units of analysis were constantly compared to other units of analysis to group them into categories or create new categories. Categories were gradually defined and redefined, named and renamed, to capture the meanings implied by each unit of analysis. Based upon these category definitions, the entire data set was finally reviewed and coded to calculate category frequencies. A second coder was then given the categories, definitions, coding guidelines, and copies of 20% of the questionnaires to code. Intercoder testing produced a 94% simple agreement on the identification of units of analysis. Intercoder reliability for agreement on the identification of categories was 88% and the coefficient for chance agreement was 86% (Kappa = .86, see Fleiss, 1971).

Results

The content analysis yielded 370 units of analysis representing 17 managerial communication tactics to initiate the creation of innovations by workgroups. Table

Table 1
Names and Definitions of the 17 Communication Tactics

Category Name	Category Definition	Examples
Facilitate idea generation	Facilitate the group's development of novel or original ideas.	"We would brainstorm ideas." "I asked them how can we do things differently."
Express a new vision	Express a new vision of the desired outcomes.	"I gave them my mission and my vision." "I told them my hopes and dreams."
Establish goals, roles and procedures	Discuss the goals, roles and procedures for group work.	"I'd assign group members to specific tasks." "Have an agenda ready."
Recognize group members' contributions	Identify the experience, ideas, or work of group members as beneficial.	"Tell them how important their help is." "Talk about their related experience."
Encourage open, honest discussion	Encourage active listening, honest feedback, and confirming messages.	"Talk openly with them." "Encourage open communication."
Discuss limitations	Discuss non-negotiable rules, expectations, or resource limitations.	"Tell the group what ideas to exclude." "Explain the parameters of the project."
Encourage group members to participate	Encourage group members to act as agents of innovation.	"Motivate them to do their best." "Promote employee involvement."
Minimize constraints	Minimize rules, guidelines, expectations, or scarcity of resources.	"I wouldn't put up any boundaries or rules for them." "I'd make things flexible."
Build trust among the group.	Build trust and teamwork among group members.	"Try to build trust among the group." "We must work like a family."
Recognize the competitive environment	Recognize the competitive environment and customers.	"Point out what is good or bad at other businesses." "Discuss customer expectations."
Grant group members autonomy	Discuss their autonomy to make decisions and act independently.	"Give autonomy in thinking and in actions." "Give them freedom."
Create a sense of ownership	Encourage a sense of shared ownership.	"Make them feel like they are the owner." "Imagine you owned the business."
Discuss the rewards of innovation	Discuss the rewards associated with the innovative process.	"If the business is successful, you will receive part of the profits."
Establish the supervisor/ subordinate relationship	Discuss the role of the manager/ leader in relationship to the group.	"Have them view me as their leader." "I'd let them know that I have final say."
Avoid interference	Avoid interfering in or influencing the group's work.	"I would get out of their way." "Don't dominate the discussion."
Encourage excitement and enthusiasm	Demonstrate enthusiasm and encourage excitement about their involvement.	"Get them excited." "Think of what an awesome opportunity this will be."
Create a fun/comfortable meeting atmosphere	Create a positive physical and social environment for meetings.	"Meet someplace fun." "Establish a laid back atmosphere."

1 presents category definitions and examples of each tactic and Table 2 presents the category frequencies for each tactic.

Further analysis of the typology of 17 communicative tactics revealed three broader communication strategies: (a) establish a new structure conducive to innovation development, (b) acknowledge the organizational

Table 2
Frequencies of Tactics to Initiate Innovation Creation by Workgroups

Managerial Communication Tactic	Number Reporting (n=90)	Percentage of Respondents
Facilitate idea generation	55	61
Express a new vision	31	34
Establish goals, roles and procedures	30	33
Recognize group members' contributions	24	27
Encourage open, honest discussion	21	23
Discuss limitations	19	21
Encourage group members to participate	13	14
Minimize constraints	13	14
Build trust among the group	13	14
Recognize the competitive environment	11	12
Grant group members autonomy	8	9
Create a sense of ownership	8	9
Discuss the rewards of innovation	7	8
Establish the supervisor/subordinate relationship	7	8
Avoid interference	7	8
Encourage excitement and enthusiasm	6	7
Create a fun/comfortable meeting atmosphere	6	7

Table 3
Communication Strategies to Initiate Innovation Development

Communication Strategies	Communicative Tactics
Establish a new structure conducive to innovation.	Express a new vision
	Minimize constraints
	Discuss the rewards of innovation
	Grant group members autonomy
	Create a sense of ownership
Acknowledge constraints the group must work within.	Discuss limitations
	Recognize the competitive environment
	Establish goals, roles and procedures
	Establish the supervisor/subordinate relationship
Foster a communication climate conducive to innovation	Facilitate idea generation
	Recognize group members' contributions
	Encourage open, honest discussion
	Encourage group members to participate
	Build trust among the group
	Encourage excitement and enthusiasm
	Create a fun/comfortable meeting atmosphere
	Avoid interference

and competitive constraints the group must work within, and (c) foster a communication climate conducive to innovation development. To establish a new structure conducive to innovation, managers use communication tactics that eliminate or minimize dominant organizational constraints, helping employees communicate, think, and act in new ways. Managers must also communicate about those organizational factors that cannot be minimized or forgotten (e.g., rules, budgets, time constraints). Finally, managers foster a communication climate for innovation by facilitating and encouraging open dialogue, trust, participation, and enthusiasm (see Table 3).

Discussion

This study contributes to both scholarship and managerial practice by discovering 17 communication tactics managers can use to help initiate innovation creation. Compared with published work on innovation development, other scholars have identified one or more dimensions of innovation consistent with this study's 17 communication tactics. For example, several authors have identified idea generation (Sethi, Smith, & Park, 2002), decision-making autonomy, structural constraints, (Rieck, 1999; Rouse, 1999), diversity, trust (Brown & Duguid, 1993), innovative vision (Sweetman, 2001, Woodman & Schoenfeldt, 1989), participation, and open dialogue (Robinson & Schroeder, 2006). No prior empirical study focused entirely on initiating workgroups' innovation processes, nor did any single piece of scholarship account for a majority of the 17 tactics that emerged from the data.

Two communication tactics emerged that were not apparent in prior literature on innovation. While entrepreneurial, small-business owners succeed by being innovative (Drucker, 2002), prior literature had not suggested that managers create a sense of ownership so employees will think and act like "owners" while working to create innovations. Also, prior literature did not mention that managers must encourage excitement and enthusiasm among workgroup members. Managerial communication that builds a sense of ownership, excitement and enthusiasm would help focus employees on their task of innovation development.

This study offers practical strategies for managers seeking advice on how to manage the innovation process. These 17 communication tactics suggest three broader, communication strategies that managers can us to initiate innovation. First, managers must articulate a new organizational structure that frees groups to innovate. Consistent with Kanter's (1988) and Rogers' (2003) suggestion that the innovation process begins with agenda-setting/ideation, the manager must articulate a clear understanding of the new vision and freedom in which the workgroup will work. By minimizing or suspending the constraints of rules, traditions, or resources, workgroups can act and "think outside the box" to develop innovations. Managers who communicate the new vision (i.e., agenda) and create a sense of ownership provide group members with compelling motives to innovate. Consistent with work on employee engagement (Shaffer, 2000), workgroup members will become more involved in work as managers grant autonomy and discuss the rewards for being innovative. Overall, the new vision and organizational structures liberate the workgroup to become innovative.

Second, the manager must set new parameters for the workgroup's expanded freedom by acknowledging those "realities" or constraints the group must work within. By informing them about the realities of the competitive/customer environment, the manager can then set parameters for working together to innovate: non-negotiable limitations (e.g., resources, rules, and timelines), roles and procedures, and the nature of the manger/workgroup relationship (see Brown & Duguid, 1993; Scott & Bruce, 1994).

Finally, the manager must foster a communication climate conducive to the discourse of innovation development. Also consistent with various authors (see Robinson & Schroeder, 2006; Poole & Van de Ven, 2004), the data show that managers can create a positive communication climate by facilitating idea generation, recognizing group members' contributions, and encouraging open, honest discussion. By mindfully managing the communication climate, managers can help groups appreciate and respect the diversity of experiences and opinions within the group. Managers can, thereby, build trust and further encourage group members to participate in innovation discourse (e.g., ideation, coalition building, and ideal realization; Kanter, 1988). Also, the manager further enhances the communication climate by creating a fun/comfortable atmosphere for meetings and avoiding undue interference with the group. Combined, the well managed communication climate then allows for group collaboration and innovation to flourish.

Limitations

The results of this investigation represent an important step towards the formation of a comprehensive, empirically based communication model describing how managers affect the creation of innovations. However, this study has three methodological limitations. First, only 60% of the population surveyed had managerial experience. Although this study's sample did possess varying degrees of work and managerial experience, a sample consisting entirely of managers may yield additional communication tactics. Second, even though these results offer a reasonable description of what might happen when a manager seeks to initiate innovation development, data from actual interactions between managers and workgroups in naturalistic settings should be gathered to validate these findings. Third, this data does not provide insights into the relative efficacy of any single tactic nor how managers would adapt their communication strategies to unique circumstances (e.g., well established workgroups, type of industry).

Conclusion

Overall, managers must strategically communicate to balance the workgroups' new freedoms (strategy #1), their responsibilities and constraints (strategy #2), and their climate of collaboration (strategy #3) if innovation development is to be maximized. These three communication strategies help initiate innovation by assuring the workgroup they have additional freedom to be creative; however, their freedom is tempered by the manager reminding them of those organizational and competitive expectations that cannot be altered. Managers must continually foster the workgroup's communication climate, the place in which innovations are collaboratively birthed, nurtured, and launched.

In spite of the glorification of "innovation and change" in many organizations, often well-meaning efforts to adopt and implement innovations fail because they are perceived as being spurious, poorly designed, or poorly implemented (Poole & Van de Ven, 2004; Zorn, Christensen, & Cheney, 1999). Central to the value of this study's findings are the guidelines offered to help managers recognize how their communication with workgroups has either facilitated or hindered the innovative abilities of employees. This study's findings provide a criterion by which managers can determine if communication intentions, tactics, and behaviors are aligned with fostering innovation development. It is hoped that these findings will help employees, managers, and organizations become more innovative and thrive in today's highly competitive business environment.

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When A Foreign Brand Pretends to be Domestic: Cross-Cultural Differences in Responses to Deception in Positioning A Foreign Brand as A Seemingly Domestic Brand (U.S. Versus Romania)

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ABSTRACT

When companies enter foreign markets, they usually openly communicate the "foreign-owned" status of their brands (non-deceptive positioning). However, the marketplace provides examples of situations where foreign companies prefer to position their brands as seemingly domestic (deceptive positioning). This study used experimental methodology to compare brand and company attitudes as well as purchase intentions resulting from both types of foreign brand positioning in the U.S. and Romania. Compared to the non-deceptive positioning, deceptive positioning resulted in more favorable brand attitudes in an emerging market (Romania) while it resulted in less favorable brand attitudes in a developed economy (US). These findings fully support the hypotheses of the study. However, the hypotheses were not supported for the purchase intentions variable and were only partly supported for the company attitude variable. Consistent with the predictions, cultural orientation, measured using the 16-item individualism-collectivism scale (Singelis et al. 1995), was a significant predictor of foreign brand and company attitudes, but not of purchase intentions. Specifically, higher horizontal collectivism scores were associated with more favorable brand and company attitudes.

Introduction

When a consumer goods company enters a foreign market, it faces a scope of important strategic branding decisions. Should it develop new brands or modify its existing brands for the new country-market? Will the company's "foreignness" be an advantage or a drawback in the eyes of local consumers?

Existing research suggests that the location of production influences consumers' evaluations of products and purchase decisions primarily because it serves as an important information cue used by consumers in decision-making (Bilkey and Nes, 1982). Favorable or unfavorable evaluations of the country associated with a product lead to corresponding favorable or unfavorable evaluations of the product and, consequently, "…like brands, countries also have equity associated with them, termed 'nation equity' " (Maheswaran and Chen, 2006, p. 375). Maheswaran (1994) proposed that the information on the country of origin acts as a stereotype in consumers' evaluations of products. Therefore, images of a manufacturing nation influence consumers' inferences of product quality and desirability. This view has received further development in a number of recent studies. For instance, Pappu, Quester, and Cooksey (2007) have demonstrated that the images of the country of origin are contributing to the consumer based brand equity. Research shows that not only consumers, but industrial buyers as well, are influenced by the country of origin information when evaluating products (Insch and Miller, 2005). Hong and Wyer (1989) showed that the country of origin information not only had a direct influence on product evaluations but also stimulated processing of product attribute information.

The effect of a favorable or unfavorable country of origin (COO) varies depending on the level of consumer expertise (Maheswaran, 1994), consumer ethnocentricity (Sharma, Shimp, and Shin, 1995), product category (Kaynak and Cavusgil, 1983), processing goals and motivation (Gürhan-Canli and Maheswaran, 2000a), and even incidental emotions (e.g., anger vs. sadness) experienced at the time of evaluating a product (Maheswaran and Chen, 2006). Recent detailed literature reviews on the topic can be found in Pharr (2005), Chattalas, Kramer, and Takada (2008). Research suggests that respondents' cultural orientation (Gürhan-Canli and Maheswaran, 2000b) as well as their currently active (interdependent or independent) self-construal (Swaminathan, Page, and Gürhan-Canli, 2007) can enhance or suppress the country of origin effect.

Based on the existing research, it appears that, generally, the brand owner will gain a competitive advantage by highlighting the "foreignness" of a product from a favorable COO (i.e., country perceived as typically producing high-quality goods in a specific product category) as opposed to obscuring its foreign origin. At the same time, marketing practice provides examples of multinational corporations intentionally positioning some of their offerings for specific markets as seemingly domestic products. For example in Russia, in addition to its global brands, Swiss-based Nestle produces and markets Rossia (means "Russia") chocolates and Choc candy bars. Advertising campaigns for these brands used expressions such as "Russian soul," "this is our [Russian] way of doing things." The association of such localized brands with their foreign owner is not mentioned in marketing communications and, presumably, remains unknown to the majority of target customers.

The purpose of this study is to perform a cross-cultural comparison of the effects of the two foreign brand positioning strategies: positioning foreign brands as seemingly domestic versus openly communicating their foreign-owned status. This study seeks to find out whether some consumers might perceive the "pretending to be local" strategy as manipulative and whether, as a result, they might backlash against the foreign brand and the company that owns it. We intend to explore whether the effects of deceptive positioning might be different in an emerging market as opposed to a developed market economy.

Theoretical Background

Positioning of Products on the Global Market

Alden, Steenkamp and Batra (1999) described two ways in which "foreignness" of a product can be highlighted. They called the first kind of positioning foreign consumer culture positioning (FCCP) defined as the brand being associated with a specific foreign culture, through symbols, images, and/or language. "Foreignness" of a product can also be highlighted through what Alden et al. (1999) called global consumer culture positioning (GCCP). To make a foreign brand seem domestic, local consumer culture positioning (LCCP), defined as the use of symbols from the local consumer culture (Alden et al., 1999), can be employed.

"Foreignness" of a Product as an Asset or a Liability

Although most of the country of origin (COO) studies (e.g., see Pharr, 2005) suggest that when a foreign brand originates from a favorable COO, one that is associated with production of high-quality products in a certain product category (e.g., chocolate from Belgium), highlighting the foreign-owned status of the brand would be an advantageous strategy as it will result in more favorable brand attitudes. This strategy might be even more appropriate in emerging markets. Batra et al. (2000) found that, for reasons of perceived quality and social status, consumers in developing countries showed attitudinal preference for foreign brands, especially those originating in the West. Likewise, Mexican industrial buyers in a study by Insch and Miller (2005) showed preference for the industrial products from the most technologically advanced countries.

At the same time, the mere fact that a product originates in a foreign country might negatively impact consumers' product attitudes. Marketing literature provides evidence of consumer aversion to foreign products, most notably, consumer animosity to specific countries (Klein, Ettenson, and Morris, 1998) and consumer ethnocentrism (Sharma et al., 1995). This body of literature suggests that making a foreign brand to look like a local brand might be an advantageous strategy, at least in certain circumstances.

Effects of Manipulative Marketing Tactics

Marketing literature contains indications that, if a foreign brand is positioned as a seemingly local brand and then the true origin of the brand becomes known to the consumer (the use of deceptive, manipulative tactic is revealed), this might negatively impact consumers' evaluations of the brand. A number of studies (e.g., Campbell, 1995; Main, Dahl, and Darke, 2007) show that if consumers infer a manipulative intent on the part of the advertiser or a salesperson, effectiveness of marketing persuasion is lowered. Therefore, if positioning a foreign brand as a seemingly domestic brand is interpreted by consumers as a manipulative marketing tactic, consumers' responses to the brand will be negatively impacted.

Perceived Marketing Effort

Kirmani and Wright (1989) demonstrated that, under certain conditions, consumers use the perceived effort that a company invests in a persuasion attempt as a signal of the strength of its belief in product quality, resulting in more favorable brand attitudes. Kirmani and Wright (1989) conceptualized perceived effort in terms of marketer's investment of scarce resources such as money, managerial time, thought, etc. This implies that, if positioning a foreign brand as a seemingly domestic brand is interpreted by consumers as a company's culturally accommodating marketing effort, brand evaluation will be positively affected.

Emerging Versus Developed Market

We suggest that consumers in a developed, as opposed to an emerging, market are more likely to consider the positioning of a foreign brand as a seemingly domestic brand to be a manipulative attempt (i.e., deception), resulting in less positive attitudes toward the deceptive brand and the company that owns it. This prediction is based on the Persuasion Knowledge Model (PKM) stating that consumers' persuasion knowledge, defined as a system of beliefs that consumers hold about marketers' persuasion goals and tactics, as well as about their own coping strategies, improves with experience (Friestad and Wright, 1994). The PKM also posits that if a consumer recognizes a marketing message as a persuasion tactic, natural processing of a persuasion message might be disrupted and intended persuasion will be undermined (Friestad and Wright, 1994). Compared to their peers in emerging markets (e.g., Eastern European countries), consumers in developed markets (e.g., US) are in a better position to develop persuasion knowledge due to more experience with marketing and consumer education. It seems plausible that, as a result, consumers in a developed market will be more likely to interpret deceptive positioning (foreign brand presented as a domestic brand) as a persuasive attempt and, consequently, make less favorable evaluations of the brand compared to their peers in an emerging market.

We suggest that consumers in certain emerging markets might be particularly prone to developing more favorable attitudes toward a foreign brand positioned as a seemingly domestic brand compared to a foreign brand presented "as is." Consumers in large emerging markets (e.g., China, Russia) might be used to the foreign manufacturers who are ready to go to great lengths in customizing their brands specifically for these lucrative markets. Consumers from these countries might not perceive efforts associated with developing yet another localized brand as something out of the ordinary. On the contrary, consumers in smaller emerging economies (e.g., Romania, Slovenia) are not "spoiled" by having too many localized foreign brand offerings. Consequently, they are more likely to perceive the company's marketing efforts as substantial and positive, possibly as signs of respect for their nations and their culture. Therefore:

H1: In a developed market, a foreign brand positioned as a seemingly domestic brand (*deceptive positioning*) will evoke less favorable responses (brand and company attitudes, and purchase intentions) than the same foreign brand positioned as a foreign brand (*non-deceptive positioning*).

H2: In an emerging market, a foreign brand positioned as a seemingly domestic brand (*deceptive positioning*) will evoke more favorable responses (brand and company attitudes, and purchase intentions) than the same foreign brand positioned as a foreign brand (*non-deceptive positioning*).

Individualism-Collectivism and Persuasion

Positioning of a brand is a form of marketing persuasion and a substantial body of research (e.g., Aaker and Lee, 2001; Briley and Aaker 2006; Gürhan-Canli and Maheswaran, 2000b) suggests that cultural orientation (e.g., collectivism vs. individualism) influences consumers' response to persuasion by the marketers. Collectivism-individualism cultural orientation framework states that collectivists have interdependent self-concepts and define themselves as part of the group while individualists have autonomous, independent self-concepts (Singelis et al., 1995). Recent developments in research suggest that an important vertical-horizontal cultural distinction that emphasizes either equality (horizontal) or hierarchy (vertical) has to be accounted for in addition to individualism-collectivism (Shavitt et al., 2006; Singelis et al., 1995). Any given culture can be described in terms of individualist-collectivist and vertical-horizontal dimensions of its cultural orientation. The four cultural groups of this conceptualization of cultural orientation can be described as follows: "the vertical individualist (VI) is independent and perceives himself or herself as different from others, the horizontal individualist (HI) is independent and perceives himself or herself to be the same as others, the vertical collectivist (VC) is interdependent and perceives himself or herself to be different from others, and the horizontal collectivist (HC) perceives himself or herself to be the same as others" (Soh and Leong, 2002, p. 3). Collectivists, especially vertical collectivists, are more likely to behave in a way that benefits their in-group. Individualists, on the contrary, are known to behave in a way that allows them to achieve personal (vs. group) goals (Singelis et al., 1995). A theoretical model linking national stereotypes with the country of origin effect that has been recently proposed by Chattalas et al. (2008) posits that vertical/horizontal, as well as individualist/collectivist, dimensions of cultural orientation influence the COO effect. A number of recent studies demonstrated that cultural orientation exerts influence on how and when country of origin information is utilized in product evaluations. For instance, Gürhan-Canli and Maheswaran (2000b) found that respondents in the U.S. (vertical individualist country) evaluated the target product made in their home country (as opposed to foreign country) more favorably only when attribute information suggested that this product was superior to competition. Their respondents in Japan (vertical collectivist culture), however, evaluated the product made in Japan (as opposed to foreign country) more favorably irrespective of the product superiority/inferiority to competition. Likewise, Swaminathan et al. (2007) found that interdependent self-construal (individual psychological characteristic which is dominant in collectivist cultures) was associated with greater importance of country of origin information.

H3: Cultural orientation (*vertical/horizontal, individualism/collectivism*) will be a significant predictor of the favorableness of responses (brand and company attitudes, and purchase intentions) to the target brand.

Method

Subjects

Students from two mid-sized public universities (N=99 in the US, N=115 in Romania) participated in this experiment. As a cover story, experimenters told subjects that they were to participate in a marketing test for a new brand of chocolate. Mean age (22.5 in Romania vs. 23.3 in the U.S.) and percent of female respondents (42.7% in Romania, 50.5% in the US) did not differ across the two samples.

Procedure

The objective of this study was to test the prediction that Romanian and American subjects would respond differently to a foreign brand positioned as a seemingly domestic brand (deceptive positioning) and that cultural orientation will affect subjects' responses to the target brand. Subjects were randomly assigned to one of the two brand positioning conditions: deceptive versus non-deceptive positioning of a foreign (Belgian) brand of chocolate. Therefore, the hypotheses were tested using a 2(country: developed market (U.S.) versus emerging market (Romania)) × 2(foreign brand positioning: deceptive vs. non-deceptive) between-subjects experimental design.

Since the COO effects were not the focus of our study, efforts were made to identify a product category and a country-of-origin that would have similar COO effects both in Romania and in the U.S. The product category of boxed chocolates and Belgium as a country-of-origin were selected on the basis of a pretest. A fictitious brand name Rhapsody (in English) and Rapsodia (in Romanian), rated equally favorably by the American and Romanian respondents in a pretest, was developed for this study.

Respondents received booklets with a description of the fictitious Belgian brand of chocolate followed by a picture of the design of packaging for Rhapsody/Rapsodia. In the deceptive positioning condition, the design of the chocolate box featured a landmark from the target country-market. Specifically, in the deceptive condition, American subjects saw a box featuring the Golden Gate Bridge while Romanian subjects saw a box featuring the Romanian Atheneum. In the non-deceptive positioning condition, the chocolate box featured a Belgian landmark, a Canal in Bruges. For control purposes, an additional group of subjects in each sampled country read a description presenting the target brand as a true domestic brand. The data from the control group were not used in hypotheses testing.

Measures

Brand attitude index was formed by averaging three 7-point semantic differential scales (bad – good, poor quality – high quality, not appealing – appealing). The company attitude index was comprised of two 7-point semantic differentials (insincere – sincere, dishonest – honest). A one-item measure of purchase intentions regarding Rhapsody/Rapsodia had response options ranging from (1) definitely will not buy to (5) definitely will buy. An open-ended question: "What do you think the company is trying to tell you by developing a special design of packaging featuring [name of the landmark] for this market?" was used to assess the cognitions underlying the responses. To test whether subjects believed that featuring a national landmark on the packaging would be sufficient for misleading the customers about the origins of the brand, respondents were asked:

"If an average consumer just sees the packaging of this chocolate brand, how likely is it that he/she will perceive it as a genuine American [Romanian] brand?" with response options ranging from (1) very unlikely to (7) very likely. Subjects were also asked to rate perceived quality of chocolate from a number of countries, including the target countries of Belgium, USA, and Romania on a 7-point scale from (1) very poor quality to (7) very high quality with an additional response category (0) "I don't know." A 16-item vertical - horizontal individualism - collectivism scale (Singelis et al., 1995) was used to assess respondents' cultural orientation.

Results

Manipulation Checks and Preliminary Analyses

We confirmed that the respondents in the deceptive positioning condition (use of a national landmark from the target country-market), compared to the non-deceptive condition (use of a national landmark from the true country of origin), were significantly more likely to believe that an uninformed consumer would mistake Belgian chocolate Rhapsody/Rapsodia for a genuine brand from their own (American or Romanian, respectively) market (M=5.8 vs. M=2.5, t(61)=9.7, p<.001 in the US and M=4.9 vs. M=3.2, t(74)=4.4, p<.001 in Romania).

When asked about the quality of Belgian chocolate "in general," both Romanian and American subjects rated it superior to domestic chocolate from their own home countries (M=5.4 vs. M=3.8, t(31)=4.38, p<.001 for the Romanian sample; M=6.2 vs. M=4.5, t(69)=6.6, p<.001 for the U.S. sample).

Reliability of both the brand attitude index (α=.86 in both countries) and of the company attitude index (r=.85 and r=.78 in Romania and the U.S, respectively) was at satisfactory level. Reliability of the four dimensions of the cultural orientation scale was as follows: VI α=.53 and .84, HI α=.75 and .79, VC α=.53 and .75, HC α=.71 and .74 in Romania and in the U.S., respectively). Independent samples t-tests of the dimensions of the cultural orientation revealed that VI scores of Romanian respondents were higher than that of American respondents (M=23.6 vs. 21.6, t(207)=3.33, p<.01). The HI, VC, and HC scores from both samples did not significantly differ.

Hypotheses Testing

To test for H 1-3 we ran three 2(country: US vs. Romania)×2(positioning: deceptive vs. non-deceptive) ANCOVAs on brand attitude index, company attitude index, and purchase intentions. Horizontal and vertical individualism, as well as horizontal and vertical collectivism were included into this analysis as covariates (see Table 1 for the means of all dependent variables).

Brand Attitude Index

An ANCOVA on brand attitude index (F(7, 124)=3.24, p<.01) revealed main effect of country (F(1, 124)=5.45, p<.05), qualified by a significant country by positioning interaction (F(1, 124)=4.28, p<.05). On average subjects in Romania held more positive attitudes about chocolate from Belgium (M=5.45 vs. M=4.92). Subjects' responses to positioning manipulation were different depending on what country they were from. In the non deceptive positioning condition, Americans and Romanians did not differ in their evaluations of the fictitious Belgian brand Rhapsody/Rapsodia (M=5.17 in US vs. M=5.25 in Romania, F(1, 124)=.07, n.s.). In the deceptive condition, however, this difference increased to statistical significance (M=4.66 in US vs. M=5.64 in Romania, F(1, 124)=10.01, p<.01). The pattern of the means is shown in Figure 1. As predicted in H 1-2, American subjects gave less favorable evaluations to the foreign brand when this brand used deceptive positioning while Romanian subjects gave more favorable evaluations of the foreign brand when this brand used deceptive positioning.

Of the dimensions of cultural orientation, only horizontal collectivism (HC) was significant as a covariate (F(1, 124)=9.21, p<.01). Since the test of the covariate

Table 1
Means for the Dependent Variables by Country and Brand Positioning

	Positioning	Brand Attitude Index	Company Attitude Index	Purchase Intentions
Romania	Deceptive	5.64	5.83	4.00
	Non-deceptive	5.25	5.62	3.91
U.S.A.	Deceptive	4.66	5.26	2.51
	Non-deceptive	5.17	5.25	2.81

evaluates the relationship between the covariate and the dependent variable, controlling for the other factors (Green, Salkind, and Akey, 2000, p. 193), this finding can be interpreted in the following way: there is significant relationship between horizontal collectivism and brand attitudes when the influence of country (US or Romania) and of positioning manipulation are taken into consideration. Predictions of H3 were supported as at least one of the dimensions of the cultural orientation proved its role as a factor influencing brand attitudes. The partial $\eta 2=.07$ (statistic that is interpreted as the proportion of variance of the dependent variable that it related to a particular factor (Green et al., 2000)) indicates that horizontal collectivism accounted for about 7% of the variance. Further investigation of the data performed with a categorical HC variable created on the basis of a median split, revealed that, across all country/positioning conditions, subjects with high HC scores evaluated the foreign brand more favorably.

Company Attitude Index.

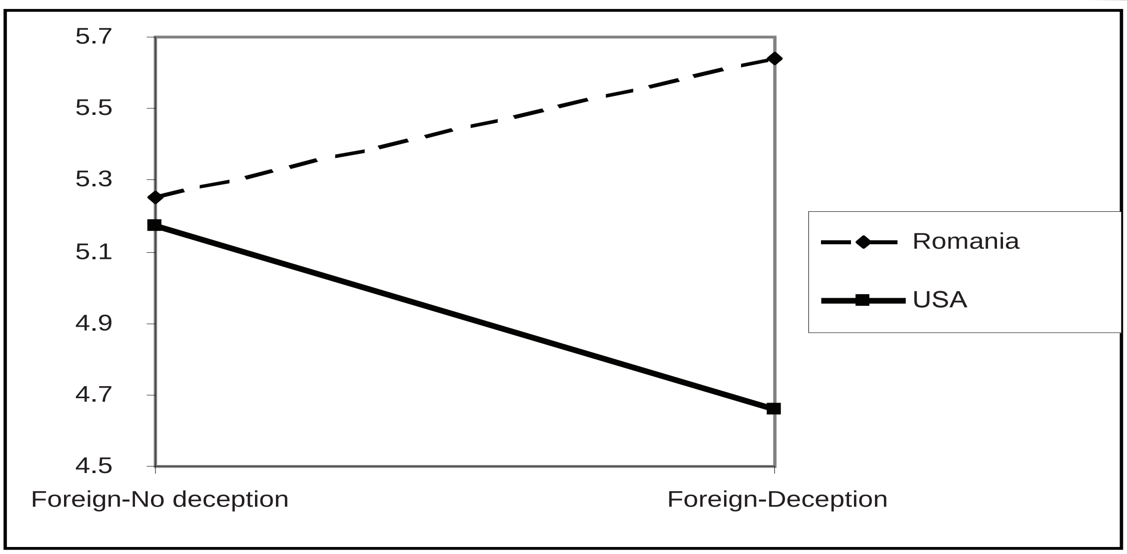
We ran an ANCOVA on the company attitude index ($F(7, 123)=3.15$, $p<.01$). The main effect of country was significant ($F(1, 123)=5.72$, $p<.05$). On average, compared to American subjects, Romanian subjects gave higher ratings to the foreign company's honesty and sincerity (M=5.26 in US vs. M=5.72 in Romania). None of the other effects reached significance. It should be noted, that although in the *non-deceptive* condition the mean difference (M=5.25 in US versus M=5.62 in Romania) was not significant ($F(1, 123)=1.8$, n.s.), the difference reached significance in the *deceptive* condition ($F(1,123)=4.62$, $p<.05$) as the ratings of the Belgian company's sincerity and honesty actually shifted in a positive direction in the Romanian sample (M=5.83) while they remained unchanged in the American sample (M=5.26). Although the interaction between country and positioning conditions was not significant, the pattern of results for the Romanian sample was in the predicted direction (more favorable company attitude in response to positioning a foreign brand as a seemingly domestic brand, i.e. *deceptive positioning*) rendering limited support to H1-2.

Horizontal collectivism (HC) was again significant as a covariate ($F(1, 123)=6.63$, $p<.05$), explaining about 5 % (the partial $\eta^2=.05$) of variance in company attitude, thus rendering support to H3. The other dimensions of cultural orientation were not significant as covariates. Further analysis revealed that across all country and positioning conditions, subjects who were higher in horizontal collectivism, were significantly more likely to rate the Belgian company more favorably.

Purchase Intentions

An ANCOVA on purchase intentions ($F(7, 123) = 12.53$, $p<.001$) revealed a significant main effect only for the country factor ($F(1, 123)=78.85$, $p<.001$). Compared to American subjects (M=2.66), Romanian subjects (M=3.95) were more likely to purchase the fictitious brand "when it becomes available in stores." The pattern of the means for purchase intentions was

Figure 1
Brand Attitude Index Means by Country and Positioning



the same as for the brand and company attitudes. In response to *deceptive* positioning, American subjects were less inclined to purchase the target brand while Romanian subjects were more inclined to purchase the brand (compared to purchase intentions in the *non deceptive* condition in each of these countries, respectively). The effect of positioning, however, did not reach significance for purchase intentions, providing only limited support for H 1-2. None of the dimensions of cultural orientation were significant as covariates in the ANCOVA on purchase intentions, rendering no support for H3.

Inferences about the Marketer's Intentions

In order to gain an insight into the brand evaluation process, we analyzed the open-ended responses to the question about the company's rationale for a certain positioning strategy. The coding scheme was based on the theoretical perspectives described in Friestad and Wright's (1994) Persuasion Knowledge Model. Two judges coded the open-ended responses for the number and the category to which each thought belonged. Any inconsistencies in coding were resolved through discussion. The categories used in the coding procedure were as follows: (1) inferences about the company's effort to appeal to the target market (e.g., "the Belgian firm learned about the Romanian culture and tradition; they used the picture of the Atheneum because it is an important Romanian landmark and therefore it would give the product a Romanian image"); (2) inferences about a marketer's attempt to convince the customer that Rhapsody/Rapsodia was a high-quality product (e.g., "they are trying to give the product a true European feel, to make their chocolate look more authentic and of higher quality"); (3) inferences about the marketer's attempt to persuade customers to buy the product (e.g., "the company wants to attract more customers to buy the chocolate"); and (4) thoughts that infer a deceptive and/or manipulative attempt by the marketer (e.g., "they trick me; they make me think it is an American product"). The first type of thoughts seem to be an indication of the positioning being interpreted as a culturally accommodating marketing effort (Kirmani and Wright 1989), while the other three correspond to Friestad and Wright's (1994) persuasion knowledge categories. The latter three thought categories in our study infer either an ulterior motive on the part of the brand owners or make a direct indication of a deceptive, manipulative activity. Neutral thoughts were not included into the following analysis. The results of the thought count are summarized in Table 2.

Overall, in the deceptive positioning condition, Romanians were more likely than Americans to think that positioning of a foreign brand's as a seemingly domestic brand was a positive marketing effort (44% of the total number of thoughts versus 37%). In contrast, Americans in the same [deceptive] condition were more likely than Romanians to interpret such positioning as a deceptive and/or manipulative attempt (19% of the total number of thoughts versus none). In the non-deceptive positioning condition, the prevalent explanation of the foreign company's rationale was that the Belgian company was attempting to persuade customers about the quality and uniqueness of the product (41% of Romanians' thoughts and 58% of Americans' thoughts). These results support our arguments that consumers

Table 2
Inferences about the Marketer's Intent in Brand Positioning

	Deceptive Positioning (Seemingly Local)		Non-Deceptive Positioning ("As Is")	
	Romania	US	Romania	US
Sample size	39	30	37	33
Total number of thoughts	36	32	29	33
Customizing effort/ domestic appeal	16 (44%)	12 (37%)	-	-
Product quality inferences	7 (19%)	3 (9%)	14 (41%)	19 (58%)
Sales/Customer attraction inferences	9 (25%)	2 (6%)	5 (17%)	5 (15%)
Manipulation/ deception inferences	-	6 (19%)	-	-

*Note: Percentages are computed out of the total number of thoughts in a developed country differ from consumers in an emerging market in terms of their interpretations of the motives behind a marketer's effort to position a foreign brand as a seemingly domestic brand.

Discussion and Conclusions

This study makes a contribution to the body of literature on the country of origin effect by pioneering the exploration of the effects of positioning a foreign brand as a seemingly domestic brand. Our results also pertain to the body of research on persuasion knowledge by demonstrating that the effects of deceptive positioning differ for an emerging versus a developed market. This study also makes a contribution to the existing research by exploring how deceptive positioning alters the effects of a favorable country of origin not only on brand and company attitude, but on purchase intentions as well. As Klein et al. (1998) points out, most studies on consumers' evaluations of foreign products do not measure purchase intentions and/or purchasing behaviors directly. The results of this study which has directly measured purchase intentions of the subjects, indicate a potentially significant finding of practical importance to international managers, as will be discussed further. Finally, this study contributes to the body of cultural orientation research by documenting a relationship between horizontal collectivism and acceptance of foreign products which, to the best of our knowledge, has not been reported before.

In summary, Hypotheses 1 and 2 were fully supported for the brand attitude data and partially supported for the company attitude data. Compared to a foreign brand positioned "as is" (non-deceptive positioning), a foreign brand positioned as a seemingly domestic brand (deceptive positioning) generated more favorable brand and company attitudes in an emerging market (Romania) while it resulted in less favorable brand and company attitudes in a developed economy (US). The pattern of the means for the purchase intentions variable was in the same predicted direction but did not reach significance, thus providing very limited support to H 1-2.

These results can be further interpreted from a theoretical perspective of multiattribute attitude model. Typical multiattribute models of attitude posit that conative component of attitude (behavior or behavioral intention) is a function of affective (liking) component which depends, in its turn, on cognitive components of attitude such as beliefs about product attributes (Holbrook, 1978). Petty, Wegener, and Fabrigar (1997) note that conceptualizing attitudes as having affective (emotional) and cognitive (belief) bases continues being one of the most popular ways of classifying the types of information upon which attitudes are based. Typically, attitude components tend to be consistent. Applied to our study, this means that a person with a belief that Belgium chocolate is of high quality (cognitive component), should also like Belgium-made chocolate (affective component), and have a behavioral intention (conative component) of buying Belgium chocolate. Indeed, general consensus of the country of origin literature is that the country of origin information influences quality judgments and, consequently, the favorability of product attitudes. It is assumed that product attitudes then influence purchase decisions. However, attitude-behavior consistency can be undermined due to weakly held attitudes, personality characteristics, and a variety of external factors (Petty et al., 1997).

For instance, Klein et al. (1998) showed that a product's origin can affect consumers buying decisions directly and independently of product quality judgments. Specifically, they showed that Chinese consumers in Nanjing were aware of the high quality and reliability of Japanese-made products, but still would abstain from purchasing Japanese products because of the negative emotions they experienced as a consequence of tragic historical events. In this case, a competing attitude (animosity) was strong enough to disrupt the effect of positive quality-related thoughts on attitudes, behavioral intentions, as well as on actual purchasing behaviors in regard to Japanese-made products. Although emotions caused by deceptive positioning manipulation in our study could not be nearly as strong as in those observed in the study by Klein et al. (1998), our positioning manipulation was apparently sufficient to disrupt the positive influence of a favorable COO (Belgium) on brand and company attitudes in our American sample. Based on the thought listing analysis, we propose that the activation of persuasion knowledge in the American subjects gave rise to cognitions of negative evaluative valence, e.g., the "wondering why's" or suspicions pertaining to the target brand and its owner. Apparently, these competing cognitions led to less favorable brand and company attitudes in the deceptive condition (compared to the non-deceptive positioning) for the American sample.

As we discussed earlier, deceptive positioning, presumably interpreted as a culturally accommodating marketing effort by the Romanian subjects, made the brand and the company more likeable to them (compared to the non-deceptive positioning), thus enhancing the original positive attitude to Belgium chocolate.

The fact that the effect of positioning was only directionally present in the purchase intentions data, but did not reach statistical significance, deserves special consideration. Several possible explanations exist. First of all, it is possible that the negative attitudinal shift in American subjects and the positive shift in Romanian subjects resulting from the deceptive positioning manipulation was simply too weak to disrupt/significantly enhance the original positive attitude to Belgium-made chocolate products. If this explanation is true, then the results of our study represent a significant finding with a strong potential bearing for the practice of international branding. The face-value interpretation of our data suggests that although a foreign company from a favorable COO might incrementally enhance brand and company attitudes on an emerging market and risk certain loss of favorability of brand and company attitudes on a developed market by positioning its products as seemingly domestic brands from the target country-markets, none of these actions will have an effect on target consumers' purchase intentions. In other words, one possible conclusion that can be drawn from the data of this study would be that deceptive positioning as it is currently used by a number of companies does not matter and that at the end of the day, all other things being equal, a favorable (vs. unfavorable) country of origin will ultimately determine whether consumers will be willing to give the new brand a try.

We opt against making the conclusion stated above and suggest that the results of our study need to be interpreted with caution because of the possibility that other factors brought about the observed results. For instance, the lack of the transference of the effect of deceptive positioning from the brand and company attitudes to purchase intentions might be explained by demand effects. Respondents in both countries were led to believe that the study is conducted as a marketing test of the concept of a new brand of chocolate. It is possible that most of the respondents assumed that the test sponsors wanted to hear that they were willing to purchase the new brand and gave the desired answer. Another explanation for the lack of statistical significance of the effect of positioning on purchase intentions is that sample size was too small to detect this effect. Finally, since only one set of landmarks was used to implement the deceptive positioning manipulation in each country, a possibility remains that some of the images used in the study represented some exceptional affinity to the subjects in the study, thus biasing our results. More research needs to be done to rule out these alternative explanations.

Notably, although both Americans and Romanians held equally positive view of the brand (based on the data from the baseline, non-deceptive condition), the likelihood of buying the target brand was significantly higher for Romanian subjects. This finding goes in line with the findings of Batra et al. (2000) confirming that the appeal of Western brands is particularly strong in emerging economies.

We would like to stress that respondents in both countries rated the fictitious foreign brand equally favorably when the foreign brand was described as openly communicating about its country of origin (non-deceptive positioning). Equally favorable brand attitudes in the non-deceptive condition in the two countries indicate that the observed differences in brand attitudes in the deceptive positioning condition are not attributable to the variations of how Belgian chocolate is perceived across these two countries. We propose that the observed differences in subjects' responses to the deceptive positioning of a foreign brand are due to the varying degrees of persuasion knowledge in the United States versus Romania. Since, as we argued, American consumers have more experience dealing with the persuasion by the marketers, they are more likely to develop and apply a body of persuasion knowledge. Recognizing persuasion tactics used by the marketers (e.g., deceptive foreign brand positioning) might, therefore, lead to discounting of the product claims and lower brand attitudes. The thought listing data provide evidence that the decrease in favorability of brand attitudes in the United States can be attributed to differences in the scope and use of respondents' persuasion knowledge. Most notably, manipulation/deception inferences in the deceptive positioning condition were observed only in the American sample, but not in the Romanian sample (see Table 2). The thought listing data are also generally consistent with our proposal that brand/company attitudes and purchase intentions will be more favorable in response to deceptive positioning in those emerging markets where such efforts will be viewed as a culturally accommodating marketing effort. In fact, respondents in Romania were more likely to mention customizing effort/domestic appeal (see Table 2). It is possible that the two factors (limited persuasion knowledge and appreciation of culturally accommodating marketing efforts) might exert their influence simultaneously in certain emerging markets. In other words, it is conceivable that not only have Romanian subjects accumulated less persuasion knowledge due to a fairly recent transition from a planned to a market economy, they might want to "reward" a foreign marketer for the attempts to customize a brand for their country-market because they view such attempts as out-of-the-ordinary, culturally accommodating marketing efforts.

Therefore, based on the findings of this study, an international company attempting to enter a developed market with a strategy of positioning a foreign brand as seemingly domestic might encounter consumer suspicion and lack of acceptance. In this case, the strategy of openly communicating the foreign origin of the brand might be advisable. However, an international company might gain better product acceptance if it positions its brand as seemingly domestic in an emerging market. Further research is needed to determine the extent of these effects (e.g., whether they are limited to brand and company attitudes only or whether they extend to purchase intentions as well).

Consistent with Hypothesis 3, cultural orientation, measured using the 16-item individualism-collectivism scale (Singelis et al. 1995), was a significant predictor of the foreign brand and of company attitudes. Cultural orientation was not a significant predictor of purchase intentions. Again, this lack of significance might have been caused by insufficient sample size (on average, 25 subjects per each experimental treatment) or by absence of the effect. Further studies are needed in order to explain this finding.

Although H3 did not make predictions regarding the relationships between specific dimensions of the cultural orientation and the attitudes toward foreign brands, companies, and purchase intentions, this study yielded a notable finding when higher horizontal collectivism (HC) was found to be associated with more favorable foreign brand and company attitudes. This might be due to the fact that people with a horizontal (egalitarian) cultural orientation are generally not as competitive as people with the vertical (hierarchical) cultural orientation (Gürhan-Canli and Maheswaran, 2000b) and, therefore, might be less prone to see foreign companies as a threat. Since HC-orientation corresponds with viewing oneself as being "same as others" (Singelis et al., 1995), high HC-scorers might not perceive the distinction between people from their own culture and the foreigners as such a sharp divide. Therefore, the HC dimension of cultural orientation might be related to a more benevolent view of foreign companies and their products. Although the relationship between the vertical dimension of individualism and collectivism and the country of origin effects has been documented in marketing research (Gürhan-Canli and Maheswaran, 2000b) and has been recently hypothesized by Chattalas et al. (2008) to underlie the impact of national stereotypes on the country of origin effect, horizontal dimension, to the best of our knowledge, has not been the focus of attention of marketing researchers. Further research is needed to explore this relationship as well as other potential relationships between specific dimensions of the cultural orientation and the attitudes toward the products originating from foreign countries.

Limitations and Future Research

Being exploratory in nature, this study used convenience samples of college students in both countries and this might impact generalizeability of our findings. We plan to address these issues by replicating this study with larger, non-student samples in our future research. Future research should also use multiple products from different product categories and countries of origin in order to draw more definitive conclusions.

The fact that our study compared and contrasted responses to deceptive positioning in only two countries (United States and Romania) might also have a bearing on our findings. The study needs to be replicated in other pairs of countries to ensure the generalizability of the reported findings. As we pointed out, the experimental conditions of this study need to be replicated using other operationalizations of positioning a foreign brand as a seemingly domestic brand in order to rule out the potential idiosyncratic reactions of subjects to specific national symbols and landmarks.

Most important, future replications of this study are necessary to determine whether the observed lack of transference of the effects of deceptive positioning and of the horizontal collectivism dimension of cultural orientation from the brand and company attitudes to the purchase intentions in this study is a valid and stable effect or if it was specific to this particular study design and execution.

The finding that horizontal collectivism is associated with more favorable view of foreign products has obvious potential managerial implications. For example, countries that are high in horizontal collectivism might be rated as more attractive markets when a company prioritizes its market-entry goals. Horizontal collectivists within each foreign culture might be targeted with tailored advertising campaigns in order to make them early adopters of foreign brands. In our opinion, the role of horizontal collectivism in acceptance of foreign products merits further investigation.

Finally, future studies should also explore the potential boundary conditions (e.g., size of the market, expectation of customization actions) that might impact or even reverse the positive effect of positioning a foreign brand as a seemingly domestic brand in an emerging market. For instance, perception of positioning a foreign brand as a seemingly domestic brand might be interpreted as a culturally accommodating marketing effort and appreciated more in a smaller emerging market (e.g., Romania, Slovakia) than in a large emerging market (e.g., Russia, China).

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Improving Project Management Through Knowledge Management Principles

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ABSTRACT

In the current complex business environment, projects are viewed as critical building blocks for organizational success. In fact, powerful interactions are known to exist between the completion of project tasks and the flow of knowledge in an organization. Such interactions lead to the exploration of the improvement in Project Management based on the guiding principles of Knowledge Management.

In the past, Knowledge Management had been thought of as a collection of technological assets and managerial policies that compensate for information failures. However, recent studies have uncovered the popularity of Knowledge Management research since most project environments have the potential, but do not promote personal information sharing. In our work, we discuss how project-oriented businesses can apply Knowledge Management methods to compensate for deficiencies in tacit knowledge.

Introduction

Today, almost every organization is involved in projects, leading several business executives and experts to declare Project Management (PM) "The wave of the future." Some have even proclaimed that the corporate jungle has a new species, the Project Manager, who will fill the void created by the extinction of middle managers (Stewart, 1996). More and more, firms are realizing that managing projects, as well as project teams, can be a vital part of everyone's job.

Projects are unique endeavors in many organizations that require special functions where the advantages of experience through learning by some are not usually made available to others. To compensate for these shortcomings, organizations often seek project managers with a level of experience necessary to complete these distinctive assignments. The term "experienced project manager" does not necessarily imply that a project manager has the exact skills required to accomplish the task at hand, but generally means that he has completed similar tasks for which he can draw upon to carry out the task. Unfortunately in this period of high technological change, the number of "experienced project managers" is not keeping pace with the number of projects requiring leadership.

To combat this problem, organizations are beginning to embrace the concept of Knowledge Management (KM). KM has been around for decades, but most accept it only as theory and have not put it into practice. It has been difficult for many firms to evolve their organizational thinking from an information focus to a knowledge focus. Throughout the past several decades, Information Systems practices were sufficiently developed to accomplish efficient production of information. Problems arose when information was in abundance, but key individuals possessing that information did not, or would not share it with others who stand to benefit from its discovery.

Documentation is one area within PM that has been given little attention in practice. Project managers have been known to quickly move on to their next assignment, taking valuable information with them. However, with the advancements in Information Systems, platforms exist to capture their knowledge. Thus, if future knowledge learned by project managers has the same historical destiny, then KM is the tool to bring it to the next level of information dissemination.

In our work, we explore the topic of KM in the context of project-oriented businesses. Recent studies have indicated how project managers might use KM to enhance or create more effective project environments. Of particular interest is the need to examine KM practices to compensate for shortages in tacit knowledge (project manager/task leader centered). Thus, we investigate some of the issues in Project Management and infer proactive KM methods for enhancing project organization productivity.

Project Management and its Organizational Structure

By definition, a "project" is *a complex, non-rou*tine, one-time effort limited by time, budget, resources, and performance specifications designed to meet customer needs (Gray and Larson, 2006). It can also be viewed as a set of temporary activities conducted by an ad hoc organization (Olson, 2004). Firms that support such non-routine, one-time efforts are known as project organizations, where functional lines of authority are not key to success.

The project organization is a setting that is highly conducive to innovation, since new products and processes evolve from new ideas discovered during cross-functional, team-working interaction. Such an environment is often viewed as a vehicle for improvement, generally resulting in significant benefits for the firm.

Project organizations usually consist of many project teams. These teams carry out several projects for the firm at once, and include groups of people with unique, specialized skills. The core members of a project team include the roles of project manager, task leader and project expediter (or coordinator), each of which are described below.

Expeditor: An individual who monitors problems in an organization and works on alleviating them rapidly.

Task Leader: A person of certain skill whose purpose is to coordinate work efforts to accomplish a specific task.

Project Manager: An individual assigned the responsibility of accomplishing project objectives.

Project Management Issues

Interviews with PM professionals have uncovered some of the challenges in managing "cutting edge" projects. Pressures to complete them in short amounts of time often present problems associated with project scope. Some technology consultants have reported that many projects are generally given a brief planning period followed by extensive design and development time to meet due dates. This technique often requires several iterations of project change orders requiring extra production time and increased costs before customers agree on and accept a completed project. It can be a difficult cycle to terminate.

With that in mind, projects are generally assessed along three dimensions: Time, Cost and Quality. Because of this inherent poor planning characteristic, Olson (2004) argues that most projects will meet any two of the dimensions, but very few meet all three. This, in turn, affects the five M's of project resources: Material, Manpower, Machinery, Money and Methodology. Table I below lists and describes these major internal issues encountered by project managers, leading many to miss important project dimensions.

Table 1 Resource Issues Surrounding the Five "M's" of Project Management		
Issue	**Description**	**Most Affected Dimension**
Material	Inferior supplies and poor inventory practices for tasks and other basic project needs.	Quality
Manpower	Inexperienced labor, lack of loyalty and organizational goals, poor communication and training, etc.	Time
Machinery	Poor technology choices and/or availability for tasks.	Time
Money	Lack of funding or failure of market to develop for final deliverable.	Cost
Methodology	Poor marketing research, inadequate technological design, poor project structure, use of outdated processes and procedures, excessive change orders, etc.	Cost/ Quality

Current Methods to Manage the Issues

Several popular methods have been used in recent times to manage the resource issues described previously. These include: Critical Chain Management, Earned Value for Assessment and Evaluation, and Risk Management. By no means is this an exhaustive list. Although the Critical Chain and Risk Management approaches are somewhat proactive methods, the Earned Value method remains reactive. Each is described below. Dissenting arguments regarding each are also presented.

Critical Chain Buffers

Goldratt's (1997) research offers Critical Chain Project Management (CCPM), where a project's focus is not only on critical activities, but on activities that might become critical. He suggests eliminating due dates, which themselves become reasons for delay. His primary means of ensuring that critical activities are completed on time is to use activity buffers (which are dummy tasks of additional time in the schedule to protect against unanticipated delays) which in turn, allow for early subsequent activity starts. Activity buffers are not slack time, but blocks of time that are not expected to be used for work time. They are dedicated to covering highly probable contingencies, and are closely watched so that in the event they are not needed, subsequent activities can proceed at their earliest convenience.

Numerous practitioners dismiss this method arguing that experienced project managers have known the principles behind CCPM for a long time, and its uniqueness is in its terminology rather than in its substance. Raz et. al. (2003) accept Goldratt's CCPM assumptions that all task owners overestimate task duration by a certain safety factor, and that the time duration of the actual execution of each task will expand to fill the time allotted. However, they argue that the issues at hand are:

1. How does a project manager determine the safety factor that the task owner presumably built into his original estimate of duration?
2. Will the task owners agree to shorten their duration estimates and merge their individual safety factors into the feeding buffers of the project?

Raz et. al. (2003) continues and points out that if a method exists for partitioning tasks into completion and safety factor times, then it should have been used in the first place.

Additionally, CCPM is based on the assumption that the project network consists of several paths that start in parallel and proceed to merge into each other, eventually leading to the final product of the project. Schonberger (1981) shows that CCPM does not work well for "non-funneling" networks, and that networks with many parallel tasks further increase a project's estimated duration.

It is also disappointing to note that CCPM theorists fail to provide any supporting data as evidence to their claim. Overall, the CCPM technique makes for long and overestimated project durations. It addresses more motivational and behavioral issues within the project workforce, and provides inefficient information for project planning stages.

Project Assessment and Evaluation

The generally accepted method of project assessment and evaluation is Earned Value Management (EVM)

(Pinto, 2007). The usefulness of EVM depends on data from the work breakdown structure (resources, time and cost estimates, and a time phased budget for each task), and new estimates of "percent complete" tasks that are realistic and as accurate as possible. Measurement and evaluation of project performance requires a control process consisting of the following four steps:

1. **Setting a Baseline Plan**: The basis for which project performance is measured and is derived from the cost and duration information found in work breakdown structure information, and time-sequence data from network and resource scheduling decisions.
2. **Measuring Progress and Performance**: Quantitative as well as qualitative methods used to monitor the accumulation of work performed.
3. **Comparing the Plan against Actual Project Status**: An assessment procedure to compare actual project status to the baseline plan, generally in the form of exception reports.
4. **Taking Action**: Corrective actions are taken if significant deviations from the baseline plan are uncovered.

Unfortunately, project assessment and evaluation are not usually performed well in most commercial and industrial project organizations, and is considered one of the most neglected areas of project management. It has negative connotations for many, and is frequently resisted. The technique has the appearance of holding people accountable, while allowing for the traceability of undesirable events.

In addition, project managers are often required to report change order requests that produce significant variances within project status reports. Such occurrences are often subject to creative baseline revisions leaving many to question the results of this exercise in self-assessment.

Risk Management

Every project manager understands risks are inherent in projects. Gray and Larson (2003) define "risk" in the context of projects as *the chance that an undesirable event will occur along with all of its possible consequences*. Risk management attempts to recognize, manage and possibly remedy potential and unforeseen trouble spots that may occur once the project has begun. Risk management, as part of the project planning process, attempts to identify as many adverse events as possible (what can go wrong), minimize their impact (what can be done about the event before the project begins), manage responses to those events (containment plans), provide remedies for the event(s) (previously determined solutions), and provide contingency funds to cover those events that actually materialize.

The most frequently applied methods for assigning probabilities to the occurrence of unplanned events for a given action are classified as classical (equal chances), historical (empirical data) and subjective (opinions). Once assigned, the actions can be studied further to determine the likelihood that losses will occur. For example, suppose that for a given situation with a choice of two actions, four event outcomes are possible. Note that no loss is incurred when action a_1 is taken and its state of nature, θ, is in Ω_1. However, if a loss occurs, we assign it as $0_2(\theta)$. Thus, for a_1, its outcomes can be represented as:

$$l(a_1, \theta) = \begin{array}{ll} \{0, & \text{if } \theta \text{ is in } \Omega_1\} \\ \text{or} & \\ \{0_2(\theta), & \text{if } \theta \text{ is in } \Omega_2\}. \end{array}$$

In addition, no loss is incurred when action a_2 is taken and its state of nature is in Ω_2. However, if a loss occurs, we assign it as $0_1(\theta)$. Similarly, the outcomes for a_2 can be represented as:

$$l(a_2, \theta) = \begin{array}{ll} \{0_1(\theta), & \text{if } \theta \text{ is in } \Omega_1\} \\ \text{or} & \\ \{0, & \text{if } \theta \text{ is in } \Omega_2\}. \end{array}$$

Finally, for a given decision rule, or critical region C, the risk function $R(C, \theta)$ can be evaluated as follows:

$$R(C, \theta) = \begin{array}{ll} \{0_1(\theta)P(\,C \mid \theta\,)\}, & \text{if } \theta \text{ is in } \Omega_1 \\ \text{or} & \\ \{0_2(\theta)P(\overline{C} \mid \theta\,)\}, & \text{if } \theta \text{ is in } \Omega_2 \end{array}$$

where $P(\,C \mid \theta\,)$ is the probability that the outcome falls inside critical region C when θ is in Ω_1, and $P(\overline{C} \mid \theta\,)$, is the probability that the outcome falls outside critical region C when θ is in Ω_2. Further information on risk analyses can be found in Hillier and Lieberman (1990).

In practice, an insightful project manager will seek a decision rule which will minimize the risk for every value of θ in Ω. Regrettably, unidentified and/or unplanned events are more often than not missing from the risk management portfolio.

Trends in Projects

Although projects are defined as one-time efforts, there are many common, yet repeatable tasks performed within them. For example, we have all witnessed the changes that have occurred in computer programming through time. In the early years, programs were written specifically for the task at hand. In later years, programs similar in development were interchanged and modified (repeated) to meet different customer needs. Today, computer program modules are written and stored in libraries so programmers can customize the ones they need to meet customer requirements.

Additionally, academic research projects are also excellent examples of projects that are most frequently conducted on an ad-hoc basis to achieve specific objectives. In fact, there are enough commonalities from research project to research project that many academicians would likely describe their research as a process consisting of a series of successive steps. Granted not every project will complete every single step, nor will every project follow the steps in the exact order.

In support of the research example, Burns and Bush (2006) contend that conceptualizing marketing research projects as a series of successive steps has merit. It provides marketing researchers and non-researchers with a framework in which to view the entire research process. It may also provide guidance or direction to the researcher(s) in terms of which tasks may need to be accomplished and in what order.

The knowledge gained by performing repeatable tasks is often a by-product of the PM process. However, if captured, such information can lead to more effective PM. Therefore, if PM as a whole has the same destiny as the computer programming and academic research examples, then KM is the vehicle to get us there.

Knowledge Management

Dunn and Neumeister (2002) provide a synopsis of the evolution of Knowledge Management. They postulate that instances of KM may have first been recognized around the time of World War II. It was during this time that it became evident how workers learned from experience. For instance, it was noticed that building a second airplane took considerably less time than building the first. Nobel Prize-winning economist Kenneth Arrow (1962) addressed the issue of learned experience (i.e. KM) in his article entitled "The Economic Implications of Learning by Doing." It was during this same time period that resources began to be devoted to the cause of determining significant performance variations in output within organizations. Although it is unclear when the term "Knowledge Management" was officially coined, its concept intensified in the 1990s. Karl Wiig (1993) authored "Knowledge Management Foundations: Thinking about Thinking – How People and Organizations Create, Represent and Use Knowledge" which was possibly the first published use of the term.

Dunn and Neumeister (2002) define "KM" as a systematic approach to managing and leveraging an organization's knowledge assets, which may include knowledge of the organization's customers, products, markets, processes, finances and personal services. Novins (2002) shortens the definition to simply say KM can be thought of as packaging the right content and delivering it to the right people who can make use of it at the right time. Koskinen's (2004) work categorizes KM into two components to support communication and implementation in management. First, he defines "explicit knowledge" as knowledge that can be embodied in a code or a language, and, as a consequence, can be communicated easily. The code may be words, numbers, or symbols like grammatical statements, mathematical expressions, specifications, manuals, and so forth. In addition, he defines "tacit knowledge" as knowledge based on the experience of individuals. It expresses itself as human actions in the form of evaluations, attitudes, points of view, commitments, motivation, etc. Some have summarized tacit knowledge by the phrase, "We know more than we can tell." To simply distinguish between the two, explicit knowledge is about why things worked, and tacit knowledge is about what things worked.

When a codification process is employed to capture KM, the process often centers on computers. Knowledge is carefully codified and stored in databases, where it can be accessed and used by authorized users for help and advice with planning or solving problems. The "Theory of Inventive Problem Solving" (TRIZ) is a problem solving method based on this concept (Altshuller, 2000). It is intended to accelerate a project team's ability to solve problems creatively using logic and data, not intuition. It is a good example of explicit KM.

In the case of tacit KM, the information transfer process centers on an individual. Knowledge is closely tied to the person who developed it, and is shared mainly through direct person-to-person contact. The role of computers in such projects is to help people communicate knowledge, not to store it.

Koskinen (2004) explains that KM has polarized itself into two primary areas of research. One is deeply rooted within information technology and information control, while the other concentrates on knowledge, know-how and skills, as well as their management from the perspective of the leadership of people and organizations. However, both are necessary for long-term contributions to project management.

Knowledge Management Benefits

Thus far, the proactive approach of KM has been presented as a practice that makes sense for improving PM. It is the concept of combining the expertise, wisdom and insights of those individuals who have come to their wisdom the hard way. If the wisdom could be captured and shared within the PM community, it would make sense that organizations would benefit infinitely. Such benefits occur in both explicit and tacit forms. For example, explicit KM benefits include, but are not limited to the following:

1. Data collection on completed work packages, milestones, and completed projects can be obtained.
2. Interdependencies among tasks due to shared resources can be addressed.
3. Identification of real risks and the methods used to alleviate them can be determined.

Examples of tacit knowledge benefits include, but are not limited to the following:

1. Interviews that can determine what processes/methods were successful.
2. Interviews that can also determine what actions (taken) did not work.
3. Quicker movement through a task's or project's learning curve.

Applying Knowledge Management to the Issues

When summarizing the characteristics of KM, Peter Novins (2002) postulates that good KM should have three characteristics. First, it needs to address a real business problem that everybody agrees is a problem. Second, an organization cannot sustain a KM system without some kind of community interest or practice that provides content and accepts responsibility for continuing to build and share the content. Third, KM systems have to make it very, very easy for people to get the content they need.

Additionally, O'Dell (2004) describes three roles, identified below, that are necessary for a successful KM system. To effectively apply these roles, it is important for organizations to realize that KM will not happen without sufficient technological resources. Such resources should be dedicated to the task of making information sharing possible.

Knowledge Steward: One who collects, analyzes and organizes knowledge held by individuals within an organization.

Knowledge Facilitator: One who establishes connections between individuals in order to share knowledge.

Community of Practice Leader: One who sets the direction and climate for knowledge sharing in the community and ensures that the organization and the members are all benefiting from the exchange.

In PM, the most profound aspect of KM is that, ultimately, an organization's only sustainable competitive advantage lies in what its employees know and how they apply that knowledge to projects. The addition of KM repositories to PM enhances an organization's ability to:

1. Think in broad terms.
2. Capture issues for study and/or observation.
3. Take independent remedies and address issues in an interdependent fashion.
4. Catch issues that have traditionally "slipped through the cracks."

Our proposed framework of role dependencies between PM and KM responsibilities is presented in Table II. It is here that project organizations define and assign who will handle which issues and collect the corresponding tacit, as well as explicit knowledge that will prepare others for more successful projects.

Table 2
Project Team Responsibilities/Assignments for Effective KM

Project Team Role	Corresponding KM Role	Resource Issues	Key KM Comp.
Expeditor	Knowledge Steward	Material	Explicit
Task Leader	Knowledge Facilitator	Manpower, Machine	Tacit
Project Manager	Community of Practice Leader	Money, Methods	Tacit

Barriers to the Knowledge Management Approach

Having explored the nature of KM as an important tool for project organizations, our work must also address barriers that inhibit its effectiveness. Knowledge, in this context, is information that is further refined to connect, compare, evaluate and act on basic information. It also involves the experience and judgment of the individuals within the organization.

Mark Twain is known by many as an American humorist, satirist, writer, and lecturer. Twain is most noted for his novels, but is also known for his quotations. He once wrote, "It is not worthwhile to try to keep history from repeating itself, for man's character will always make the preventing of the repetitions impossible" (DeVoto, ed., 1922). His insights suggest that knowledge is not shared over time, but is discarded as a by-product of the mission at hand.

According to Twain, a character change is necessary to implement the KM approach. The question is: "How can project managers and team members become motivated to share the knowledge gained from their experiences?" The typical culture shared by many project managers as well as others, is not one that rewards the sharing of ideas and wisdom. Promotion and job security are functions of a project manager's ability to generate original ideas, and apply them in unique ways. In such a case, knowledge can be thought of as a belief that is justified and then internalized. Therefore, it can be lost, shared, or hoarded.

With mounting business pressures and the threat of organizational politics, many managers often fear the theft of their managerial practices and knowledge. Advances in technology make such practices vulnerable to capture and unethical reproduction. When job security depends on the demonstration of originality and vision, there is little or no incentive for those with knowledge insights to share with those who are struggling.

Conclusions and Future Research

We have shown that there are dynamic KM challenges and opportunities occurring within PM. Like most other professional fields, technology is taking hold. In doing so, business processes are either gaining much needed support, or are being completely reengineered. The common denominator seems to be an evolution from a reactive business environment to a proactive one.

As was stated by Novins (2002), "The solution isn't creating the world's greatest database repository of all wisdom with the world's fanciest search engine. Instead, we need to give people specific tools designed to help them do their job and solve specific business problems." Hopefully, those in PM will be enlightened to see that they possess the tools to create a win-win situation in their organizations. From a more intuitive standpoint, it is using technology, programs, policies, and management processes to compensate for the fact that organizations are too big for everyone to know each other and share information at a person-to-person level. Therefore, necessary incentives must be put into place in order for KM to be viewed by organizations as an asset that goes beyond the value of their available information. The solution here could be as simple as a reward system (financial motivation) for senior project managers who mentor younger project managers, or for providing thorough documentation of projects at completion. As stated by O'Dell (2004), "Behavior that is rewarded gets repeated."

The continuous drive for improvement and accountability in PM makes it a prime example of the need for knowledge repositories. As projects are continuously combined with new information, we conclude that it is necessary to continue to make contributions to research in PM in cooperation with research in KM. The theoretical correlations discussed here have provided the opportunity to continue this research, perhaps including the concepts of Organizational Citizenship Behavior. Empirical evidence on the success of the proposed strategies may offer all involved a chance to change the course of history as expressed by Twain.

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SEC's Modification of 20-F Requirements has Material Implications on Finance and Accounting Professions

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ABSTRACT

SEC's move to eliminate IFRS US GAAP reconciliation exacerbates the shortage of financial professionals with the necessary financial acumen in the marketplace. This paper looks at the history of US convergence with IFRS; provides evidence of material differences that still remain; and discusses the implications for the capital markets as well as the finance and accounting profession.

Introduction

Currently, accounting in the United States is in a process of drastic development and change. This progression involves convergence with International Financial Reporting Standards (IFRS). For over five years, the Financial Accounting Standards Board (FASB) of the United States and the International Accounting Standards Board (IASB), that promulgates foreign financial reporting standards, has been working on the convergence of U.S. GAAP (generally accepted accounting principles) with IFRS. Over the course of the past few years, significant progress has been made toward the convergence efforts with many joint FASB and IASB projects designed to reduce inconsistencies between the two sets of accounting standards. However, many potential barriers and obstacles have yet to be crossed that ultimately stand in the way of successful convergence. The dilemma facing the U.S. is the process of developing and converging with a global set of accounting standards, which have significant implications for the flow of capital and the need for finance and accounting professionals to update their financial acumen in the interpretation of financial reports and to make the transition less difficult.

History of U.S. convergence with IFRS

Evolution of International Accounting Convergence

In 2001, The International Accounting Standards Board (IASB) was established to replace its predecessor, the International Accounting Standards Committee. The formation of the IASB marked a great transition period for international accounting by shifting the focus from harmonization to global standard setting. This inevitably had an enormous impact on the United States and its acceptance of the possibility of one set of high-quality global accounting standards.

In October 2002, the U.S. Financial Accounting Standards Board (FASB) and the ISAB issued a memorandum of understanding, also known as the "Norwalk Agreement," which guaranteed their best efforts toward the convergence of U.S. and international accounting standards (FASB, 2002). This meeting resulted in both the FASB and the IASB challenging themselves "to (a) make their existing financial reporting standards fully compatible as soon as is practicable and (b) to coordinate their work program to ensure that once achieved, compatibility is maintained" ("Memorandum of Understanding-Norwalk Agreement," 2002).

In February 2006, the FASB and the IASB reaffirmed their commitment to convergence of accounting standards by issuing an updated memorandum of understanding detailing where they believe and would like to see the future of international accounting standards. The FASB and the IASB indicated agreement on several important issues, including the time necessary for the creation and convergence of high-quality accounting standards. They also agreed that choosing between FASB and IASB standards where material discrepancies exist is not the best use of their available resources. Instead, both Boards believe that new common standards need to be developed that are most beneficial to international investors. Ultimately, both agree that in the interest of worldwide investors, the convergence process should involve replacing weaker standards with new and improved ones (Payne & Ranagan, 2008, p. 15). The U.S.'s FASB and the IASB's road to convergence remains consistent with their ultimate objective of creating a high-quality set of international accounting standards that are applicable, understandable and enforceable. The eventual outcome for the United States concerning IFRS is one that is marred with potential barriers but also possible benefits that still need to be weighed before resolutions can be reached. There are also varying degrees of convergence with IFRS. The degree of convergence the United States is considering is somewhat uncertain, but the question concerning IFRS is no longer if, but when.

Globalization allows capital to flow to those markets where the fewest barriers exist. Even the smallest companies are beginning to operate internationally, and the pressure to converge to a single set of standards is increasing. After all, no company wants to incur the additional costs associated with complying with multiple sets of auditing and financial reporting standards. According to the SEC's Chief Accountant, Donald Nicolaisen,

> "When companies access capital markets beyond their home jurisdiction, they incur additional costs of preparing financial statements using different sets of accounting standards. These include the costs for company personnel and auditors to learn, keep current with and comply with the requirements of multiple jurisdictions. Similarly, use of resources dedicated to standards writing could potentially be optimized if fewer separate accounting models are pursued."

In addition, it is extremely important to the U.S. capital market, as well as capital markets all over the world, that investors have access to comparable and reliable financial reporting. It is important that investors have confidence in the reporting process and standards, which can be difficult when trying to compare two different financial statements, reported under two different sets of reporting standards. For an investor not familiar with both methods of reporting, comparability could be impossible. Convergence with IFRS would lead to easier investment decisions and a more free flow of capital, without having to take into account the method of reporting as a decision making factor.

Over 100 countries including all of the European Union, Australia and Hong Kong, permit or require the use of IFRS rather than their home country GAAP. Many other countries are also attempting to make the transition to IFRS including Australia, Japan and Korea. The United States is one of the few countries left that does not permit the use of IFRS. In the end, it is much more likely for a global set of accounting standards to be utilized on a worldwide basis if the United States accepts IFRS rather than other countries accepting U.S. GAAP (Carcello & Williams, 2007).

For over five years, the FASB and the IASB have been working on convergence projects to make the two accounting standards more comparable. Although significant progress has been made, material differences still exist in areas where U.S. GAAP has existing standards and IFRS has none. Also, the tenor of the two sets of standards is dramatically different with U.S. GAAP's rules/detailed based approach and IFRS's principles based approach. If convergence requires that the FASB and IASB combine their two sets of standards, Chairman Herz said it would take several more years to work out the material differences. But given the quick growth of international capital markets, market pressures may demand convergence on a more rapid basis (Carcello & Williams, 2007).

The major reasons for evaluating foreign financial statements are foreign portfolio investment, international mergers and acquisitions, credit decisions about foreign customers, evaluating financial health of foreign suppliers, and benchmarking against global competitors. The diversity in accounting principles is one of the most important issues in analyzing foreign financial statements. The possible problems linked with diversity of foreign financial statements are data accessibility, language, currency, terminology, format, extent of disclosure, timeliness, differences in accounting principles and international ratio analysis. "The U.S. generally permits free access by foreign issuers and investors to the U. S. capital markets, subject to compliance with SEC registration & other requirements" (Karmel, Roberta). In an effort to reduce the risk in investing in foreign companies, international companies registered on U.S. stock exchanges are required to provide a reconciliation of net income and stockholder's equity to U.S. GAAP in the Form 20-F. Historically, Form 20-F was perceived to be necessary to achieve investor confidence in foreign public companies registering with the FCC.

Firms that must adapt to different accounting policies and disclose additional information result in additional cost. International companies also have to hire employees who are experienced in translating financial statements to US. GAAP. "Many companies have complained of the compliance burden and cost involved and stated they would reevaluate their participation in the U.S. market place" (Karmel, Roberta). The significant high cost associated with filing the Form 20-F for some firms listed on the NYSE is a main reason why other firms did not list on these exchanges. (R.B. Durand and A. Tarca) Although the costs are high for many firms, there are arguments that the benefits of U.S. cross listing outweigh the cost due to access to U.S. investors. Also, some argue that present disclosure practices of many foreign issuers in the market are consistent with the 20-F requirements as adopted. Meaningful differences do exist among countries and must be taken into account. (Karmel, Roberta)

Over the last twenty years many firms have been increasing their shares on the foreign stock exchanges. In 1992 at year-end the number of foreign firms listed on one of the major two U.S. exchanges was less than foreign firms listed in London, Frankfurt, and Zurich. London had more than four times the amount of firms listed compared to the U.S., despite the fact that the U.S. market is larger. " Current SEC rules handicap one of the service industries in which the United States is, so far holding it's own against foreign competition and they warn that such regulations can also harm international competitiveness of the of the U.S. securities industry." (http://www.questia.com). If the SEC rules do not change there is a possibility that this could continue to contribute to less foreign registrants in the U.S. market.

The benefit for the U.S. in regard to foreign companies filing Form 20-F is that US companies do not have to be concerned with cost associated with training employees to understand the differences between U.S. GAAP and IFRS. The requirement of Form 20-F reconciling financial statements to U.S. GAAP also generally reduces the risk in investing in foreign markets.

If foreign companies are not required to conform to U.S. GAAP through the filing of the 20-F then the number of foreign registrants will rise on U.S. stock exchanges. This would increase the U.S. capital markets and provide a larger diversity of foreign investment for U.S. investors. Another benefit would be less compliance cost for foreign companies as well as lower costs associated with training employees regarding US GAAP compliances.

In spite of remaining material differences between IFRS and US GAAP, in November of 2007, in response to this rising pressure from the U.S. capital markets and foreign firms, the SEC announced changes to the requirements of annual reporting for foreign companies listed on U.S. stock markets. Foreign registrants registered on U.S. stock exchanges were no longer required to file reconciliation to US GAAP as part of their Form 20F filing requirements as long as their financial reporting followed IFRS GAAP rules. "The Commission is proposing to accept from foreign private issuers their financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB") without reconciliation to generally accepted accounting principles ("GAAP") as used in the United States. To implement this, we propose amendments to Form 20-F and conforming changes to Regulation S-X to accept financial statements prepared in accordance with the English language version of IFRS as published by the IASB without reconciliation to U.S. GAAP when contained in the filings of foreign private issuers with the Commission." (Securities and Exchange Commission-17 CFR Parts 210, 230, 239 and 249 – Release Nos. 33-8818; 34-55998; International Series)

Material Differences Remain Between U.S. GAAP and IFRS

In spite of all the convergence efforts between the FASB and IASB currently when using IFRS as compared to U.S. GAAP, certain items on the financial statements are likely to be reported more favorably. In a speech by FASB Chairman Bob Herz, testified that "IFRS earnings exceed U.S. GAAP earnings by more than 20 percent for approximately a quarter of the companies in a recent study" (Carcello & Williams, 2007, p. 2).

For example, Daimler Chrysler's first report using IFRS increased the automaker's tax earnings by $819 million to $5.2 billion, while earnings per share increased by 68 cents. The switch also reduced the loss suffered by the company's Chrysler division from $1.5 billion to $682 million. The company attributed most of the change to the way pension obligations are booked under IFRS (Katz, David 2007)

A randomly selected group of ten foreign registrants filing the final 20-Fs requiring IFRS to U.S. GAAP reconciliation are reflected in the following tables. An assortment of industries and countries were investigated for differences in Net Income and Equity. A third table identifies the significant justifications cited in the reconciliation for the differences. IFRS Income differences ranged from an 84.2 % decrease to 71.4 % increase in U.S. GAAP Income. In all but one of these companies IFRS income was higher than U.S. GAAP income, a finding that is consistent with other studies. IFRS Stockholders' Equity for these companies ranged from an increase of 259.2 % to a decrease of 34.2 % in U.S. GAAP equity.

Table 1
IFRS/GAAP Net Income Difference (2006)

Company*		IFRS Income	US Income	% diff.
Air France	€m	891	817	8.3%
Astrazeneca	$m	6,043	4,392	27.3%
Barclays	£m	4,571	4,318	5.5%
Bayer	$m	2,237	353	84.2%
British Petroleum	$m	22,315	21,116	5.4%
China Southern Air	RMBm	126	216	-71.4%
Fiat	$m	1,519	719	52.7%
GlaxoSmithKline	£m	5,498	4,465	18.8%
Nokia	€m	4,306	4,275	0.7%
Royal Bank of Scotland	£m	6,202	5,440	12.3%

*Currency reflected in millions. Data source: Edgar Online

Table 2
IFRS/GAAP Equity Difference (2006)

Company*		IFRS Equity	US Equity	% Difference
Air France	€m	8,412	7,950	5.5%
Astrazeneca	$m	15,304	32,467	-112.1%
Barclays	£m	19,799	20,032	-1.2%
Bayer	$m	16,959	16,076	5.2%
British Petroleum	$m	84,624	86,517	-2.2%
China Southern Air	RMBm	12,121	9,917	18.2%
Fiat	$m	13,244	8,715	34.2%
GlaxoSmithKline	£m	9,648	34,653	-259.2%
Nokia	€m	12,060	12,112	-0.4%
Royal Bank of Scotland	£m	40,227	40,229	0.0%

*Currency reflected in millions. Data source: Edgar Online

The differences cited by the companies in their 20-F filings represent areas where convergence between IFRS and U.S. GAAP has not been accomplished. These areas of difference will no longer be required disclosures in SEC 20-F filings. As long as convergence is not materially accomplished these differences will presumably confound analysis and comparisons with U.S. companies using U.S. GAAP for individuals not familiar with the differences.

Converging IFRS and U.S. GAAP can essentially happen in three different ways as outlined in an SEC roundtable meeting discussing the practical issues surrounding IFRS in the U.S. (U.S. Securities and Exchange Commission, 2007). The first way would allow U.S. companies to choose between IFRS and U.S. GAAP. The SEC is currently contemplating this method. The second method of convergence would require that all U.S. public companies adopt IFRS at the same time and hopefully soon. The final method and the one that draws the most support from FASB Chairman Herz and the SEC is to lay out a roadmap that moves U.S. public companies from U.S. GAAP to IFRS. The transition will be a very complex process that will require input from many people and organizations including the FASB, IASB, PCAOB, SEC, educators, users, preparers and auditors. In order for the convergence to go as smoothly and efficiently as possible, it will require the roadmap cover several years and lay out processes and procedures for companies to follow during convergence. The end result should be a certain year, possibly 2011, when companies will be required to report using IFRS similar to the set up of the European Union and their requirement for IFRS by 2005 (Carcello & Williams, 2007, p. 2).

FASB Chairman Bob Herz also outlined four necessary changes that need to be made internationally and domestically in order for the transition from U.S. GAAP to IFRS to go as smoothly as possible. First, some countries that have adopted IFRS allow for modifications to made to it to make it fit the local environment more. These modifications create inconsistencies in one high-quality global set of accounting standards and produce an unlikely acceptance scenario by U.S. companies and politicians if there are hundreds of altered versions of IFRS

Table 3
Major Differences Cited

Company	Major differences cited
Air France	Business Combinations, Pensions, Leases, Derivatives, Deferred Income Taxes, Stock-based Compensation
Astrazeneca	Business Combinations, Pensions, In-process R&D, Deferred Income Taxes, Development Costs
Barclays	Foreign Exchange, Intangible Assets, Pensions/Post employment Benefits, Asset Revaluations, Derivatives, Taxes, Securitizations
Bayer	In-process R&D, Pensions, Business Combinations, Deferred Income Taxes
British Petroleum	Pension/Post Retirement Benefits, Asset Impairments, Oil/Gas Recognition, Deferred Taxes, Inventory Valuation, Derivatives, Provisions
China Southern Air	Business Combinations, Leases, Deferred Taxes, Interest Capitalization, Joint Venture accounting
Fiat	Development Costs, Asset Impairment, Business Combinations, Goodwill, Deferred Income Taxes, Employee Benefits
GlaxoSmithKline	Amortization & Asset Impairment, Intangibles, Pensions, Derivatives, Deferred Income Taxes, Product Rights, Business Combinations
Nokia	Development Costs, Deferred Income Taxes, Share-based Compensation, Pensions, Goodwill
Royal Bank of Scotland	Asset Revaluations, Pensions, Derivatives, Taxes, Intangible Timing differences

Data source: Edgar Online

in every jurisdiction. Second, the IASB needs to ensure its independence by obtaining an established source of funding similar to the FASB in the U.S., which obtains funding by way of the Sarbanes-Oxley Act. Third, areas still exist within IFRS that have non-existent standards; thus, standards need to be issued in such areas as soon as possible (accounting for insurance contracts, etc). Finally, more rigorous enforcement and regulatory mechanisms need to be developed to ensure the proper application and implementation of IFRS worldwide (Carcello & Williams, 2007, p. 3). Ultimately, for the resolution of international accounting harmonization, the necessary infrastructure for global reporting must include the following: effective, independent and high quality accounting and auditing standard setters; high quality auditing standards; audit firms with effective quality controls worldwide; profession-wide quality assurance; and active regulatory oversight (Herrmann and Hague, 2008).

Implications for Capital Markets and The Finance and Accounting Professions

Market Efficiency

Will the market correct itself? The Efficient Market Hypothesis (EMH), first formulated by Eugene Fama [Fama, 1970], suggests that at any given time, prices fully reflect all available information on a particular stock and/or market. Thus, according to the EMH, no investor has an advantage in predicting a return on a stock price because no one has access to information not already available to everyone else. Chan, et al studied 18 international stock markets, individually and collectively, for market efficiency. The results from unit root tests suggest that the world equity markets are weak-form efficient, meaning that the market does adjust and capture publicly available information. (Chan, 1997) However market efficiency research consistently shows that abnormal returns are possible when there is asymmetric information or if the quality of the information we use no longer allows us to make profit-generating decisions, as is the case with the non-disclosure of Form 20-F information.

Hodgdon, et al investigated the relationship between analysts' earnings forecasting errors and firm compliance with the disclosure requirements of IFRS. Using a comprehensive disclosure index of selected IFRS for which previous research has indicated significant non-compliance, they were able to establish that forecast error is negatively related to IFRS compliance. Their findings suggest that compliance and/or reporting reduces information asymmetry and enhances the ability of financial analysts to provide more accurate forecasts. They further suggest, and we agree, that these findings should also be of interest to practitioners since rigorous interpretation and application are prerequisites for the efficient use in U.S. capital markets. (Hodgdon, 2008)

Convergence in an Inefficient Market

Now that Form 20-F reconciliation is no longer required, the SEC has recently been discussing making changes to reporting requirements of U.S. companies listed on the U.S. stock exchanges. According to David Katz, a number of recent panels, some sponsored by the SEC, have suggested that if foreign companies can be allowed to use only IFRS to list on U.S. exchanges, then U.S. firms should also have that option. Katz further states that the possibility of one day offering companies a choice of IFRS or GAAP would mean that the SEC would have to recognize the IASB as an authoritative body for setting accounting standards. That could cause conflict with the Sarbanes-Oxley Act. Although the act does not explicitly refer to FASB, it did establish a funding mechanism for it, and says the SEC can recognize only standards setting bodies that use that funding mechanism. (Katz, 2007)

Part of globalization means more asset market integration. However, according to Paul Bergin of the Federal Reserve Board of San Francisco, although we are not at an efficient market level of sophistication and integration, market integration forces tend towards less international coordination than more as the market self-adjusts. (Bergin, 2002) In order to get to Bergin's point of integration we would have to first address the real barriers to complete convergence. One such barrier is that there is a limited pool of IFRS-knowledgeable resources. According to Dave Kaplan companies will have to analyze and adjust historical financial statements, convert existing reporting systems to accommodate the IFRS framework, and educate preparers and users of the company's financial information, in order to be able to adapt to a principle based environment. (Kaplan, 2007)

Impact on Management Practices and the Need for Financial Acumen

Gitman and Vanderberg found that both Chief Financial Officers (CFOs) and academics believed that the CFO will be a full partner with operating management in the job of creating shareholder wealth and driving growth. They also showed that the CFO is expected to be more directly involved in strategic management, and value driven activities. Consistent with those expectations, the competitive strategy would be for non-financial managers to develop financial acumen**,** and for all officers and managers to develop strategic and communication, value driven skills in finance. (Gitman, 2003)

James et al found globalization to be one of the major drivers of change impacting the business environment. They further contend that consumers and preparers of financial information, who live in a globally influenced world, must have knowledge of financial accounting standards and of differences that exists between different countries. Current information on the curriculum for accounting practitioners shows the use of an integrative approach rather than a separate course in international accounting. James, et al. conducted a study accounting students' ability to identify the appropriate accounting standards for the US and other major regions, using a 5-point Likert scale, with approximately 157 participants, where "5" represented "strong" agreement. They found that those participating did not have a good understanding of the appropriate accounting standard used in the U.S. and other countries but strongly perceive that knowledge of International Accounting Standards is important. (James, retrieved May 2008)

The process of analyzing financial reports relies on professional judgment as the legal and regulatory environments evolve. Information provided by Form 20-F is extremely important to capital markets in providing information to investors and hopefully increase the flow of capital, and by providing valuable information for tax planning. Knowledge and understanding of the various standards and discrepancies are imperative to competitive efficiency.

Conclusion

In conclusion, U.S. convergence with IFRS is viewed by most, as an overall worthwhile effort that is both inevitable and necessary to economic and financial growth. However, it will not be an easy process and many barriers and obstacles will have to be crossed to reach the goal of convergence.

The move from U.S. GAAP to IFRS will be one of the biggest financial reporting changes that this country has ever witnessed. The change will be one of great complexity and substantial initial cost. Convergence will require not only training and implementation assistance for practicing accountants, it will also require a new way of thinking and evaluating accounting and financial information. The transition from rules-based GAAP to principles-based IFRS will impact the process.

However, convergence is not an impossible task and with mounting pressure to act, it will only be a matter of when it happens, not if it happens. It is important to remember that along with the barriers and obstacles, there are significant benefits, such as improved efficiency and lowered cost, increased ease for investment decisions, a more free flow of capital, etc. Accountants, finance professionals and academics alike need to immediately mobilize to make the transition less difficult.

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Conferences

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