Spring 2018

International Journal of the Academic Business World

Volume 12 Issue 1

International Journal of the Academic Business World

CONTENTS

SPRING 2018, VOLUME 12 ISSUE 1

INTERNATIONAL JOURNAL OF THE ACADEMIC BUSINESS WORLD

JW PRESS

MARTIN, TENNESSEE

Published by

JW Press

P.O. Box 49

Martin, Tennessee 38237

Printed in the United States of America

Editor

Dr. Edd R. Joyner
EddJoyner@AWoIC.org

Board of Reviewers

(Being updated--will be finished by press time.)

The JW Press Family of Academic Journals

Journal of Learning in Higher Education (JLHE)

ISSN: 1936-346X (print)

Every university and accrediting body says that teaching is at the forefront of their mission. Yet the attention given to discipline oriented research speaks otherwise. Devoted to establishing a platform for showcasing learning-centered articles, JLHE encourages the submission of manuscripts from all disciplines. The top learning-centered articles presented at ABWIC/ICLAHE conferences each year will be automatically published in the next issue of JLHE. JLHE is listed in Cabell's Directory of Publishing Opportunities in Educational Psychology and Administration, indexed by EBSCO,and ERIC and under consideration for indexing by Scopus, and Journal Seek.

Individuals interested in submitting manuscripts directly to JLHE should review information at http://jwpress.com/JLHE/JLHE.htm.

Journal of Academic Administration in Higher Education (JAAHE)

ISSN: 1936-3478 (print)

JAAHE is devoted to providing a platform for showcasing articles related to academic administration. JAAHE encourages the submission of manuscripts from all disciplines. The best articles presented at ABWIC/ICLAHE conferences each year, that deal with the subject of administration of academic units, will be automatically published in the next issue of JAAHE. JAAHE is listed in Cabell's Directory of Publishing Opportunities in Educational Psychology and Administration, indexed by EBSCO, and ERIC and under consideration for indexing by Scopus, and Journal Seek.

Individuals interested in submitting manuscripts directly to JAAHE should review information at http://jwpress.com/JAAHE/JAAHE.htm.

International Journal of the Academic Business World (IJABW)

ISSN 1942-6089 (print)
ISSN 1942-6097 (online)

IJABW was established for the distribution, discussion, and documentation of the art and science of business. A cornerstone of the philosophy that drives IJABW, is that we all can learn from the research, practices, and techniques found in disciplines other than our own. The Information Systems researcher can share with and learn from a researcher in the Finance Department or even the Psychology Department.

We actively seek the submission of manuscripts pertaining to any of the traditional areas of business (accounting, economics, finance, information systems, management, marketing, etc.) as well as any related disciplines. While we eagerly accept submissions in any of these disciplines, we give extra consideration to manuscripts that cross discipline boundaries or document the transfer of research findings from academe to business practice. International Journal of the Academic Business World is listed in Cabell's Directory of Publishing Opportunities in Business, indexed by EBSCO, and under consideration for indexing by Scopus.

Individuals interested in submitting manuscripts directly to IJABW should review information at http://jwpress.com/IJABW/IJABW.htm

Bad Actors in the Channels of Distribution: Conceptual Clarity, Demarcation & Antecedents of Abuse

Brent L. Baker
Department of Marketing. Hospitality. & Legal Studies
B.I. Moody, III College of Business Administration
University of Louisiana at Lafayette
Lafayette, Louisiana

Chase J. Edwards
Department of Marketing. Hospitality. & Legal Studies
B.I. Moody, III College of Business Administration
University of Louisiana at Lafayette
214 Hebrard Boulevard, Moody Hall, Room 340
Lafayette, Louisiana

ABSTRACT

There is little research in the Marketing Distribution Channels literature dealing with the consequences of negative actions levied by one channel member on another. At the time of this writing there is no research dealing with the concept of abuse in this context. This paper seeks to expand the limited amount of research dealing with negative actions of one channel member upon another. More specifically, this paper will seek to clearly demarcate the concept of "Punitive Actions" in a marketing distribution channels setting from "Abusive Actions", while allowing both these actions to be classified as a more narrowly defined version of "Destructive Acts". This paper will also set a conceptual groundwork for instances of abuse in a channels setting by introducing antecedents of abuse that are believed to carry substantial predictive capability.

Introduction

Research in the distribution marketing channels literature has predominately focused on positive relationships among marketing channel members. Within this literature is a body of work dedicated to investigating the antecedents and consequences of relationship quality among these same members. Within this literature is a limited amount of research dealing with the perception of negative acts among these channel members e.g. (Hibbard et al. 2001; Kumar et al. 1998). Previous research has investigated the antecedents and consequences of factors perceived by the target to be harmful in nature. For example, Hibbard, Kumar, and Stern investigated the impact of destructive acts in channel relationships, defining them as actions that are perceived by the aggrieved channel member as having a significant negative impact on the viability or functioning of the affected firm or business relationship. Kumar, Scheer, and Steenkamp investigated the antecedents of punitive actions defining them as intentional acts that inflict negative consequences on a channel partner. However, there is no mention of abuse. One need only to look at the destructive effects that acts of abuse have on relationships in other non-business contexts to realize their destructive and harmful capability. For example, there are numerous detrimental effects to workers who are subject to abusive management, often resulting in poor work performance, low job satisfaction, and higher employee turnover. Managerial abuse is harmful to the employee but its consequences are also harmful to the company, forcing businesses to continually spend money on training new people due to increased employee turnover. Furthermore, managerial abuse results in higher insurance costs, medical bills, and absenteeism dur to physical problems that manifest as the result of psychological abuse from a manager or supervisor to a subordinate (Ashforth 1997; Manz and Gioia 1983).

Other problems facing the company as a result of abusive management are decreased productivity from increased absenteeism and lower moral among company employees (Miner 1978; Vredenburgh and Brender 1999). As channel relationships continue toward relationalism, some of the hazards of relationships, like abuse, will certainly manifest between channel members.

As abusive acts have proven harmful to relationships in other relational contexts, it will almost certainly prove harmful to relationships between channel members and

business partners. For example, channel partners may not be able to obtain organizational goals as a result of having to deal with powerful abusive channel partners. Being forced to accept below-market prices for goods, having to pay exorbitant fees for late delivery or the illegal demanding of expensive perks, like five star dining or all-expenses-paid recreational trips by opportunistic boundary-pushers all fall within the definition of abuse. These behaviors are harmful to the organization that has to deal with the consequences of these actions.

Though punitive acts may also be detrimental to the ability of an organization to obtain its goals, these acts are often not as severe, are often just and are geared toward providing solutions for things that may be the cause of problems between channel partners, whereas abusive acts are purely destructive and have no remedy component to them. Therefore, the destructive consequences of abuse on relationships and the relational nature of distribution channels makes abuse a construct worthy of study within the channels context.

An examination of abuse in the context of business relationships may provide insight into the conditions that allow and possibly promote abuse between channel members. This knowledge may provide motivation for businesses to carefully monitor the relationships they are about to enter, or already operate in, and to either avoid entering a potentially abusive business relationships or exit current relationships before the abuse becomes too costly. The purpose of this paper is to propose antecedents of abusive acts among channel members and business partners as well as differentiate them from the less severe, and often merely punitive acts, thus allowing for the conceptualization of these acts under the destructive act "umbrella".

Abusive Acts Literature

At the time of this writing, there are no other known writings on abusive acts in the marketing channels literature. However, abuse is a very broadly defined construct spanning multiple disciplines; management, social psychology, law and various other disciplines have researched the "abuse" construct and operationalized the construct in one form or another (Austin 1988). From the managerial perspective, Vredenburgh and Brender (1999) contend that managerial abuse is composed of two dimensions. First, disrespect for individual dignity, and second, interference with job performance or deserved rewards. Tepper (2000) defines abusive supervision as subordinates' perceptions of the extent to which supervisors engage in the sustained display of hostile verbal and nonverbal behaviors, excluding physical contact. Valle (2005) defines abuse within the organization as an element of power use within organizations expressly designed to create a negative environment between supervisor and subordinate. Looking at power and abuse from an organizational relationship perspective it was determined that there is nothing wrong with power asymmetry so long as the power asymmetry does not lead to the exploitation of the weak, or to unethical and illegal behavior (Aldaeaj et al. 1991).

In the social psychological domain, economic dependence and commitment were significantly and independently related to decisions to leave an abusive relationship (Strube and Barbour 1983). This finding, though in a context dealing with the battered women and their abusive husbands, may lend some insight to the decision to stay in an abusive relationship in a business context. The constructs of dependence and commitment have been studied quite extensively in the marketing channels literature (Andaleeb 1996; El-Ansary 1975; Gilliland and Bello 2002; Razzaque and Boon 2003; Ross et al. 1997) It makes intuitive sense that a market participant might decide to stay in an abusive business relationship for economic dependency reasons.

However, there has yet to be any attempt to define abusive relationships in a marketing channels setting. Before a detailed discussion of abuse in the channels setting can take place, a brief discussion of what differentiates abuse from the other negative acts must take place. Specifically, punitive and destructive acts have already been investigated in the channels literature. A distinction must first be drawn between abusive acts and these other constructs in order to establish the legitimacy of abuse as a construct worthy of study in the marketing channels literature (Hibbard et al. 2001; Kumar et al. 1998). The following is a brief discussion of the three constructs. Their similarities, differences, and the importance of the distinction between one another are each explained.

Demarcation of Punitive, Abusive, & Destructive Acts

Large corporations, such as Wal-Mart or Amazon, often receive criticism in the media for using their size and negotiating power to muscle their way into contracts and favorable arrangements with members of their supply chain and marketing channels. Are these acts destructive or abusive? What delineates one act from the other? Is there enough separation to warrant destructive and punitive acts as separate constructs in the literature, and where do abusive acts fit within the taxonomy? The following discussion will suggest answers to these questions in an effort to better understand the differences between these acts as well as propose abuse as a construct to be investigated in

the area of negative actions that occur between channel members.

Hibbard, Kumar, and Stern's definition of destructive acts is broad enough to allow for a number of acts to be sub-categorized under the umbrella of destructive acts. For example, their research suggests that any channel member can be the recipient of a destructive act. Neither attribution nor dependence was a necessary condition regarding a channel member's ability to render a destructive act on other channel members. A wholesaler that begins to do business with one of its retailers competitors, a large powerful retail outlet negotiating below market prices to its less powerful suppliers or a wholesaler opening retail outlets in a geographic region that potentially cannibalizes from its retailers business; all are examples of destructive acts between channel members, regardless of intention. The primary condition to satisfy the existence of a destructive act is that a channel member perceives its consequence as harmful.

Though Kumar, Scheer, and Steenkamp do not explicitly categorize punitive actions as a sub-category of destructive acts, we argue that that punitive actions are, in fact, a sub-set of destructive acts with certain identifiable characteristics. Kumar Scheer and Steenkamp label punitive acts as actions that are intentional and inflict negative consequences on a partner. For example, in a business setting, enforcing contracted late fees for products delivered to the retail establishment after the contracted date (Kumar et al. 1998). This definition of punitive acts is more narrowly defined than Hibbard's definition of destructive acts, though they share the condition of harmful consequences are present when punitive acts are employed. However, Kumar's definition implies a willful intent to cause harm to other channel members where destructive acts do not require, but allow for, this willful intent. In other words, a punitive act is a destructive act levied purposefully as a means of punishment against other channel members. Destructive acts may be intended as punishment but there is no requirement to be destructive.

The above discussion should make clear how punitive actions exist as a more narrowly defined and unique version of destructive acts. The following discussion will introduce abusive acts as another unique type of act that meets the criteria as a destructive act, but retains specific characteristics that enable us to differentiate it between punitive and other destructive acts.

For the purposes of this paper, abusive acts will be defined as those acts that are perceived by the receiver as unjustifiable and unfair, and result in a significant negative impact on the viability or functioning of the affected firm or business relationship. These acts are also intentional and brought about through the leverage of the asymmetric power position of the offending firm. In other words, the offending firm will use its power over the receiving firm to commit acts that are not just or warranted from the target's perspective.

The distinction between punitive acts and abusive acts is narrow since the two constructs inherently share many characteristics. However, there are defining distinctions between these two types of destructive acts. For example, punitive acts, such as enforcing contractual late fees, may indeed be viewed as justified by all channel members, including the receiving party. Punitive acts can be used by any channel member regardless of power asymmetry. By contrast, abusive acts are more prevalent in the presence of power asymmetry.

Furthermore, punitive acts have an element of remedy associated with them since their use is typically geared toward the solution of a problem that has manifested within the channels setting. Enforcing late fees is a punishment, but it's a punishment designed to provide incentive to make deliveries on time. On time delivery is beneficial to all of the parties involved in the channel. Therefore, punitive acts that may be destructive in the short run, are beneficial to the system as a whole in the long run, provided that channel members heed the incentive they provide. By contrast, abusive acts lack this remedy component and are, therefore, purely destructive.

Another way of distinguishing between an abusive act and a punitive act is the justifiability of the act. For example, if a supplier to a high-end retailer fails to meet their shipment on time the retailer may opt to enforce a late shipment fee. Although this act is detrimental to the supplier guilty of the act that precipitated the punitive action, it would be difficult for any member of the firm to argue that the fee was not warranted. Therefore, this act would be categorized as a punitive act but not abusive. However, if this same company was large enough and the supplier was small enough, small enough that it depended on this retailer for its survival, the retailer may find itself in a position where it can force the smaller supplier to accept contractual terms and conditions that are detrimental to the functioning of the smaller firm (supplier) and thus inhibit the smaller firm from reaching its organizational goals. Thus, if the punishing party is acting under its predetermined, pre-negotiated rights the act may simply be punitive. However, if they are leveraging their power for their own means, regardless of justifiability then the act is likely abusive.

Yet another way to distinguish between these acts is by examining the intensity of the act. An act may start off as justifiable and simply punitive, but the degree of punishment may push the act outside the realm of justifiable and into the realm of abuse. This may happen if the receiver

perceives the punishment as being excessive and damaging to their ability to obtain organizational goals. The punishment should fit the crime. For example, referring again to the late fee example, a fee for late delivery is reasonable and just, but an excessive fee, one that clearly outweighs the intensity of the offense, may be perceived as abusive.

When studying abuse it is important to investigate it from the perspective of the target or the abused since it is the target's perception that determines an instance of abuse. Returning to the example mentioned above, it is the supplier's perception of those late fees that will determine if the supplier reacts to either a punitive or abusive act. If the supplier feels those fees are just then there is no abuse and that action is merely punitive. However, if those fees are felt by the supplier to be excessive then the supplier may feel abused by being asked to pay fees that exceed just compensation relative to the supplier's infraction or the impact on its customer. Though some may argue for an objective measure of abuse, it is believed that such a measure or definition is impossible. For example, there is currently a debate about whether or not spanking one's child constitutes an act of abuse. For some, any physical act that inflicts pain upon a child is akin to child abuse. However, there are others who claim that though a swat on a child's posterior may be painful to the child the pain is not lasting or nor does it cause any permanent physical harm. Coupled with the broad social acceptance of spanking, contrasted against the large social distain for "beating" a child, spanking does not constitute an act of abuse. In order to determine if abuse took place or not, a third party, such as the police or a judge, may be charged with determining whether or not an abusive act actually took place. The important thing to note is that, because of the disagreement between two parties, a third party was charged with making the decision as to whether or not abuse occurred. Though this third party may have authority to determine such matters, their opinion, regardless of what influences it, is still subjective. Similar disagreements about the presence of abuse can also occur in the channels setting and assuredly account for a large number of law suits and arbitration cases between channel members every year. Though some instances of abuse may be ambiguous and, thus, argued, other instances may approach such extremes as to garner large social agreement (e.g. a child beaten so severely it requires medical care). Though social agreement may give the appearance of objectivity it is still the subjective assessment of societal norms that determine the instance of abuse. Thus, abuse is really a subjective construct that requires declaration of perspective before "objective" measures can be taken.

Antecedents of Power Abuse

Gaski's 1984 piece reviewed much of the literature, current to that date, on channel conflict and channel power. In his article, he devised a model derived from the relevant literature of the time that portrays dependence as one of the primary antecedents of power (Gaski 1984). The most common aspect of power, as defined in marketing channels literature, is one channel forcing another to do something that would otherwise not do (Gaski 1984).

The fountainhead of this line of scholarship is Emerson's 1962 exploration of the power-dependence relationship. A channel actor (member A) is said to be dependent on another channel member (member B) if A aspires to goals that require B's appropriate behavior (Emerson 1962). Put

Table 1
Demarcation of Destructive, Punitive, & Abusive Acts

	Necessary Conditions		
	Destructive Acts	**Punitive Acts**	**Abusive Acts**
Environmental Characteristics			
Power Asymmetry	Not needed	Not Needed	Moderate to High
Action Characteristics			
Consequence Perception	Harmful	Harmful	Harmful
Willful Intent	No	No	Yes
Act is Unjust	No	No	Yes
Act is Unfair	No	No	Yes
Degree of Punishment	N/A	Appropriate	Excessive
Directed Toward Affected Channel Member	No	No	Yes

another way, A is dependent on B if the actions or behaviors of B dictate A's ability to obtain its goals. Dependence, according to Emerson, is where power resides.

From this, Emerson derives his proposition concerning dependence between two actors. "The dependence of A upon B is (1) directly proportional to A's motivational investment in goals mediated by B, and (2) inversely proportional to the availability of those goals to A outside of the A-B relation" (Emerson 1962). To summarize, Emerson's view of power, and the one adopted for this paper, may be viewed as the reciprocal of dependence. Therefore, the more dependent channel member A is on channel member B, and the fewer outside options that A has, the more power B has over A (Emerson 1962).

Research in the channels literature has made a clear distinction between total power and power asymmetry. Total power is the sum of both partners' power and power asymmetry is the difference between the partner's power (Bacharach and Lawler 1981; Lawler 1986). For the purposes of this paper, power will be operationalized from the perspective of an asymmetrical relationship between channel members. That is to say, given the reciprocal relationship between power and dependence, the less dependent partner is considered the more powerful partner.

Though power asymmetry is present in almost all channel relationships (Kaufmann and Stern 1988), not all less-dependent (thus, more powerful) channel members will use their asymmetric advantage to the point of abuse. However, in order for a channel member to be in a position to abuse they must first be in a position of power over the other channel member. It should be made clear that power abuse is not based on power asymmetry alone. There are several antecedents to power abuse, many of which will be discussed in the following discussion. However, it is believed that power asymmetry is a pre-requisite to power abuse. The rationale for this resides in the fact that, if a channel member was going to be abused by another channel member, but still had other alternatives as to where or how they can fulfill their goals, that channel member is then not dependent on the abusing channel member. Thus, there is not enough power asymmetry between the dyad for the more powerful member to be abusive. More specifically, if one channel member can do business elsewhere, then there really is no power, thus no power abuse. Any attempt to act abusively by the non-powerful member in an asymmetric arrangement will simply result in the termination of the relationship or retaliation.

An important note to this point is that, just as in domestic relationships, there are many organizations that will decide to stay in an abusive channel relationship. As mentioned above, this is dependent on the perception of the abused. If the abusing channel member does not have an asymmetric power dominance but the abused channel member perceives that they do, then the abusing channel member, for all intents and purposes, maintains a level of power over the partner they are abusing. Therefore, the abused channel member may not recognize other viable avenues to pursue organizational goals. In other words, the abused channel member may underestimate the extent of their power and perceive a situation that requires they accept abuse from the abusing channel member. At this point the idea of countervailing power should be discussed.

The theory of countervailing power proposes that, if one channel member becomes too powerful, other channel members will work to reduce that power (Galbraith 1956). This paper does not dismiss the notion of countervailing power. On the contrary, it makes intuitive sense that a channel member who is in a position to be abused by another channel member, without the option of exit attempt to reduce the abusing channel members ability to abuse. However, the purpose of this paper is to draw attention to the construct of abuse within a channels context. The investigation of how abused firms respond or defend against abuse is outside the scope of this paper However, it is believed that such an investigation would make a substantial contribution to the channels literature, and should be the subject of future research.

From this discussion of power and power asymmetry, relative to abuse in the channels context, the first proposition of the paper is presented:

P1: In order for channel member abuse to occur, the abused channel member must perceive power asymmetry between themselves and the abusing channel member as well as perceiving themselves as the less powerful (more dependent) channel member.

Though power asymmetry is thought to be a necessary condition for channel abuse, there are other antecedents that are believed to affect the perception of the presence of channel member abuse.

MacNeil's Theory of relational exchange, first operationalized by Kaufmann and Stern (1988), implies that several types of commercial exchange form a continuum from purely discreet transactions to relational exchange (MacNeil 198Ø). The purpose of this research was to investigate the types of relational norms present in channels relationships. Solidarity, as explained by MacNeil, is what holds the relationships together. The conclusions of Kaufmann and Stern's research suggest that, during episodes of manifest conflict, higher levels of solidarity between channel partners result in lesser feelings of unfairness in the los-

ing party. The focus of the relational norm of solidarity is on the preservation of the unique and continuing relationship in which the various commercial transactions take place (Kaufmann and Stern 1988). In other words, a relational focus on this norm means that the preservation of the relationship is important. In cases where the more powerful channel member values the relationship less than the less powerful channel member, the more powerful channel member may view this as an opportunity to abuse their channel partners. The more powerful channel members may become tempted to have the channel partners that are dependent on them perform actions that are outside of contracted norms or what most would consider reasonable demands for the purpose of its own gain.

Kaufmann and Stern operationalized these constructs by assessing how relational the norms were between the two parties. There were not two distinct assessments for each relational norm, each norm was assigned only one position on the relational continuum, either more relational or more discrete depending on the perspective of one side of the channel dyad. It is possible for the channel partners to value the relationships unequally, therefore, testing these norms within a channels abuse context dictates measuring how the abused party views the relational norms as well as the perception of the abusing parties' value of the channels relationship. It is believed that both parties will view and value the relationship differently as well as recognize that other channel members may not value the relationship equally. From the logic, the second proposition is presented:

P2: If the more powerful channel partner views the norm of solidarity more discreetly than does the less powerful channel member, there will be more instances of abuse.

Kaufmann and Stern's research also found empirical evidence supporting the notion that, during episodes of manifest conflict, the more relational the norm of role integrity, the less unfair the party will judge the other's behavior, provided the act causing the dispute is not attributed to a willful intention to harm the target firm (Kaufmann and Stern 1988). Role integrity, on the relational continuum refers to the complexity of the roles assumed by the channel members. The more relational the norm of role integrity, the more complex the roles between channel members are. Where the more discrete the relational norm of role integrity the less complex the roles between the channel members (MacNeil 1980). In a relational exchange, it is assumed that the development of such complex roles requires more resources on the part of the participating firms than maintaining simple, less complex roles as found when the norm of role integrity is more discrete.

In a channels context, where the more powerful channel member does not value the relationship they may decide not to put forth the time, energy, and resources to allow for the development of such complex roles. However, if the more powerful member decides not to invest the resources needed to produce such complex roles, and the relationship is a continuing one, the less powerful channel member may be forced to commit the resources needed to develop the complex relationships needed to maintain the relationship. This results in a one-sided environment where one side of the channel dyad develops complex roles to maintain the relationship while the other channel member approaches the relationship from a more discrete perspective. In a sense, the less powerful channel member, through its commitment to the relationships and development of complex roles is left "to do all the work" while the more powerful member benefits from the less powerful members effort. If such a situation exists, it is reasonable to believe that the less powerful member of the channel dyad may perceive this inequity as abuse. Therefore, the third proposition is presented:

P3: From the perspective of the less powerful channel member, if the more powerful channel partner views the norm of role integrity more discreetly than does the less powerful channel member, there will be more instances of abuse.

The relationship norm of Mutuality refers to the division of surplus in the exchange relationship. The more relational the norm of mutuality (e.g. the more partners think "we're all in this together"), the less heavily the terms and conditions of the division of surplus are monitored on a transaction-by-transaction basis. Rather, the division is monitored and divided on a relational basis, e.g. channel members not concerning themselves with the results of each and every transaction, so long as the relationship as a whole remains equitable (MacNeil 1980). Further, a relational norm of mutuality suggests that each party has something to gain from the continuance of the relationship. When measuring mutuality, researchers have investigated the degree to which transactions are tempered by trust (Kaufmann and Dant 1992). This measurement indicates that, though levels of power asymmetry may exist in channel relationships, if the relationship is characterized by a mutual interest in the ongoing nature of the relationship then there will be less incentive to abuse fellow channel members, regardless of power asymmetry.

Conversely, the more discrete the norm, the more channel members will demand settlement of each transaction

at the conclusion of said transaction as the perspective of equity among channel members is determined more on a transaction-by-transaction basis. A discrete norm of mutuality does not imply mutual interest in the continuance of the relationship the way a relational norm of mutuality does. When transactions are monitored on a transaction-by-transaction basis, less (if any) relational stock is invested in the relationship. Thus, the incentive to treat each channel member with the type of respect normally afforded those in a mutualistic channel relationship is not present. If respect is lacking in the relationship, then it is difficult to imagine that it will then be characterized by mutual trust. Without mutual investment, trust or respect in the relationship, both parties are incentivized to act abusively when given the opportunity. Consistent with the previous discussion, a powerful channel member that is involved in a relationship that is characterized by a discrete norm of mutuality will be more apt to act abusively than if the relationship was characterized by the relational norm of mutuality, where both parties have mutual investment in the relationship. From the above discussion on mutuality, the following proposition is given:

P4: From the perspective of the less powerful channel member, if the more powerful member of the channel relationship views the norm of mutuality as discrete there will be more instances of abuse.

A cost benefit analysis, of sorts, may also act as a good predictor of instances of abuse. For example, abusing a channel member by engaging in potentially illegal activity such as requesting lavish gifts or demanding financial compensation for bid consideration carries a certain amount of risk. As with most economic decisions that involve risk, the reward should be enough to match or exceed that which is being risked. The previous example implies illegal activity which carries the burden of time in prison if caught. Most people consider this a hefty risk; therefore logic would dictate that the financial reward sought must be substantial to risk the time in prison (Cornish 1987). As the compensation for riskier behavior increases, so too is the likelihood of engaging in that behavior. However, if the risk of getting caught in this same behavior were to be reduced, then logic would also dictate a greater incentive to engage in the behavior resulting from a reduced fear of paying the consequences of getting caught engaging in the behavior. Thus, a reciprocal relationship exists between the reward of engaging in the behavior and the chance of getting caught. From this logic, the following two propositions are presented:

P5: The greater the reward for acting abusively the more apt a more powerful channel member will be to act abusively.

P6: A powerful channel member's tendency to act abusively will rise as the threat of being caught declines.

Finally, levels of commitment should be evaluated as it is believed that this construct would serve as good predictor of instances of abuse in the channels setting. Intuitively, logic dictates that higher the levels of commitment from all channel members will result in fewer instances of abuse. However, as abuse is believed to be more likely levied by the more powerful channel members, the following proposition is suggested:

P7: The more committed a powerful channel member is to a relationship, the fewer instances of abuse will be reported from the less powerful channel member.

The above discussion of antecedents of abuse in the channels setting is by no means meant to be exhaustive. The purpose of this paper is to introduce the reader to the concept of abuse within a marketing channels context. The antecedents proposed in this paper are believed to carry substantial predictive capability regarding instances of abuse but leave the door open for further investigation into other potential antecedents of abuse. For instance, other research has proposed the investigation of personality characteristics of boundary-spanning personnel (e.g. autonomy-seeking, self-esteem), the environmental characteristics of the industry in which an organization operates (munificence, uncertainty), and the structural characteristics of the firms (bureaucratization and organizational integration) as means of predicting conflict resolution strategies (Dant and Schul 1992). These constructs may also serve well as predictors of abuse since both conflict and abuse are forms of tension that manifest between organizations. Empirical research should be conducted to test the value of these constructs as predictors of abuse.

Also, this paper only proposes antecedents of abuse. Something that should be of particular interest to channels researchers is the consequences of instances of abuse to channel partners as well as the quality of the relationships that suffer from instances of abuse. For example, what does abuse do to the level of trust between organizations and what does a decreased level of trust do to both organizational and channel performance? Again, further empirical research needs to be done to investigate the consequences of abuse within the marketing channels setting.

References

Aldaeaj, Hamad, Thibodeaux M. S., & Nasif, E. G. (1991). A Power Model of Multinational Corporation–Nation-State Relationships. *S.A.M. Advanced Management Journal*, *56* (3), 11.

Andaleeb, S. S. (1996). An experimental investigation of satisfaction and commitment in marketing channels: The role of trust and dependence. *Journal of Retailing*, *72* (1), 77.

Ashforth, Blake E (1997). Petty tyranny in organizations: A preliminary examination of antecedents and consequences. *Revue Canadienne des Sciences de l'Administration*, *14* (2), 126.

Austin, R. (1988). Employer Abuse, Worker Resistance, and the Tort of Intentional Infliction of Emotional Distress. *Stanford Law Review*, 1-59.

Bacharach, S. B. & Lawler, E. J. (1981). Bargaining: Power, Tactics, and Outcomes. San Francisco: Jossey-Bass.

Cornish, D. B., & Clarke, R. V. (1987). Understanding crime displacement: An application of rational choice theory. *Criminology*, *25* (4), 933-948.

Dant, R. P. & Schul P. L. (1992). Conflict Resolution Processes in Contractual Channels of Distribution. *Journal of Marketing*, *56*, 38-54.

El-Ansary, A. I. (1975). Determinants of Power-Dependence in the Distribution Channel. *Journal of Retailing*, *51* (2), 59.

Emerson, R. M. (1962), Power-Dependence Relations. *American Sociological Review*, *27* (1), 31-41.

Galbraith, J. K. (1956). American Capitalism: The Concept of Countervailing Power. Boston: Houghton Mifflin Co.

Gaski, J. F. (1984). The Theory of Power and Conflict in Channels of Distribution. *Journal of Marketing*, *48*, 9-29.

Gilliland, D. I. & Bello, D. C. (2002). Two sides to attitudinal commitment: The effect of calculative and loyalty commitment on enforcement mechanisms in distribution channels. *Academy of Marketing Science Journal*, *30* (1), 24.

Hibbard, J. D., Kumar, N., & Stern, L. W. (2001), Examining the impact of destructive acts in marketing channel relationships. *Journal of Marketing Research*, *38* (1), 45.

Kaufmann, P. J., & Dant, R. P. (1992). The Dimensions of Commercial Exchange. *Marketing Letters*, *3* (2), 171-85.

Kaufmann, P. J., & Stern, L. W. (1988). Relational Exchange Norms, Perceptions of Unfairness, and Retained Hostility in Commercial Litigation. *Journal of Conflict Resolution*, *32* (3), 534-52.

Kumar, N., Scheer, L. K., & Steenkamp, J. E. M. (1998). Interdependence, punitive capability, and the reciprocation of punitive actions in channel relationships. *Journal of Marketing Research*, *35* (2), 225.

Lawler, E. J. (1986). Bilateral deterrence and conflict spiral: A theoretical analysis. *Advances in group processes*, *3*, 107-130.

MacNeil, I. R. (1980), The New Social Contract,. New Haven, CT: Yale University Press.

Manz, C., & Gioia, D. (1983). The Interrelationship of Power and Control. *Human Relations*, *36*, 459-76.

Miner, J. (1978). Twenty Years of Research on Role-motivation Theory of Managerial Effectiveness. *Personal Psychology*, *31*, 739-60.

Razzaque, M. A., & Boon, T. G. (2003). Effects of dependence and trust on channel satisfaction, commitment and cooperation. *Journal of Business to Business Marketing*, *10* (4), 23.

Ross, W. T., Anderson, E., & Weitz, B. (1997). Performance in principal-agent dyads: The causes and consequences of perceived asymmetry of commitment to the relationship. *Management Science*, *43* (5), 680.

Strube, M. J., & Barbour, L. S. (1983). The Decision to Leave an Abusive Relationship: Economic Dependence and Psychological Commitment. *Journal of Marriage and Family*, *45* (4), 785-93.

Tepper, B. J. (2000). Consequences of abusive supervision. *Academy of Management Journal*, *43* (2), 178.

Valle, M. (2005). A Preliminary Model of Abusive Behavior in Organizations. *Southern Business Review*, *30* (2), 27.

Vredenburgh, D. & Brender, Y. (1999). The hierarchical abuse of power in work organizations. *Journal of Business Ethics*, *17* (12), 1337.

Peering Through the Portal: An Investigation into Threshold Concepts in Web Development

Michael Mick
Associate Professor of Information Systems
College of Business
Purdue University Northwest
Hammond, Indiana 46323

Susan E. Conners
Professor of Information Systems
College of Business
Purdue University Northwest
Westville, Indiana 46391

ABSTRACT

As educators, we endeavor to impart core concepts so that learners can incorporate the specific thinking and skill set needed to become professionals in the discipline. The Threshold Concepts (TCs) framework posits critical differences between those core concepts that enable a learner to see things in a new and unforgettable way versus those that do not. In this paper, we describe utilizing the Threshold Concepts (TCs) framework in the area of Web Development.

Introduction

The process of educating entrants into a specific discipline requires, among other things, the identification of and instruction in numerous important concepts. These concepts often appear as objectives in the discipline coursework required for degree completion. To facilitate high quality learning environments, it is necessary to develop conceptual understanding in learners such that they incorporate the specific thinking and skill set, the ways of thinking and practicing (WTP) in the subject, needed to become professionals in the field. We often refer to these as core concepts.

The Threshold Concepts (TCs) framework posits that not all such concepts are created equal; that is, core concepts differ in several respects between those which enable the learner to see things in a new way (a way previously not grasped and, when once grasped, not easily forgotten), and those concepts which do not. As such, TCs carry a higher requirement for internalization by the learner. Numerous disciplines have endeavored to identify relevant Threshold Concepts, including Computer Science, and Web Development. The paper endeavors to investigate this work as it applies to Web Development.

Threshold Concepts Framework

The idea of a threshold concept, as a distinction between core concepts that encompass a "new way of seeing things" and core concepts that do not, arose from a seminal paper by Meyers and Land (Meyer & Land, 2003). The paper itself originated from work in the second phase of a project in the United Kingdom chartered with the intent of improving the quality of learning in higher education (ETL Project, 2005). The project involved several universities in the UK, along with other collaborating institutions.

The project aimed to develop conceptual frameworks for specific subjects to use in guiding the development of learning environments, with intent to evaluate certain concepts in high quality learning outcomes. Among these were ways of thinking and practicing (WTP) in the given subject, and troublesome knowledge and threshold concepts, which focused on areas and ways of thinking that are thresholds (doorways, portals) to further learning. They selected four subject areas (electrical engineering, cell and molecular biology, business economics, and history) to encompass professional areas and academic disciplines.

Characteristics of Threshold Concepts

Meyer and Land (2003) initially believed five features identified TCs, a list later expanded to eight. These traits are transformative, probably irreversible, integrative, often bounded, potentially troublesome, discursive, reconstitutive, and liminal (Flanagan, 2015). A given TC may not have all of these characteristics, and there are those who propose that any may or may not be present, but some appear to be considered as essential by most researchers (Wilkinson, 2014) (Flanagan, 2015).

Transformative

In order for a concept, albeit a core concept, to be considered as a candidate TC, it must necessarily "lead to a qualitatively different view of subject matter" (Meyer & Land, 2003). Such a shift in perspective may happen instantaneously or over a passage of time as it "dawns on" a person. Moström et al provides examples of both types of behavioral shifts (Mostrom, Eckerdal, McCartney, Sanders, Thomas & Zander, 2009). This transformative characteristic generally is accepted as required in order for a concept to be considered as a TC (Flanagan, 2015).

Irreversible

Once a learner comprehends a TC, when transformative learning has taken place, they cannot return to their original state, even if by some unlikely means they return to a previous belief of the concept. Such a transformation may be so complete that the learner expresses incredulity at their previous difficulty in comprehension. This may be the explanation as to why experts at times have difficulty perceiving the exertions of learners faced with a new concept, as the professional is long past the threshold.

Integrative

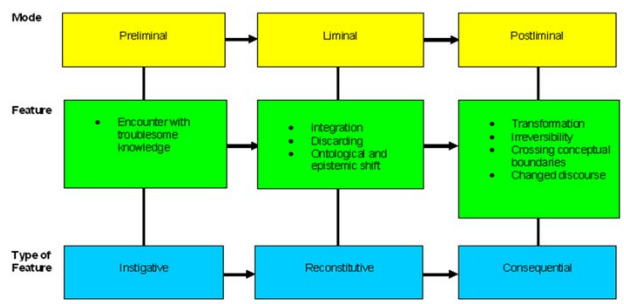
The acquisition of a TC empowers the learner to integrate various and dissimilar aspects of their learning having relationships that they previously missed. In other words, to see relationships that enable them to begin "thinking like a practitioner."

Bounded

As a TC is integrative within a field, it also has limits to how much it integrates within that field.

Such concluding boundaries may be the borders of new thresholds into new conceptual spaces and, at times, may demarcate the border of another academic discipline. This indicates that academic disciplines may have some shared

Figure 1
Relational View of TC Features



TCs, and this is unsurprising when their subject matter overlaps. Commonly, the bulk of TCs in a given academic field are exclusive.

Troublesome

Perkins refers to counter-intuitive, conceptually difficult knowledge as troublesome knowledge (Perkins, 1999). Meyers and Land suggest that it is unsurprising for transformative knowledge to be troublesome and, in fact, probably should be troublesome. This troublesomeness as part of a TC is not meant to be stressful, such that a student despairs of learning, but rather of an unsettling nature, causing them to realize that prior understanding might be incorrect. It "pushes" the learner into a liminal state (from the Latin limen, meaning "threshold"; a suspended state of understanding. Meyer and Land (2003) use a "doorway" or "portal" metaphor to describe entrance.) It can be unsettling to "let go" of a prior understanding but perhaps necessary in order to integrate newly acquired knowledge. This characteristic by itself does not define a particular area as a TC, for every discipline may have troublesome topics for students. However, it can indicate that a TC may be found in this topic.

Discursive

Once a learner crosses the threshold of a TC, their language now is enhanced. They can speak of terms and concepts in the field in a way that they did not exhibit beforehand (Meyer & Land, 2005). They begin to think and thus express themselves, in the language of the discipline.

Reconstitutive

As indicated previously, the learner needs to integrate new knowledge into their current understanding. This involves a discarding of their earlier conceptual state and a reconstituting of their understanding in order to accom-

modate the new learning (Land, Meyer, & Baillie, 2010). Often, this takes place over time and may be more readily observed by others than by the learner themselves.

Liminal

The liminal state, indicated earlier, is that time when learners are "stuck", not entirely grasping the TC and perhaps unable to do so for some period of time, if ever. If, and when, they reach the "aha" moment, it may appear to be due to sudden insight, but may be only after some significant time in the liminal space. It can happen that time in the liminal space is short, but this often is due to a "crossover" of understanding in some related area (Eckerdal, McCartney, Mostrom, Sanders, Thomas & Zander, 2007) (McCartney, Boustedt, Eckerdal, Mostrom, Sanders, Thomas & Zander, 2009). In some cases, the TCs may not themselves create difficulty in understanding for the learner, but rather the way in which these TCs interact, or fit together, in order to bring about the transformational learning. As Perkins notes, disciplines are more than a collection of concepts, but rather "a system of ideas or ways of understanding that allow us to establish knowledge" (Perkins, 2006). Learners move through the liminal state by converging ono the WTP appropriate for their particular discipline. Clearly, this affords multiple paths through the liminal space, with differing times and differing points of being "stuck" (Eckerdal, McCartney, Mostrom, Sanders, Thomas, & Zander, 2007).

Land, Meyer and Baillie (2010) provide an illustration (Figure 1) of the features of a TC as the learner moves from being in a preliminal state, into the liminal state via an encounter with troublesome knowledge, and then crossing a conceptual boundary to enter into a postliminal state.

However, the authors considered this diagram too rigid and sequential, suggesting improvements were necessary. Flanagan (2015) later modified it (Figure 2) to indicate both the relational features of preliminal, liminal, and postliminal modalities of a TC as well as the recursiveness and oscillation of the learner path into and (potentially) through the liminal state.

Students use a variety of methods to traverse through the liminal state, including the Internet, learning from others (peers or faculty), reading a book, practice, and so forth (McCartney, using Eckerdal, Mostrom, Sanders, &Zander, 2007). As they learn new concepts and their discourse changes, new words are introduced into the vocabulary of the learner, or existing words are given a new meaning. (Land, Rattray, & Vivian, 2014) illustrate a "cognitive tunnel", where a new concept is introduced along with new words and/or symbols (Figure 3) and where new meaning is given to familiar words and/or symbols (Figure 4).

Figure 2
Modified View of Relational TC Features

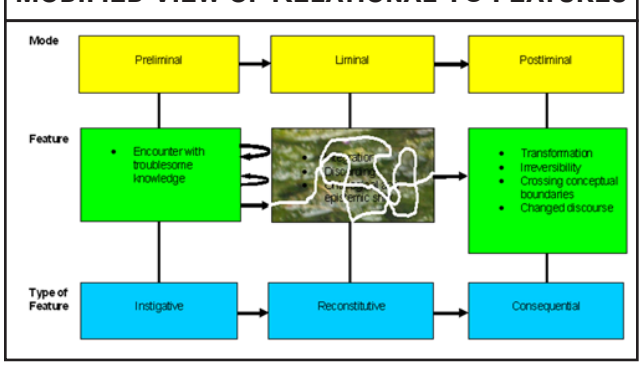


Figure 3
New Concepts Introduced with New Words and/or Symbols

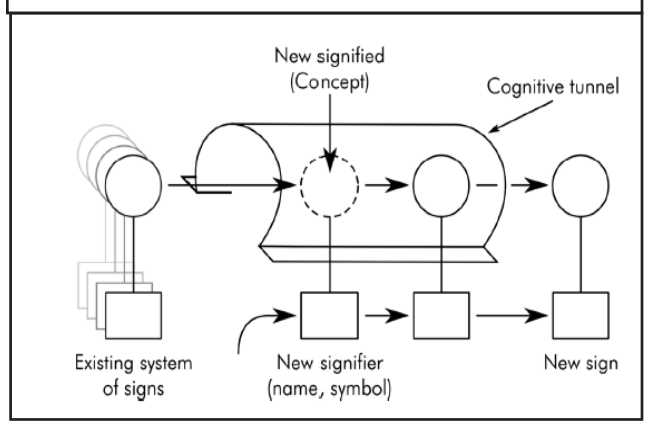
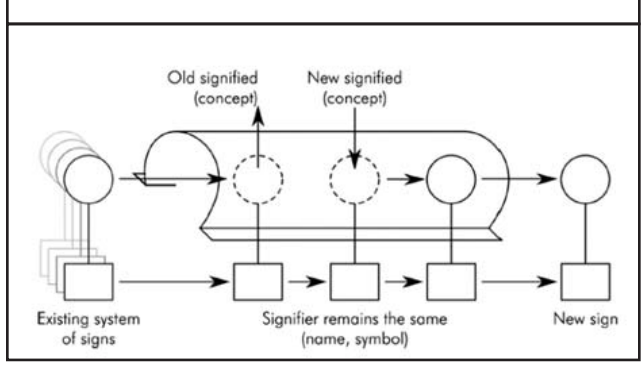


Figure 4
New Meaning Given to Familiar Words and/or Symbols



Threshold Concepts In Computer Science

Researchers have identified TCs in a number of academic fields, including in Computer Science. For example, several have concluded that object-oriented programming is a TC in Computer Science, agreeing with Luker who called OOP "a true paradigm shift, which requires nothing less than a complete change of world view (Boustedt, Eckerdal, McCartney, Mpstrom, Ratcliffe, Sanders, & Zander, 2007) (Luker, 1994). Eckerdal et al. (2006) added to object-orientation the ability to abstract as a key skill and that therefore abstraction is likely a TC.

The nature of a TC is that it may not appear to be difficult at all to understand, once one does comprehend it. In some cases, we may encounter the concept so naturally that we do not consciously think of it. Shinners-Kennedy (2008) proposes that such is the case with state. Since we do not consciously think of the many changes of state happening around us, the very ubiquity of the concept makes it troublesome. As a result, learners are not prepared to think of state explicitly when faced with the concept in computer programming. Other TC candidates proposed in Computer Science range from pointers, concurrency, and decomposition to recursion, polymorphism, and user-centered design (Boustedt, Eckerdal, McCartney, Mpstrom, Ratcliffe, Sanders, & Zander, 2007) (Roundtree & Roundtree, 2009) (Sanders, Boustedt, Eckerdal, McCartney, Mostrom, Thomas & Zander, 2012).

Threshold Concepts In Web Development

The beginning days of Web Development were by nature simplistic and primitive in comparison to current tools and techniques. The pioneers who ventured into the new arena of cyberspace were eager to have a presence, even if it went little beyond a cyber-billboard. At this time, it was little more than a Web-based "hook" cast into the cyberstream awaiting responses either via increased foot traffic into a "brick-and-mortar" establishment or, possibly, a response via email. Conceptual challenges, such as they were, seemed to revolve more around getting the correct HTML syntax in place than much else. This would soon change.

Dynamic presentations with interactive user responses began Web 2.0, which brought along additional skill requirements for the Web Developer, such as CSS (Cascading Style Sheets), RSS (Really Simple Syndication), AJAX (Asynchronous JavaScript and XML), and SOAP (Simple Object Access Protocol.)

Web Development methods continue to change, incorporating much of what was used and simply adding to the mix with additional techniques and technologies. With the need to adapt to new requirements and the enabling technology, identifying what is fundamental, and therefore what may be TCs, easily can be overlooked. Alston, Walsh, and Westhead (Alston, Walsh &Westhead, 2015) speak to the minimal empirical research regarding TCs in this area. In some cases, as they noted, the work did not mention TCs explicitly, but might use terms such as "challenges" with respect to the understanding of learners, as in the research of Park and Widenbeck (Park & Wiedenbeck, 2011) where they looked at how students sought help via forums. The work of Alston, Walsh, and Westhead embodied much of those same challenges and more directly to our concerns, proposed basic programming principles and decomposition and abstraction as candidate TCs for Web Development. Their work resulted from interviews with higher education instructors in the area. They also noted the work of Dorn and Guzdial (2010) and their survey of professional Web Developers and graphic designers who lacked formal education in computing. These professionals realized that they faced the difficulty of tools which continue to change rapidly along with a lack of conceptual knowledge and core principles vital to developing their expertise. This places an obvious responsibility upon instructional personnel to cover fundamental concepts. However, as Alston, Walsh, and Westhead indicate, there are problems with simply using "fundamental concepts" as a rationale to detect TCs, particularly in Web Development, with a principal problem being that they "divorce understanding from experience of the world" (2015). Their point is teaching concepts of certain technologies separately, particularly where those technologies are used jointly in creating Web pages, is counterintuitive. We believe their point emphasizes the problem of having many and changing technologies, which Web Developers must learn and use all the while knowing these will change. Such change demands continuing education for Web Developers, either formal or self-learning, and both demand a focus upon underlying concepts which do not change, regardless of the technology used. Many will be concepts jointly held with Computer Science, but Web Development may have additional concepts, of which some may constitute TCs, and this remains relatively unanswered.

Research Recommendations

The prior research in TCs in Web Development focused on the perspective of academics or practitioners but did not consider the student's perspective. Further research is required to determine if the TCs Alston et al. identified are still valid, then determine the level of commonality, and finally ascertain if Web development TCs are similar to TCs identified in Computer Science or if they are unique to Web Development.

We particularly recommend investigating what Millennial students value in education. Today's undergraduates tend to be more pragmatic than previous learners and are more focused on learning employable and marketable skills than intellectual ideas (Sendall, Ceccucci & Peslak, 2008) which we define as the underlying skills which do not change regardless of the technology used.

CONCLUSION

This paper investigated the Threshold Concepts framework, its characteristics and how it has previously been used in identifying TCs in Computer Science. Current research has been conducted by using the framework to identify TCs in Web Development by interviewing instructors in higher education and surveying professional web developers and graphic designers. An important constituency is not included in these studies, namely the students. The result of this investigation is a recommendation for further research to identify TCs in Web Development to better prepare our students for the future marketplace.

References

Alston, P., Walsh, D., & Westhead, G. (2015, Narch). Uncovering "Threshold Concepts" in Web Development: An Instructor Perspective. ACM Transactions on Computing Education (TOCE)–Special Issue on Web Development, 15(1), 2:1-2:18. DOI:http://dx.doi.org/10.1145/2700513

Baillie, C., Bowden, J. A., & Meyer, J. H. (2013). Threshold capabilities: threshold concepts and knowledge capability linked through variation theory. High Educ, 65, 227-246. DOI= http://dx.doi.org/10.1007/s10734-012-9540-5.

Boustedt, J., Eckerdal, A., McCartney, R., Moström, J. E., Ratcliffe, M., Sanders, K., & Zander, C. (2007). Threshold Concepts in Computer Science: Do they exist and are they useful? SIGCSE '07 The 38th ACM Technical Symposium on Computer Science Education (pp. 504-508). Covington, Kentucky, USA: ACM.

Dorn, B., & Guzdial, M. (2010). Discovering Computing: Perspectives of Web Designers. Proceedings of the 6th International Workshop on Computing Education Research (ICER'10) (pp. 23–30). Aarhus, Denmark: ACM. DOI:http://dx.doi.org/10.1145/1839594.1839600

Eckerdal, A., McCartney, R., Moström, J. E., Sanders, K., Thomas, L., & Zander, C. (2007). From Limen to Lumen: Computing students in liminal spaces. ICER '07 (pp. 1-10). Atlanta, GA: ACM.

Eckerdal, A., McCartney, R., Moström, J. E., Ratcliffe, M., Sanders, K., & Zander, C. (2006). Putting Threshold Concepts into Context in Computer Science Education. ITICSE '06: Proceedings of the 11th annual SIGCSE Conference on Innovation and Technology in Computer Science Education (pp. 103-107). Bologna, Italy: ACM.

ETL Project. (2005, 6). Retrieved 6 18, 2015, from Enhancing Teaching-Learning Environments in Undergraduate Courses: http://www.etl.tla.ed.ac.uk/

Flanagan, M. (2015, 6 14). Threshold Concepts: A short introduction and bibliography. Retrieved 6 20, 2015, from Threshold Concepts: Undergraduate Teaching, Postgraduate Training and Professional Development : http://www.ee.ucl.ac.uk/~mflanaga/thresholds.html#ML2003

Land, R., Meyer, J. H., & Baillie, C. (2010). Editors' Preface: Threshold Concepts and Transformational Learning. In J. H. Meyer, R. Land, & C. Baillie (Eds.), Threshold Concepts and Transformational Learning (pp. ix-xlii). Rotterdam: Sense Publishers.

Land, R., Rattray, J., & Vivian, P. (2014). Learning in the liminal space: a semiotic approach to threshold concepts. Higher Education, 64, 199-217. DOI: http://dx.doi.org/10.1007/s10734-013-9705-x

Luker, P. A. (1994, March). There's more to OOP than syntax! SIGCSE '94: Proceedings of the twenty-fifth SIGCSE symposium on Computer science education. 26 (1), pp. 56-60. ACM.

McCartney, R., Boustedt, J., Eckerdal, A., Moström, J. E., Sanders, K., Thomas, L., & Zander, C. (2009). Liminal spaces and learning computing. European Journal of Engineering Education, 34(4), 383-391.

McCartney, R., Eckerdal, A., Moström, J. E., Sanders, K., & Zander, C. (2007). Successful Students' Strategies for Getting Unstuck. ITiCSE'07 (pp. 156-160). Dundee, Scotland: ACM.

Meyer, J. H., & Land, R. (2003). Threshold Concepts and Troublesome Knowledge: linkages to ways of thinking and practising within the disciplines. In (. C. Rust, Improving Student Learning – Ten Years On (pp. 1-15). Oxford, UK: OCSLD.

Meyer, J. H., & Land, R. (2005). Threshold concepts and troublesome knowledge (2): Epistemological considerations and a conceptual framework for teaching and learning. Higher education, 49, 373-388. DOI:http://dx.doi.org/10.1007/s10734-004-6779-5.

Moström, J. E., Boustedt, J., Eckerdal, A., McCartney, R., Sanders, K., Thomas, L., & Zander, C. (2009). Com-

puter science student transformations: changes and causes. Proceedings of the 14th annual ACM SIGCSE conference on Innovation and Technology in Computer Science Education (pp. 181-185). Paris: ACM SIGCSE. Retrieved from http://iticse09.lrde.epita.fr/.

Park, T. H., & Wiedenbeck, S. (2011). Learning web development: Challenges at an earlier stage of computing education. Proceedings of the Seventh International Workshop on Computing Education Research (ICER'11) (pp. 125-132). New York, NY: ACM. DOI:http://dx.doi.org/10.1145/2016911.2016937

Perkins, D. (1999, November 1). The many faces of constructivism. Educational Leadership, 3, pp. 6-11.

Perkins, D. (2006). Constructivism and troublesome knowledge. In J. F. Meyers, R. Land, J. F. Meyers, & R. Land (Eds.), Overcoming Barriers to Student Understanding–Threshold concepts and troublesome knowledge (pp. 33-47). London and New York: Routledge.

Rountree, J., & Rountree, N. (2009). Issues Regarding Threshold Concepts in Computer Science. In M. H. Clear (Ed.), Proceedings of the 11th Australasian Computing Education Conference (ACE 2009). 95, pp. 139-145. Wellington, New Zealand: Australian Computer Society.

Sanders, K., Boustedt, J., Eckerdal, A., McCartney, R., Moström, J. E., Thomas, L., & Zander, C. (2012). Threshold Concepts and Threshold Skills in Computing. Proceedings of the ninth annual international conference on International computing education research (p. 23.30). Auckland, New Zealand: ACM. DOI:http://dx.doi.org/10.1145/2361276.2361283

Sendall, P., Ceccucci, W., & Peslak, A. (2008, 12 24). Web 2.0 matters: An analysis of implementing Web 2.0 in the classroom. Information Systems Education Journal, 6(64), 3-17. Retrieved from http://isedj.org/6/64/

Shinners-Kennedy, D. (2008). The Everydayness of Threshold Concepts: State as an Example from Computer Science. In R. Land, J. Meyer, & J. Smith (Eds.), Threshold Concepts within the Disciplines (pp. 119-128). Rotterdam: Sense Publishers.

Wilkinson, L. (2014, 6 19). The problem with threshold concepts. Retrieved 6 8, 2015, from Sense and Reference Blog: https://senseandreference.wordpress.com/2014/06/19/the-problem-with-threshold-concepts/

Investment Psychological Biases in The Unied States and Nigeria

Alan Wong
Profession of Finance
School of Business
Indiana University Southeast
Richmond, Indiana

Chuke Nwude
Associate Professor of Banking and Finance
Faculty of Business Administration
University of Nigeria
Nsukka, Nigeria

ABSTRACT

Traditional finance is rooted on the standard utility theory. However, a relatively new field, behavioral finance, argues that some investment decisions are affected by psychological biases, rendering them not optimal. This study explores 7 such psychological biases across the U.S. and Nigeria, with the objective of exploring whether the 2 countries display different behavioral biases and the degree they are different. Data is collected by a survey. The results show the presence of investment psychological tendencies in both the U.S. and Nigeria. These biases can influence investment behavior in a positive or negative manner. There is also some differences between selected biases in the 2 countries. The results also show that gender and individual cultural characteristics can also have an impact on investment biases present in the country in question.

Traditional finance is based on principles of rationalization and the maximization of expected utilities. However, traditional finance has sometimes failed empirical tests with presence of anomalies. A relatively new field, behavioral finance, argues that some of these anomalies can be explained by psychological biases of decision makers. These behavioral tendencies contribute to less than fully rational decisions. This study is an exploratory study of 7 such investment biases and other related issues in the U.S. and Nigeria. The objective is to determine whether these investment biases exist in the 2 countries and whether there is any country, gender, and cultural tendency differences in the relevant biases. There are few studies examining differences of investment biases across countries and this study attempts to help fill the gap.

LITERATURE REVIEW

The literature review is divided into 2 sections. The first section discusses research related to behavioral finance. The second section discusses some works done on relations between national differences and behavioral finance.

BEHAVIOR AND FINANCE

The paradigm of traditional finance is rooted on notable works which include Market Efficiency Hypothesis (Fama, 1965), Modern Portfolio Theory (Markowitz, 1952), and Capital Asset Pricing Model (Treynor, 1962; Sharpe 1964). These works, expounding the standard utility theory, sometimes failed empirical tests with presence of inefficiencies (Park and Sohn, 2013). Werner, De Bondt, and Richard Thaler (1985) find market inefficiency in the form of overreaction, and Ritter (2003) discovers stock market bubbles in the U.S., Japan, and Taiwan could not be explained by rational maximization of expected utility. The issue with the standard utility assumption is it leaves out the psychological aspects of human decision making, causing systematic deviations from expected utility models. It gives rise to the field of behavioral finance. Lee, Shleifer, and Thaler (1991) find evidence that human nature affects asset values.

Beha Sewell (2010) provides an excellent history of behavioral finance, discussing major works and important heuristics. Behavioral finance is built on 2 blocks (Bar-

beris and Thaler, 2003). One building block is psychology. Shefrin (2000) shares the latest psychological research in understanding human behavior with respect to investments. One finding of such research is the use of heuristics, mental shortcuts, to speed up the process of finding a solution. A pair of psychologists (Tversky and Kahneman, 1974) develops a theory explaining how decision-makers use psychological shortcuts to solve problems. For example, the representativeness heuristic allows people to make decisions based on comparison to the most representative mental example and the anchoring heuristic allows people to make decisions based the first piece of information relayed to decision makers. These heuristics often lead to cognitive biases and decisions that are often not optimal. Tversky and Kahneman (1979) developed the Prospect Theory that argues decisions are made not based on an absolute net wealth as expounded by the expected utility theory. They are made in terms of a potential gain or loss as deviation from a reference point. The value function for loss is steeper than the function for gain, thus the negative impact of loss is felt much greater than the positive impact of a similar amount of gain. Odean (1998) provides evidence that investors tend to sell winners and hold losers, supporting the Prospect Theory and its implications for loss aversion and the disposition effect (Shefrin and Statman, 1985).

Other works that dwell on the psychology of decision-making include Thaler (1999) who introduces the mental accounting concept. He contends that people divide and categorize their funds into different non-exchangeable mental accounts, even though they all draw from the same economic resource. This has implications for investment and spending decisions. Riff and Yagil (2016) reveal that psychological home bias, a market anomaly puzzle for decades, is a violation of what the international portfolio theory advocates as optimal. They developed experiments to test whether familiarity and fluency (pronunciation ease) affect the selection of "home" stocks in a portfolio. The results indicate that subjects tend to be more conservative with picking unfamiliar, foreign, and non-fluent securities. The tendency increases when unfamiliar and familiar assets are presented together versus when only one group is presented.

The other building block of behavioral finance is arbitrage limits which can make it challenging for rational agents to reverse bias caused by less rational agents. Factors such as risk aversion and agency problems can impose limits on arbitrage (Schleifer and Vishny, 1997; Shleifer; 2000). A mispricing does not necessarily mean there is a riskless arbitrage opportunity to be taken advantage of. First, information cost and risk (e.g., absence of same assets) do not make arbitraging a riskless endeavor. Second, the arbitrage market is dominated by professional arbitrageurs, and outside investors generally know little about it. Greater price dislocations do not necessarily attract more funds from investors to arbitrageurs if investors have limited knowledge of the arbitrage market. It is especially true during times of extreme mispricing when investors' anxiety levels are already high. Thus, limited funds means arbitrageurs might not be able to effectively reverse price dislocations, leading to persistent price anomalies.

BEHAVIORAL FINANCE AND NATIONAL DIFFERENCES

There are hundreds of studies of national impacts on business and management but few are done in finance and accounting (Aggarwal and Goodell, 2014). Between finance and accounting, the latter has more studies on cultural and national impacts on accounting behaviors such as professionalism, uniformity, and conservatism. Limited research in cross-national study is done in finance, let alone the impact of national differences in behavioral finance. However, there is some evidence that show people in different countries display different financial behavioral biases and the degree they are displayed (Kim and Nofsinger, 2008). Beugelsdijk and Frijns (2010) contend that the cultural factors of uncertainty avoidance and individualism affect aggressiveness in allocating foreign assets in portfolios. Sowinski, Schnusenberg, and Materne (2010) find Americans have more loss aversion bias than Germans but little differs in mental accounting. Wang et al. (2017) also find culture impacts the extent of loss aversion. Statman (2008) finds that risk tolerance, trust, regret, and maximization propensity (want the best) differ between countries. For example, Chinese have relatively higher risk tolerance, more trusting, less regretful, and have lower maximization propensity. Levinson and Peng (2007) find that cultural differences have impact on estimated asset values. Chinese tend to give higher value estimates than Americans. Limited research in behavioral differences in finance across nations argues a need for further investigation. This study hopes to help fill the gap.

METHODOLOGY AND RESULTS

Data is collected through an online survey using scenario-based questions to determine the level investment biases among finance students in a U.S. mid-western public university and a Nigerian public university. One-Sample T Test is used to determine whether each bias is impactful in each country and also whether each bias is significantly different between the 2 countries. This paper defines impact as the difference between a bias variable's average score and the corresponding test value of 0. The impact can be non-existing, negative, or positive. If a bias does not

exist systemically in a country, the average score should not be significantly different (statistically) from the test value. ANOVA is used to determine any gender effect on each bias. Lastly, regression analysis is done to determine any relationship between investment biases and selected cultural characteristics adapted from Hofstede's cultural dimensions (Hofstede)

RESULTS

Table 1 shows the impact analysis results in each country. In the U.S., all biases are impactful. In Nigeria, all biases are impactful except for mental accounting where the p value exceeds 0.05. It can be impactful positively or negatively. A positive impact occurs if the score exceeds the test value and a negative impact if it is vice versa. Table 1 also indicates breakeven and familiarity are the only 2 behavioral biases that exhibit different signs in their mean differences. The last 2 columns show there is a significant difference between the 2 biases in the U.S. and Nigeria.

Table 1 shows Disposition has positive impact in both the US (diff 0.36) and Nigeria (diff 0.33), and the extent of the psychological impact is almost similar with no significant difference between the 2 countries (F 1.24; p > 0.05). The disposition effect relates to the tendency to realize investment gains but not losses. Respondents in both countries tend to sell gainers sooner than losers but probably for different reasons. The difference in reasons can be explained by the fact that there is a positive impact of Mental Accounting in the U.S. (diff 8.72) while there is no impact in Nigeria (diff 0.01). Mental Accounting is associated with the brain's tendency to categorize money into different mental accounts based on the money's intent or source with no linkage between those accounts. The ability to do mental accounting makes it easier for Americans to make a decision in one account independent of another simultaneous decision made in another account for unrelated motives. They sell gainers sooner to lock in profit due to the possible motive of uncertainty reduction (bank profit while it is there), and simultaneously hold on to losers longer so as not to admit investment mistakes due to pride. The uncertainty reduction and pride motives are unrelated and making simultaneous decisions based on them makes more sense in the context of mental accounting. Otherwise it makes more sense to have equal tendency on average to sell gainers and losers (cut losses) if the motive is to reduce investor uncertainty and risk. Since there is no or little mental accounting impact in Nigeria, the positive impact of disposition in the country can be explained by an alternate explanation – loss aversion. Loss aversion alludes to a situation where the pleasure of gain is less than the pain of loss. Using the language of The Prospect Theory (Shefrin and Statman, 1985), Nigerians are more risk averse when it comes to gains and more risk seeking when it comes to losses (hoping that the asset price would rebound), increasing the disinclination to selling losers now (Nofsinger 2011). Loss aversion provides a more plausible explanation of how one can be risk averse and risk seeking at the same time in the absence of mental accounting bias.

Table 1
Bias Impact and Difference

	Test Value	Bias Impact						Diff. Between Bias in US & Nigeria	
		US (Sample 122)			Nigeria (Sample 167)				
		t	Sig. (2-t)	Mean Diff	t	Sig. (2-t)	Mean Diff	F	Sig.
Disposition	0	11.46	.00	.36	11.10	.00	.33	1.24	0.27
Mental Acct	0	8.72	.00	8.72	.35	.73	.01	2.60	0.11
Framing	0	2.21	.03	.07	5.23	.00	.13	1.75	0.19
Breakeven	0	-2.02	.05	-.09	8.37	.00	.27	5.45	0.02
Overconfiden	0	6.32	.00	.54	11.04	.00	.72	0.22	0.64
Herding	0	4.57	.00	.43	7.84	.00	.72	2.29	0.14
Familiarity	0	7.17	.00	21.3	-9.62	.00	-15.56	20.00	0.00
Risk Tolerance Mean		2.01			2.10				
Sensation Seek. Mean		3.51			3.76				

Framing is positively impactful in both countries. The framing effect is a cognitive bias in which people make different investment decisions depending on how an investment opportunity is presented or framed. It looks like both Americans and Nigerians are easily influenced by a given reference point and not looking beyond that, thus using less contextual information to make investment decisions. Contextual thinkers are more able to extract additional information beyond what is framed (Varnum, Grossmann, Kitayama, & Nisbett, 2010). Both nations' investors need to be mindful of how investment opportunities are advertised because of their positive framing bias. Nigerian respondents seem more affected by the investment bias (US 0.07; Nigeria 0.13) but the difference is not significant (F1.75; p>0.05).

Breakeven has a negative impact in the U.S. (diff -0.09) but is positive in Nigeria (diff 0.27). The difference is significant between the U.S. and Nigeria (F 5.45; p<0). The breakeven effect has to do with the behavior of taking bigger bets to try to make up for losses so as to return at least to a breakeven position. The urge to erase loss can lead to excessively risky investment behavior. The negative impact in the U.S. implies that Americans become more risk averse (rather than risk seeking) in taking larger bets to reverse a loss situation. The positive breakeven impact in Nigeria implies Nigerians become more risk taking in trying to recoup a loss with riskier bets. It could be that Nigeria respondents have a higher sense of regret, higher level of risk tolerance (US 2.01; Nigeria 2.10), and are generally higher sensation seekers (US 3.51; Nigeria 3.76) than their US counterparts.

Table 1 also shows that both countries have positive impact in Overconfidence. Overconfidence refers to unrealistic expectations of one's investment abilities. The bias can lead to irrational optimism, frequent trading, and underestimation of investment risks. Higher risk taking and sensation-seeking levels in Nigeria plausibly lead to a relatively higher level of overconfidence in Nigeria (diff 0.73) when compared to the U.S. (diff 0.54). However, Nigerian collectivist environment (Hofstede) possibly overshadows the overconfidence effects of higher levels of sensation seeking and risk taking in Nigeria since collectivism (low individualism) is implied to be inversely linked to overconfidence (Chui & Wei, 2010). The offsetting effects might explain the no difference in overconfidence between the U.S. and Nigeria (F 0.22; p>0.05).

Since Nigeria is a more collective society, the Herding effect is higher in Nigeria (diff 0.72) than that in the U.S. (diff 0.43) but the difference is not significant. The herding mentality refers to the tendency to follow a large group's action that individually the investor would not necessarily make. Lastly, Familiarity has positive impact in US (diff 21.31) but negative impact in Nigeria (diff -15.56). The familiarity difference between the 2 countries is significant (F 20, p<.05). Familiarity has to do with home bias and the inclination to be drawn to what is familiar. U.S. respondents tend to prefer to allocate more portfolio weight to their home investment assets than their Nigerian counterparts to Nigerian assets. It is not sure whether the impact difference exists due to the attraction of a more stable, mature, and larger U.S. equity market (economic motivation) or due to a bias difference. On economic motivation, it is natural that Americans would invest relatively more in U.S. investment assets if the U.S. economy is perceived to be stronger and more dynamic. With a negative familiarity impact, Nigerians seem more willing to invest in unfamiliar investment assets when compared to Americans.

Table 2 shows the results of gender effect on biases. U.S. males experience higher herding effect than U.S. females. It is possible U.S. males are persuaded more easily by group behavior than their female counterparts for some reason. On the other hand, U.S. females tend to have higher breakeven and overconfidence biases in investing than their male counterparts. Maybe U.S. females are more regretful and willing to take additional risks to recoup losses. Their higher sense of overconfidence might explain why they are not as easily persuaded by group behavior than their male counterparts. It might be a coincidence but it is interesting to observe that all 3 psychological biases that are influenced by gender difference in the U.S. are somehow associated with individualistic tendencies. As implied earlier, herding is inversely affected by individualism (or low collectivism). Overconfidence is directly linked to individualism according to Chui and Wei (2010). As for breakeven, it is probably connected to propensity for regret, which is found to be high in countries with high individualism. In this environment, individuals cannot expect to rely on friends and family to help shoulder personal responsibility for choices made, thus making it difficult to reduce personal regret for wrong choices (Statman, 2015). In this respect, breakeven is indirectly associated with individualist tendencies.

As for Nigerian respondents, males tend to have higher disposition bias than Nigerian females. Nigerian males may be less patient (selling gainers sooner to lock in profit), less willing to admit investment mistakes and less regretful, hence less willing to sell losers than Nigerian females. On the other hand, Table 2 discloses that Nigerian females are more susceptible to framing bias than males. They are more easily influenced by a given reference point than Nigerian males. It is also interesting to observe that these 2 psychological biases that are influenced by gender difference in Nigeria have something in common. Both are seemingly associated with a biased cognition in which

Table 2
Gender Effect on Bias

Country	Bias	Gender	Mean	Effect	Mean Sq	F	Sig*
US	Herding	M(51)	3.18	Betw Grps	5.13	4.80	.03
		F(71)	2.76	Within Grps	1.07		
	Breakeven	M(51)	1.27	Betw Grps	1.61	6.90	.01
		F(71)	1.51	Within Grps	0.23		
	Overconfidence	M(51)	2.14	Betw Grps	14.28	18.23	.00
		F(71)	2.83	Within Grps	0.78		
Nigeria	Disposition	M(84)	1.92	Betw Grps	1.46	10.62	.00
		F(81)	1.73	Within Grps	0.13		
	Framing	M(84)	1.57	Betw Grps	0.66	6.32	.01
		F(81)	1.70	Within Grps	0.10		

*Only results with p < 0.05 are shown

choices people make depend on how issues are presented by others or viewed in their own minds, especially with the framing bias. Kahneman and Tversky (1979) suggests that disposition tendency also has a framing aspect in that individuals make decisions based on a reference value (e.g. loss or gain frame) rather than on final outcomes.

Table 3 presents analysis results of impacts of cultural tendencies on investment biases. It shows that the investment biases of disposition, herding, and overconfidence are affected by relevant individual cultural tendencies in both countries in a significant manner. With the exception of disposition in U.S., most are affected negatively by cultural influences. The most influential cultural tendencies in terms of affecting biases are power distance (accept power inequality), individualism, uncertainty avoidance (tolerance for ambiguity). Masculinity (emphasis on quantity, such as earnings and promotion, rather than quality) only affects disposition in Nigeria.

Focusing on individual biases, Table 3 indicates U.S. disposition is positively impacted by power distance and un-

Table 3
Impact of Cultural Characteristics on Investment Biases*

		Power Distance	Individualism	Masculinity	Uncertainty Avoidance
Disposition	US	b=0.23 t=2.68			b=0.29 t=3.09
	Nigeria			b=(0.17) t=(2.07)	
Herding	US	b=(0.20) t=(2.30)	b=(0.22) t=(2.29)		
	Nigeria				
Over-confidence	US				b=(0.24) t=(2.53)
	Nigeria		b=(0.18) t=(2.35)		

Only investment biases with standardized beta coefficients with significance values < 5 % are shown in the table.

certainty avoidance with beta values of 0.23 and 0.29, respectively. In the U.S., people with higher power distance and uncertainty avoidance leanings tend to sell gainers sooner over losers than people with lower leanings. This behavior is probably due to increased anxiety and uncertainty associated with higher power distance and uncertainty avoidance, and so they tend to sell gainers over losers to lock in profit to lessen uncertainty. Nigeria disposition is negatively impacted by masculinity in that the more masculine they are, the less Nigerians tend to dispose gainers sooner over losers. The disposition beta value is -0.17. It implies that they emphasize more on earnings, thus less willing to sell gainers sooner over losers as they hope gainers will continue to generate greater gains. It is hard to explain why Nigeria's disposition is not affected by power distance and distance in the same manner as they affect disposition in the U.S since Nigeria scores higher in both cultural factors than the U.S. (Hofstede).

Herding is affected by cultural factors only in the U.S. The bias is negatively impacted by power distance and individualism. The higher the cultural scores, the lower herding bias is in the U.S. It is not known why those Americans who are more accepting of power inequality are less susceptible to herding bias. On the contrary, herding is associated with group influence and that might explain why people with affinity for individualistic values are not as biased in herding.

In the U.S., uncertainty avoidance negatively affects overconfidence. Americans who score high in uncertainty avoidance are less overconfident because they feel more threatened by ambiguous and unstructured situations. Overconfidence is affected negatively by individualism in Nigeria and it seems to contradict the work of Chui and Wei (2010) in that they find overconfidence and individualism are directly related. A plausible explanation is that individualism might be seen as less desirable and less supported when it occurs in a collective environment like Nigeria, thus adversely affecting any sense of overconfidence of individualistic Nigerians.

CONCLUSIONS

This study has provided evidence that human decision makers do have investment psychological tendencies regardless what their country origin is. These tendencies or biases can influence their investment behavior in a positive or negative manner with regards to the bias in question. Investment biases may be different in different countries. The difference could be caused by different influences shaped by customs, culture, values, economic structures, regulations, and others. Within a country, it is possible that gender and individual cultural characteristics can also have an impact on the types and extent of investment biases present in the country.

Investment biases are probably a contributor to the persistent presence of some market anomalies. It will be intriguing for future research to explore and see whether there is any empirical support for this line of argument. Another implication for future research is to include investors in a study's sample to determine whether there is any difference in psychological bias between non-investor and investor groups. A third suggestion for further research is to investigate ways in which investment biases can be minimized so that investment decision can be optimized. For example, one possible way to reduce the biases is having machines or computers make investment decisions, removing human nature from the decision making algorithms.

REFERENCES

Aggarwal, R., & Goodell, J. W. (2014). National cultural dimensions in finance and accounting scholarship: An important gap in the literatures? Journal of Behavioral and Experimental Finance, 1, 1-12.

Beugelsdijk, S., & Frijns, B. (2010). A cultural explanation of the foreign bias in international asset allocation. Journal of Banking & Finance, 34, 2121–2131.

Barberis, N., & Thaler, R. (2003). A survey of behavioral finance. In G. M. Constantinides, M. Harris, & R. M. Stulz (Eds.), Handbook of the Economics of Finance (vol 1, chap 18, pp 1053-1128). Amsterdam: Elsevier.

Chui, A. C., Titman, S., & Wei, K. J. (2010). Individualism and momentum around the world. The Journal of Finance, 65, 361– 392.

Fama, E. F. (1965). The behavior of stock market prices. The Journal of Business, 38, 34-105.

Hofstede. Retrieved from https://geert-hofstede.com.

Kahneman, D., & Tversky, A. (1979). Prospect Theory: An analysis of decision under risk. Econometrica, 47, 263-292.

Kim, K. A., & Nofsinger, J. R. (2008). Behavioral finance in Asia. Pacific-Basin Finance Journal, 16, 1-7.

Levinson, J. D., & Peng, K. (2007). Valuing cultural differences in behavioral economics. The ICFAI Journal of Behavioral Finance, 4, 32-47.

Lee, C., Shleifer, A., & Thaler, R. H. (1991). Investor sentiment and the closed-end fund puzzle. Journal of Finance, 46, 75-109.

Markowitz, H. M. (1952). Portfolio Selection. The Journal of Finance, 7, 77–91.

Nofsinger, J. R. (2011). The psychology of investing, 4th edition. Boston, Massachusetts: Prentice Hall.

Odean, T. (1998). Are investors reluctant to realize their losses? The Journal of Finance, 53, 1775-1798.

Park, H., & Sohn, W. (2013). Behavioral finance: A survey of the literature and recent development. Seoul Journal of Business, 19, 3-42.

Riff, S., & Yagil, Y. (2016). Behavioral factors affecting the home bias phenomenon: experimental tests. Journal of Behavioral Finance, 17, 267-279.

Ritter, J. R. (2003). Behavioral finance. Pacific-Basin Finance Journal, 11, 429-437.

Sewell, M. (April 2010). Behavioural finance. University of Cambridge.

Sharpe, W. F. (1964). Capital asset prices: A theory of market equilibrium under conditions of risk, Journal of Finance, 19, 425–442.

Shefrin, H. (2000). Beyond greed and fear: Understanding behavioral finance and the psychology of investing. Boston, Massachusetts: Harvard Business School Press.

Shefrin, H., & Statman, M. (1985). The disposition to sell winners too early and ride losers too long: Theory and evidence. Journal of Finance, 40, 777–790.

Shleifer, A. (2000). Inefficient markets: An introduction to behavioral finance. New York: Oxford University Press, Clarendon Lectures.

Shleifer, A., & Vishny, R. W. (1997). The limits of arbitrage. Journal of Finance, 52, 35-55.

Sowinski, M., Schnusenberg, O., & Materne, S. (2010). 'Sprechen Sie Bias?' An investigation of behavioral finance biases between Germany and the United States. Journal of Behavioral Studies in Business, 3, 53-76.

Statman, M. (2015). Culture in risk, regret, maximization, social trust, and life satisfaction. Journal of Investment Consulting, 16, 20-30.

Statman, M. (2008). Countries and culture in behavioral finance. CFA Institute Conference Proceedings Quarterly, 25, 38-43.

Thaler, R. H. (1999). Mental accounting matters. Journal of Behavioral Decision Making, 12, 183-206.

Treynor, J. L. (1962). Toward a theory of market value of risky assets. Unpublished manuscript. A final version was published in R. A. Korajczyk (Ed.), Asset Pricing and Portfolio

Performance: Models, Strategy and Performance Metrics (pp 15-22). London: Risk Books.

Tversky, A., & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. Science, New Series, 185, 1124-1131.

Kahneman, D., & Tversky, A. (1979). Prospect Theory: An analysis of decision under risk. Econometrica, 47, 2, 263-292.

Varnum, M., Grossmann, I., Kitayama, S., & Nisbett, R. (2010). The origin of cultural differences in cognition: The social orientation hypothesis. Current Directions in Psychological Science, 19(1), 9-13).

Wang, M., Rieger, M. O., & Hens, T. (2017). The impact of culture on loss aversion. Journal of Behavioral Decision Making, 30, 270-281.

Werner, F. M., De Bondt, & Thaler, R. (1985). Does the stock market overreact? Journal of Finance, 40, 793-805.

This page is intentionally blank.

It Security Threats and Challenges for Small Firms: Managers' Perceptions

Mahmoud Watad
Professor, Cotsakos College of Business
William Paterson University of New Jersey
Wayne, New Jersey

Sal Washah
Adjunct Professor, School of Management
New Jersey Institute of Technology
University Heights Newark, New Jersey

Cesar Perez
Professor, Cotsakos College of Business
William Paterson University of New Jersey
1600 Valley Rd., Wayne, New Jersey

ABSTRACT

This paper examines IT security adoption efforts in the context of small business firms. Specifically, it focuses on the drivers as well as the constraints that may affect the rate of adoption of security tools by these firms. Small businesses rely on information technology to support various business functions and to gain competitive advantages. However, this reliance poses information security risks. The findings indicate that small business managers do not perceive security tools as a contributing factor to their business core competencies. Additionally, the rate of adoption is moderated by their level of awareness of the importance of security tools to protect company information assets from malicious attacks.

Keywords: Small Firms, Small Businesses, IT Security, IT Management, IT Coping Strategies

INTRODUCTION

For small businesses, maintaining a reliable information technology (IT) infrastructure is an essential factor to support their growth and enhance their competitive advantages. In this regard, one must say that there is no difference between small businesses and large enterprises. The IT infrastructure includes all hardware, software, networking and connectivity, wireless technology, and productivity applications. Reliable infrastructures allow small businesses to adapt quickly to changes in the environment by facilitating the adoption of new IT tools, enabling cost savings initiatives, improving the flexibility to work remotely, enhancing mobility, and more importantly, leveraging growth by easing customers access to company services. However, the flip side to this increased reliance on IT is associated with the challenges businesses face to secure their knowledge, information and IT assets, which are defined here as all tangible and intangible IT resources used by firms to manage their business. In this paper information security is defined "as the protection of information, systems, hardware and networks that use, store and transmit such information" (NSTISSC, 1994). The objective of information security is "to protect the availability, accuracy, authenticity, confidentiality, integrity, utility and possession of information" (Whitman and Mattford, 2004). "A threat to information security can be defined as the possibility of information being attacked, destroyed or modified" (Musekura and Ekh, 2004).

The ever-changing IT environment and the increased reliance on mobile computing as well as the ever-growing use of cloud computing have highlighted the importance of securing company information assets among business owners and managers. The capability of small businesses to secure their IT infrastructure has become a critical factor. Small businesses face various challenges in maintaining a reliable IT infrastructure, some of which are keeping up with changing IT tools and the type of products to buy, the lack of in-house expertise, and the complexity of

technology. For a substantial number of small businesses, a laid-back attitude about cybersecurity seems to be the norm. Many do not have dedicated in-house staff to maintain IT resources, including security tools. A vast number do not have procedures to handle anti-phishing threats, data encryption, and off-site backups to their data and applications. The top four types of security threats reported by small and midsize companies are: viruses, theft, insider abuse of net access, and unauthorized access to information.

The Symantec's 2016 Internet Security Threat Report (ISTR) indicates that cyber-attacks directed at small businesses are increasing at unseen rates. In 2015, for example, phishing attacks targeting small businesses reached 43%, a 9% increase over reported attacks in 2014, and about 25% increase in comparison to 2011. In 2011, only 18% of the cyber-attacks documented targeted small businesses. In the ISTR report, small businesses are defined as those with up to 250 employees (Symantec, 2016). As per the ISTR report, data breaches by incidents' source are as follows: outside attackers, 46%; data accidentally made public, 22%; theft or damage of computer drives, 21%; insider theft, 10%. The report also reveals that top industries targeted in spear-phishing attacks in 2015 were Finance, Insurance, and Real Estate and that the least targeted was Health (less than 1%). Insider theft accounted for about 10% of data breaches in 2015, a stark increase from the less than 1% reported in 2014.

While, based on Symantec's report, the probability of a small business to be attacked is about 2.5% compared to 50% for large businesses, the report indicates that hackers are randomly selecting businesses regardless of their size. They simply look for ways to get money. Most phishing attacks target small business' employees in charge of the business finances (Symantec, 2016). A 2015 survey, by Nationwide, of 500 U.S. small business (with fewer than 300 employees) owners, revealed that about 63% were victims of at least one type of cyber-attack. In As per this survey, 79% percent of small business owners have no cyber-attack response plans and about 40% do not think their company will be affected by a cyber-attack (Nationwide, 2015). Various surveys, such as the National Small Business Association surveys, addressing the use of technology by small businesses indicate that the majority of small businesses have websites, purchase supplies online, perform banking online, utilize electronic billing, and use social media for networking purposes. These surveys also identify some of the challenges small businesses face, such as the time and the resources needed to update and maintain their websites. A global survey by Symantec of 1,900 small and midsize businesses (SMB) professionals responsible for information technology reported that most respondents were aware of threats such as keystroke logging, distributed denial of service attacks, website vulnerabilities and targeted attacks. As per the findings of this survey, 67% of the SMBs established login restrictions for online banking purposes, but 63% did not lock down the machines they used (Messmer, 2011).

It seems that there are serious disconnects between policy and practice or between policy awareness and policy adherence in the way firms manage their security strategies. Some companies are failing to understand that information security involves not only technological tools but also people behavior and awareness. The human factor is a major cause behind most information security problems (Gonzalez and Sawicka, 2002). Security methods most likely will fail if they are not implemented and used appropriately. This paper both sheds some lights on the security policies and practices of small firms, and presents a simple model connecting the various factors impacting small businesses' decisions to adopt IT security tools.

SMALL BUSINESSES AND THEIR IT SECURITY CONTEXT

One may consider IT security tools as a subset of the IT resources firms adopt and use, thus allowing the use of theories from the IT adoption literature to shed some light on the adoption practices and rate of IT security tools by small businesses. Securing information and IT assets is not a simple task. In addition to financial resources, it demands technical security skills as well as access to advanced security tools to protect the IT assets that support a firm's operations. Small and midsize companies face the same security risks large firms do. However, small businesses have to overcome operational constraints inherent to their size to effectively protect their IT and knowledge assets. Some of these constraints include: lack of resources to hire experts and train staff, lack of in-house personnel with security expertise, and lack of understanding of some of the potential risks (Gupta and Hammond, 2005)

Although small businesses may not depend intensely on IT to enhance their competitive edge, extant research provides evidence on their increased reliance on IT. For example, investments in information and communication technologies are perceived as enhancing organizational performance and positively affecting a company's competitiveness (Alonso-Almeidaa, & Llachb, 2013). While customers may not play a role in firms' decision to invest in IT security, customers' relations is one of the key drivers of IT adoption in small businesses (Nguyen, et al, 2015). Moreover, any attack on small businesses IT assets may have severe consequences on their survival. Companies that reduce the likelihood of potential threats will have a better chance to survive than their competitors.

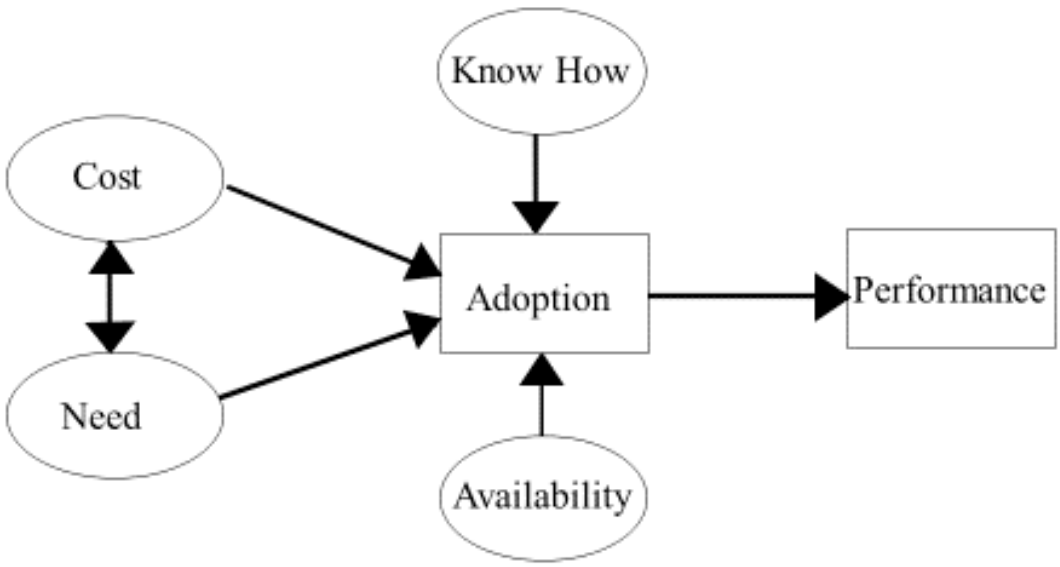
The belief that small businesses are too small to be a target for hackers is no longer true. Small businesses are perceived by hackers as a soft target when compared with big companies which have better resources to protect their resources. Unfortunately, they are easier targets than large firms. Simply put, hackers seek to get money via identity theft, and most SBs maintain databases which contain sensitive information, such as employees' Social Security numbers, banking information, health insurance information, and information about their customers. The hackers want employees and customers' information to get access to bank accounts, and often to file for fraudulent tax refunds, and sometimes to hijack a small business's website to hack other businesses.

Technology adoption studies in general focus on the intentions and attitudes that shape the behavior of the decision-makers. For example, while the perceived complexity of technology is said to delay the adoption decision, the perceived ease of use and the perceived usefulness are reported to influence positively the behavior of decision makers to adopt the technology. Since small businesses by definition employ fewer employees, it is believed that personality attributes may not only affect the adoption decision but also the actual use of the IT security tools being adopted. In one study, it was found that the relationship between intent and actual use was "moderated by conscientiousness of the users" (Shropshire, et. al, 2015). In another exploratory study examining the factors affecting peoples' perception of information security, it was found that knowledge is a significant factor in adoption processes (Ding-Long, et.al, 2010). When managers underestimate the risk of hackers and cyber-attacks, their behavior may encourage employees to develop bad habits regarding security (Stewart, 2004; Thompson and Von solms, 2005). In general, the literature on IT adoption does not shed much light on the mix of factors that influence decision-makers to adopt new technologies. Figure 1 shows the four potential factors reported in the extant literature to affect security tools adoption in small businesses, namely, need, cost, awareness and know-how, and availability of suitable security solutions. Figure 1 also presents a model depicting the way in which the four factors affect the decision of small business to adopt IT security tools. Following, each one of the factors will be discussed.

Need to protect

The need to protect of IT resources has too dimensions. The first relates to the opportunity cost a small business will have in case it gets attacked. Actually, some small businesses may not be able to overcome any level of cyber-attacks. Testimonies of small business' owners reveal that, not only they suffer financially, but also their reputation. The second dimension relates to the growing number of regulations and laws that require small businesses, for example, to notify customers about data breaches. This task turns to be very costly, even if the small business has a few hundred customers. Additionally, the cost and time spent

Figure 1
IT Security Tools Adoption Model



will double if the small business conducts business in multiple states. Each breach poses different challenges and requirements and each state has different laws. On the other hand, the Federal government and the Government Accountability Office (GAO) are serious about sharing cybersecurity resources with Small Businesses (Kirschbaum, 2015). Government agencies often use small businesses to deliver some of their services and consequently, if the small business is compromised while working on a government project, the hacker potentially could gain access to the vast government networks and resources.

Cost of Information Security

One of the key factors contributing to the lack of information security among small businesses is cost. Notwithstanding, small business should realize that IT security is a necessity and a cost of doing business (Carr, 2003). The central elements of IT security cost are the cost of dedicated IT resources and the cost of purchasing security hardware, software and training. Most small businesses do not have dedicated IT staff (Keller, et.al, 2005). This responsibility is typically given to another employee on top of their regular duties. The cost of a dedicated IT professional is usually not in the budget and may be one of the first positions to go if the business is struggling or needs to cut expenses. The alternative to having a dedicated IT staff would be to outsource these responsibilities to a third party, such as a local IT service provider.

In addition to the cost of an IT staff, there is the actual cost of hardware, software and training, as well as the policies and programs that need to be instituted and implemented. However, in some instances, there are free tools available that minimize the occurrence of malicious code. One of the main reasons why small businesses cannot justify the expense of a dedicated IT staff or purchase of security tools is the fact that most do not see themselves as targets of malicious acts. In addition, the risk of a security breach is not perceived as immediate or tangible. However, what they do not realize is the fact that the cost of doing nothing, will far outweigh the cost of implementing security measures. For example, under government regulations, a company is required to notify all persons whose data might have been exposed because of a security breach. This notification requirement is usually very costly if there is a large customer base. Such financial liability could prove devastating for some small businesses.

Knowledge and Awareness

A difficult challenge small businesses face relates to the overall knowledge and awareness of information security issues. With the rapid changing pace of business technology, the requirements for data security increases. Smaller businesses often lack IT knowledge and skills compared to larger firms as they typically do not have specialized IT staff. The size of a company is a factor that may explain whether a company is likely to have an established security program in place. The lack of skilled IT staff is an obstacle in SMBs' ability to manage information security effectively. Some SMBs may lack the skills of knowing whether their systems were being attacked (Keller et al, 2005). This lack of knowledge creates an additional challenge related to the availability of training and awareness programs for employees.

Small businesses' owners need to be aware that hackers may attack small businesses in various ways. These attacks range from an easy phishing attacks aimed at getting personal, banking, and credit information, to hard ones such as ransomware aimed at shutting down the business computer systems and hijacking data and applications files, in order to demand money for releasing the data. Extant research supports the notion that there is a relationship between perceived knowledge and the intention to adopt certain technologies (Huang, et. al, 2011). In fact, the more aware a manager is of the risk of cyber-attacks, the more the manager will be inclined to adopt security tools and measures. Users' compliance with security procedures, such as using strong passwords, would be enhanced by increasing the users' perceived knowledge about risks (Huang, et. al, 2011)

Market Availability

The availability of information security tools or systems for small businesses may not be as prevalent as that of tools designed for larger companies with complex IT infrastructures. Although providers offer a wide variety of IT security products, they do not always offer scaled-down or customizable versions that meet the needs of small businesses with limited IT budgets. Moreover, freeware software tools often require extensive technical knowledge for effective implementations. While small businesses may be utilizing basic security software, like pc-based anti-virus, anti-spyware and firewalls, the availability of IT security tools on the network layer, especially for direct connections to the internet, is scarce and poses a security concern. Even though email and web filtering applications, user access authentication, data encryption and digital rights management tools are widely available to help secure information assets and IT systems, the question remains as to whether they are being used by small businesses.

The trends in the market are in favor of small businesses. For example, providers are expanding their services and products to include information security software with

wrap-around security expertise. The U.S. Government has certified Google Apps under the Federal Information Security Management Act, to provide small businesses with a secure, cost-effective cloud computing solution (Bradley, 2010; Beasley, 2010). These measures provide a much-needed flexibility for small businesses to store and protect their data. Cloud computing provides a cost effective alternative solution for managing small business IT needs. This option can reduce not only cost but also minimize the occurrence of security threats as the cloud infrastructure has strong built-in security features. In general companies providing cloud computing services have greater awareness of security threats and, consequently, incorporate more advanced IT security tools.

The emergence of the cloud as a dynamic IT strategy is transforming the way firms adopt new IT technologies. Specially, the cloud strategy is beneficial to small business. With the cloud, SB can host all their business needs in the cloud. However, cloud computing increases computer security concerns, therefore, the adoption of the cloud computing is shaped by the perception of security, which goes beyond the technical details of the security tools (Sehgal, et al, 2011).

RESEARCH METHODS

The bulk of the data collected came from a survey distributed to 148 managers in small companies. Sixty-six (66) managers responded, a response rate of 44.6%. The organizations and industries included in the sample were varied, from manufacturing, to financial, hospitality, health, and services. The target participants were small businesses, having less than 100 employees and located in the northeast region of the US, primarily in the New York-New Jersey metropolitan area. The survey questions were divided among four main categories, namely: general industry and company information, cost and resources, knowledge and awareness, and market availability of IT security solutions for small businesses. The data were collected in 2014. Given the qualitative and exploratory nature of the study, the sample size is adequate for conducting analysis and drawing conclusions. In-depth and follow up interviews were conducted with eight managers in a semi-structured format. The interviews focused on (i) determining whether the companies had information security measures in place; and, (ii) identifying the factors that contribute to small businesses decisions of consistently updating information security tools and adopting best practices.

RESULTS AND ANAYLSIS

The following is a sample of the types of IT systems and resources firms in the survey used: search engines and websites, online ordering systems, email systems, mobile technologies (smart phones, laptops, and tablets), Microsoft Office applications, accounting and financial programs, database applications, and social media apps. In terms of which IT and security problems have the potential to disrupt their operations and have major impact on productivity, 93% of the respondent managers perceived "virus attacks" to be the main problem, followed by "technical and maintenance" (88%), and "wireless unauthorized access and hacking" (83%).

Survey responses showed that all small firms use anti-virus and anti-spyware software, pc-based firewalls and unique user accounts and passwords. In addition, about 40% indicated they had implemented and used hard-drive/file encryption technologies, network-based firewalls, and Intrusion Detection Systems. In response to the question of what security tools they used to minimize disruptions in their operations due to securities threats, small business managers noted that they rely more on technologies and anti-virus software than on personal discipline and behavior. For example, while 85% emphasized the need for updated anti-virus systems, only 35% emphasized the importance of frequent changes or the use of strong passwords. Additionally, about 67% of the respondents indicated the importance of having reliable hardware & software resources such as advanced firewalls.

In terms of IT security knowledge and awareness, only 20% of the managers considered they and their employees were knowledgeable, that is, they had a high level of IT security knowledge and awareness. Their firms provided some IT security training programs to their employees. However, about 85% of the managers responded they were not aware of either any laws or regulations requiring their business to secure electronic information, or the potential liabilities they would face because a network/system was compromised. They breakdown of the managers' level of IT security knowledge was as follows: 20% above average, 20% about average, and 60% very low. Some businesses were not aware (or opted to ignore) of their compliance requirements for such regulations as the "Payment Card Industry Data Security Standards (PCI DSS), Personally Identifiable Information (PII)" security breach state disclosure requirements, as well as the "Health Insurance Portability and Accountability Act (HIPAA) privacy rules" (for more details see Shaw, 2010; McGraw, 2009).

Only 20% of the small firms surveyed have a dedicated in-house staff responsible for maintaining IT systems. The rest of the firms either outsource their IT services to a local provider or do not have anyone directly responsible for overseeing their IT needs. Results show that although cost of managing and adopting security measures is a constraint, awareness of the importance of IT secu-

rity and knowledge and know-how are the key drivers for the adoption of IT security tools by small businesses. The availability of commercial IT security solutions scored highly among managers and was not a concern to them. However, small business owners expressed some fear of buying tools they don't need. And that they don't have access to reliable unbiased sources for advice. Considering the tight budgets most of them have, small businesses don't want to overspend on tools that don't fit their business needs. Therefore, we suggest that small business owners must develop some basic knowledge about their business security needs, also they should inform themselves about tools available in the market.

Regarding the availability of appropriate commercial IT security solutions for small businesses, about 90% of the participants rated this very highly, averaging a response of 4 on a scale of one to five (five being the highest). The survey responses suggested that anti-virus, firewall, website, email filtering, intellectual property protection and personally identifiable information security technologies were readily available and met the needs of small businesses.

The next theme in the survey related to the extent to which security threats could prevent or hamper innovation. In this context innovation reflects the adoption of new IT-enabled business processes such as online ordering and web applications. As per the results of the survey, while 60% of the managers support the notion that security threats would not prevent or slowdown innovation in their firms, 40% perceive security threats are an obstacle to innovation. Security attacks may slow down the adoption of innovation but will not prevent it. Using IT has always posed risk but innovation would not be affected.

According to the results of the survey, none of the firms experienced a catastrophic, either external or internal, IT security breach such as total denial of service. Some alluded to the fact that they did not feel IT security posed a significant risk to their business. In other words, small business are not worried too much about security issues. As an example, it was revealing to note that while they perceived hacking passwords was a major threat, they were trapped in an old habit of enjoying the comfort of keeping the same passwords. On the other hand, when asked about their satisfaction with the level of IT security controls in their company, all responded that they were not completely satisfied with it. Still, only 20% indicated they had planned to implement additional controls.

RECOMMENDED COPING SYRATEGIES

Small firms should install both pc-based and network-based firewalls to protect the company's external perimeter and internal IT systems as well as prevent unauthorized inbound network traffic. In addition to firewalls, companies need to frequently update their software, including anti-virus and anti-spyware programs, applications and operating systems. Software updates and patches are always available.

To protect their IT assets and enhance their security procedures, small businesses must implement a strong password policy or a multi-level authentication system (Keller et al, 2005). Policies should be instituted to require that passwords be changed periodically, and employees do not share them. Companies should also take physical measures to secure IT hardware by restricting access to rooms that house their IT systems only to authorized employees. Businesses should provide individual user accounts for each employee, implement a strong password policy, improve their physical security procedures, and conduct employee awareness training (Keller et al, 2005).

Having a comprehensive security policy is a complex endeavor and it depends on various factors (Karyda, et, al. 2005). Any policy should take in consideration the social and human factors impacting security (Kagan and Cant, 2014). A simple policy or plan will do. They have to establish some rules and procedures in handling data (such as control access to sensitive data), train employees and make them aware of the rulers, always to have the updated software application, always use strong passwords, and most importantly, make sure all employees follow and implement the rules. No doubt that hackers will target the employees of small businesses with phishing attacks, therefore, having training programs or informational sessions about the security risks and consequences of cyber-attacks is essential. Nonetheless, most of data breaches could be prevented via common sense policies (ISTR, 2016). ISTR 2016, offers the following basic common-sense steps, to prevent most of data breaches, and to reduce the risk of exposure to malicious attacks: such as "deploying effective email filters, Using intrusion prevention and detection software, restricting third-party access to company data, Employing encryption where appropriate to secure confidential data, and implementing data loss prevention (DLP) technology" (ISTR, 2016). Also with the increased applications of IoT it is important for small businesses to reduce the number of devices connected to the network of the firm.

SUMMARY

The purpose of this research was to explore the dynamics of information security tools adoption by small businesses, and whether cost, lack of knowledge, and availability of appropriate solutions were the drivers behind their adop-

tion behavior. The main conclusion is that the adoption of information security tools is not consistent across all small businesses. The factors contributing to this inconsistency are knowledge and awareness of the need itself, and the skill sets needed to select and implement solutions. Cost, while is important, mainly the cost of a dedicated IT staff, and training were not key factors in their decisions.

Most respondents didn't perceive security threats as a major concern or a major factor contributing to their firms' competitiveness. In general, in the context of small businesses, IT security tools are seen as an internal business cost rather than as a competitive force. On the other hand, IT-enabled solutions that impact how services are delivered to customers are seen as contributing factor to a firm's capability to conduct its business.

The findings of the study provide valuable empirical evidence on security practices in small businesses. The results should benefit managers in making them aware about the need to develop effective security strategies and solutions in their companies. Finally, this research addressed some critical theoretical and practical links between business security coping strategies and industry technological innovations. No doubt that with the increase of cyber-attacks, eventually, a business will be attacked. By enhancing awareness and implementing common sense procedures small businesses will avoid the majority of the attacks, thus allowing owners to focus on managing their business other priorities and providing quality service to their customers.

REFERENCES

Alonso-Almeidaa, M. and Llachb, J. (2013) "Adoption and use of technology in small business environments", The Service Industries Journal, 2013, Vol. 33, Nos. 15–16, 1456–1472,

Bradley, Tony (July 27, 2010). What Google Apps for Government Means for Small Businesses. PC World. Retrieved from http://www.pcworld.com

Beesley, C. (2010) Keeping Pace with Change and Growth. Small Business Association. Retrieved from http://community.sba.gov/community/blogs/expert-insight-and-news/small-business-matters/keeping-pace-with-change-and-growth-â€-businessgov-web-gadgets-co

Carr, N., (2003). IT Doesn't Matter. Harvard Business Review. Reprint R0305B.

Gupta, A., & Hammond, R. (2005). Information systems security issues and decisions for small businesses: An empirical examination. Information Management & Computerf Security, 13(4), 297-297-310. Retrieved from http://search.proquest.com/docview/212368130?accountid=10818

Keller, S., Powell, A., Horstmann, B., Predmore, C., & Crawford, M. (2005). Information Security Threats and Practices in Small Businesses. Information Systems Management, Vol. 22(2), p7-19. Spring 2005.

McGraw, D. (2009). Privacy and Health Information Technology. Journal of Law, Medicine & Ethics, 37121-149. doi:10.1111/j.1748-720X.2009.00424.x

Nguyen, T., Newby, M., and Macaulay, (2015) "Information Technology Adoption in Small Business: Confirmation of a Proposed Framework", Journal of Small Business Management 2015 53(1), pp. 207–227

Shaw, A. (2010). Data Breach: From Notification to Prevention Using PCI DSS. Columbia Journal of Law & Social Problems, 43(4), 517-562. Retrieved October 5, 2011, from EBSCOhost.

Ellen Messmer, (2011). Do smaller businesses think they're immune to security threats? http://www.networkworld.com/article/2183178/security/do-smaller-businesses-think-they-re-immune-to-security-threats-.html, Nov 16, 2011

Factors affecting perception of information security and their impacts on IT adoption and security practices, International Journal of Human-Computer Studies. Dec 2011, Vol. 69 Issue 12, p870-883.

Huang, Ding-Long; Patrick Rau, Pei-Luen; Salvendy, Gavriel1; Gao, Fei1; Zhou, Jia1 (2011).

Huang, Ding-Long; Patrick Rau, Pei-Luen; Salvendy, Gavriel1; (2010). Perception of information security, Behavior & Information Technology. Vol. 29, No. 3, May-June 2010.

Karyda, Maria, Kiountouzis, Evangelos, Kokolakis, Spyros (2005), Information systems security policies: a contextual perspective, Computers & Security. May2005, Vol. 24 Issue 3, p246-260.

Kagan, A; Cant, A. (2014). Information Security: A Socio-technical Solution for Homeland Security Threats within Small to Medium Sized Enterprises (SMEs). Homeland Security Review. Summer2014, Vol. 8 Issue 2, p1-13.

Kirschbaum, Joseph W. (2015) Opportunities Exist for DOD to Share Cybersecurity Resources with Small Businesses, GAO Reports. 9/24/2015, preceding pi-27. 31p.

Nationwide, (2015). Most Small Businesses Unprepared for Cyber Criminals, November 10, 2015 https://

www.nationwide.com/about-us/111015-cyber-security.jsp, retrieved 2016 Nov 20

Sehgal, Naresh K.; Sohoni, Sohum; Ying Xiong; Fritz, David; Mulia, Wira; Acken, John M. (2011), " A Cross Section of the Issues and Research Activities Related to both Information Security and Cloud Computing. IETE Technical Review; Jul/Aug2011, Vol. 28 Issue 4, p279-291.

Shropshire, Jordan; Warkentin, Merrill; Sharma, Shwadhin b (2015). Personality, attitudes, and intentions: Predicting initial adoption of information security behavior. Computers & Security March 2015 49:177-191

Stewart, A. K. (2004), On Risk: perception and direction. Computers and Security, 23, 362-370.

Symantec, (2016), Internet Security Threat Report, Volume 21, April 2016, retrieved on Nov 16, 2016 https://www.symantec.com/content/dam/symantec/docs/reports/istr-21-2016-en.pdf

Thompson and Von solms, R., (2005). Information security obedience: a definition. Computers & Security, 24, 69-75.

A Review of Research on Child Safety in Motor Vehicles: Ollie Otter Seat Belt and Booster Seat Education Program in its 10Th Year in Tennessee

Selin Anitsal
Student, Haslam College of Business
University of Tennessee, Knoxville
Knoxville, Tennessee

Ismet Anitsal
Faye Halfacre Moore Professor of Entrepreneurship
Professor of Marketing, College of Business
Tennessee Tech University
Cookeville, Tennessee

M. Meral Anitsal
Professor of Marketing, College of Business
Tennessee Tech University
Cookeville, Tennessee

ABSTRACT

Child safety is one of the top priorities for all states in the US, for that there are lots of rules and regulations regarding vehicles and motorways. However, research indicated that the major cause of death for children were motor vehicle collisions. Tennessee has taken the leadership role of educating public on the value of proper child restraint and safety seats by launching Ollie Otter Seatbelt and Booster Seat Education program 10 years ago. The implementation of the program was unique in the sense that consumer research and program activities were synchronized. Frequently research results were used to initiate new activities especially among different ethnic groups. This paper summarizes 10 years of implementation details, research results and the impact of the program on proper child restraint usage as measured by the actual data obtained by the Tennessee Department of Safety and Homeland Security (2017) from Tennessee traffic crashes.

INTRODUCTION

Motor vehicle injuries and deaths are a major mortality problem among children (Righi and Krozy 1983). "In the United States, 1,791 children younger than 15 years were killed and 282,000 were injured as passengers in motor vehicle crashes in 1997" (Quinlan 1999). In 2012 alone, approximately 169,000 children under the age of 14 were injured in motor vehicle accidents. There were a total of 33,561 traffic fatalities and 1,168 of the fatalities were children younger than 14, during the same year (NHTSA 2014). The major cause of death for children, ages 4 to 8, was identified as motor vehicle collisions (Washington State Booster Seat Coalition 2003), and is still the major cause of death for ages 5 to 9 and 10 to 14 in the United States, respectively (cdc.gov 2014).

Motor vehicle accidents play a major role in mortality ratings for different demographic groups today. For example, it was determined that the number one cause of death in American Indian/Alaska Native children, ages 8 and younger, was from motor vehicle collisions. As Lapidus et al. (2005) stated the mortality rate in this ethnic group was higher than in any other ethnic groups in the states, reaching almost twice the national average. Different researchers reached the same conclusion for other indigenous groups such as Native Americans, Alaska Natives, and Australian Aboriginals (Ishikawa et al. 2014) as well as for African American children specifically under the age of 14 (Richardson 2000).

Age-appropriate child restraint use may significantly lower this grim statistic. Once a child is properly seated in a correctly secured age-appropriate child restraint, it is far less likely for them to be harmed in a motor vehicle accident (Keay et al. 2012). This is true when especially compared to no child restraints at all or booster-aged children, who were only restrained by seat belts (Winston et al. 2004). The use of age-appropriate restraints are important since regular seatbelts are specifically designed only for adults, not for children (Halman et al. 2002). A study compared restrained and unrestrained children involved in car accidents that were hospitalized afterwards. The results indicated that unrestrained children: (1) had more severe injuries, (2) were hospitalized longer, (3) and had a 15 percent more chance of having disabilities than restrained children (Osberg and Scala 1992).

The purpose of this study is to review how a social campaign, that is guided by synchronized consumer research, has been designed and implemented to encourage regular use of age-appropriate child restraints grows fast and wide, reaching its targeted audience not only in Tennessee but also in other states of the US. The results of individual consumer studies are included in this paper, as well as data obtained from public resources about the impact of program and literature review.

BACKGROUND

Booster seats, by definition, should be used when children "have outgrown their safety seats and are too short to use the adult lap and shoulder belt" (Righi and Krozy 1983). There are several different child restraints to choose from depending on the age, height, and weight of a child: infant carrier, convertible seat, toddle seat, booster seat, and finally adult seatbelt (Righi and Krozy 1983). Parents sometimes use "household boosters" such as pillows, instead of approved booster seats, but these types of items have not been crash-tested for children (Righi and Krozy 1983) and should not be used. American Indian children compared to nonnative children, for example, have a tendency to use improper restraints while riding in a vehicle (Lapidus 2013). According to a study on child restrain compliance in New Hampshire, only 70 percent of children ages 6 to 11 years were restrained. While 95 percent was a far higher percentage for children under the age of 1; more than one third of those children were restrained incorrectly (Frank and Ascheim 1996). Another study also supports that the older the child becomes, the less likely they are restrained properly in a car (Lapidus et al. 2013).

The use of booster seats would likely to increase when the motivating factors for the usage are identified and applied fully during the implementation stage of all related activities. Anitsal, Anitsal, and Liska (2009) questioned the determinants of booster seat usage and proposed a conceptual model to understand why parents commit using them. Parents may have different risk attraction and risk aversion levels in which influence their attitudes toward children while driving construct, in turn impacts their intentions to use booster seats for their children (Anitsal, Anitsal and Liska 2010). Besides the individual characteristics including demographics, risk aversion, and risk attraction; the model included attitudes such as attitude toward booster seat, children, multi-tasking, and children while driving, respectively, as well as the cost of the booster seat. They sent out 1,300 surveys to achieve 32 percent response rate to collect 414 usable responses from mostly Caucasian parents with the help of teachers of K-4 students at 31 classrooms in elementary schools of Tennessee. The results of the study pointed out that parents have a positive attitude toward booster seats and will likely to use them when they are pleasant to use. Secondly, parents seemed to have difficulties in accommodating multiple children aged from 5 to 9 with booster seats, especially in every vehicle they may have. The easy solution for parents seem to inappropriately let the younger child use the booster seat rather than the older booster-aged child. Thirdly, those parents who pay attention to safety features of cars they buy, always use seat belts when they drive and instill responsibility to their children in sitting on appropriate seats of the vehicle will significantly and positively influence their use of booster seats. Lastly, the cost of booster seats plays a role, especially when considered that almost half of the respondents had a gross annual household income of less than $39,000 with average number of children in the household of 2.44 (Anitsal, Anitsal, and Liska 2009).

The Hispanic population has been substantially increasing in Tennessee, representing 2.2 percent in 2000 (census.gov 2016a) to 5.2 percent in 2015 of the state population of 6,600,299 (census.gov 2016b). Anitsal, Anitsal, and Liska (2012), surveyed the attitudes of Hispanic parents towards the use of booster seats compared to those of Caucasian parents. The survey results indicated that Caucasian parents were motivated by their attitudes toward booster seats in general and had a tendency to avoid risky traffic moves in particular. Younger and separated/divorced Caucasian parents were less likely to buy a booster seat than older and married parents. Further results pointed that the attitudes towards booster seats construct was still the most important factor for Hispanic parents. When their children make a lot of noise during their driving, they regularly use booster seats. If the Hispanic family had a motor vehicle accident in the past, then the family would use booster seats on a daily basis. The more knowledgeable the Hispanic parents were about the use of

booster seats, the more they would use them for their children (Anitsal, Anitsal, and Liska 2012). Endorsements of authority figures were found to be more effective among Hispanic parents than Caucasian parents. Also, supported by Ebel et al. (2003), this knowledge was found more effective than writing any tickets.

Parent's attitudes, as a whole, are important, but the perspectives of mothers and fathers individually are also key in using booster seats. If children are not positively reinforced by both of their parents, then teaching booster seat safety in classrooms will not remain permanent in the child's mind (Anitsal, Anitsal, Brown, and Liska 2012). Their results indicated mothers and fathers, likewise, represented the same types of attitudes both in general and while driving. Mothers, specifically, were more multitasking oriented while driving than fathers even if they were more risk averse than fathers. Fathers, had a tendency not the remind their children to buckle up in their booster seats, especially while slowly driving on rural roads for short errands.

CHILD SEAT BELT AND BOOSTER SEAT PROGRAM IN TENNESSEE

The first law in the United States to properly restrain a child, under age 4, in a safety seat was made official in the state of Tennessee in 1978. Other states followed soon after by enacting similar laws by 1982, bringing the total to 40 states and D.C. (Righi and Krozy 1983). The lawmakers were aware the difficulty of their tasks. "It is nearly impossible to legislate for correct restraint installation and use," (Keay et al. 2012, p. e100). Sovereign territories of indigenous communities may also have their own laws and regulations, whereas the state laws may not be applicable (Ishikawa et al. 2014). As Col. Tracy Trott of the Tennessee Highway Patrol stated, "You cannot write enough tickets to get people to save their own lives. You have to have education," as mentioned in Davis (2016). Enacting laws and writing tickets are important as a starting point, but do not suffice by themselves in the end unless individuals are educated on seatbelt and booster seat usage. More specifically, hands-on demonstrations help increase the correct usage of age-appropriate restraints and lower the percentage of error (Keay et al. 2012).

The Ollie Otter program began in December 2006 (Brown, Anitsal, Anitsal and Liska 2010) and became a statewide program in 2008 (ollieotter.org 2016b). This education program became the first in the nation (seatbeltvolunteer.org). The owner of the idea, Carol Coleman, was the Tennessee Road Builders Association Women's Auxiliary President. She lost three of her close family members in car accidents before initiating this program. One of her grandchildren mentioned, "seatbelts aren't cool," during her difficult times (TTU Business Media Center 2008; olliotter.org 2016a; Davis 2016). She decided to reach out to the Business Media Center, now known as iCube, of Tennessee Tech University, collaborating with Tennessee Road Builders Association (TRBA) together to create a program that educates children and parents alike on the topic of child passenger safety while also providing concepts on work zone safety (Davis 2016; ollieotter.org 2016a). This program was named as the Ollie Otter Seatbelt and Booster Seat Education Program, or the Ollie Otter program for short.

The major objective of the Ollie Otter program is to educate elementary school children by the use of interactive programs on motor vehicle safety. "The program develops a positive opinion towards seat belt and booster seat use in the minds of children, parents, and communities as a whole," (ollieotter.org 2016b). The program focuses on teaching children about "their responsibility to be safe passengers," as well as, the safety precautions and knowledge of child booster seats and seatbelts usage for parents. As Coleman, "Ollie's mom" (Davis 2016) states, "the program instructs children to recognize the color orange as a sign for cars to slow down in work zones" (ollieotter.org 2016a). The spokes-character of the program, Ollie Otter, has his own unique message to children in the use of seat belts and booster seats as well as work zone safety: Under 4'9" — booster time! As a part of the campaign of the child passenger safety in Tennessee, the Ollie Otter became the signature motto like the Jolly Green Giant, Betty Crocker, and Mr. Peanut used by other organization for more than 70 years (Phillips 1999). With the help of Governor's Highway Safety Office in 2008, the program has accelerated. Tennessee Colleges of Applied Technology (TCAT) joined the effort during the same year by hosting volunteers for the program in Tennessee. Other volunteers came from multiple sources such as principals, teachers, and safety education coordinators of the elementary schools visited as well as advocates of booster seat and safety belt after completing an online education program (Anitsal, Anitsal, and Liska 2010b). The Tennessee Highway Patrol (THP) has also advocated this initiative since 2009. Since its origins in Tennessee, the program has encompassed all 95 counties of Tennessee and continues to visit schools and centers statewide (ollieotter.org 2016a and 2016b).

Tennessee Tech's iCube, formerly known as the Business Media Center in College of Business is "one of the initial developing partners of the Ollie Otter program, and the hub of the program's logistics" (ollieotter.org 2016a). Tennessee Road Builders Association and TRBA Ladies Auxiliary came together to provide funding of 20 internships annually for students from diverse body majors at

Tennessee Tech University. During their internships, students involve themselves in communication, logistics, and marketing, while implementing the program details of Ollie Otter Child Seat belt and Booster Seat Education Program (ollieotter.org 2016b). Over the last ten years, the Ollie Otter program of Tennessee has been a 'prototype' in helping other states (Brown, Anitsal, Anitsal and Liska 2010) by creating partnerships in the following areas: Mississippi in 2010, Alaska and Kentucky in 2011, Florida in 2012, Navajo Nation in 2013, California in 2014, and finally Wisconsin in 2015 (ollieotter.org 2016b).

The schedule of the spokes-character (safety mascot) of the Ollie Otter Seat belt and Booster Seat Education Program, Ollie Otter, has become quite busy over the years. The Ollie Otter mascot attends to over 350 school and community events statewide every year (ollieotter.org 2016b). On a regular basis, Ollie Otter visits elementary schools, recruits volunteers, makes seat belt and booster seat checkpoints, attends National Child Passenger Safety Week, and joins community events and fairs (Brown, Anitsal, Anitsal, and Liska 2010). Ollie Otter always wears his seat belt during the events he participates and has a height chart in his hand to measure the height of the children to make sure they use booster seats if they are below four feet nine inches (Brown, Anitsal, Anitsal, and Liska 2010). By doing so, Ollie Otter emphasizes the importance of wearing a seat belt and paying attention to the four foot nine inches requirement. Since 2006, Ollie Otter has a substantial impact on the lives of 725,559 students by visiting 34,848 classrooms in 2,615 schools through 1,716 volunteers in Tennessee as of December 31, 2016 (ollieotter.org 2016c).

Ollie Otter has certain characteristics as summarized by Brown, Anitsal, Anitsal and Liska (2010): he is relatable, cool, friendly, informative, and a media star otter. Although Ollie has very limited speech, he has other key qualities that make children love him, such as his high fives and hugs and his attentive behavior during the events he attends. Through his efforts, Ollie has instilled the concept of buckling up as "cool" and is important among children (Anitsal, Anitsal and Liska 2010a). Ollie Otter has also given away many items to children during school visits, to reinforce his message. Such items include: measuring posters, newsletters, coloring books, CDs, bookmarks, window clings, coffee mugs, and t-shirts (Anitsal, Anitsal, and Liska 2010b). Ollie Otter has his own song for delivering his message about motor vehicle safety and the use of booster seats, as created by John Farrell, a songwriter from New York, as reflected in Brown et al. (2010, p. 114). Here is an excerpt of the song:

> "We're going to buckle our seat belts every time.
> We're going to take good care of ourselves.
> We're going to ask our families and our friends.
> Please, Please buckle up your belts.
> We're gonna use our booster seats when we need to.
> It's the law until we're four feet nine.
> We're gonna ask the drivers behind the wheels
> To please please please, please please please,
> Drive safely all the time!"

Children followed up Ollie's presentation with their artwork and messages. Anitsal, Anitsal, and Liska (2010b) content analyzed 613 the children's works to Ollie. Words used in children's artworks to Ollie included all the important concepts of such presentations in schools: Ollie, seat belt, booster seat, safe, and car. The messages to Ollie reflected the highlights of the presentations. Unedited comments of children, K-4, on saving lives by buckling up, for example, include: "Bucle your setbelt... You suld allwase bukul up in a car... The seat belt is saf bekas it will stop you for gowing therow the wendor..." As they say, Ollie is cool: "Ollie yor my BFF [Best Friends Forever] forever and you are the coolist in the wrld... Go Ollie go... Your are cool". Their thoughts of booster seats include: "If someone is note wering there seat belt you say you otter buckle up... I do think that buliking up is important". After learning about booster seats, students started to communicate the message: "Bukle up or be in a bustuer seat... My sister has to ride in a seat belt. My brother has to ride in a booster seat...My mom and dad always wear a seat belt". Finally, in terms of the consequences of not using proper restraints: "If you ever crash and you ain't in a booster seat or a seat belt you will get hurt bad" (Anitsal, Anitsal, and Liska 2010b, p. 13).

Besides coming to schools to educate elementary students about road safety, Ollie Otter can engage similarly through ollieotter.org. The Ollie Otter website provides tabs made specifically for kids, teachers, parents, and volunteers. Under the kid's tab, there are games and activities that children can enjoy and learn about the importance of road safety and buckling up. Such games include helping Ollie pick the safest path to run, as well as, driving a car with Ollie to the finish line without running into a red light. As for the parent's tab, parents may find resources and links to learn about road safety, as well as, Ollie Otter event sign up dates. In the teacher's tab, one can find teaching lessons and activities to use for the classrooms to help engage their students more. For example, teachers may print out seat belt safety pledges, English lessons, and math worksheets that involve Ollie Otter and road safety. Volunteers may find training links, resources, and volunteer registration to become a volunteer for the Ollie Otter program (ollieotter.org 2016c).

DISCUSSION AND FUTURE RESEARCH AVENUES

With the proper education, it should be clear that a booster seat makes a car ride much more comfortable for children who buckled up using adult safety belts, for it will not slip and cut into their shoulders inappropriately (Miller et al. 2006). Research has shown that children aged 4 to 7 using of booster seats, rather than seat belts alone, has a 59 percent lower risk of injury (Durbin, Elliot, and Winston 2003).

Without the help of parental supervision, children would not likely understand how serious it is to be safe in motor vehicles by using age-appropriate child restraints. Parents can serve as role models by encouraging their children to adapt healthy habits in using booster seats (Frank and Ascheim 1996). Race/ethnicity is another indicator in the use of safety belts in adulthood and less educated individuals tend to use safety belts at a lower rate (Nelson, Bolen, and Kresnow 1998). A study shows that American Indian children that ride with unrestrained adults will likely imitate their role models not to use relevant restraints while in motor vehicles (Lapidus et al. 2005) as also supported by Istre et al. (2002). If these individuals are not educated in the use of booster seats and safety belts, then they will not likely become role models to their children in the use of booster seats or give much concern to the matter.

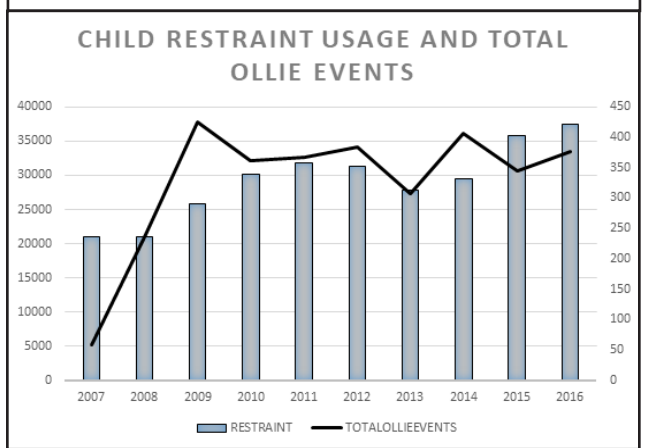
The return on investment is an important factor to evaluate any investment activity. Miller et al. (2006) analyzed the "societal return on investment" in booster seats. They took into consideration such factors as, the cost of booster seat and time spent installing and using the item. Their results indicated that this societal investment saves $1,854 per booster seat and has a societal return of 9.4 to 1. Another study concluded that approximately $893 per capita can be saved in Tennessee, for example, in terms of the economic cost due to motor vehicle crashes in 2010. This figure is equal to 2.5 percent of per capita personal income in Tennessee (NHTSA 2015). Purchasing booster seats in bulk and distributing them to families in need (Ishikawa et al. 2014) would be a valid suggestion for the ongoing efforts of the Ollie Otter program. Ollie Otter Child Safety Foundation does exactly this, by annually distributing 250 car seats to families (ollieotter.org 2016a).

Two kinds of parents have always been evident, those who want to cover their children in bubble wrap or those who do not care what is healthy or not for their children. In between those two extremities, Cairns (2007) found that parents can be divided into six unique categories in terms of their involvement with their children, while children can be divided into four distinct categories in terms of being followers and persuaders or outsiders and explorers. As for future studies, it is important to take those different types of parents and children into consideration when educating them on the use of age-appropriate restraints.

Behavior modification can be defined as "the reinforcement of safe behavior by positive feedback" (Saari 1984, p. 11). The following procedures should be followed in behavior modification: (1) divide tasks into small units, (2) communicate the desired outcomes, (3) teach the desired outcomes clearly, and (4) provide continuous feedback (Saari 1984). Future research studies can explore and test the role of positive reinforcement in increasing the use of booster seats especially among parents from different demographics. Those studies would review cultural relevance as one of key areas in designing booster seat education and training activities.

Ollie Otter Seat Belt and Booster Seat Education Program in Tennessee celebrated its tenth year near the end of 2016. Liska, Anitsal, and Anitsal (2015) investigated the statewide and countywide impact of this program by comparing 'Ollie Events to Date' to the 'Percentage of Restrained Children in Crashes'. According to their research results, when the Ollie Events started saturating more of the population in all 95 counties of Tennessee, it had a positive impact by increasing the percentage of restrained children as a whole in that county. The researchers found that the number of Ollie events strongly and significantly correlated with increased usage of proper child safety systems in vehicles (Pearson correlation coefficient=0.623 significant at the 0.05 level).

Graph 1
New Data on
Proper Child Restraint Usage in
Tennessee traffic Crashes vs. Ollie Events



Proper Restraint usage in crashes in Tennessee = 18417.673 + (0.647)(Ollie Otter Events)
R-square= 0.419

Since then, more data has become available for further statistical analysis. A linear regression results are as follows;

These results indicated that in order to have a permanent behavior change in case of proper child protection system use in vehicles, the variety of activities, frequency, and the reach of this program should be consistently increased and repeated with appropriate funding levels in Tennessee and other states that are encompassed by Ollie Otter. Ten-years' worth of learnings of the Ollie Otter Seat Belt and Booster Seat Education Program can be summarized as follows for planners and managers of similar public engagement for passenger safety.

Learnings from Ollie Otter Seat Belt and Booster Seat Education Program

1. It is apparent that safety belts and booster seats save lives. Therefore, States should legislate strong safety belt and booster seat laws, publicize and enforce them regularly.
2. Law enforcement activities may not be enough to ensure every citizens' volunteer collaboration. Hence, civic programs can provide guidance, education and training on how to restrain children on age appropriate seats properly for every travel in every type of vehicles.
3. Children of age 3 to 12 should be included in the law, but continuous communication activities with children age 6 to 12 should be done to make seat belts and booster seats "cool".
4. Continuous communication with parents, both fathers and mothers, are vital. A special attention need to be paid to minorities, and lower income groups to help them to fix booster seats in all transportation vehicles they own for every child in the age range. It helps considerably when opportunities and resources to obtain booster seats at lower costs are found.
5. Non-parent drivers who occasionally drive children around should not be overlooked.
6. Ollie Otter Program Platform is available for other states that consider initiating community intervention. The program has already built website and protocols on how to engage volunteers from civic community. Volunteers are critical for the rapid wide spread of the Ollie's message.
7. Organize activities in pulses. Once one region/county is saturated move to the next county. However, come back to the same county later for refreshers, preferably annually, but no less than bi-annually.
8. Continuous funding is extremely important for this initiative. In order to keep current with traffic safety trends, continuous funding enables managers to optimize reach and adaptability. Managers have to stay current with safety needs and seek opportunities though champions within communities, stakeholder groups, and traffic safety industry.
9. The next stage of the program is looking into ways to investigate opportunities and design alternatives to make school busses and public transportation equipped with age appropriate child restraints. This is a new area of focus for continuous improvement.
10. Volunteer recruitment from all ages and all walks-of-life is critical for the success of the program. They should have the passion and understanding of child safety; teens, community leaders, law enforcement agents, many traffic safety stakeholders, all can contribute and reinforce the message importance and clarity. Do not forget to celebrate success frequently and publicly in local news media.

REFERENCES

Anitsal, M. Meral., Ismet Anitsal, and Kevin Liska (2009), "Determinants of Booster Seat Usage: What Makes Parents Commit to Using Booster Seats on a Regular Basis," *Journal of Management and Marketing Research,* Vol. 2, July, 72-84.

Anitsal, M. Meral, Ismet Anitsal, and Kevin Liska (2010a), "Child Booster Seat Safety: An Attitudinal Model of the Use of Booster Seats," *Academy of Marketing Studies Journal,* Vol. 14, No.2, ISSN 1095-6298, 13-25.

Anitsal, Ismet, M. Meral Anitsal, and Kevin Liska (2010b), "Nation's First Statewide Seat Belt and Booster Seat Education Campaign: Ollie Otter's Child Booster Seat Safety Program," *Journal of Behavioral Studies in Business,* May, Vol. 2, 12-26.

Anitsal, M. Meral, Ismet Anitsal, and Kevin Liska (2012), "Attitudes of Hispanic Versus Caucasian Parents Towards Booster Seat Usage," *Journal of Management and Marketing Research*, Vol. II, September, 98-113.

Anitsal, M. M., I. Anitsal, A. Brown, and K. Liska (2012), "Parental Perspectives in Booster Seat Usage: Do

Moms and Dads Share the Same Common Ground?", *Academy of Marketing Studies Journal*, Vol. 16, No. 2, ISSN 1095-6298, 53-64.

Brown, Amanda L., Ismet Anitsal, M. Meral Anitsal and Kevin Liska, (2010), "Spokes-Character of the Nation's First Statewide Booster Seat Safety Program: Ollie Otter Safety Mascot," *Business Studies Journal*, Vol. 2, No. 1, ISSN 1944-656XH, 107-116.

Cairns, Warwick (2007), "Booster-seats, Pies and Twenty-first Century Childhood," *Young Consumers*, Vol. 8, No. 3, 172-176.

Cdc.gov (2014), "10 Leading Causes of Injury Deaths by Age Group Highlighting Unintentional Injury Deaths, United States – 2014," https://www.cdc.gov/injury/images/lc-charts/leading_causes_of_injury_deaths_unintentional_injury_2014_1040w740h.gif, Accessed on 12/27/2016.

Census.gov (2016a), "Hispanic or Latino Population for the United States, Regions, and States, and for Puerto Rico: 2000 and 2010," https://www.census.gov/prod/cen2010/briefs/c2010br-04.pdf, Accessed on 12/31/2016.

Census.gov (2016b), "Quick Facts: Tennessee," http://www.census.gov/quickfacts/table/PST045215/47, Accessed on 12/31/2016.

Davis, Amy (2016), "Overton 'Native' Celebrates 10th Birthday," *Herald-Citizen*, August 31.

Durbin, Dennis R.; Michael R. Elliot, and Flaura K. Winston (2003), "Belt Positioning Booster Seats and Reduction in Risk of Injury Among Children in Vehicle Crashes," *American Medical Association*, June, Vol. 289, No. 21, 2835-2840.

Ebel, Beth E.; Thomas D. Koepsell; Elizabeth E. Bennett; Frederick P. Rivara (2003), "Too Small for a Seatbelt: Predictors of Booster Seat Use by Child Passengers," Pediatrics, Vol. 111, No. 4, April, 323-327.

Frank, Elaine and Joan Ascheim (1996), "Using Volunteers to Survey Child Restraint Compliance Among New Hampshire Drivers," *American Journal of Public Health*, August, Vol. 86, No. 8, 1169-1170.

Halman, Stephen I. et al. (2002), "Are Seat Belt Restraints as Effective in School Age Children as in Adults? A Prospective Crash Study," *British Medical Journal*, May 11, Vol. 324, No. 7346, 1123-1125.

Ishikawa, Takuro et al. (2014), "A Systematic Review of Community Interventions to Improve Aboriginal Child Passenger Safety," *American Journal of Public Health*, Vol. 104, No. S3, e1-e8.

Istre, Gregory R.; Mary A. McKoy; Katie N. Womack; Linda Fanning; Laurette Dekat and Martha Stowe (2002), "Increasing the Use of Child Restraints in Motor Vehicles in a Hispanic Neighborhood," *American Journal of Public Health*, July, Vol. 92, No. 7, 1096-1102.

Keay, Lisa et al. (2012), "Evaluation of an Education, Restraint Distribution, and Fitting Program to Promote Correct Use of Age-Appropriate Child Restraints for Children Aged 3 to 5 Years: A Cluster Randomized Trial," *American Journal of Public Health*, December, Vol. 102, No.12, e96-e102.

Nelson, David E.; Julie Bolen and Marcie-jo Kresnow (1998), "Trends in Safety Belt Use by Demographics and Type of State Safety Belt Law, 1987 through 1993," *American Journal of Public Health*, February, Vol. 88, No. 2, 245-249.

NHTSA (2014), "Traffic Safety Facts 2012 Data," US Department of Transportation National Highway Traffic Safety Administration, April, DOT HS 812 011, file:///C:/Users/sanit/Downloads/2012%20CHILDREN%20Traffic%20Safety%20Fact%20Sheet.pdf, Accessed on 12/27/2016.

NHTSA (2015), "The Economic and Societal Impact of Motor Vehicle Crashes, 2010 (Revised)," US Department of Transportation National Highway Traffic Safety Administration, May, DOT HS 812 013, 145-146, https://crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/812013, Accessed on 12/30/2016.

Lapidus, Jodi A. et al. (2005), "Restraint Use Among Northwest American Indian Children Traveling in Motor Vehicles," *American Journal of Public Health*, November, Vol. 95, No. 11, 1982-1988.

Lapidus, Jodi A. et al. (2013), "Trends and Correlates of Child Passenger Restraint Use in 6 Northwest Tribes: The Native Children Always Ride Safe (Native CARS) Project," *American Journal of Public Health*, Vol. 103, No. 2, 355-361.

Liska, Luke Ingalls; M. Meral Anitsal and Ismet Anitsal (2015), "Ollie Otter Booster Seat Safety Program in Tennessee: Impact of Statewide Implementations," *Journal of Legal, Ethical and Regulatory Issues*, Vol 18, No. 1, 130-137

Miller, Ted R. et al. (2006), "Cost-Outcome Analysis of Booster Seats for Auto Occupants Aged 4 to 7 Years," *Pediatrics*, November, Vol. 118, No. 5, 1994-1998.

Ollieotter.org (2016a), "Ollie Otter Drives On; Staff and Stakeholders Celebrate 10 Successful Years," http://ollieotter.org/10years, Accessed on 12/26/2016.

Ollieotter.org (2016b), "Celebrating 10 Years: Tennessee's Statewide Seat Belt & Booster Seat Education Program," iCube of Tennessee Tech University.

Ollieotter.org (2016c), Homepage of Ollie Otter: http://ollieotter.org/, Accessed on 12/31/2016.

Osberg, J. Scott and Carla Di Scala (1992), "Morbidity Among Pediatric Motor Vehicle Crash Victims: The Effectiveness of Seat Belts," *American Journal of Public Health*, March, Vol.82, No. 3, 422-425.

Phillips, Barbara J. and Barbara Gyoerick (1999). The Cow, The Cook, and the Quaker: Fifty Years of Spokescharacter Advertising. Journalism and Mass Communication Quarterly, 76(4 Winter), 713-728.

Quinlan, Kyran (1999), "Booster Safety Seats," CDC, National Center for Injury Control & Prevention, February 5, https://www.cdc.gov/media/mmwrnews/1999/n990205.htm, Accessed on 12/27/2016.

Richardson, Nicole Marie (2000), "Buckle Up!", *Black Enterprise*, September, Vol. 31, No. 2, 28.

Righi, Frances C. and Ronna E. Krozy (1983), "The Child in the Car: What Every Nurse Should Know of Safety," *American Journal of Nursing*, October, Vol. 83, No. 10, 1421-1424.

Saari, Jorna (1984), "When Does Behavior Modification Prevent Accidents?", *Leadership & Organization Development Journal*, Vol. 15, No. 5, 11-15.

Seatbeltvolunteer.org (2009). http://www.seatbeltvolunteer.org, Accessed on 1/26/2014.

Tennessee Department of Safety and Homeland Security (2017), Research, Planning and Development Division, TITAN (Tennessee Integrated Traffic Analysis Network), https://www.tn.gov/safety/article/crashdata accessed 3/23/2017 .

TTU Business Media Center (2008), "TTU's Business Media Center Achieves Success, Visibility with Ollie Otter Campaign," May 20, https://www.tntech.edu/news/archive/ttus-businessmedia-center-achieves-success-visibility-with-ollie-otter-campaign, Accessed on 12/29/2016.

Washington State Booster Seat Coalition (2003), "Quick Facts on Booster Seats," June, http://depts.washington.edu/booster/pdf/Quick%20Facts%20on%20Booster%20Seats.pdf, Accessed on 12/27/2016.

Winston, Flaura K. et al. (2004), "Recent Trends in Child Restraint Practices in the United States," *Pediatrics*, May, Vol. 113, No. 5, e458-e464.

Chronic Conditions: A Motivator for Reexamining the Effectiveness of Promotions and Communications of Organizational Wellness Programs

Jamye Long
Assistant Professor of Management
College of Business and Global Affairs
The University of Tennessee at Martin
Martin, Tennessee

Cooper Johnson
Associate Professor of Information Systems
College of Business and Global Affairs
The University of Tennessee at Martin
Martin, Tennessee

Sam Faught
Associate Professor of Management
College of Business and Global Affairs
The University of Tennessee at Martin
Martin, Tennessee

Janye Wilson
Clinical Assistant Professor
The Loewenburg College of Nursing
The University of Memphis
Memphis, Tennessee

ABSTRACT

Organizational wellness programs are popular among employers, as when they are properly utilized they create positive effects through a healthy workforce, which impacts a firm's bottom line. However, when employees' interest lacks the desired enthusiasm and commitment to actively participate in available programs, the firm's health promotion initiative is ineffective. This study examines the number of individuals affected by chronic conditions and diseases through reviewing the data of reported cases in the southeastern U.S. The results indicate an increased need for employers to reexamine their promotional efforts and communication effectiveness as it relates to their success in motivating employees' willingness to alter their unhealthy lifestyles.

INTRODUCTION

Addressing the health needs of the public is an ongoing, contemporary issue that transcends generations and maintains traction through ever-changing social and political environments, thus remaining at the forefront of significant conversations throughout government, industry, and communities. As time progresses, the solutions to increasing positive decisions that impact individuals' health behaviors on a massive scale remain elusive. Yet, the effects of those poor decisions continually erode the benefits of healthy lifestyles from individuals.

As a society, Americans struggle with maintaining healthy lifestyles. The challenges they face are impacted by the job requirements, stresses of family, and societal pressures, which can result in detrimental health decisions (Murphy & Lucey, 2014). Routine decisions made daily have the risk of quickly transforming into bad habits, which can result in downward spiraling effects impacting quality of life. Individuals wishing to change their lifestyles will un-

doubtedly face barriers along the road to change (Madison, Volpp, & Halpern, 2011).

PURPOSE

Employers recognize the importance of employee health and many have instituted programs designed to encourage healthy lifestyle choices. According to the Centers for Disease Control and Prevention [CDC] (2015c) "A workplace health program is a health promotion activity or organization-wide policy designed to support healthy behaviors and improve health outcomes while at work" ("What is a Workplace," para. 1). In an effort to assist employees to improve their personal health, organizations include in their wellness programs a variety of support measures and activities, including health education, mentoring and coaching, weight management programs, health assessments, and exercise facilities and classes (CDC, 2015c). Some of these measures are designed to end poor lifestyle habits, for example smoking cessation programs. Others are created to encourage employees to reach healthy goals, such as an on-site fitness center. And then there are those aimed at addressing or preventing specific health factors, which might include access to healthcare professionals.

Chronic conditions and other health factors as a result of unhealthy choices impact firms both directly and indirectly on all levels of the organization, as it affects companies' workforces. Intervention through providing opportunities for workers to make positive lifestyle changes has been a method to offset the risk factors involved to companies. The success of organizational wellness programs rests on the active participation of employees, however employee involvement has been lacking with regards to widespread interest, enthusiasm, and utilization. According to "By the Numbers" (2016), 38% of employees surveyed participated in a well-being activity or health-related management program within the previous year. Meaning, 62% of employees elected to not take advantage of opportunities presented to them aimed at improving their health situation. Through understanding the organizational benefits of increased employee participation in wellness programs, this paper explores existing methods of promotion as well as identifies creative, effective activities and forms of communication that can be implemented by firms as a means to increase their promotional efforts for employee involvement in bettering their health.

CHRONIC CONDITIONS AND DISEASES: AN OVERVIEW

The University of Michigan's Center for Managing Chronic Disease (2017) defines chronic diseases as "long-lasting conditions that usually can be controlled but not cured," (About Chronic Disease, para. 1). Furthermore, the CDC (2016a) states, "chronic diseases and conditions – such as heart disease, stroke, cancer, type 2 diabetes, obesity, and arthritis – are among the most common, costly, and preventable of all health problems" (Chronic Disease Overview, para. 1). Worldwide, more than 50% of people live with chronic disease (University of Michigan). In the U.S., "chronic disease is the leading cause of death and disability..., accounting for 70% of all deaths" (University of Michigan, 2017, About Chronic Disease, para. 1). By 2020, experts estimate that 81 million Americans will suffer from multiple chronic conditions (University of Michigan). A review of the chronic conditions and diseases of obesity, heart disease, diabetes, and high cholesterol greatly impacting American lives provides a better understanding of the challenges faced in the struggle to fight unhealthy lifestyles.

Obesity

In the U.S., 36.5% of adults are obese, which is known to cause conditions such as "heart disease, stroke, type 2 diabetes and certain types of cancer, some of the leading causes of preventable death" (CDC, 2016e, Obesity is Common, para. 1). According to the World Health Organization [WHO] (2016) "overweight and obesity are defined as abnormal or excessive fat accumulation that may impair health" (What are Overweight and Obesity?, para. 1). It is important to understand the difference between overweight and obesity, as the health factors differ for these conditions and obesity puts people at higher risk for other chronic conditions. The difference in overweight and obesity are determined by the individual's body mass index, or BMI. BMI "is a simple index of weight-for-height" (What are Overweight and Obesity?, para. 1). The WHO identifies those whose BMI is 25 or greater as overweight and those with a BMI of 30 or more as obese. Table 1 shows the obesity rates of the U.S. southeastern states for 2005 and 2015. Included are the rankings of these states as compared to the entire nation.

Nationally, the amount of obese adults has increased by 4.5%, with Louisiana, Mississippi, and Alabama all having more than 35% of their populations living with obesity. Furthermore, the annual healthcare costs attributed to obesity is approximately $147 billion. Obese Americans, on average, pay $1,429 more in medical costs than those of normal weight (CDC, 2016e).

Heart Disease

The leading cause of American deaths is attributed to heart disease (Kochanek, Murphy, Xu, & Arias, 2014), resulting in approximately 1 in every 4 deaths (CDC,

2015b). Heart disease is a classification of a variety of conditions that affect the heart; it is often referred to as cardiovascular disease. It broadly encompasses conditions that cause the narrowing or blockage of blood vessels that can result in heart attacks, chest pain, or stroke (Mayo Clinic Staff, 2014b). Table 2 shows the deaths from heart disease of the U.S. southeastern states for 2005 and 2015. The state ranks are provided as well as the national number of deaths and the rates of death nationally and by state per 100,000 people.

While the number of heart disease related deaths has decreased over the last decade, it remains the leading cause of death. Four of the top 5 ranked states are in the south-

Table 1
Southeastern U.S. States' Obesity Ranks and Percentage Rates: 2005, 2015

State	2005		2015	
	Rank	Adult Obesity Rate (%)	Rank	Adult Obesity Rate (%)
United States	n/a	32.0	n/a	36.5
Alabama	2	28.9	2 (tie)	35.6
Arkansas	7	28.0	6	34.5
Florida	35	22.8	35	36.8
Georgia	12	26.5	19	30.7
Kentucky	5	28.6	7	34.2
Louisiana	4	30.8	1	36.2
Mississippi	1	30.9	2 (tie)	35.6
North Carolina	17	25.9	22	30.1
South Carolina	8	29.1	13	31.7
Tennessee	6	27.4	9	33.8
Virginia	25	25.1	29	29.2

(Levi, Segal, & Juliano, 2006; Segal, Rayburn, & Martin, 2016)

Table 2
Southeast U.S. States and National Heart Disease Deaths: 2005, 2015

State/Nation	2005			2015		
	Rank	Death Rate*	Number of Deaths	Rank	Death Rate*	Number of Deaths
United States	n/a	216.8 (avg.)	650,573	n/a	168.5 (avg.)	632,625
Alabama	2	274.5	12,869	3	229.7	12,981
Arkansas	8	250.3	7,575	4	223.2	7,938
Florida	27	200.0	46,279	38	149.8	45,441
Georgia	13	236.0	16,781	15	180.2	17,769
Kentucky	4	257.3	10,782	10	197.8	10,077
Louisiana	5	256.9	11,008	5	212.1	10,665
Mississippi	1	306.4	8,637	1	240.5	7,969
North Carolina	24	211.6	17,765	23	162.4	18,474
South Carolina	19	223.9	9,359	16 (tie)	177.8	10,092
Tennessee	7	251.2	14,946	6	207.3	15,730
Virginia	25	203.0	14,192	33	154.2	14,077
West Virginia	6	253.6	5,538	12	191.3	4,727

*The number of deaths per 100,000 total population (CDC, 2017).

eastern U.S., with Mississippi holding the top spot in both 2005 and 2015. Heart disease is caused by several factors including high blood pressure, high cholesterol, smoking, diabetes, overweight and obesity, unhealthy diet, lack of physical activity, and excessive alcohol consumption (CDC, 2015b).

Type 2 Diabetes

Over 29 million Americans have diabetes, of which 90-95% of diagnosed cases are type 2 diabetes (CDC, 2016c). Another 86 million Americans are considered prediabetic, "a serious health condition that increases a person's risk of type 2 diabetes and other chronic diseases" (CDC, 2016c, "Working to Reverse the," para. 1), such as heart disease, kidney disease, nerve disease (numbness and lack of feeling in hands and feet usually), eye (retina) damage, skin conditions, hearing impairment, and possibly Alzheimer's Disease (Mayo Clinic Staff, 2014a). Type 2 diabetes is a condition in which a person's body does not use insulin properly, also known as insulin resistence (American Diabetes Association, 2015). Table 3 shows the percent of American adults with type 2 diabetes as reported in 2015 for 12 states with the highest number of cases.

Mississippi holds the top spot for the most adults living with type 2 diabetes throughout the U.S, followed closely by West Virginia. Nationally, diabetes rates have nearly doubled in the last two decades, from 5.5% of Americans in 1994 to 9.3% in 2012 (The State of Obesity, 2017).

Table 3
Southeastern U.S. States' Adult Type 2 Diabetes Ranks and Percentage Rates: 2015

State	Rank	Diabetes Rate (%)
Alabama	3	13.5
Arkansas	7	12.6
Delaware	10 (tie)	11.5
Kentucky	4	13.4
Louisiana	5	12.7
Mississippi	1	14.7
Missouri	10 (tie)	11.5
New Mexico	10 (tie)	11.5
Oklahoma	9	11.7
South Carolina	8	11.8
Tennessee	5	12.7
West Virginia	2	14.5

(The State of Obesity, 2017)

Table 4 shows the deaths from diabetes of the U.S. southeastern states for 2005 and 2015. The state ranks are provided as well as the national number of deaths and the rates of death nationally and by state per 100,000 people.

Over the 10 year period, the most significant change was in Mississippi, which went from 32nd in the nation to 1st with number of deaths attributed to diabetes. During that time, the state's death rate increased from 23.5 to 32.4 for every 100,000 people (CDC, 2016d). Nationally, it is estimated that by 2050 as many as 1 in 3 American adults could have diabetes should intervening factors remain the same (CDC, 2016c). Futhermore, as the seventh leading cause of death in America in 2012, diabetes' total costs was approximately $245 billion, with $176 billion of that in direct medical costs and $69 billion in reduced productivity (American Diabetes Association, 2017). "After adjusting for population age and sex differences, average medical expenditures among people with diagnosed diabetes were 2.3 times higher than what expenditures would be in the absence of diabetes" (American Diabetes Association, 2017, Cost of Diabetes).

High Cholesterol

In America, 31.7%, or 73.5 million adults, suffer from high cholesterol with 29.5% of them having the condition under control. If fact, less than half of these people, or 48.1%, are receiving treatment to control the condition (CDC, 2015a). According to the Mayo Clinic staff (2016),

> Cholesterol is a waxy substance that's found in the fats (lipids) in your blood. While your body needs cholesterol to continue building healthy cells, having high cholesterol can increase your risk of heart disease. When you have high cholesterol, you may develop fatty deposits in your blood vessels. Eventually, these deposits [stick to the blood vessel walls and each other] mak[ing] it difficult for enough blood to flow through your arteries [due to blockages]. Your heart may not get as much oxygen-rich blood as it needs, which increases the risk of a heart attack. Decreased blood flow to your brain can cause a stroke (Overview, para. 1-2).

Table 5 shows the percentage of American adults who in 2015 "reported having their cholesterol checked and were told by a healthcare professional that it was high" (United Health Foundation, 2016, Thematic Map: High Cholestrol). States are ranked healthiest (#1) to least healthiest (#50) with regards to cholestrol.

Residents of Alabama reported the highest percent of cases of high cholesterol, followed closely by Kentucky, West Virginia, South Carolina, Arkansas, and Mississippi. Out of the 12 states in the southeast, 9 reported high choles-

Table 4
Southeast U.S. States and National Diabetes Deaths: 2005, 2015

	2005			2015		
State/Nation	Rank	Death Rate*	Number of Deaths	Rank	Death Rate*	Number of Deaths
United States	n/a	24.9 (avg.)	74,927	n/a	21.3 (avg.)	79,373
Alabama	8	29.8	1,429	28	21.7	1,255
Arkansas	15	27.1	824	12	24.7	886
Florida	38	22.7	5,193	39 (tie)	18.6	5,403
Georgia	35	23.2	1,742	29	21.4	2,210
Kentucky	11	27.8	1,187	4	28.2	1,458
Louisiana	1	38.7	1,695	17	23.5	1,199
Mississippi	32	23.5	677	1 (tie)	32.4	1,092
North Carolina	19 (tie)	26.2	2,261	16	23.6	2,746
South Carolina	12	27.5	1,187	18 (tie)	23.4	1,347
Tennessee	7	30.3	1,844	18 (tie)	23.4	1,798
Virginia	37	22.9	1,642	26 (tie)	21.9	2,044
West Virginia	2	34.5	766	3	31.7	784

*The number of deaths per 100,000 total population (CDC, 2016d)

terol levels in more than 40% of the population who participated in the study.

THE VALUE OF ORGANIZATIONAL WELLNESS PROGRAMS

Major health factors that impact mobility, quality of life, and overall wellbeing are the primary concerns of organizations that offer employee-focused wellness programs. Participation by individuals is aimed at improving and preventing chronic conditions and diseases such as obesity, heart disease, diabetes, and high cholesterol – all of which are contributing factors to employees' abilities and availability to perform their job duties and add value to the company. "Chronic conditions...are often the main drivers of decreased productivity and increased healthcare costs" (University of Michigan, 2017, About Chronic Disease, para.1). The CDC (2015c) reports, "Chronic diseases...can lead to a decline in the overall health of employees in a workplace, contribute to an increase in health-related expenses for employers and employees, and lead to lower productivity and/or days of work missed" (Chonic Disease at Work, para. 1).

Research indicates that in 2010 individuals with chronic conditions accounted for 86% of national health care costs (CDC, 2016b). The prominence of health issues in society

Table 5
Southeaster U.S. States and National High Cholesterol Ranks and Percentage Rates: 2015

State	Rank	High Cholesterol (%)
United States	n/a	38.4 (avg.)
Alabama	50	44.4
Arkansas	46	42.4
Florida	38	40.3
Georgia	23	38.1
Kentucky	49	43.2
Louisiana	41	40.7
Mississippi	45	41.9
North Carolina	42	41.0
South Carolina	47	42.6
Tennessee	30	38.7
Virginia	27	38.6
West Virginia	48	42.9

(United Health Foundation, 2016)

impacts the employers, as people are an important and often the most expensive resource for organizations. Due to their causes, the common chronic conditions individuals face could be mitigated or eliminated completely by using a healthy lifestyle as a preventative measure (CDC, 2016a). "A workplace health program aimed at keeping employees healthy is a key long-term human asset management strategy" (CDC, 2015c, Chronic Disease at Work, para. 3). In fact, 99% of disease management rests in the decisions made by individuals and their families (University of Michigan, 2017). Those who take control of their own health make choices such as consuming nutrient-rich diets, exercising regularly, and avoiding harmful habits such as smoking (Edington, 2014). Organizations that invest in offering wellness programs aimed at improving employee health are likely to experience positive outcomes to their business practices in areas such as increases in productivity and profitability, as well as decreases in medical claims, short-term disability expenses, long-term disability expenses, and employee absenteeism. Employers realize that creating a healthier work environment directly benefits employees and employers by creating lower health care costs, higher productivity levels, and an overall sense of engagement and happiness among employees (Edington, 2014).

Existing Promotions and Communications for Wellness Programs

Success of organizational wellness programs rests on the participation of employees. This requires effective promotional efforts and communications to workers of the benefits to them in their involvement. For many organizations, emails, flyers, and articles in the company newsletter announcing a new program, brief articles that serve as reminders of the program's existence, the mention of the program in the new employee orientation, and a link on the company's website with basic information to attract potential employees are the limited efforts currently used in promoting and informing employees of the firm's wellness program's offerings. When organizational wellness programs were new and not offered by a majority of companies, these strategies were reasonably effective, however over time, more and more firms added health-focused programs and employee awareness and interest dissipated.

Failure to successfully gain employees' interest and enthusiasm to participate in organizational wellness programs leads to a greater responsibility on companies to increase their efforts to gain employee willingness to become involved. In a survey of 30,000 employees, 32% of respondents reported that their employers' wellness programs did not meet their needs (McGraw, 2016). The underlying issue causing non-participation in these programs is ineffective and/or inadequate communication between the employer and the employee (McGraw). One key aspect of success is the employers' communication techniques, and specifically, the clarity of the message being sent to employees.

SUGGESTIONS FOR SUCCESSFULLY PROMOTING AND COMMUNICATING WELLNESS PROGRAMS

The wellness industry continues to thrive. From 2013 to 2015 it increased from $3.36 trillion to $3.72 trillion while the global economy took a 3.6% downturn (O'Brien, 2016). As such, healthy lifestyles remain a viable and relevant topic and of specific interest as a means of recruiting and retaining quality employees. Therefore, organizations should seek to gain employee interest and involvement in their companies' wellness programs or else risk loss of good, hard-to-replace employees through turnover or possible health conditions that are preventable through healthy lifestyles.

A study of over 700 employers reviewed the overall best practices that employers are taking to influence the health choices of their employees. Results indicated that the practices that produced the most positive outcomes to wellness programs are involving spouses in primary activities of the wellness program, marketing and promoting activities under a single brand name, developing an official written strategy that includes financial goals, and visible involvement in the program from senior leadership (Miller, 2013). Traditionally, one of the most effective means of communicating messages to all employees is by getting all levels of management involved to show employees there are benefits and commitment from the entire organization.

Cutter (2016) offers some critical guidelines for employers seeking to reach their organization's wellness program goals: (1) develop a pre-launch communications campaign, (2) create a multilevel wellness team, (3) test, test, test when using technology, and (4) create a workable measurement strategy. In explaining his suggestions, Cutter shares in developing a pre-launch communications campaign, organizations should employ various and numerous ways to disseminate the information. Announcements should be lively, abundant, and easily available to employees. Top management should place special emphasis on the program through holding special meetings specifically to discuss the wellness and well-being benefits to employees. Furthermore, in creating a multilevel wellness team, Cutter explains companies should utilize the formal and information lines of communication throughout the organization. More succinctly, Cutter states, "A good

wellness team should have leaders, managers and ground-level employees to meet all of your needs" (p. 32). When the choice is made to use technology, Cutter suggests selecting appropriate technology to meet employees' needs and to make sure it is readily available to them using a variety of devices. Finally, it is critical that organizations define success by selecting appropriate methods of measuring the outcomes of the wellness programs. "By laying out a solid measurement strategy, you'll be able to justify your program when the C-suite asks whether it's really worth the money" (p. 32).

McGraw (2016) suggests urging employees through a reminder system, such as utilizing email or instant messaging. This may be more effective for younger generations. Consumer Health Mindset Study 2016 reported 56% of millennials approve of employers' involvement in showing them exercise facilities and healthcare providers that meet their needs and their budgets (Bal, 2016). Only 40% of other generations feel the same about employer involvement in their healthcare decisions. Additionally, the same study revealed that approximately one-third of millennials "support employers imposing consequences for less-than-healthy conditions—compared to 21 percent of Gen Xers and 14 percent of baby boomers" (Bal, 2016, p. 8). The results of the study align with similar studies' results in which millennials desire customized programs, revealing that 43% stated their employer's wellness program was a factor in their decision to remain with the company, as opposed to 32% of other generations (Bal).

Employers should select appropriate promotional techniques with effective communication by viewing the wellness program's design and offerings as well as the highlights and interesting factors through the employees' viewpoint (Bal, 2016). Organizations do not need to feel pressured to develop in-house ideas, but can utilize third-party wellness plan vendors, who have successful communication methods already at their disposal (Bal, 2016).

Creating Opportunities for Promotion and Communication of Wellness Programs

In order to stimulate interest and encourage employees to participate in new or existing wellness programs, organizations need to utilize opportunities as they become available. Technology's evolution and application in the health and fitness regimes of people's lives provides firms with a possible opening for uniting individuals' interest in the new gadget with improving their health. For example, the use of health centric apps which monitor and report instant feedback on participants' activities could be used as a friendly and competitive motivation for consistent improvement. Team environments provide supportive units in which groups can encourage one another toward healthy and productive goals.

Employee buy-in can provide additional incentive, in that once employees have a voice in building and designing a wellness program, they are encouraged to participate through a sense of accomplishment and a value derived from their input. Additionally, active employees are more likely to recruit other participants, resulting in their taking on the role of a change agent for a healthier workforce.

Through creative measures, organizations can improve the participation of employees in their firms' wellness programs, which can provide positive health outcomes for employees. A fit workforce is less likely to experience serious health complications, such as chronic diseases. Additionally, by living a healthier lifestyle, employees are better able to perform their job duties and be a valuable contributing member of the workforce to a larger degree.

Healthy workforces are a key aspect of a healthy society and as such healthcare agencies are investing in research to help organizations improve their offerings to their employees. The CDC conducts research, disseminates study results, and offers suggestions for employees and employers seeking to develop or redesign their organizational wellness programs (CDC, 2016f). Additionally, the Office of Disease Prevention and Health Promotion (2010) is a resource aimed at providing information and resources for aiding in workers' efforts to improve their health. Furthermore, the American Diabetes Association promotes their Wellness Lives Here™ initiative, which "helps companies, organizations and communities educate and motive people to adopt healthful habits to reduce the impact of type 2 diabetes and other obesity-related illnesses" (American Diabetes Association, n.d., Celebrate and Promote a Culture of Wellness). Information is readily available and accessible for employers and employees to be educated and knowledgeable on the benefits of participation in wellness programs as well as how to get involved and encourage others.

REFERENCES

American Diabetes Association. (2015). Facts About Type 2. Retrieved April 7, 2017, from American Diabetes Associate: http://www.diabetes.org/diabetes-basics/type-2/facts-about-type-2.html

American Diabetes Association. (2017). Statistics about Disbetes. Retrieved April 9, 2017, from American Diabetes Association: http://www.diabetes.org/diabetes-basics/statistics/?loc=db-slabnav

American Diabetes Association. (n.d.). In My Community. Retrieved April 9, 2017, from American Diabetes Association: http://www.diabetes.org/in-my-community/wellness-lives-here/?loc=imc-slabnav

Bal, K. (2016, June). Millennials support wellness. Human Resource Executive Online, p. 8. Retrieved April 9, 2017, from http://mobileservices.texterity.com/humanresourceexecutive/june_02_2016?folio=8&lm=1464934332000&article_id=899677&linkImageSrc=/humanresourceexecutive/june_02_2016/data/imgpages/mobile_tn2/0008_ifwoef.png&pg=NaN#pgNaN

By the numbers: Factoids from the workplace and beyond. (2016, June). Human Resource Executive Online. Retrieved April 3, 2017, from http://mobileservices.texterity.com/humanresourceexecutive/june_2016__2?folio=47&lm=1465971154000&article_id=905121&linkImageSrc=/humanresourceexecutive/june_2016__2/data/imgpages/mobile_tn2/0047_cklvff.png&pg=47#pg47

CDC. (2015a). Cholesterol. Retrieved April 8, 2017, from Centers for Disease Control and Prevention: https://www.cdc.gov/cholesterol/facts.htm

CDC. (2015b). Heart Disease Facts. Retrieved April 6, 2017, from Centers for Disease Control and Prevention: https://www.cdc.gov/heartdisease/facts.htm

CDC. (2015c). Wellness at Work. Retrieved April 9, 2017, from Centers for Disease Control and Prevention: https://www.cdc.gov/features/workingwellness/index.html

CDC. (2016a). Chronic Disease Overview. Retrieved April 5, 2017, from Centers for Disease Control and Prevention: https://www.cdc.gov/chronicdisease/overview/index.htm

CDC. (2016b). Chronic Disease Prevention and Health Promotion. Retrieved April 5, 2017, from Centers for Disease Control and Prevention: https://www.cdc.gov/chronicdisease/index.htm

CDC. (2016c). Diabetes. Retrieved April 7, 2017, from Centers for Disease Control and Prevention: https://www.cdc.gov/chronicdisease/resources/publications/aag/diabetes.htm

CDC. (2016d). Diabetes Mortality by State. Retrieved April 8, 2017, from Centers for Disease Control and Prevention: https://www.cdc.gov/nchs/pressroom/sosmap/diabetes_mortality/diabetes.htm

CDC. (2016e). Overweight and Obesity. Retrieved April 8, 2017, from Centers for Disease Control and Prevention: https://www.cdc.gov/obesity/data/adult.html

CDC. (2016f). Workplace Health Promotion. Retrieved April 9, 2017, from Centers for Disease Control and Prevention: https://www.cdc.gov/workplacehealthpromotion/index.html

CDC. (2017). Heart Disease Mortality by State. Retrieved April 6, 2017, from Centers for Disease Control and Prevention: https://www.cdc.gov/nchs/pressroom/sosmap/heart_disease_mortality/heart_disease.htm

Cutter, C. (2016, December). Jump-starting wellness. p. 32. Retrieved April 9, 2017, from Human Resource Executive Online: http://mobileservices.texterity.com/humanresourceexecutive/december_2016?folio=32&lm=1481303324000&article_id=1038956&linkImageSrc=/humanresourceexecutive/december_2016/data/imgpages/mobile_tn2/0032_mufglr.png&pg=NaN#pgNaN

Edington, D. (2014, February 10). Benefits. Retrieved April 5, 2017, from Society for Human Resource Management: https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/dee-edington.aspx

Kochanek, K. D., Murphy, S. L., Xu, J., & Arias, E. (2014, December). Mortality in the United States, 2013. NCHS Data Brief(178), 1-8. United States: National Center for Health Statistics. Retrieved from https://www.cdc.gov/nchs/data/databriefs/db178.pdf

Levi, J., Segal, L. M., & Juliano, C. (2006, August). F as in Fat: How Obesity Policies are Failing America 2006. Retrieved April 8, 2017, from State of Obesity: http://stateofobesity.org/files/fasinfat2006.pdf

Madison, K. M., Volpp, K. D., & Halpern, S. D. (2011). The law, policy, & ethics of employers' use of financial incentives to improve health. Journal of Law, Medicine & Ethics, 39. Retrieved from http://onlinelibrary.wiley.com/doi/10.111/j.1748-720X.2011.00614.x.pdf

Mayo Clinic Staff. (2014a). Diseases and Conditions: Diabetes. Retrieved April 11, 2017, from Mayo Clinic: http://www.mayoclinic.org/diseases-conditions/diabetes/basics/complications/con-20033091

Mayo Clinic Staff. (2014b). Diseases and Conditions: Heart Disease. Retrieved April 6, 2017, from Mayo Clinic: http://www.mayoclinic.org/diseases-conditions/heart-disease/basics/definition/con-20034056

Mayo Clinic Staff. (2016). Diseases and Conditions: High Cholesterol. Retrieved April 8, 2017, from Mayo Clinic: http://www.mayoclinic.org/diseases-conditions/high-blood-cholesterol/home/ovc-20181871

McGraw, M. (2016, March). When wellness programs don't work. Human Resource Executive Online, p. 10. Retrieved April 9, 2017, from http://mobileser-

vices.texterity.com/humanresourceexecutive/march_2016?folio=10&lm=1459351113000&article_id=737115&linkImageSrc=/humanresourceexecutive/march_2016/data/imgpages/mobile_tn2/0010_slwyto.png&pg=NaN#pgNaN

Miller, S. (2013). Benefits. Retrieved April 9, 2017, from Society for Human Resource Management: https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/wellness-best-practices.aspx

Murphy, T., & Lucey, C. (2014, April 27). Wellness programs grow more popular with employers. San Jose Mercury News. Retrieved April 5, 2017, from http://www.mercurynews.com/health/ci_25639907/wellness-programs-grow-more-popular-employers

O'Brien, M. J. (2016, December). Facts & Figure. Retrieved April 9, 2017, from Human Resource Executive Online: http://mobileservices.texterity.com/humanresourceexecutive/december_2016?folio=35&lm=1481306924000&article_id=1038962&linkImageSrc=/humanresourceexecutive/december_2016/data/imgpages/mobile_tn2/0035_oblyvm.png&pg=NaN#pgNaN

Office of Disease Prevention and Health Promotion. (2010). Evidence-Based Resource Summary. Retrieved April 9, 2017, from HealthyPeople.gov: https://www.healthypeople.gov/2020/tools-resources/evidence-based-resource/recommendations-for-worksite-based-interventions-to-1

Segal, L. M., Rayburn, J., & Martin, A. (2016, September). The State of Obesity: Better Policies for a Healthier America 2016. Retrieved April 8, 2017, from State of Obesity: http://stateofobesity.org/files/stateofobesity2016.pdf

The State of Obesity. (2017). States with the Highest Type 2 Diabetes Rates. Retrieved April 7, 2017, from The State of Obesity: http://stateofobesity.org/lists/highest-rates-diabetes/

United Health Foundation. (2016). 2015 Annual Report. Retrieved April 8, 2017, from America's Health Rankings: http://www.americashealthrankings.org/explore/2015-annual-report/measure/High_Chol/state/ALL

University of Michigan. (2017). Center for Managing Chronic Disease. Retrieved from University of Michigan: http://cmcd.sph.umich.edu/about/about-chronic-disease/

WHO. (2016). Obesity and Overweight. Retrieved April 11, 2017, from World Health Organization: http://www.who.int/mediacentre/factsheets/fs311/en/

This page is intentionally blank.

Internal Audit, Fraud and Risk Management at Wells Fargo

Uma V. Sridharan
Professor of Accounting and Finance
Columbus State University

Linda U. Hadley
Dean and Professor of Finance
Columbus State University

ABSTRACT

Wells Fargo, the largest bank in the U.S. by some measures, agreed to pay a fine of $185 million and an additional $5 million in customer remediation being found guilty of fraud. Employees generated $2.6 million in fees for the bank by creating 115,000 unauthorized customer accounts and credit cards. Using case study methodology, this paper investigates the factors that allowed, and even encouraged, this massive case of fraud. The paper highlights the impact of internal audit failure, firm culture, board structure and oversight the creation of fraud.

Keywords: fraud, internal audit quality, board oversight, audit committee, culture, cross selling, Tone at the Top

BACKGROUND

On September 8, 2016, Wells Fargo, agreed to pay a fine of $185 million for "widespread illegal practices" (Glazer, 2016). The largest bank in the U.S. based on market value of equity at the time, Wells Fargo neither admitted nor denied the allegation of having fraudulently created unauthorized customer deposit and credit card accounts and charging customer fees for those accounts. The allegations of fraud were first made by public by the Los Angeles times in December of 2013. This provoked an investigation by the Los Angeles City Attorney as well as the U.S. Comptroller of the Currency. Wells Fargo hired Accenture and retained a law firm to conduct their own investigation. In response to a lawsuit filed by the Los Angeles City Attorney in May 2015, alleging that the bank pressured its employees to commit fraud, Wells Fargo hired PricewaterhouseCoopers (PWC) to conduct an internal investigation. A year later, PWC had uncovered fraud that led to the firing of 5300 employees in the positions of personal bankers, branch managers, district managers and a few regional area presidents. In July 2016, Wells Fargo announced that Carrie Tolstedt, the head of community banking would retire at year end after 27 years with the company. In announcing her retirement, CEO John Stumpf referred to Ms. Tolstedt as one of the company's most valued employees, a trusted colleague, a standard-bearer of the company's culture, a champion for customers, and a "role model for responsible, principled and inclusive leadership." [Wells Fargo Press Release, July 12, 2016]. This paper researches data from and about Wells Fargo to illustrate to business students how the failure of the internal audit function, and lack of sufficient board oversight can lead to poor risk management resulting in fraud and damage to the firm's image and loss of market value.

RESEARCH METHODOLOGY

The choice of research methodology depends on its suitability for studying the research problem and conveying the results. Harvard Business School has been a pioneer in the development and use of case studies to teach concepts in business and accounting in its graduate business programs. Yin (2014) defines case study research as an attempt to examine "a contemporary phenomenon in its real life context especially when the boundaries between the phenomenon and context are not clearly evident." Case study research methodology provides an academically meticulous approach to achieve "experimental isolation of one or selected social factors within a real life context. [Schell 1992] We chose the case study research method as the most appropriate to present our analysis of the impact of internal audit, firm culture and tone at the top of a firm's risk management practices and how they ultimately impact firm reputation and firm value. We recognize that the chief limitation of case study research is that the results are not generalizable as they might be in a

cross sectional study. We are seeking only to explain and use a single business episode for the purpose of enriching business pedagogy and to affirm what accounting theory teaches us about internal audit, fraud, tone at the top and risk management. We are not seeking to generalize beyond this case.

SALES CULTURE, CROSS SELLING AND TONE AT THE TOP

In 1998, Norwest Corporation merged with Wells Fargo and the CEO of Norwest, Richard Kovacevich, became the CEO of Wells Fargo. Mr. Kovacevich emphasized sales at Norwest and brought the same culture to Wells Fargo. Kovacevich introduced cross-selling at Wells Fargo. Reinartz et al. (2004) describe cross-selling and up-selling as "alternative techniques in customer relationship management." Kamakura (2008, p. 42), describes cross-selling as "sales of additional items related (or sometimes unrelated) to a previously purchased item, while up-selling involves the increase of order volume either by the sales of more units of the same purchased item, or the upgrading into a more expensive version of the purchased item." Johnson and Friend (2015) report "cross selling and upselling are common sales strategies firms use to increase the revenue their salespeople garner from customers. However, these sales approaches are difficult to implement and a large percentage of these programmes fail." Failure rates of cross-selling enterprises are 70% or higher across industries "(DeGabrielle 2007). Homburg and Schäfer (2001) estimate that German financial service providers exploit only one-third of their customers' cross-buying potential; Wiedmann et al. (2003), in a survey of German banks, found that 75% of managers are unsatisfied with their cross-selling success. Schmitz (2013) explores group influences on cross-selling motivation and finds that in addition to financial rewards, extensive product knowledge and a commitment to the idea of cross-selling may be essential. Schmitz also reports "A strong cross-selling norm in a sales team reinforces the effect of individual cross-selling motivation"

Wells Fargo had an internal "Sales Quality Manual" which required customer consent for every product or service sold to them. This was the bank's official policy. However, the pressure to cross-sell was reportedly intense [Glazer, 2013] and Wells Fargo provided its employees with a compensation scheme that richly rewarded cross-selling and punished poor performance in cross-selling. In its 2016 annual report, Wells Fargo refers to its bank branches as "stores" and uses the term "cross-sell' about 20 times [Glazer, 2016]. Employees were given unrealistic sales targets and many quit their jobs as they were unable to withstand the pressure to sell. People who failed to meet their sales targets were "threatened with termination and sometimes criticized in conference calls" [Glazer, 2013.]

Carrie Tolstedt, Divisional Senior Vice President for Community Banking, oversaw the 6,000 branches where employees opened deposit and credit card accounts for more than two million customers without authorization. In doing so, these employees committed both fraud and identity theft. Prior to issuing a credit card, bank employees checked on customer credit without authorization, thereby lowering customers' credit scores. The full economic and financial impact of the lowered credit scores for millions of customers is presently unknown, but it potentially made some customers ineligible for mortgage loans and forced others to accept higher interest rates for no fault of their own. As the scandal broke and the wrong doing came to light, Wells Fargo laid-off 5300 employees. Tolstedt, however, retained her position. Between 2013 and 2016, Tolstedt earned $27 million in compensation at Wells Fargo. Many of the bank employees who were laid off earned $11.75 to $16.50 per hour. In its 2015 proxy statement, Wells Fargo cited that Tolstedt was rewarded for her contribution to the company by advancing the objective of cross – selling and "reinforcing a strong risk culture" (Senate Banking, Housing and Urban Affairs Committee, 2016). When Tolstedt retires in December 2016, she is expected to collect $125 million in bank equity and stock options. Wells Fargo will continue to keep the product based sales goals until the end of the year despite the scandal. It has announced plans to eliminate product – based sales goals beginning January 1, 2017, but reiterated its staunch commitment to cross-selling

RISK MANAGEMENT AND AUDIT FAILURE

Wells Fargo is a public company audited by KPMG and governed by a board of directors with an audit committee. John Stumpf, CEO of Wells Fargo, serves as the Chairman of Wells Fargo Board. Boards of directors play a key role not only in selecting executive leadership and establishing long-term strategy, but also in monitoring the overall level of risk. Board effectiveness contributes to the sustainability of the corporation over the long term and is therefore of vital importance to stockholders and other stakeholders." Although the empirical is mixed, traditional agency theory suggests that board independence, oversight and risk management may be enhanced when the roles of CEO and board chair are separated. [Yaffit and Kess, 2016] Duru et al. (2016) show that CEO duality has a negative impact on firm performance, but the impact may be moderated by board independence. It is likely that CEO duality at Wells Fargo negatively impacted the firm's risk management.

Internal auditors are responsible for a firm's risk management processes and work to ensure that a firm's internal control measures are working well. They evaluate risk and assist management in improving internal controls. The Sarbannes-Oxley Act (SOX) requires companies to select an internal control framework, and assess and report on the design and operating effectiveness of that framework each year. The Commission of Sponsoring Organizations of the Treadway Commission (COSO) 2013 framework recognized "unmonitored controls tend to deteriorate over time. Monitoring, as defined in the COSO framework, is implemented to help ensure "that internal control continues to operate effectively." In 1998, the Blue Ribbon Committee Report on Audit Committee Effectiveness concluded that the "appropriate responsibility for the oversight of financial integrity and accountability of public companies may be viewed as three – legged stool consisting of (1) management and internal audit, (2) the board of directors and its audit committee and (3) the external auditors." [Whittington and Pany, 2015] . Section 404 of Sarbanes-Oxley requires "management's development and monitoring of procedures and controls for making their required assertion about the adequacy of internal controls over financial reporting, as well as the required attestation by an external auditor of management s assertion. Section 302 requires management s quarterly certification of not only financial reporting controls, but also disclosure controls and procedures." Wells Fargo in its 2015 proxy statement acknowledged that it rewarded the promoting of a strong risk culture. It appears Wells Fargo did not have a reliable well established internal audit function operating in full compliance with the definition of internal auditing and its accompanying standards.

In February 2011, Wells Fargo CFO Howard Atkins abruptly announced his retirement and was succeeded by Timothy J. Sloan, the company's then current chief administrative officer and a senior executive vice president. Wells stated Atkins' retirement was not related to the company's financial condition or financial reporting. Newquist (2011) reported, however, that Atkins had an "internal dispute" with CEO John Stumpf, and suggested significant problems in the bank's internal systems and controls as defined by the Sarbanes-Oxley. To the extent that KPMG relied on Well's internal audit and board audit committees to attest to the strength of its internal controls, KPMG may have been reluctant to find fault with a long term client. McKenna (2012) wrote "The Big Four auditors may not be catching errors and frauds at financial companies because they'd like to keep the business. Public accounting firms must balance fiduciary responsibility with the desire to maintain longstanding relationships.

"Only two firms audit the four largest U.S. banks. The 20 banking and financial services institutions that pay the highest audit fees, according to Audit Analytics, spent nearly $1 billion with those vendors in 2011" (McKenna 2012). Given that each of these banks represents a substantial revenue source, audit firms clearly have an incentive *Italic*to maintain them as clients. KPMG may have failed to report the increased risk profile and the deterioration of internal controls just as PwC missed it at MF Global, and Ernst and Young missed it with Lehman.

TONE AT THE TOP , LACK OF COURTESY AND LOSS OF TRUST

Company outcomes are often traced to the "tone at the top." Hambrick and Mason (1984), established that leadership and governance affect a firm's strategic choices and organizational outcomes. In particular, several studies show that tone at the top is a crucial determinant of ethical practices within business organizations (e.g., Bannon et al. 2010; Berson et al. 2008; Merchant 1990; Rotemberg and Saloner 2000)" [Patelli and Pedrini, 2015]

Wells Fargo shares some eerie parallels with Enron. Enron's ethics code was officially based on respect, integrity, communication, and excellence. The Enron Code of Ethics stated "We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness and arrogance don't belong here... We work with customers and prospects openly, honestly and sincerely." Yet inside Enron there was a near total ethical collapse which eventually led to the demise of the firm. Not unlike Wells Fargo CEO's aggressive cross-selling strategy, Former CEO Jeffrey Skilling promoted a very aggressive investment and trading strategy for Enron. In a 2010 letter to shareholders, Mr. Stumpf wrote that Wells Fargo's goal was eight products per customer because "eight rhymed with great." Mr. Stumpf is also quoted as saying "Perhaps our new cheer should be: "Let's go again, for ten!" These slogans promoted by the CEO, set the 'tone at the top' and promoted a culture of aggressive cross – selling "The result was a corporate culture that drove company team members to fraudulently open millions of accounts using their customers' funds and personal information without their permission." [Senator Richard Shelby].

During the period of alleged fraud, CEO John Stumpf held an average of 6.75 million shares of Wells common stock. Between 2011 and 2015, the stock price increased from $22 to $58 per share creating capital gains of roughly $200 million for the CEO. [Senator Elizabeth Warren, September 21, 2016] It appears that Wells Fargo's symbolic stagecoach had travelled a long distance away from the culture of its founder. "In the 1860's Henry Wells was

asked what it takes to succeed in business. He said, 'There is one very powerful business rule. It is concentrated in the word courtesy.' Today we call it 'service.' "[Wells Fargo Press release 2012.] Courtesy did not guide Wells Fargo employees as they proceeded to defraud bank customers under Stumpf's leadership. Employees often behave as they are treated. Wells Fargo management did not treat their subordinates with courtesy as they pressured them to achieve unrealistic sales targets and terminated employees who failed to meet these targets. On September 27, 2016 the Los Angeles Times reported that the US Labor Department had launched an investigation of how Wells Fargo "treated employees as it pushed the aggressive sales quotas that led to the bank's fake accounts scandal." [Puzzanghera, 2016] In recent years there were numerous complaints filed by Wells employees citing the firm for violating labor laws including refusing to pay overtime wages. Such behavior is not only unethical and illegal but also discourteous to employees. The 'tone at the top' was clearly not one of 'courtesy' and this message clearly filtered down to Wells Fargo employees and guided their actions. Hiltzik (2016) reports that Wells Fargo is forcing victims of the recent fraud to accept binding arbitration. Wells argued in court that even though the accounts its employees created were fake, they originated from legitimate accounts defrauded customers opened and those legitimate accounts were subject to the arbitration clause. Wells Fargo management did not extend the customer the courtesy of obtaining legal redress for the damage caused to them. Arbitration and its outcomes are generally secret and preclude class action lawsuits and punitive damages. At the Senate Hearings on September 21, 2016, the Senate panel suggested that an ethical response would be for Wells Fargo management to 'clawback' (return) some of the fraudulently earned bonuses. Senator Warren asked the CEO to resign and face criminal investigation.

CONCLUSION

The Wells Fargo cross-selling fraud case illustrates the necessity of a strong and independent board and vigilant internal audit to enforce internal controls. Effective oversight and internal controls may have prevented the ethical collapse that led to the opening of millions of unauthorized accounts. This case illustrates a total disconnect between a firm's official code of ethics and the reality of the 'tone at the top.' The case shows how the tone at the top influences behavior of employees in the organization. This incident makes a strong case for separating the roles of the CEO and the Chairman of the Board to promote better corporate governance, and underscores the importance of aligning employee compensation schemes with higher productivity consistent with ethical behavior. The case further underscores the responsibility of external auditors to maintain an attitude of professional skepticism when they audit a firm and implement more sophisticated fraud detection techniques in an effort to uncover fraud. On October 12, 2016 the Chairman and CEO of Wells Fargo resigned with immediate effect. He was required by Wells Fargo Board to forfeit $41 million in unvested equity in the firm.

REFERENCES

Bannon, S., Ford, K., & Meltzer, L. (2010). How to instill a strong ethical culture. CPA Journal, 80(7), 56–58.

Berson, Y., Shaul, O., & Dvir, T. (2008). CEO values organizational culture and firm outcomes. Journal of Organizational Behavior, 29, 615–633.

Bolton, R. N., Lemon, K. N., & Verhoef, P. C. (2008). Expanding business-to-business customer relationships: Modeling the customer's upgrade decision. Journal of Marketing, 72(1), 46–64

Cohn, Yafit and Avrohom, J, Kess, (2016) , Optimizing Board Evaluations, retrieved from, https://corpgov.law.harvard.edu/tag/board-independence/ on September 27, 2016

Corkery Michael, (2016) Wells Fargo Fined $185 Million for Fraudulently Opening Accounts, retrieved from http://www.nytimes.com/2016/09/09/business/dealbook/wells-fargo-fined-for-years-of-harm-to-customers.html

COSO Framework: Guidance on Monitoring Internal Control Systems 2009, retrieved from http://www.coso.org/documents/coso_guidance_on_monitoring_intro_online1_002.pdf on September 26, 2016

DeGabrielle, D. (2007). Cross-sell offer failure: Why does a 75 percent failure rate persist? CRM Magazine, www.destinationcrm.com

Duru A, Iyengar, R J and Zampanelli, E M, (2016) cThe dynamic relationship between CEO duality and firm performance: The moderating role of board independence, Journal of Business Research, 69(10); pp 4269-4277

Hambrick, D. C., & Mason, P. A. (1984). Upper echelons: The organization as a reflection of its top managers. Academy of Management Review, 9, 193–206.

Hiltzk, Michael, 2016, How Wells Fargo exploited a binding arbitration clause to deflect customers fraud allegations, retrieved from http://www.latimes.

com/business/hiltzik/la-fi-hiltzik-wells-arbitration-20160926-snap-story.html on September 26, 2016

Homburg, C., & Schäfer, H. (2001). Profitabilität durch Cross-Selling: Kundenpotentiale professionell erschließen. Mannheim: University of Mannheim.

Johnson, Jeff S Friend, Scott B (2015). *The Journal of Personal Selling & Sales Management* 35.1 : 51.

Kamakura, W. A. (2008). Cross-selling. Journal of Relationship Marketing, 6(3), 41–58.

McKenna, Francine, (2012) Auditors are asleep at the switch at Bank's Risk Controls, retrieved from American Banker at http://www.americanbanker.com/bankthink/auditors-asleep-at-switch-on-risk-controls-1050923-1.html

Merchant, K. A. (1990). The effects of financial controls on data manipulation and management Myopia (pp. 297–313). Accounting: Organizations and Society.

Newquist, Caleb, (2011), In Case You Were Wondering, KPMG Is Still Wells Fargo's Auditor, retrived from http://goingconcern.com/2011/2/in-case-you-were-wondering-kpmg-is-still-wells-fargos-auditor

Patelli, Lorenzo,and Pedrini, Matteo.[2015] Is Tone at the Top Associated with Financial Reporting Aggressiveness?, *Journal of Business Ethics* 126.1 (Jan 2015): 3-19.

Puzzanghera, Jim, (2016), Wells Fargo faces 'top-to-bottom' Labor Department review for possible workplace violations, retrieved from http://www.latimes.com/business/la-fi-wells-fargo-overtime-20160927-snap-story.html

Reinartz, W., Krafft, M., & Hoyer, W. D. (2004). The customer relationship management process: Its measurement and impact on performance. Journal of Marketing Research, 41(August), 293–305

Rotemberg, J., & Saloner, G. (2000). Visionaries, managers and strategic direction. Rand Journal of Economics, 31, 693–716.

Schell, C (1992) The Value of the Case Study as a Research Strategy, retrieved from http://finance-mba.com/Case%20Method.pdf on October 11, 2016

Schmitz, Christian. **(2013)** Group influences of selling teams on industrial salespeople's cross-selling behavior, *Academy of Marketing Science. Journal* 41.1 : pp 55-72.

The Institute of Internal Auditors, Internal Auditing s Role in Sections 302 and 404 of the Sarbanes-Oxley Act, retrieved from https://na.theiia.org/standards-guidance/Public%20Documents/Act%20Internal_Auditings_Role_in_Sections_302__404__FINAL.pdf on September 26, 2016

Wells Fargo Press Release, 2012 retrieved from https://www.wellsfargo.com/about/press/2012/20120319_WellsFargoCelebrates160/]

Wiedmann, K.-P., Klee, A., & Siemon, N. (2003). Kundenmanagement im Privatkundengeschäft von Kreditinstituten. Hannover: University of Hannover.

Yin, R.K, (2014) Case Study Research: Design and Methods, 5th edition. Sage Publications, California pages 5-6

This page is intentionally blank.

Insider Trading After the Salman Ruling

Larry Bumgardner
Associate Professor of Business Law
Graziadio School of Business and Management
Pepperdine University
Westlake Village, California

ABSTRACT

The Supreme Court in December 2016 decided its first insider trading case in nearly 20 years. In Salman v. United States, the court unanimously and swiftly upheld an insider trading conviction and simultaneously reaffirmed a long-standing principle about illegal tips among family members.[1] *The case began with an insider sharing confidential information with his brother, who passed it along to a family friend who became the brother-in-law of the original insider. Both the brother and brother-in-law, as recipients of the tips, profited handsomely from trading on the inside information. The original insider never traded on the news and received no monetary benefit from providing the tips. Still, the insider and his brother both pleaded guilty to securities fraud for insider trading, and the brother-in-law was convicted of the same offense by a jury. The Supreme Court upheld the brother-in-law's conviction, despite a 2014 appellate court decision that had cast some doubt on the validity of insider trading prosecutions under somewhat similar facts.*

The Salman ruling initially appeared to be a significant, and perhaps even resounding, victory for the U.S. government and securities regulators in particular. However, in just the few months following that decision, several developments have raised questions about how sweeping an effect the Salman case might ultimately have. This paper will explain and analyze the Supreme Court ruling and its potential impact, as well as discuss unresolved issues and a pending case that might still undermine the strength of the government's victory.

INTRODUCTION

The precise boundaries of illegal insider trading have been ambiguous for some time. For example, Fortune magazine in 2013 noted the uncertainties in an article entitled "The Gray Art of Not Quite Insider Trading."[2] Similarly, the New York Times in a 2010 DealBook column summed up the difficulty of defining insider trading by stating: "A safe maxim might be: 'If you have to ask if it's right or wrong, it's probably wrong.'"[3]

Part of the ambiguity stems from the fact that there is no specific statute that actually defines the act of illegal insider trading. Instead, the crime is prosecuted as general securities fraud under Section 10(b) of the 1934 Securities Exchange Act and Rule 10b-5, the SEC regulation that details various types of securities fraud.4 The intentionally broad and inclusive wording of Rule 10b-5 prohibits, among other conduct, "any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person."[5]

Moreover, the Supreme Court has ruled on very few insider trading cases over the past three decades. As a result, the U.S. Circuit Courts of Appeals, one step below the Supreme Court, have had to apply somewhat older Supreme Court precedents to newer circumstances and cases involving insider trading. Not surprisingly, the various Circuit Courts have not always agreed on some of the finer points of what constitutes insider trading.

The more straightforward insider trading cases deal with direct trading by a corporate insider—for example, an employee of a public company, or anyone else who has been entrusted with significant, confidential information about that company for a corporate purpose. In this setting, it is normally clear that the insider cannot trade in that stock until the information becomes publicly known. The underlying purpose, of course, is to keep insiders from using their positions to take advantage of other investors who do not have access to the same information.

More difficult cases arise when an insider passes on that "material nonpublic information" to other parties—those who are not insiders of the company. The original insider is known as the tipper, and the person receiving the information is called the tippee. That scenario raises at least three key questions. First, under what circumstances can a tipper be held liable for the acts of his or her tippee? Second, what kind of benefit must the tipper receive from the

tippee for providing that information? Finally, what must the tippee know about the tipper's actions to make the tippee liable for insider trading, as well?

Although the parameters of insider trading are not entirely clear, there is far greater clarity on the potential penalties. The U.S. Justice Department can bring criminal securities fraud cases for insider trading under the 1934 Securities Exchange Act. The maximum penalty is 20 years in prison, though the longest sentence to date for insider trading alone is 12 years.6 In addition, the Securities and Exchange Commission can bring civil charges for the same conduct, seeking the return of any profits the inside trader made on the illegal trades, as well as a penalty of three times that amount. Understandably, the SEC may be more aggressive in charging insider trading, as no one faces criminal penalties in a case brought by the SEC alone. Because of the significant penalties that may be imposed, it is important for all businesspeople and stock market investors to understand what the U.S. government might consider to be illegal insider trading.

THE DIRKS PRECEDENT

Specifically on the question of tipper and tippee liability, which was crucial to the Salman v. U.S. ruling, the bedrock precedent is the 1983 Supreme Court decision of Dirks v. SEC.7 That now venerable ruling dealt with an insurance firm, Equity Funding of America, which sold mutual funds and life insurance. Equity Funding was a popular stock pick of many analysts in the early 1970s, as it appeared to be a fast-growing company. But similar to some corporate scandals of more recent times, Equity Funding had been booking false revenues by creating and then selling fake insurance policies.

In 1973, Ronald Secrist, a former officer and insider of Equity Funding, wanted to alert investors and the public to this still-hidden case of fraud. For that purpose alone, Secrist disclosed material nonpublic information about the problems at Equity Funding to Raymond Dirks, a prominent securities analyst with an expertise in insurance companies. While Dirks was investigating the allegations, he told his institutional investor clients about the issues at Equity Funding. Some of those clients then sold about $15 million worth of Equity Funding stock, but neither Dirks nor his company traded in the stock based on this inside information.

Soon thereafter, California insurance authorities found evidence of the fraud, the Securities and Exchange Commission filed a complaint against Equity Funding, its stock price fell sharply, and the company was forced into receivership.[8] Thus Dirks' clients who had already sold their stock profited from having advance knowledge of the fraud at Equity Funding.

In a civil proceeding against securities analyst Dirks eight years later, an SEC administrative law judge ruled that Dirks had aided and abetted securities fraud by revealing this inside information to his clients before it was publicly known. The penalty imposed on Dirks was only a censure, in light of the role he had played in unearthing the massive fraud. However, a securities analyst does not want even a censure on his permanent record, and Dirks appealed the ruling. The D.C. Circuit Court of Appeals upheld the SEC's determination in a 2-1 decision.[9]

But the Supreme Court in 1983, a full decade after the original tip, reversed the SEC censure on a 6-3 vote. The majority found that Dirks, as a tippee, should not be found liable for aiding and abetting securities fraud because insider Secrist (the tipper) had not breached any fiduciary duty in disclosing this information to Dirks. Secrist did not benefit personally from the disclosure, and he acted for the worthwhile purpose of exposing the fraud. If the tipper did nothing wrong, the tippee could not be held liable, as the tippee's fault derives from the fault of the tipper.

The Dirks ruling became the basis of a three-part test for whether a tippee can be held liable for trading on information received from an insider-tipper. First, the insider must have breached a fiduciary duty in disclosing that material nonpublic information to the tippee. Second, the tippee must either know, or should know, of that breach of duty. Third, the insider must have benefited in some way from having disclosed the information. As Justice Lewis Powell explained in the Dirks majority opinion:

> Whether disclosure is a breach of duty therefore depends in large part on the purpose of the disclosure. ... Thus, the test is whether the insider personally will benefit, directly or indirectly, from his disclosure. Absent some personal gain, there has been no breach of duty to stockholders. And absent a breach by the insider, there is no derivative breach [by the tippee].[10]

The majority opinion elaborated on what would count as a personal benefit to the insider. Justice Powell said that question "requires courts to focus on objective criteria, i.e., whether the insider receives a direct or indirect personal benefit from the disclosure, such as a pecuniary gain or a reputational benefit that will translate into future earnings."[11] The court's ruling provided examples of what would count as a personal benefit:

> For example, there may be a relationship between the insider and the recipient that suggests a quid pro quo from the latter, or an intention to benefit the particular recipient. The elements of fiduciary

> duty and exploitation of nonpublic information also exist when an insider makes a gift of confidential information to a trading relative or friend. The tip and trade resemble trading by the insider himself followed by a gift of the profits to the recipient.[12]

As a result, and despite the fact that the Dirks case did not actually involve a tip between family members or friends, for three decades the prevailing view in the securities field had been that tipping off a family member or close friend qualified as a personal benefit to the insider. Still, Justice Powell in Dirks acknowledged that this personal benefit test could be hard to apply in some cases, adding: "Determining whether an insider personally benefits from a particular disclosure, a question of fact, will not always be easy for courts."[13]

The Newman Anomaly

Justice Powell's comment on the difficulty of deciding whether a tipper actually benefited proved to be prescient in the 2014 case of U.S. v. Newman.14 The Second Circuit Court of Appeals ruling narrowed the definition of what counted as a personal benefit to the tipper, and in the process dealt a significant setback to then-U.S. Attorney Preet Bharara. Before being replaced by the Trump Administration in early 2017, Bharara was the top federal prosecutor in the Southern District of New York. He had made a name for himself in the investment community with his vigorous and typically successful prosecutions of insider trading cases, especially in the hedge fund world. As the jurisdiction of the Southern District of New York includes Wall Street and all the securities trading activity found there, Bharara had even gained the nickname the "Sheriff of Wall Street."[15]

In one of the more aggressive insider trading cases brought by Bharara's office, a jury had convicted two hedge fund managers, Todd Newman and Anthony Chiasson, of securities fraud for trading on material nonpublic information that they had received through a chain of tippees, rather than directly from the insider. Depending on the stock involved, Newman and Chiasson were either three or four steps removed from the insider, and apparently did not even know the original source of the tips. Newman was sentenced to 4.5 years in prison and Chiasson to 6.5 years, although they remained free during their appeal.

Under these facts, the Second Circuit reversed the convictions of these two "remote" or "downstream" tippees. Moreover, it took the additional step of ordering that their indictments be dismissed with prejudice, meaning that Newman and Chiasson could not be retried under the revised standard stated by the Second Circuit. That unusual action demonstrated that this panel of three Second Circuit judges had serious questions about the legitimacy of the cases. In fact, the court's opinion referred to "the doctrinal novelty" of the government's "recent insider trading prosecutions, which are increasingly targeted at remote tippees many levels removed from corporate insiders."[16]

The Second Circuit opinion first stated that tippee liability for insider trading requires proof beyond a reasonable doubt "that the tippee knew that an insider disclosed confidential information and that he did so in exchange for a personal benefit."17 On that point, the appellate court found "no evidence that Newman and Chiasson knew that they were trading on information obtained from insiders in violation of those insiders' fiduciary duties."[18]

Dirks had established that a tippee must know (or should know) of the insider's breach of a fiduciary duty in disclosing the information to the tippee. But Newman added the requirement that the tippee must also know that the original insider's tip was done for a benefit. Practically, this could be much more difficult for the government to prove in the case of remote tippees several steps away from the original source of the information.

In addition, the court interpreted the Dirks precedent in a manner that narrowed the definition of what counts as a personal benefit to the insider. In Newman, the tipper and immediate tippee were former business school classmates in one of the tipping chains, and they were current friends at church in the second tip. The Second Circuit found that neither case was a close enough relationship to infer a personal benefit. "If this was a 'benefit,' practically anything would qualify," the court said.19 Referring to the benefit definition in Dirks, Circuit Judge Barrington D. Parker wrote:

> This standard, although permissive, does not suggest that the Government may rove the receipt of a personal benefit by the mere fact of a friendship, particularly of a casual or social nature. If that were true, and the Government was allowed to meet its burden by proving that two individuals were alumni of the same school or attended the same church, the personal benefit requirement would be a nullity.[20]

The Second Circuit proceeded to provide its own interpretation of the personal benefit test from Dirks. The court noted that to "the extent Dirks suggests that a personal benefit may be inferred from a personal relationship between the tipper and tippee ... we hold that such an inference is impermissible in the absence of proof of a meaningfully close personal relationship that generates an exchange that is objective, consequential, and represents

at least a potential gain of a pecuniary or similarly valuable nature."21

The Second Circuit's requirement of "at least a potential gain of a pecuniary or similarly valuable nature" seemed to disregard the Dirks example about a gift to a trading relative or friend. U.S. Attorney Bharara responded that the Newman ruling "appears in our view to narrow what has constituted illegal insider trading" and "will limit the ability to prosecute people who trade on leaked inside information."[22] Although the government sought a rehearing, the Second Circuit denied that request.[23] Then the U.S. Supreme Court declined to review the case.[24] Once the government's appeals had been exhausted, Bharara's office dismissed charges against seven other defendants who had already pleaded guilty or been convicted by a jury of insider trading under similar facts.[25]

THE SALMAN RULING

To the relief of Bharara and others desiring vigorous enforcement of illegal insider trading laws, the Supreme Court effectively rejected the Newman benefit definition in its December 2016 Salman ruling. The trail of tipping in Salman began with Maher Kara, the insider who worked for Citigroup's investment banking group and who had access to information about potential mergers involving Citigroup clients. After resisting earlier requests for tips, Maher Kara finally gave in and reluctantly shared some confidential information with his older brother, Michael Kara. Michael Kara traded on that information himself, and passed the same tips on to Bassam Salman, the defendant who appealed his conviction to the Supreme Court. Meanwhile, Maher Kara, the original tipper, was engaged to and then married Salman's sister.[26]

Salman also traded on the information he had received from first tippee Michael Kara, who had suggested that Salman mirror his trading. While Salman did so, he took steps to distance himself from his trades by making them through a brokerage account owned by his wife's sister and her husband, Karim Bayyouk. Salman then split $1.5 million in profits from those trades with Bayyouk.[27] To summarize the facts of this convoluted family saga, the tipper and the first tippee were brothers. The second tippee and the original tipper had become brothers-in-law, and the second tippee made the trades through the account of his sister-in-law and her husband. While the case involved several in-laws, unfortunately, they did not remain within the law.

Both tipper Maher Kara, who never personally traded on the information, and his direct tippee Michael Kara pleaded guilty to conspiracy and securities fraud, and testified against Salman at his trial. In return for their cooperation, the two brothers were sentenced to only probation and brief periods of home detention. Salman, the second tippee who did not plead guilty and instead went to trial, was not as fortunate. He was sentenced to three years in prison in 2014 after a federal court jury in California convicted him of four counts of securities fraud and one count of conspiracy to commit securities fraud.28 But later that year, the Newman ruling from the Second Circuit gave tippee Salman some hope of overturning his insider trading conviction, because tipper Maher Kara had received no monetary benefits for providing the tips to his brother.

The Second Circuit ruling, however, was not controlling precedent in the Ninth Circuit Court of Appeals, which heard Salman's appeal. Instead, the Ninth Circuit quickly affirmed Salman's conviction, finding that "the evidence was more than sufficient for a rational jury to find both that the inside information was disclosed in breach of a fiduciary duty, and that Salman knew of that breach at the time he traded on it."[29] The court pointed out that there was evidence that Maher Kara, the original tipper, had intended the confidential information to be a gift to his brother Michael. The Ninth Circuit determined that the Dirks rule about a tipper making "a gift of confidential information to a trading relative or friend" clearly applied to this case.[30]

In response to Salman's argument that Newman required an insider to receive a tangible or pecuniary benefit, the Ninth Circuit concluded: "To the extent that Newman can be read to go so far, we decline to follow it. Doing so would require us to depart from the clear holding of Dirks ... [regarding] a gift of confidential information to a trading relative or friend."[31] Salman's defense then asked the Supreme Court to hear his case, citing the conflict between the Second and Ninth Circuit Courts. This time, the Supreme Court agreed to review the case.[32]

REAFFIRMING DIRKS

Only two months and a day after hearing oral arguments on the case, the Supreme Court issued an 8-0 ruling affirming the Ninth Circuit and upholding Salman's insider trading conviction.[33] Both the speed and unanimity of the ruling appeared to indicate that the justices had very little difficulty in deciding to reaffirm its Dirks precedent and reject the Second Circuit's stricter personal benefit test from Newman.

Written by Justice Samuel Alito, the court's 12-page opinion was notable for its brevity, as well as its frequent and extensive quotations from Dirks. The court succinctly stated: "We adhere to Dirks, which easily resolves the narrow issue presented here."[34] Alito continued:

> Our discussion of gift giving [in Dirks] resolves this case. Maher, the tipper, provided inside information to a close relative, his brother Michael. Dirks makes clear that a tipper breaches a fiduciary duty by making a gift of confidential information to "a trading relative," and that rule is sufficient to resolve the case at hand.[35]

Continuing to rely on Dirks, Alito explained why tipping a friend or family member creates a personal benefit for purposes of insider trading:

> Dirks specifies that when a tipper gives inside information to "a trading relative or friend," the jury can infer that the tipper meant to provide the equivalent of a cash gift. In such situations, the tipper benefits personally because giving a gift of trading information is the same thing as trading by the tipper followed by a gift of the proceeds.[36]

Because insider Maher Kara had received a personal benefit in tipping his brother, and because tippee Salman knew the source of the tip he received from the insider's brother, the court found that Salman could be found guilty of insider trading. Regarding the Second Circuit's different standard for a personal benefit, the Supreme Court stated: "To the extent the Second Circuit held that the tipper must also receive something of a 'pecuniary or similarly valuable nature' in exchange for a gift to family or friends ... we agree with the Ninth Circuit that this requirement is inconsistent with Dirks."[37]

It should be noted that the Salman decision was not a formal reversal of Newman. For one thing, the Second Circuit had already ordered that charges be dismissed in Newman, and the Supreme Court had let that decision stand when it declined to hear the case. Thus it was too late to reverse the favorable outcome for the two defendants in the Second Circuit case. Moreover, the facts of Newman and Salman include important differences. Newman involved more remote tippees, and there were no family connections involved in the chains of tippers and tippees there. By contrast, the closeness of the Kara and Salman families, as well as the fact that Salman had become the brother-in-law of the original tipper, made for a much stronger insider trading case factually.

Still, the Salman ruling was interpreted by most observers as a fairly clear rejection of the "pecuniary benefit" standard set by the Second Circuit in Newman. For example, then-U.S. Attorney Bharara, who had expressed serious concerns about the impact of the Newman decision, issued a far different kind of statement after Salman. Bharara stated:

> Today, the U.S. Supreme Court unanimously and "easily" rejected the Second Circuit's novel reinterpretation of insider trading law in U.S. v. Newman. In its swiftly decided opinion, the Court stood up for common sense and affirmed what we have been arguing from the outset—that the law absolutely prohibits insiders from advantaging their friends and relatives at the expense of the trading public. Today's decision is a victory for fair markets and those who believe that the system should not be rigged.[38]

While Bharara likely felt some personal vindication from the Salman ruling, even a disinterested observer would conclude that Salman was a significant victory for securities regulators and federal prosecutors intent on deterring illegal insider trading. On the question specifically before the court, the 8-Ø ruling was as decisive a win as possible for the government. As a result, it is once again clear that an insider providing material nonpublic information to a family member who then trades on that information can be found to have committed insider trading, as long as the tippee knew or should have known that the insider was breaching a duty by disclosing the information. A contrary outcome in Salman could have facilitated and perhaps even encouraged tipping within a family, so long as no provable tangible benefit was provided to the insider. Most likely, that is one reason that the court seemed to have so little trouble deciding Salman—the justices did not want to create a gaping loophole in the rules against insider trading.

However, it was not a complete victory for the government, as that one point of law about tips between family members is all that Salman officially decided. The court expressly noted that the case presented a narrow issue, and it disallowed the Second Circuit's Newman decision only to the extent that it was inconsistent with Salman. Further, the court's brevity in explaining its ruling left other questions unresolved, and may have provided opportunities for lower courts to work around the Supreme Court's decision. For example, while Salman involved family members, did the court also intend to reaffirm the other part of the Dirks example, for tips to friends, as well? Even assuming that to be correct, just how close a friendship is required to infer that personal benefit, and where should the line be drawn between friends and mere acquaintances?

BACK TO THE SECOND CIRCUIT

The Second Circuit, arguably the most important federal appellate court for insider trading cases because its jurisdiction includes New York, will soon have an opportunity to respond with its own interpretation of the breadth and meaning of Salman. The case now before the

Second Circuit involves Mathew Martoma, who was convicted in 2014 for insider trading in another hedge fund case brought by Bharara's office. Martoma was sentenced to nine years in prison, and is already in the third year of serving his term. Unlike the defendants in Newman, he was not allowed to remain free while appealing his case. Yet his appeal has still not been decided, in part because of the uncertainty caused by the Newman and Salman cases. The Second Circuit ordered that Martoma's appeal be reargued in May 2017, so that the impact of the Salman ruling could be considered.[39] Martoma's appeal gives another panel of three Second Circuit judges an opportunity to indicate whether that court will now defer fully to the Supreme Court's ruling in Salman, or instead look for gaps in Salman that would allow the Second Circuit to retain at least part of its ruling from Newman.

A hedge fund portfolio manager, Martoma obtained confidential information from a medical doctor about the results of a company's drug trial for an Alzheimer's medication. Martoma's employer, SAC Capital, then used that information for stock trades resulting in gains and/or avoided losses totaling about $275 million, according to the U.S. Justice Department. Martoma received a $9 million bonus after those trades.[40]

On appeal in the Second Circuit, Martoma initially had hoped to rely on the Newman case and say that his tipper, the doctor, had not received any direct pecuniary benefit for providing that information. At Martoma's trial, which happened before the Newman ruling, the jury had been instructed that friendship could count as a benefit. The medical doctor, as part of an expert networking firm, had in fact previously received consulting fees for his expertise. While that would normally prove the benefit to the tipper, Martoma's defense said those payments were for earlier work by the doctor, and unrelated to the specific tip used to charge Martoma with insider trading.[41]

After Salman, Martoma still hopes to overturn his conviction by relying on the Newman wording that requires a "meaningfully close personal relationship" between the tipper and tippee. By contrast, Martoma's defense contends that "the purported 'friendship' between [the doctor] and Mathew Martoma consisted of some pleasantries over email and a single cup of coffee."[42] The pending Martoma case gives the appeals court an opportunity to decide two different questions. First, did Salman reaffirm the Dirks gift principle only for trading relatives like the brothers in that case, or for trading friends as well? Second, even if Salman does apply to tips to friends, is the Newman requirement of a "meaningfully close personal relationship" between tipper and tippee to infer a personal benefit still binding precedent in the Second Circuit?

There are a variety of legal approaches that the Second Circuit could use to decide Martoma's appeal. It could focus on the line between friends and acquaintances, or it could further define the "meaningfully close personal relationship" term from the Newman case. Another option would be to find that the earlier consulting payments to the medical doctor—and perhaps the hope for additional consulting work—would be enough to prove a pecuniary benefit under the tougher Newman standard. Or it is possible that the court could even follow Salman to the point of reinstating the full Dirks test for personal benefit in the Second Circuit, rejecting the contrary wording of Newman in the process. While overruling its own 2014 precedent entirely seems the least likely result from the Second Circuit, just how the court approaches and decides the Martoma case will be an indication of whether the Second Circuit will continue its struggle with the old Dirks precedent by seeking to carve out exceptions to the Salman ruling. If it does continue to contest the personal benefit standard, there will be renewed uncertainty in the federal courts about the rules for insider trading in the tipper-tippee setting. The end result might be that federal prosecutors and securities regulators will seek out ways to bring insider trading cases in courts outside the jurisdiction of the Second Circuit.

RAJARATNAM REDUX

However, in a recent trial court ruling, one federal district court judge within the Second Circuit fully applied the Salman precedent in rejecting another appeal from Raj Rajaratnam, the Galleon Group hedge fund founder who was sentenced to 11 years in prison for insider trading in 2011. Rajaratnam's conviction had already been affirmed on appeal, but he brought a habeas corpus petition on various grounds, including an argument that some of his convictions should be overturned because there was no proof of a pecuniary benefit to his tippers as required by Newman. In March 2017, U.S. District Judge Loretta Preska cited Salman to reject that claim, writing:

> [T]he Supreme Court recently revisited the issue of what constitutes the requisite enefit in insider trading in Salman v. United States, holding that a benefit does not need to be pecuniary in nature but rather that a sufficient benefit is conferred when "an insider makes a gift of confidential information to a trading relative or friend." ... Here, because all the information was transferred between trading relatives or friends, the mere transfer of information is sufficient to constitute a benefit.[43]

In addition, Judge Preska noted that Rajaratnam, unlike the remote tippees in Newman, was either the direct tippee or only one step removed from the original source of the information. Thus, the judge ruled, a reasonable jury "could infer that [Rajaratnam] did have knowledge that the insiders disclosed confidential information in exchange for a benefit."[44] As a result, neither aspect of the Newman ruling would help Rajaratnam prove his innocence in order to justify a habeas corpus petition.

This denial of Rajaratnam's latest appeal could be interpreted in two different ways. It might be viewed as simply a "Hail Mary" attempt by someone who is already serving a lengthy sentence for blatant insider trading, and thus not a good vehicle for judging the continued validity of Newman in the Second Circuit. On the other hand, it might be seen as at least one trial judge's full adherence to the Salman ruling, and effectively a rejection of the stricter personal benefit test of Newman.

Even if the latter, Judge Preska's comment that Rajaratnam was not a remote tippee is a reminder that another aspect of Newman was not directly affected by Salman. The Second Circuit said that tippees, even several steps away, must also know that the original insider received a personal benefit from tipping. While there was one step between Bassam Salman and his original tipper, Salman was also the brother-in-law of the tipper, and all members of his tipping chain were related by either blood or marriage. Therefore, the Supreme Court saw no need to address the remote tippee aspect of Newman, and in fact, the opinion included a footnote saying Salman "does not implicate those issues."[45] Thus it would be entirely plausible for the Second Circuit, or other federal courts, to conclude that Salman did nothing to disturb that part of the Newman ruling.

Finally, perhaps the biggest uncertainty after Salman relates to when the tippee is neither a friend nor relative, as the Supreme Court also showed no desire to address that more difficult question in Salman. In that different factual setting, will the Second Circuit continue to insist that the personal benefit be something pecuniary or tangible in nature? Because the issue was not addressed directly by Salman, will other federal courts consider applying the more recent Newman standard for personal benefit in that setting, rather than the 1983 Dirks precedent? Because nothing in Salman expressly rejects the Newman test outside of the friends or family setting, that unanswered question could cause further confusion and conflict among the lower courts.

POLITICAL ISSUES

The election of President Donald Trump in November 2016, and resulting change in presidential administration in January 2017, may also indirectly impact the significance of Salman. After the Supreme Court's ruling in December 2016, it initially appeared that Salman might reinvigorate the insider trading prosecutions brought by the Southern District of New York under U.S. Attorney Bharara. Those cases had been restrained in part by the Second Circuit's Newman ruling, and while awaiting the outcome of the Salman case. Further, the week before the Supreme Court's decision, Bharara had met with then President-elect Trump. After that meeting, Bharara publicly announced that he had accepted Trump's request that he remain in the U.S. attorney position he had held since 2009, when he was appointed by President Barack Obama.[46]

That changed suddenly in March 2017, when the new Trump Administration asked for the resignations of all U.S. attorneys who had remained in office from the Obama Administration. That was not an unprecedented action by the new administration, as all U.S. attorneys are political appointees, and many of those named by Obama had already resigned. But Bharara, feeling that he had been asked to remain in office by Trump, initially resisted. That resulted in his being "fired," as Bharara described his own termination in a tweet.[47]

There is no indication that the decision to replace Bharara was in any way connected to his office's record on insider trading cases. In the short term, Bharara's departure may not make a major difference on the Southern District's approach. That is because Bharara's hand-picked deputy, Joon Kim, is serving as the acting U.S. attorney until a new nominee can be selected and confirmed by the Senate. Longer term, however, whoever is chosen for that U.S. attorney role could affect how aggressively the office pursues insider trading, just as Bharara's appointment in 2009 proved to be crucial in stepping up enforcement of those cases. Inevitably, staff and resources are limited in any U.S. attorney's office, and top administrators must decide how to prioritize the various kinds of crimes that are handled by federal prosecutors. Until a permanent successor to Bharara is confirmed, which could still be months away, it is impossible to say with certainty how vigorously prosecutors in the Southern District will interpret and apply the Salman decision.

Similarly, the SEC is also undergoing a transition from the change in presidential administration. Mary Jo White, a former U.S. attorney herself, stepped down as chair of the SEC at the end of the Obama Administration. Trump nominated Jay Clayton, a corporate lawyer who has rep-

resented Wall Street banks and many other businesses, to be the new SEC chair. The Senate confirmed his appointment in early May, but Clayton will need some time to gather his own team for the top SEC staff positions. Moreover, there are still two other vacancies on the five-member commission, and the selections for those seats could also affect the SEC's future direction.

Of course, the Trump Administration has clearly signaled its intent to be more deregulatory on many business matters. For example, any time a government agency proposes a new regulation, it must also identify two existing regulations for elimination.[48] However, that deregulatory tendency may not necessarily extend to insider trading. Blatant insider trading has very few defenders, and in recent years there has been little partisan divide about enforcement of the applicable laws. Even during the generally deregulatory presidency of George W. Bush, the SEC brought what was then a record number of insider trading cases in 2008.[49]

In addition, vigorous governmental pursuit of corporate insiders and their tippees theoretically could appeal to some populist supporters of Trump—demonstrating that those in privileged positions will not be able to use their special access to information to rig the system in their favor. In summary, one probably should not expect the new Trump Administration to prompt a broad retreat from enforcing the insider trading laws. Rather, the more likely questions for the new leaders of both the Southern District of New York and the SEC may be just how aggressive they want to be in testing the outer boundaries of the ambiguous definition of insider trading, and in how severe the penalties for insider trading should be.[50]

There has also been an addition to the Supreme Court since Salman, with the confirmation of Justice Neil Gorsuch in April 2017. While Gorsuch's vote obviously could not have affected the result of the 8-0 Salman ruling, one does not know how he might rule on more difficult insider trading issues—such as cases involving remote tippees, or on how close a friendship is necessary to infer a personal benefit to the tipper. The Tenth Circuit Court of Appeals based in Denver, where Gorsuch served as a judge for eleven years, does not see many insider trading cases. Thus there is little in his prior court opinions to shed light on his views on the intricacies of the law of insider trading.

However, a speech that Gorsuch delivered in 2013 has drawn some attention for his comments about vaguely defined crimes in general. "Without written laws, we lack fair notice of the rules we must obey," Gorsuch told the conservative Federalist Society.[51] "But with too many written laws," Gorsuch asked, "don't we invite a new kind of fair notice problem?"[52] His musings and the Federalist Society setting could be a sign that he has concerns about an excessive number of criminal statutes and regulations, as well as that he might be exacting in seeking definite contours of a crime such as insider trading. If the crime is poorly defined, the defendant may not have known that he or she was violating the law—and that could violate the defendant's due process rights. Such as a view has been espoused by other conservative judges, including Justice Antonin Scalia, whose death created the vacancy that Gorsuch has filled.

Gorsuch is certainly expected to be a conservative member of the court, likely to vote on many cases with the four other more business-friendly justices to reestablish the court's slight conservative tilt from before Scalia died. However, it is not unusual for justices to surprise observers with their rulings once they reach the Supreme Court, or even to change their views over time. As Gorsuch joined the court at the young age of [49], he could remain on the bench for three decades or longer, assuming good health. If so, that lengthy tenure could provide the opportunity for his jurisprudence to evolve over those years.

At this point, trying to determine how Gorsuch might rule on insider trading cases is little more than reasoned conjecture. It may even be a moot point for the near future, as it could be many years before Gorsuch even sees another insider trading case at the Supreme Court. As Salman was the first insider trading case heard by the justices in almost 20 years, and the first time the court had specifically addressed the personal benefit definition in 33 years, it is reasonable to assume that the court may not want to return to that particular issue any time soon. Thus the interpretations of the Circuit Courts of Appeals may be of more immediate importance, and there are vacancies on those courts to be filled by presidential nomination, as well.

CONCLUSION

With so much uncertainty about the rules of insider trading, one might be tempted to conclude that the best solution would be for Congress to enact a statute providing a precise definition. There were calls for such action after the 2014 Newman ruling from the Second Circuit. In actuality, however, a statutory definition could easily create more problems than it would solve. Once a statute specifies the precise parameters of insider trading, that very same statute could be used to provide a roadmap to loopholes that potential insider traders could then exploit. Obviously, such a result could escalate and perhaps even legalize suspicious and unfair trading that might now be illegal under the more general and inclusive prohibition against securities fraud found in Rule 10b-5.

Or, to avoid that possibility, an insider trading statute passed by Congress might instead be written in such a broad and all-encompassing way that it would end up covering too much activity, and make it even easier for federal prosecutors to charge the crime of insider trading on seemingly debatable and borderline cases. The undesirable result of that approach might be that at least some defendants would be prosecuted for actions that they did not realize were illegal.

Leaving the definition and interpretation of insider trading to government regulations and court interpretations may actually be the preferable option, despite the inherent uncertainty and occasional conflicts among courts that may arise. As the Supreme Court has acknowledged, it will not always be easy to decide what counts as a personal benefit to the insider.53 The same could be said of insider trading in general—inevitably there are gray areas, and there will be times when it will be difficult for the courts to decide whether insider trading has actually happened.

Theoretically, at least, some degree of continuing uncertainty over the boundaries of insider trading might even prompt insiders and their tippees to be more cautious—not willing to risk crossing an uncertain line, or even walking too close to that line. However, it is also possible that the uncertainty could have the opposite effect on less risk-averse investors. They might be emboldened to take even more chances on questionable trading, believing either that the conduct is not technically illegal, or at least that they are not likely to be caught or prosecuted. Clearly, if continued ambiguity in insider trading laws were proven to have that effect, that would greatly strengthen the argument for a more precise definition of the offense, either from Congress or regulatory action by the SEC.

Regardless of the potential merits of a statutory definition, the current political reality is that Congress is not likely to be able to agree on a new law defining insider trading. The result is that the Salman ruling, and how the Second Circuit and other lower courts choose to interpret and apply it, are likely to determine the rules for tipper-tippee liability in insider trading cases for the foreseeable future. Assuming that most appellate courts seek to follow what appears to be the overall intent of the Supreme Court decision, rather than looking for ways to limit or evade Salman, then the family saga involving the Kara brothers and Bassam Salman may become an important and lasting pillar of insider trading law.

ENDNOTES

1 Salman v. U.S., 137 S. Ct. 420 (2016).

2 Roger Parloff, *The Gray Art of Not Quite Insider Trading*, Fortune, Sept. 2, 2013, at 61.

3 Andrew Ross Sorkin, *So What Is Insider Trading?,* N.Y. Times, Oct. 25, 2010, *available at* https://dealbook.nytimes.com/2010/10/25/sorkin-so-what-is-insider-trading/

4 15 U.S.C. §78j(b).

5 17 CFR §240.10b-5 (2017). The full text of Rule 10b-5 states: "It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange:

(a) To employ any device, scheme, or artifice to defraud,

(b) To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or

(c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person,

in connection with the purchase or sale of any security."

6 Chad Bray, *Longest Sentence In Insider Case Set*, Wall St. J., June 5, 2012, at C3.

7 Dirks v. SEC, 463 U.S. 646 (1983).

8 *Id.* at 648-50.

9 Dirks v. SEC, 681 F.2d 824 (2d Cir. 1982).

10 *Dirks,* 463 U.S. at 662.

11 *Id.* at 663.

12 *Id.* at 664.

13 *Id.*

14 U.S. v. Newman, 773 F.3d 438 (2d. Cir. 2014), *cert. denied*, 136 S. Ct. 242 (2015).

15 *See, e.g.,* Andrew Tangel, *New sheriff of Wall St. is racking up insider trading convictions*, L.A. Times, Mar. 29, 2013, *available at* http://articles.latimes.com/2013/mar/29/business/la-fi-sac-arrest-20130330

16 *Newman*, 773 F.3d at 448.

17 *Id.* at 442.

18 *Id.*

19 *Id.* at 452.

20 *Id.*

21 *Id.*

22 Statement Of Manhattan U.S. Attorney Preet Bharara On The U.S. Court Of Appeals Second Circuit Decision In U.S. V. Todd Newman And Anthony Chiasson (Dec. 10, 2014), *available at* https://www.justice.gov/usao-sdny/pr/statement-manhattan-us-attorney-preet-bharara-us-court-appeals-second-circuit-decision

23 U.S. v. Newman, 2015 U.S. LEXIS 5788 (2d Cir. 2015).

24 U.S. v. Newman, 136 S. Ct. 242 (2015).

25 Christopher M. Matthews and Aruna Viswanatha, *Prosecutor Pulls Plug on Insider Charges*, Wall St. J., Oct. 23, 2015, at A1.

26 *Salman*, 137 S. Ct. at 424-25.

27 *Id.*

28 Dep't of Justice, Illinois Resident Sentenced to Three Years In Prison For Insider Trading (Apr. 10, 2014), *available at* https://www.justice.gov/usao-ndca/pr/illinois-resident-sentenced-three-years-prison-insider-trading

29 U.S. v. Salman, 792 F.3d 1087 (9th Cir. 2015), at 1094.

30 *Id.* at 1092.

31 *Id.* at 1093.

32 Salman v. U.S., 136 S. Ct. 899 (2016).

33 Salman v. U.S., 137 S. Ct. 420 (2016).

34 *Id.* at 427.

35 *Id.*

36 *Id.* at 428.

37 *Id.*

38 Statement Of U.S. Attorney Preet Bharara On The Supreme Court's Decision In Salman v. U.S. (Dec. 6, 2016), *available at* https://www.justice.gov/usao-sdny/pr/statement-us-attorney-preet-bharara-supreme-court-s-decision-salman-v-us

39 Carmen Germaine, *2nd Circ. Asks How Salman Applies to SAC Trader's Case*, Law360, Dec. 12, 2016, *available at* https://www.law360.com/articles/871460/2nd-circ-asks-how-salman-applies-to-sac-trader-s-case

40 Dep't of Justice, SAC Capital Portfolio Manager Mathew Martoma Found Guilty in Manhattan Federal Court Of Insider Trading Charges, Feb. 6, 2014, *available at* https://www.justice.gov/usao-sdny/pr/sac-capital-portfolio-manager-mathew-martoma-found-guilty-manhattan-federal-court

41 Germaine, *supra* note 39.

42 Kat Sieniuc, *SAC Trader, Gov't Disagree Over Salman in 2nd Circ. Case*, Law360, Jan. 9, 2017, *available at* https://www.law360.com/articles/878740/sac-trader-gov-t-disagree-over-salman-in-2nd-circ-case

43 Rajaratnam v. U.S., 2017 U.S. Dist. LEXIS 30726 (S.D.N.Y. 2017).

44 *Id.*

45 *Salman,* 137 S. Ct. at 425, note 1.

46 Benjamin Weiser and Nick Corasaniti, *Bharara Says He Will Stay U.S. Attorney Under Trump*, N.Y. Times, Dec. 1, 2016, at A25.

47 Kurtis Lee and Barbara Demick, *U.S. attorney says he's been dismissed*, L.A. Times, Mar. 12, 2017, at A15.

48 Presidential Executive Order on Reducing Regulation and Controlling Regulatory Costs (Jan. 30, 2017), *available at* https://www.whitehouse.gov/the-press-office/2017/01/30/presidential-executive-order-reducing-regulation-and-controlling

49 SEC Announces Fiscal 2008 Enforcement Results (Oct. 22, 2008), *available at* https://www.sec.gov/news/press/2008/2008-254.htm

50 *See, e.g.,* Peter J. Henning, *What the Future of S.E.C. Enforcement Holds Under Jay Clayton*, N.Y. Times, Mar. 27, 2017, *available at* https://www.nytimes.com/2017/03/27/business/dealbook/sec-chairman-jay-clayton.html

51 Sue Reisinger, *Neil Gorsuch Once Decried the Ever-Increasing Number of Criminal Laws*, Nat'l Law J., Feb. 17, 2017, *available at* http://www.nationallawjournal.com/id=1202779413633/Neil-Gorsuch-Once-Decried-the-EverIncreasing-Number-of-Criminal-Laws

52 *Id.*

53 *Dirks,* 463 U.S. at 664.

Balancing Investors' Information Needs with Accounting Conservatism: The Role of Voluntary Disclosure of Non-GAAP Earnings

Hsin-yi (Shirley) Hsieh
Assistant Professor of Accounting
College of Business
Tennessee State UniversityNashville, Tennessee
and
Assistant Professor of Accounting
College of Business
Florida Atlantic University
Boca Raton, Florida

ABSTRACT

In this paper, I investigate whether accounting conservatism, or asymmetric timeliness of earnings, contributes to the disclosure of non-GAAP earnings. Earnings that incorporate losses more timely inevitably produce transitory losses, which complicate equity valuation. Companies facing high contracting costs may balance contracting efficiency and equity valuation considerations by supplementing conservative earnings with additional disclosure. Using a hand collected sample, I hypothesize and test whether the disclosure of non-GAAP earnings is particularly prevalent in the presence of accounting conservatism and enhanced valuation concerns. Results in my study show a greater propensity of sample firms to report non-GAAP earnings around stock offerings, but CEO stock compensation or ownership does not appear to motivate the use of non-GAAP earnings. Findings of my study lend little support for the conjecture that non-GAAP earnings are used to inform investors of transitory earnings components from timely loss recognition.

INTRODUCTION

As a part of the regulatory reform set forth in the Sarbanes-Oxley Act, the Security Exchange Commission (SEC) adopted Regulation G in March 2003 to tighten the rules on the reporting of non-GAAP earnings. Regulation G mandates that when a public company provides material information that contains a non-GAAP financial measure, the company must concurrently provide the most comparable GAAP measure, as well as a reconciliation of the difference between non-GAAP earnings and the most comparable GAAP measure. Furthermore, SEC has also recently affirmed that non-GAAP measures that exclude charges but not gains are regarded as misleading.

Despite more stringent reporting requirements, the use of non-GAAP earnings did not disappear after Regulation G. The literature on non-GAAP earnings disclosure shows that markets find non-GAAP earnings useful, but evidence consistent with opportunistic use of non-GAAP earnings also exists (Bradshaw and Sloan 2002; Bhattacharya et al. 2003; Brown and Sivakumar 2003; Bowen et al. 2005; Bhattacharya et al. 2004; Black and Christensen 2009).

A growing number of studies on accounting conservatism report evidence consistent with the proposition that conditional conservatism (i.e. timely recognition of losses but not gains) originates from the demand of companies to improve the efficiency of various contracts and to reduce taxes, regulatory costs, and litigation risks. Because reported GAAP earnings are used for various contracts, companies facing high contracting costs may report conservatively to increase the efficiency of their contracts. However, conditional conservatism can create a dilemma for companies that want both efficient contracts and accurate equity valuation. This form of conservatism records a loss today for anticipated future bad news. If such losses are recorded in an impartial manner, the current period loss should reflect all available bad news and therefore will not persist into the future. Thus the dilemma — how can the company be sure that investors appreciate the lower persistence when the company records a conservative loss?

In this paper, I examine the reporting of non-GAAP earnings, or pro forma earnings, to see whether the concurrent existence of accounting conservatism and a strong focus on equity valuation spurs the use of pro forma earnings. Because earnings contain transitory items at times, managers with a strong focus on equity valuation may wish to report non-GAAP earnings to inform investors of the existence of transitory items. Furthermore, conditional conservatism, which implies recording losses, but not gains, on a timely basis, by definition results in transitory losses. Therefore I expect to find even greater use of non-GAAP earnings among companies that report conservatively but also have a strong focus on valuation.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

The reporting of non-GAAP earnings, often known as pro forma earnings, has been controversial. Proponents of pro forma earnings believe that non-GAAP numbers help financial statement users better understand the level of core earnings of the company, whereas critics fear that companies use pro forma earnings as a means of disguising poor performance to mislead investors.

In the accounting literature, evidence exists for both informative as well as opportunistic use of non-GAAP earnings. Although pro forma earnings are found to be more value relevant and more likely to induce analyst forecast revisions (Bradshaw and Sloan 2002; Bhattacharya et al. 2003; Brown and Sivakumar 2003), existing literature does not support the explanation that investors naively take non-GAAP earnings reported by managers at their face value without adjustment on a collective basis (Lougee and Marquardt 2004; Johnson and Schwartz 2005; Frederickson and Miller 2004; Elliott 2006). On the other hand, non-GAAP earnings appear to be used in a biased manner at times to portray a more favorable picture of the performance of the company (e.g. Bowen et al. 2005; Bhattacharya et al. 2004; Black and Christensen 2009; Doyle et al. 2013). A number of papers also document notable changes in the use of non-GAAP earnings soon after Reg G became effective (Entwistle et al. 2006; Marques 2006; Yi 2012; Heflin and Hsu 2008; Kolev et al. 2008). Taken together, these findings suggest that at least some pro forma earnings are likely motivated by managerial opportunism.

Lougee and Marquardt (2004) find that firms with less informative GAAP earnings (or smaller earnings response coefficients, hereafter ERCs) are more likely to report non-GAAP earnings. One contributing factor to smaller ERCs is the existence of transitory earnings components. Prior literature shows that earnings of differential persistence would receive different multiples (Lipe 1986; Kormendi and Lipe 1987). The computation of GAAP earnings will at times include transitory items, even for companies with generally highly informative GAAP earnings. In fiscal periods when transitory items are recorded, managers may wish to inform investors about the existence of these transitory items. The intent to inform investors about transitory items may explain why some companies report pro forma earnings lower than reported GAAP earnings, because failure to understand the transitory nature of a one-time gain can unduly raise market expectations for future performance, resulting in shareholder litigation (Healy and Palepu 1993).

The desire to help investors correctly assess the persistence of various earnings components should be stronger when managers are particularly concerned about the valuation of the company's stock, such as prior to equity financing transactions or when their personal wealth varies with stock price (Healy and Palepu 1993, 1995, 2001). In other words, the enhanced focus on equity valuation can exacerbate the incentives to make additional disclosure in periods when transitory items occur.

My first hypothesis therefore predicts that managers who have a stronger focus on equity valuation and thus wish to inform investors about differential persistence of earnings components will likely disclose alternative non-GAAP measures.

> *H1: The propensity to disclose non-GAAP earnings increases in the strength of managers' focus on equity valuation.*

A large body of literature of accounting conservatism has developed since the seminal paper by Basu (1997), who defines conservatism as "...capturing accountants' tendency to require a higher degree of verification for recognizing good news than bad news in financial statements" (page 5). Various studies have reported findings consistent with the contention of Watts (2003) that asymmetric timeliness of loss versus gain recognition, which is subsequently characterized as "conditional conservatism", improves the efficiency of various contracts, such as managerial compensation and debt contracts (Ahmed et al. 2002; Ball and Shivakumar 2005; Leone et al, 2006; Qiang 2007; LaFond and Roychowdhury 2008; Wittenberg-Moerman 2008; Zhang 2008; Ball et al. 2008; Beatty et al. 2008). By imposing stricter verification requirement on gains than on losses and report losses more timely, managers would have less incentives to invest in negative-NPV projects whereas creditors gain more security as the results of the reduced earnings available for distribution (Ball and Shivakumar 2005; Ahmed et al. 2002).

The role of accounting conservatism in equity valuation is unclear. FASB regards biases, regardless of directions, as inconsistent with neutrality, an aspect of faithful representation (Statement of Financial Accounting Concepts No. 8, BC 3.27, page 28). On the other hand, proponents of conservatism believe that conservatism increases the wealth of shareholders by addressing the underlying uncertainty surrounding various contracts (Watts 2003; LaFond and Watts 2008; Guay and Verrecchia 2007). Empirical evidence, however, is mixed on the relation between conditional conservatism and the cost of equity capital.

Information produced by timely recognition of unrealized bad news is highly relevant for assessing future cash flows, but timely loss recognition produces transitory negative amounts in reported earnings. Investors will probably want to separate recurring and non-recurring portions of earnings. However, a conservative reporting choice is likely to require the investors to exert more effort to analyze earnings. If investors are unable to accurately identify the transitory components of earnings that are products of timely loss recognition, they will not successfully assign appropriate multiples that reflect the transitory nature of these items. In other words, conditional conservatism may impose greater information processing costs on equity investors, despite the fact that conservatism is implemented to reduce contracting costs and consequently maximize firm value.

If companies face conditions that demand highly efficient contracts, they may respond to the situation by reporting conservatively to reduce contracting costs. If the same companies also wish to ensure that investors recognize transitory items arising from this timely loss recognition, managers can balance the two conflicting incentives in two ways. First, managers may adjust the level of conservatism by choosing not to follow the conservative policy in periods when they foresee an increased demand for proper valuation of the company's stock. However, accounting conservatism is likely a "sticky" policy. If managers are allowed discretion to deviate from the conservative reporting policy in selected periods, such a reporting policy is unlikely to effectively address underlying issues (e.g. information asymmetry) that create a demand for conditional conservatism.

A second way for managers to balance contracting efficiency and valuation considerations is through increased disclosure. As discussed earlier, conditional conservatism produces transitory losses. In other words, conservatism can create one of the conditions that reduce the informativeness of GAAP earnings, and highly price-conscious managers may respond to the issue by informing the markets about the differential persistence of earnings via the disclosure of non-GAAP earnings. This leads to my second hypothesis:

H2: Conditional conservatism enhances the increasing effect of valuation focus on the propensity to disclose non-GAAP earnings.

The question remains as to whether conditional conservatism alone plays any role in the decision to report non-GAAP earnings. Conditional conservatism may directly motivate the use of pro forma earnings for firms with only a modest concern about valuation if non-shareholder contracting parties who demand conservatism also frequently refer to these non-GAAP metrics. However, little is known about whether non-GAAP performance measures are useful for other stakeholders. In the absence of a comprehensive understanding of how conservatism alone may affect the disclosure of non-GAAP earnings, I leave the effect of conservatism on the disclosure of non-GAAP earnings as a research question to be investigated.

RQ1: Does conditional conservatism affect the propensity to disclose non-GAAP earnings?

RESEARCH DESIGN

All the hypotheses and research question can be addressed in a single model. The main model is specified as follows in equation (1):

$$\begin{aligned}\Pr ob(UPPRF_{it} = 1) = \\ & \alpha + \\ & \beta_1 OFFER_{it} + \\ & \beta_2 COMP_{it} + \\ & \beta_3 C\_SCORE_{it} + \\ & \beta_4 C\_SCORE_{it} * OFFER_{it} + \\ & \beta_5 C\_SCORE_{it} * COMP_{it} + \\ & \beta_6 LOGTA_{it} + \\ & \beta_7 IND_{it} + \\ & \varepsilon_{it}\end{aligned}$$

H1 predicts that the existence of a strong focus on equity valuation will increase the use of non-GAAP earnings. I measure the strength of manager's focus on equity valuation in two ways. My first proxy, *OFFERit*, reflects a company's propensity to access equity markets. *OFFERit* is coded as one for companies that sell equity during an eight-quarter window surrounding the end of the fiscal year for which the disclosure of pro forma earnings is measured. The eight quarters encompass the eighteen months preceding the said fiscal year end as

well as the succeeding six months. A company is identified as selling equity in a given quarter if the amount of cash from sales of common and preferred stock during the quarter equals one percent or more of beginning-of-quarter market value of the company's common equity.

Voluntary disclosure can also be motivated by management's concern about the effect of stock price on their job security and personal wealth (Healy and Palepu 2001). I use three measures to capture the equity valuation demand that is driven by personal wealth considerations related to equity compensation: the percentage of CEO compensation that is stock-based (*COMP_STKBASEit*), the intrinsic value of unexercised stock options owned by the company's CEO (*COMP_UNEXOPTit*), and the level of CEO equity ownership (*COMP_OWNit*). I adopt the firm-year measure of conservatism developed by Khan and Watts (2009) as the main conservatism measure.

The dependent variable in equation (1) captures the existence of the disclosure of non-GAAP earnings in quarterly earnings announcements over a fiscal year. *UPPRFit* is coded as one if a company reports non-GAAP earnings, in a press release of quarterly results for one or more fiscal quarters of the year, and zero otherwise. The reported non-GAAP earnings must exceed the comparable reported GAAP measure and are not a variation EBIT/EBITDA. Although non-GAAP earnings are typically reported on a quarterly basis, in this study the dependent variable is measured on an annual basis because data for executive compensation/equity ownership are only available on an annual basis. *LOGTAit*, the natural logarithm of total assets, is included in the model as a control variable because large companies tend to disclose more. Both Bhattacharya et al. (2004) and Lougee and Marquardt (2004) report greater use of pro forma earnings in high tech and service sectors, so I add an industry indicator variable, *INDit*, to equation (1) to control for the effect of peer pressure on the disclosure decision. Botosan and Harris (2000) argue that voluntary disclosure is affected by the pressure to conform to industry practice. This implies that the propensity to use pro forma earnings is likely higher among high tech and service companies due to the greater pressure to conform to the disclosure practice of competitors in these sectors.

H1 predicts that companies are more likely to report pro forma earnings in the presence of a strong focus on equity valuation. Hence, $\beta 1$ and $\beta 2$ are expected to be positive. H2 suggests that conditional conservatism will further enhance the need to communicate with investors regarding the effect of transitory earnings components. This translates into significantly positive coefficients on the interaction terms, $\beta 4$ and $\beta 5$. The estimate for $\beta 3$ can answer RQ1 concerning whether conservatism alone influences the decision to disclose non-GAAP earnings.

EMPIRICAL RESULTS

Sample Selection and Descriptive Statistics

Due to the lack of machine-readable non-GAAP earnings data, the hurdle of manual data collection inevitably limits the size of the sample used in the study. Considering the potentially greater heterogeneity surrounding the use of non-GAAP earnings before Regulation G became effective, I restrict the sample to include the only the post-Regulation G period. To construct the sample, I first calculate the conservatism measure, *C_SCORE*, and the *OFFER* variable for each firm year of US companies covered in the Compustat database during fiscal 2004-2007. There are 14,477 firm-year observations with non-missing values of *C_SCORE* and *OFFER*. Availability of data required to calculate additional test variables further reduces the number of firm years to 5,641. Finally, these 5,641 observations are sorted into deciles based on *C_SCORE*, and I retain only 1,111firms from the top and bottom deciles as the sample. To determine if a company discloses non-GAAP earnings, I search filings of 8-Ks for announcements of quarterly results using the SEC EDGAR database and, when 8-Ks are not filed, press release archives in the Lexis-Nexis database or on the company's website. The final sample consists of 1,014 firm years (from 610 public US companies) of fiscal 2004—2007 with press release data that can be retrieved.

Untabulated descriptive statistics show that companies reported non-GAAP earnings that exceed reported GAAP results the in about 29% of the sample firm years. The mean of *C_SCORE* is 0.13, which is slightly above the 0.105 reported by Khan and Watts (2009). This is not surprising since the sample in this study is comprised of more recent years and prior literature reports increasing conservatism over time (Givoly and Hayn 2000). In the sample, 29% of company years have engaged in equity financing activities recently (mean of *OFFER*=.29). On average, 29% of CEO compensation is in the form of restricted stock or proceeds from exercises of stock options (mean *COMP_STKBASE* = .29). The intrinsic value of CEO's unexercised options is 3.2 times as large as his/her annual total compensation, and on average CEOs in the sample own 8% of their employers' outstanding shares.

Main Analyses

Results of tests of H1, H2, and RQ1 are reported in Table 1. H1 predicts that companies with a stronger focus on equity valuation are more likely to report non-GAAP earnings, implying a positive coefficient on *OFFER* and the three compensation variables, *COMP_STKBASE*, *COMP_UNEXOPT*, and *COMP_OWN*. Consistent with the prediction of H1, the coefficient on *OFFER* is significantly positive at 5% level in all specifications. In contrast, the coefficient is negative and insignificant for *all* compensation measures. These results indicate that firms with a higher propensity to access equity markets are more likely to report non-GAAP earnings containing upward adjustments, around the time of security offerings. In contrast, CEOs' equity ownership or compensation does not seem to motivate the reporting of non-GAAP earnings, as none of the coefficients on the compensation variables is significant.

H2 predicts that conservatism further enhances the effect of valuation concerns on the disclosure of non-GAAP earnings. Positive coefficients on the interaction terms in equation (1) between *C_SCORE* and *OFFER*, as well as between *C_SCORE* and each compensation variable, are thus expected. Contrary to the prediction, Table 1 shows a negative coefficient on *C_SCORE*OFFER* in all models, and the negative coefficient becomes marginally significant in the specification in which compensation is measured by the value of unexercised stock options owned by the CEO (*COMP_UNEXOPT*). On the other hand, the positive (negative) coefficients on *COMP_STKBASE* and *COMP_UNEXOPT* (*COMP_OWN*) are not meaningful due to the lack of significance. This suggests that, given a high propensity to access the equity market, companies with more conservative financial reporting are not more likely to report non-GAAP earnings, even though their conservative reporting tends to produce transitory losses. The coefficient on *C_SCORE* is never statistically significant. Hence, this finding addresses RQ1 by suggesting that conservatism does not have any stand-alone effect on the disclosure of non-GAAP earnings regardless of the level of focus on equity valuation.

Table 2 presents the results based on an additional, ordinal dependent variable that measures the number of quarters in which a company reports non-EBIT/EBITDA non-GAAP earnings that exceed the comparable GAAP measure (*NUPPRF*). Unlike in the case of the dichotomous variable, I do not expect that firms with higher concerns about equity valuation would necessarily report non-GAAP earnings in more quarters of a year. Two companies that both recognize news equally timely may differ in the manner in which news arrives due to the nature of their business. Even if both companies always report non-GAAP earnings to highlight the items resulting from timely loss recognition during the quarter in which such losses are reported, the one for which news arrives more steadily and frequently in smaller amounts may need to disclose non-GAAP earnings in more quarters than the other. As a result, I do not predict the sign on the proxies for the strength of equity valuation focus. Again, none of the coefficients on the compensation measures or their interactions with *C_SCORE* is significant. The coefficient on *OFFER* is again significantly positive in all models, suggesting greater propensity to report non-GAAP earnings around stock offerings.

In untabulated analyses, I control for the effects of investor sophistication (operationalized as analyst following) and poor performance (indicated by the existence of decrease in quarterly earnings relative to the same quarter in the previous year). I also examine alternative measures of conservatism, including (a) the Conservatism Ratio measure developed by Callen et al. (2010), (b) the negative cumulative nonoperating accruals (Givoly and Hayn 2000), and (c) an indicator variable for the existence of negative discretionary accruals in the presence of negative 12-month stock return (bad news) for current fiscal year and the absence of negative 12-month return for the preceding year. Results are qualitatively similar to those reported in Table 1 with the inclusion of additional control variables or the use of alternative measures of conservatism.

Taken together, the results of the regression analyses lend partial support for an increasing effect of valuation concerns related to stock offerings on the propensity to report non-GAAP earnings, but do not present sufficient evidence for a main or modifying effect of conservatism on the disclosure of non-GAAP earnings. If a significant portion of companies report non-GAAP earnings to better inform investors of transitory components of earnings, one would expect a greater use of non-GAAP earnings among firms that produce more transitory items—that is, those reporting conservatively by recognizing losses timely. However, increased use of non-GAAP earnings cannot be observed even among companies with conservative reporting and with managers who are faced with incentives that particularly enhance their concerns about valuation of the company's stock, casting doubt on the claim that non-GAAP earnings are used to inform investors of transitory items.

CONCLUSIONS

The use of non-GAAP earnings has been controversial. Whether such alternative earnings metrics are motivated by managerial opportunism or a genuine desire to enhance earnings informativeness remains unclear. In this paper, I

Table 1
Effects of C_SCORE and Valuation Focus Proxies on the Existence of Non-GAAP Earnings Disclosure

	Dependent Variable		
	Prob(UPPRF=1)		
	Compensation Measure (*COMP_*)		
Variable	***STKBASE***	***UNEXOPT***	***OWN***
Intercept	-3.509 ***	-3.512 ***	-3.398 ***
	(<.0001)	(<.0001)	(<.0001)
C_SCORE	-0.872	-0.780	-0.117
	(0.439)	(0.359)	(0.895)
OFFER	0.539 **	0.560 **	0.514 **
	(0.033)	(0.027)	(0.042)
COMP	-0.079	-0.015	-0.539
	(0.796)	(0.161)	(0.670)
C_SCORE*OFFER	-2.067	-2.207 *	-1.921
	(0.125)	(0.096)	(0.162)
C_SCORE*COMP	1.220	0.110	-4.912
	(0.570)	(0.104)	(0.508)
LOGTA	0.366 ***	0.369 ***	0.351 ***
	(<.0001)	(<.0001)	(<.0001)
IND	0.586 ***	0.588 ***	0.557 ***
	(0.002)	(0.002)	(0.003)
Pseudo R^2	0.131	0.132	0.134

Note: NUPPRF is an ordinal variable indicating the number of quarters in a firm year in which a company discloses non-GAAP earnings, which are not a variation of EBIT or EBITDA, above the comparable reported GAAP measure. All other variables are defined as in Table 1.

Ordered logistic regressions are estimated. For brevity the four intercepts are omitted from tabulations. Reported p-values (in parentheses) based on Wald $\chi 2$ statistics are adjusted for correlation due to firms appearing in the sample in more than one year by clustering standard errors at the firm level. The number of observations is 1,014 and the number of clusters is 610 in all specifications.

***, **,* indicate significance at 1%, 5%, and 10%, respectively.

Table 2
Effects of C_SCORE and Valuation Focus Proxies on the Frequency of Non-GAAP Earnings Disclosure

	Dependent Variable		
	Prob(NUPPRF)		
	Compensation Measure (*COMP_*)		
Variable	***STKBASE***	***UNEXOPT***	***OWN***
Intercept 1-4	N/R	N/R	N/R
C_SCORE	-1.259	-1.289	-0.380
	(0.264)	(0.121)	(0.654)
OFFER	0.501 **	0.509 **	0.484 **
	(0.040)	(0.038)	(0.049)
COMP	-0.057	-0.016	0.449
	(0.853)	(0.157)	(0.747)
C_SCORE*OFFER	-1.802	-1.835	-1.675
	(0.189)	(0.170)	(0.233)
C_SCORE*COMP	1.180	0.142 *	-8.599
	(0.577)	(0.077)	(0.278)
LOGTA	0.356 ***	0.357 ***	0.349 ***
	(<.0001)	(<.0001)	(<.0001)
IND	0.716 ***	0.716 ***	0.681 ***
	(0.000)	(0.000)	(0.000)
Pseudo R^2	0.145	0.147	0.148

Note: UPPRF is an indicator variable coded as one if a company discloses non-GAAP earnings, which are not a variation of EBIT or EBITDA, above the comparable reported GAAP measure, and zero otherwise.
C_SCORE is a firm-year measure of conditional conservatism, or differential timeliness of earnings, devised by Khan and Watts (2009). *OFFER* equals one if a company receives proceeds from sale of stock (change in Compustat SSTKY since previous quarter) that is greater than one percent of beginning market value in a eight-quarter window surrounding the end of a fiscal year and zero otherwise. The eight quarters include the six quarters before and the two quarters after the fiscal year end. *COMP_STKBASE* is the percentage of CEO's stock-based compensation, with the stock-based compensation calculated as the sum of the value of restricted stock granted and value realized from stock option exercises. Total compensation is the sum of salary, bonus, long-term incentive (or non-equity incentive) payout, change in pension value, all other compensation, and stock-based compensation. *COMP_UNEXOPT* is the sum of intrinsic value of CEO's unexercised exercisable and unexercisable stock options, scaled by the value of total compensation. *COMP_OWN* is CEO's stock ownership (percent). All compensation data are collected from annual proxy statements. *LOGTA* is the natural logarithm of the value of total assets (Compustat AT). *IND* is an indicator variable coded as one for high-tech or service companies. Following Francis and Schipper (1999), companies with the following three-digit SIC code are classified as high-tech companies: 283, 357, 360-368, 481, 737, and 873. Service industries consist of four-digit SIC code 7000-8999. All continuous variables, except *C_SCORE*, are winsorized at 1 and 99 percent.

Binomial logistic regressions are estimated. Reported p-values (in parentheses) based on Wald χ^2 statistics are adjusted for correlation due to firms appearing in the sample in more than one year by clustering standard errors at the firm level. The number of observations is 1,014 and the number of clusters is 610 in all specifications.

***, **,* indicate significance at 1%, 5%, and 10%, respectively.

approach the question concerning the motive underlying the disclosure of non-GAAP earnings from yet another angle. Specifically, I first examine whether the use of non-GAAP earnings is more prevalent when the costs of investor misinterpretation of earnings components are high, such as in the cases of equity offerings or when managers' wealth is more sensitive to changes in stock price. Then I test whether, in the presence of strong concerns about equity valuation, the disclosure of non-GAAP earnings is more likely to be observed among companies that report conservatively, as timely loss recognition results in transitory losses. Finally, I investigate whether conditional conservatism alone, in the absence of strong valuation concerns, plays any role in the disclosure of non-GAAP earnings.

The main findings of my paper are as follows. First, the disclosure of non-GAAP earnings is more prevalent around the time of equity offerings. On the other hand, results in the paper do not provide sufficient support for a significant association between the disclosure of non-GAAP earnings and proxies for the sensitivity of CEO's wealth to changes in stock price. Finally, conservatism itself has no main effect on the disclosure of non-GAAP earnings.

The main contribution of this paper is to extend the literature on the disclosure of non-GAAP earnings, by providing evidence that casts doubt on the conjecture that non-GAAP earnings are used to inform investors of transitory items. This paper also adds to the growing body of literature on accounting conservatism by exploring the relation between conservatism and another form of voluntary disclosure.

This paper is subject to limitations. For example, because the study samples only the companies that are the most and the least conservative companies in the Compustat universe, I am unable to rule out the possibility that a main effect of conservatism may be observed in the groups with only moderate levels of conservatism (i.e. a non-linear main effect). Also, the compensation variables in my study do not include the fair value of outstanding stock options and the fair value on the grant date. Future studies can re-examine whether the compensation structure is associated with the decision to report non-GAAP earnings.

REFERENCES

Ahmed, A. S., B. K. Billings, R. M. Morton, M. Harris-Stanford. 2002. The role of accounting conservatism in mitigating bondholder-shareholder conflicts over dividend policy and in reducing debt costs. *The Accounting Review* 77(4): 867—890.

Ball, R., A. Robin, and G. Sadka. 2008. Is financial reporting shaped by equity markets or by debt markets? An international study of timeliness and conservatism. *Review of Accounting Studies* 13: 168—205.

---------, and L. Shivakumar. 2005. Earnings quality in UK private firms: comparative loss recognition timeliness. *Journal of Accounting & Economics* 39: 83—128.

Basu, S. 1997. The conservatism principle and the asymmetric timeliness of earnings. *Journal of Accounting & Economics* 24: 3—37.

Beatty, A., J. Weber, and J. J. Yu. 2008. Conservatism and debt. *Journal of Accounting & Economics* 45: 154—174.

Beaver, W. H., and S. G. Ryan. 2005. Conditional and unconditional conservatism: Concept and modeling. *Review of Accounting Studies* 10: 269—309.

Bhattacharya, N., E. L. Black, T. E. Christensen, and C. R. Larson. 2003. Assessing the relative informativeness and permanence of pro forma earnings and GAAP operating earnings. *Journal of Accounting & Economics* 36: 285—319.

----------, and R. D. Mergenthaler. 2004. Empirical evidence on recent trends in pro forma reporting. *Accounting Horizons* 18(1): 27—43.

Black, D. E., and T. E. Christensen. 2009. US managers' use of 'pro forma' adjustments to meet strategic earnings targets. *Journal of Business Finance & Accounting* 36(3) & (4): 297—326.

Botosan, C., and M. S. Harris. 2000. Motivations for a change in disclosure frequency and its consequences: An examination of voluntary quarterly segment disclosures. *Journal of Accounting Research* 38(2): 329—353.

Bowen, R. M., A. K. Davis, and D. A. Matsumoto. 2005. Emphasis on pro forma versus GAAP earnings in quarterly press releases: Determinants, SEC intervention, and market reactions. *The Accounting Review* 80(4): 1011—1038.

Bradshaw, M. T., and R. G. Sloan. 2002. GAAP versus the Street: An empirical assessment of two alternative definitions of earnings. *Journal of Accounting Research* 40(1): 41—66.

Brown, L. D., and K. Sivakumar. 2003. Comparing the value relevance of two operating income measures. *Review of Accounting Studies* 8: 561—572.

Callen, J. L., O. Hope, and D. Segal. 2010. The Pricing of Conservative Accounting and the Measurement of Conservatism at the Firm-Year Level. *Review of Accounting Studies* 15: 145–178.

Doyle, J. T., J. N. Jennings, and M. T. Soliman. 2013. Do managers define non-GAAP earnings to meet or beat analyst forecasts? *Journal of Accounting & Economics* 56: 40—56.

Elliott, W. B. 2006. Are investors influenced by pro forma emphasis and reconciliations in earnings announcements? *The Accounting Review* 81(1): 81—133.

Entwistle, G. M., G. D. Feltham, and C. Mbagwu. 2006. Financial reporting regulation and the reporting of pro forma earnings. *Accounting Horizons* 20(1): 39—55.

Financial Standards Accounting Board. 2010. Statement of Financial Accounting Concepts No. 8: Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information.

Francis, J., and K. Schipper. 1999. Have financial statements lost their relevance? *Journal of Accounting Research* 37(2): 319—352.

Frederickson, J. R., and J. Miller. 2004. Disclosures on analysts' and nonprofessional investors' equity valuation judgments. *The Accounting Review* 79(3): 667—686.

Givoly, D., and C. Hayn. 2000. The changing time-series properties of earnings, cash flows and accruals: Has financial reporting become more conservative? *Journal of Accounting & Economics* 29: 287—320.

Guay, W., and R. Verrecchia. 2007. Conservative disclosure. Working Paper. University of Pennsylvania.

Healy, P. M., and K. G. Palepu. 1993. The effect of firms' financial disclosure strategies on stock prices. *Accounting Horizons* 7(1): 1—11.

----------. 1995. The challenges of investor communication: The case of CUC International, Inc. *Journal of Financial Economics* 38(2): 111—140.

Healy, P. M., Hutton, A. P., and K. G. Palepu. 2001. Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting & Economics* 31: 405—440.

Heflin, F., and C. Hsu. 2008. The impact of the SEC's regulation of non-GAAP disclosures. *Journal of Accounting & Economics* 46: 349—365.

Johnson, W. B., and W. C. Schwartz. 2005. Are investors misled by "pro forma earnings"? *Contemporary Accounting Research* 22(4): 915—963.

Khan, M. and R. L. Watts. 2009. Estimation and empirical properties of a firm-year measure of conservatism. *Journal of Accounting & Economics* 48: 132—150.

Kolev, K., C. A. Marquardt, and S. E. McVay. 2008. SEC scrutiny and the evolution of non-GAAP reporting. *The Accounting Review* 83(1): 157—184.

Kormendi, R., and R. Lipe. 1987. Earnings innovations, earnings persistence, and stock returns. *The Journal of Business* 60(3): 323—345.

LaFond, R., and S. Roychowdhury. 2008. Managerial ownership and accounting conservatism. *Journal of Accounting Research* 46(1): 101—135.

LaFond, R., and R. L. Watts. 2008. The information role of conservatism. *The Accounting Review* 83(2): 447—478.

Leone, A. J., J. S. Wu, and J. L. Zimmerman. 2006. Asymmetric sensitivity of CEO compensation to stock returns. *Journal of Accounting & Economics* 42: 167—192.

Lipe, R. C. 1986. The information contained in the components of earnings. *Journal of Accounting Research* 24 (Supplement): 37—64.

Lougee, B. A. and C. A. Marquardt. 2004. Earnings informativeness and strategic disclosure: An empirical examination of "pro forma" earnings. *The Accounting Review* 79(3): 769—795.

Nagar, V., D. Nanda, and P. Wysocki. 2003. Discretionary disclosure and stock-based incentives. *Journal of Accounting & Economics* 34: 283—309.

Marques, A. 2006. SEC interventions and the frequency and usefulness of non-GAAP financial measures. *Review of Accounting Studies* 11: 549—574.

Penman, S. H., and X. Zhang. 2002. Accounting conservatism, the quality of earnings, and stock returns. 2002. *The Accounting Review* 77(2): 237—264.

Qiang, X. 2007. The effects of contracting, litigation, regulation, and tax costs on conditional and unconditional conservatism: Cross-sectional evidence at the firm level. *The Accounting Review* 82(3): 759—796.

Richardson, S., S. H. Teoh, and P. D. Wysocki. 2004. The walkdown to beatable analyst forecasts: the role of equity issuance and insider trading incentives. *Contemporary Accounting Research* 21(4): 885—924.

Watts, R. L. 2003. Conservatism in accounting part I: Explanations and implications. *Accounting Horizons* 17(3): 207—221.

Wittenberg-Moerman, R. 2008. The role of information asymmetry and financial reporting quality in debt trading: Evidence from the secondary loan market. *Journal of Accounting & Economics* 46: 240—260.

Yi, H. 2012. Has Regulation G improved the information quality of non-GAAP earnings disclosures? *Seoul Journal of Business* 18(2): 95—142.

Zhang, J. 2008. The contracting benefits of accounting conservatism to lenders and borrowers. *Journal of Accounting & Economics* 45: 27—54.

Mexican and White Ethnic Supervisors' Ethical Decisions: Age, Education, and Gender

Sylvia L. Flores
Sociology Instructor
South Texas College
McAllen, Texas

Matthew Basham
President, Red Parrot Research
Sarasota, Florida

ABSTRACT

Supervisors' ethical decision-making is impacting organizations in dramatic ways. The problem was more needs to be understood about how supervisors' ethical decision-making differ to create more efficient interventions and training. The purpose of this correlational quantitative research study was to examine data from a random sample of Mexican and White Ethnicity American supervisors' ethical decision-making in relationship to independent variables age, education, and gender, while monitoring influences from dependent variables Hofstede's five cultural dimensions (power distance, uncertainty avoidance, individualism, masculinity-femininity, and long-term orientation) and PRESOR items. A survey instrument was used to understand the difference in the relationships between Hofstede's five cultural dimensions and ethical attitude level, as measured by perceptions of ethics and social responsibility (PRESOR), between Mexican ethnicity and White Ethnicity American supervisors. As well as to understand the difference in the relationships between Hofstede's five cultural dimensions and ethical attitude level, as measured by PRESOR, between Mexican ethnicity and White Ethnicity American supervisors when controlling for age, educational, and gender categories. This data was vital to understand to increase effective ethical training, increase effective interventions, increase organization's success rates, and help the economy. Data was discussed and followed by future suggestions and limitations.

Introduction

In this study, Latinos, specifically Mexicans, and White American supervisors' ethical decision- making using Hofstede's five cultural dimensions (power distance, uncertainty avoidance, individualism, masculinity-femininity, and long-term orientation) and ethical attitude levels, as measured by PRESOR, and influences from age, education, and gender will be studied. This research approach may lead to a better understanding of whether ethical decision- making in supervisors is either more negative or positive. The research findings may help supervisors make better ethical decisions by providing data that may result in more appropriate ethical training (Chugh, Kern, Zhu, & Lee, 2014; Fein & Weibler, 2014; Riivari & Lämsä, 2014). Ethics is a concept that varies across cultural groups (De Grassi, Morgan, Walker, Wang, & Sabat, 2012; Hadjicharalambous & Walsh, 2012) and is defined in this study as a moral rule constructed by an organization (McGavin, 2013). Age, education, and gender also play a role in ethical decision- making (Bonem, Ellsworth, & Gonzalez, 2015; Wang & Calvano, 2015; Doyle & O'Flaherty, 2013). The differences in findings exposed a need to research these areas further for a full understanding of relationships (Anderson, 2015). Rational choice theory is a framework used in this study to understand the rational choices Mexican ethnicity and White Ethnic American supervisors make (Gilmour, 2015; Krstic, 2013), specifically, while being influenced by age, education, and gender (Gilmour, 2015; Krstic, 2013). Rational choice theory is defined as a choice made by individuals through weighing the advantages and disadvantages in a rational manner (Gilmour, 2015; Krstic, 2013).

Literature Review

Ethics and corruption contribute to the decline of an organization's favorable rates and were a major concern for researchers (Albert, Reynolds, & Turan., 2015; Campbell & Goritz, 2014). The purpose of this correlational quanti-

tative research study was to examine data, from a random sample, of Mexican ethnicity and White Ethnic American supervisors in regards to relationships between independent variables age, education, and gender, while monitoring influences from dependent variables Hofstede's cultural dimension of power distance and ethical attitude level, Hofstede's cultural dimension of uncertainty avoidance and ethical attitude level, Hofstede's cultural dimension of individualism and ethical attitude level, Hofstede's cultural dimension of masculinity-femininity and ethical attitude level, and Hofstede's cultural dimension of long-term orientation and ethical attitude levels. Throughout history, ethical researchers have made great findings that led to progress in understanding ethics (Anderson, 2015; Baker, Hunt, & Andrews, 2006; Ferrell & Gresham, 1985; Ford & Richardson, 1994; Wimbush & Shepard, 1994). Initially, Ferrell and Gresham (1985) made suggestions to further study ethics while including multiple influential factors. Eventually, Anderson (2015) suggested a need to understand cultural influences on supervisors' ethical decision-making by using random samples. A variety of researchers have found ethical decision-making do vary by age, however, researchers have yet to focus on random sampling methods (Bonem et al., 2015; Deshpande, 1997; Lahat, Helwig, & Zelazco, 2012; Lau & Yuen, 2014; Peterson, Rhoads, & Vaught, 2015). Researchers who focused on understanding how education influences ethical decision-making used a variation of samples, such as, students at Western Canadian Liberal Education University, managers, and Irish participants from different backgrounds (Deshpande, 1997; Doyle & O'Flaherty, 2013; Thomas, 2012). Although researchers found differences in ethical decision-making based on education, results were not representative of the population (Deshpande, 1997; Doyle & O'Flaherty, 2013; Thomas, 2012). Lastly, differences in ethical decision-making were also found between men and women (Wang & Calvano, 2015; Chen, 2014; Deshpande, 1997; Hadjicharalambous & Walsh, 2012; Peterson et al., 2015). However, the population was not represented because convenient samples were used (Wang & Calvano, 2015; Chen, 2014; Deshpande, 1997; Hadjicharalambous & Walsh, 2012; Peterson et al., 2015).

Research Method

The purpose of this correlational quantitative research study was to examine data from a random sample of Mexican ethnicity and White Ethnic American supervisors in regards to relationships between independent variables age, education, and gender while monitoring influences from dependent variables Hofstede's cultural dimension of power distance and ethical attitude level, Hofstede's cultural dimension of uncertainty avoidance and ethical attitude level, Hofstede's cultural dimension of individualism and ethical attitude level, Hofstede's cultural dimension of masculinity-femininity and ethical attitude level, and Hofstede's cultural dimension of long-term orientation and ethical attitude level. To better understand and address this problem, the researcher studied the following two questions.

Q1. To what extent, if any, do Hofstede's five cultural dimensions (power distance, uncertainty avoidance, individualism, masculinity-femininity, and long-term orientation), as measured by PRESOR, correlate in Mexican ethnicity and White Ethnic American supervisors?

H10: There will be no difference in the correlation between Hofstede's five cultural dimensions "power distance, uncertainty avoidance, individualism, masculinity-femininity, and long-term orientation" and ethical attitude level, as measured by PRESOR, among Mexican ethnicity and White Ethnic American supervisors.

H1a: There will be a difference in the correlation between Hofstede's five cultural dimensions "power distance, uncertainty avoidance, individualism, masculinity-femininity, and long-term orientation" and ethical attitude level, as measured by PRESOR, among Mexican ethnicity and White Ethnic American supervisors. The following hypothesis will focus on relationships when controlling for SES variables of age, education, and gender.

Q2. To what extent, if any, do Hofstede's five cultural dimensions (power distance, uncertainty avoidance, individualism, masculinity-femininity, and long-term orientation), and ethical attitude level, as measured by PRESOR, in Mexican ethnicity and White Ethnic American supervisors relate to age, educational, and gender categories?

H20: There will be no difference in the relation between Hofstede's five cultural dimensions "power distance, uncertainty avoidance, individualism, masculinity-femininity, and long-term orientation" and ethical attitude level, as measured by PRESOR, between Mexican ethnicity and White Ethnic American supervisors when controlling for age, educational, and gender categories.

H2a: There will be a difference in the relation between Hofstede's five cultural dimensions "power distance, uncertainty avoidance, individualism, masculinity-femininity, and long-term orientation" and ethical attitude level, as measured by PRESOR, between Mexican ethnicity and White Ethnic American supervisors when controlling for age, educational, and gender categories.

Research Methods and Design

This research utilized Hofstede's five cultural dimensions (power distance, uncertainty avoidance, individualism, masculinity–femininity, and long-term orientation), combined with a CVscale to measure these dimensions at the individual and organizational level (Mazanec et al., 2015), and measure ethics with PRESOR items (Vitell, Paolillo, & Thomas, 2003). This quantitative approach allowed the researcher to gather information on age, education, gender, and ethical decision-making of Mexican ethnicity and White Ethnic American supervisors from a random sample (Anderson, 2015; Creswell, 2009). The random sample made the data representative of the population (Mexican ethnicity and White Ethnic American supervisors) and allowed for supervisors to utilize the findings to make proper adjustments that may increase beneficial results (Chugh et al., 2014). The limited information surveys collected limited the application of the findings and limited the ability to ask follow-up questions for clarification, as one would with qualitative research methods (Creswell, 2009). ANOVA assumptions were not met, so Friedman's test was most appropriate. Reliability and validity were previously determined by Mazanec et al. (2015). Finally, demographic items measured age, education, and gender. Participants included males, females, aged 18 and older, from various educational backgrounds, from Mexican ethnicity and White Ethnic American cultural backgrounds, and were supervisors in their organization. The population for this study was located in a Southern region of Texas. The number of employees with supervisor capacity was 484 from the two targeted organizations. According to the characteristics of the college's participants, 413 supervisors were Mexican ethnicity and potentially 528 supervisors were White Ethnic American. These organizations were the most appropriate organizations because they were located in an area where 90% of the population were Hispanic. Despite the ethnic characteristics, the supervisor cultural statistics may have been influenced by the nationality of the individual. Based on a power analysis a minimum of 210 participants needed to be surveyed. The sample size was inflated by 100%, for a total of 420, in attempts to meet the random sample response rate of 210 participants. Results were analyzed using a Friedman's test followed by the Wilcoxon test and a Mann-Whitney test. Data were gathered utilizing the survey with three different attempts within a three-week time span. One limitation with this sample was that some participants were recruited from the researcher's place of employment. However, proper precautions were taken to separate the role of a researcher from the role of an employee from the targeted research site. A personal email account to separate the role of an employee from the role as a researcher was used. Also, SurveyMonkey was used to administer the survey and collect the data. This approach detached the researcher from the organization as much as possible.

Materials/Instruments

Appropriate research items that have been previously verified for validity and reliability by other studies were used (Mazanec et al., 2015; Singhapakdi, Vitell, Rallapalli, & Kraft, 1996). Singhapakdi et al. (1996) utilized a survey with demographic items, Hofstede's five cultural dimension questions, and PESOR questions related to ethics, which were measured by a seven-point Likert-type scale. The response categories for Hofstede's five cultural dimensions that were used included strongly agree, agree, neutral, disagree, and strongly disagree for four cultural dimensions (Mazanec et al., 2015). For the fifth cultural dimension, long-term orientation, the categories included very important, important, neutral, unimportant, very unimportant (Mazanec et al., 2015). Mazanec et al. (2015) categories for Hofstede's five cultural dimensions were used to gather data at the individual and organizational level since the scale has been tested for validity and reliability.

Data Collection, Processing, and Analysis

The contact information of all the departments was public information and was accessed to create a list of supervisors. Individuals with titles referring to supervisor responsibilities were chosen for the random sample of 420. Titles that included supervisor, manager, coordinator, specialist II, Specialist III, executive, director, president, vice-president, dean, and chair. Rhen a random sample was created, using the Statistical Package for Social Sciences (SPSS), for a sample that was no smaller than 420. After the survey was administered via email to the random sample targeted, the raw data was cleaned and organized to prepare for descriptive and inferential analysis with the following steps. Data with missing information were deleted from the spreadsheet provided by SurveyMonkey before being uploaded to SPSS. Before any tests, data were cleaned and coded to prepare for readable reports using variable titles

instead of variable codes. Coding consisted of numerical values for nominal, categorical, interval, and Likert-type responses for ethical attitudes. For example, males were coded "1" and females "2." All five-point Likert-type responses were coded from "1" to "5." PRESOR responses were used and reverse coding was applied due to the type of questions. Questions 24, 25, and 26 were also reverse-coded. Next, the raw data collected about the dependent variables, Hofstede's five cultural dimensions, and supervisors' ethical attitudes, were screened in SPSS to determine if assumptions of correlation and analysis of variance (ANOVA) tests were met. Not all assumptions were met.

The response to the questionnaire was tabulated and correlated to determine (a) the relationship between Mexican ethnicity and White Ethnic American supervisors' ethical standards using, Hofstede's five cultural dimensions and ethical attitude levels, as measured by PRESOR. Then the response to the questionnaire was tabulated to determine (b) the relationship of Mexican ethnicity and White Ethnic American supervisors' ethical standards, using Hofstede's five cultural dimensions and ethical attitude levels, as measured by PRESOR, and age, education, and gender. First, the dependent variables, Mexican ethnicity and White Ethnic American supervisors' ethical attitudes, as measured by PRESOR, were described using measures of central tendency (mean, standard deviations, and range of scores; Field, 2009). Then, simple descriptive statistics was presented such as total sample, age, education, gender, Mexican ethnic supervisors, and White Ethnic American supervisors (Field, 2009). The hypothesis was tested for correlations and significance. To assess the research questions, a Friedman's test and a Wilcoxon analysis of the hypothesis, comparing Mexican ethnicity and White Ethnic American supervisors, Hofstede's five cultural dimensions, and ethical attitude levels, as measured by PRESOR, and how the latter was influenced by gender, education, and gender was applied by the researcher. The descriptive statistics were created to identify outliers, normalcy, and other needed data to understand if assumptions were met (Field, 2009). A clustered bar chart has been set up to better review the mean, median, mode, and if data was skewed (Field, 2009). Any outliers reviewed were verified to have been entered by participants. Furthermore, the inferential statistical analysis for each of these research hypotheses was conducted while using the correlations with the PRESOR scores for the entire sample of Mexican ethnicity and White Ethnic American supervisors. Then, a sample was pulled of only Mexican ethnic supervisors and correlation test and looked at the individual score per research hypotheses for statistical significance. Then, I pulled a sample of only White Ethic American supervisors and did another correlation test and looked at the individual score per research hypotheses for statistical significance. Lastly, a Friedman's test and Mann-Whitney Rank test was used for age, education, and gender and as well as a relevant Wilcoxon rank posthoc tests. For now, Friedman's was the most appropriate. The significance level was set at a $\alpha=0.05$ level to reject or fail to reject the null hypothesis. Dependent variables included ethical ethical attitude levels, as measured by PRESOR. Independent variables include Mexican ethnicity and White Ethnic American supervisors, Hofstede's five cultural dimensions, age, education, and gender (Field, 2009).

Findings

The data received from SurveyMonkey was reviewed. Outlying data and results that were partially completed were deleted. Raw data were saved to be later compared with cleaned data files to ensure data were entered correctly. A total of 64 participant's data were removed from the 111 responses received. Deleting the 64 cases would eliminate skewing the data due to incomplete survey responses. Twenty-six out of the 47 survey responses received were found which skewed the data. Data were transformed for a variable created summing PRESOR items to address skewed data. Out of the 47 responses received, all provided informed consent through the act of proceeding to complete the survey. None of the survey responses were removed due to nationality being outside of Mexican ethnicity or White Ethnic American nationality. A total of 47 survey responses were used for analysis, 42 from White Ethnic American supervisors and five from Mexican ethnic supervisors. After cleaning the data, the survey responses provided 47 supervisor responses for data analysis. The majority of survey respondents were from White Ethnic American nationality (n=42, 89.4%) and under half of supervisor respondents were of Mexican nationality (n-5, 10.6%). The majority of supervisors were also between the ages of 50-64 (n=19, 40.4%), then between the ages of 35-49 (n=18, 38.3%), and finally between the ages of 18-34 (n=8, 17%). The largest number of supervisors held an education level of Master's or Doctorate (n=30, 63.8%). Lastly, the majority of survey respondents were women (n=26, 55.3%) and under half were male respondents (n-21, 44.7%). Power distance had five questions, Uncertainty avoidance had five questions, Individualism had three questions, Masculinity had four questions, and Long-term orientation had four questions. Due to the different number of questions for each dimension (three, four, and five), an average of each dimension was used instead of an additive score to make each score equivalent (Anderson, 2015). Survey items measuring the dependent variable were also measured similarly. Of the PRESOR items (dependent variable measuring ethics), the highest score was

7 (strongly agree) and the lowest score was 1 (strongly disagree). Descriptive statistics were created which included variables measured in this study, Hofstede's five cultural dimensions, PRESOR items, and Mexican ethnicity and White Ethnic American supervisor's differences. Of the supervisor responses collected, supervisors scored lowest in the Long-Term Orientation dimension (M=1.87, SD=0.57) and supervisors scored highest in the Power Distance dimension (M=3.45, SD=0.52). PRESOR items measured ethics and overall supervisor respondents scored low on ethics with a M=0.25 (SD=0.17). Mexican ethnic supervisor respondents scored M=0.23 (SD=0.14), which was lower than White Ethnic American supervisor respondents M=0.25 (SD=0.17).

Data analysis

The methodology for this comparison was a non-parametric analysis including the Friedman's Test for each hypothesis. The Friedman's test was appropriate for this study because it compares means across groups for small data sets that do not meet assumptions. Due to the small sample size the Friedman's test evaluated differences across nationality groups, the Wilcoxon test analyzed for significance between variables, and the Mann-Whitney test identified differences between supervisor's nationality and age, education, and gender groups (Field, 2009). Mexican ethnic supervisors and White Ethnic American supervisors were analyzed as separate groups, to evaluate the significant differences. The results combining both Mexican ethnicity and White Ethnic American groups indicate to reject the null hypothesis. The significance value is .000 which demonstrates that the differences were statistically significant. The combined results indicate that significant difference across the dimensions and ethical decisions was found. The Wilcoxon Signed Rank Test showed significant relationships between PRESOR items and all five dimensions. Then, the data was evaluated to see if any statistically significant differences were found in Mexican ethnic supervisors. Results focusing solely on Mexican ethnic supervisor's responses indicate a significance value of .000, meaning the null hypothesis was rejected. The combined results indicate that significant difference across the groups for ethical decision-making was found.

Further examination of the data was conducted to see if any statistically significant differences were found in White Ethnic American supervisors. Results focusing solely on White Ethnic American supervisor's responses indicate a significance value of .000, meaning the null hypothesis was rejected. The significance value of .000 demonstrates that the differences between the dimensions and PRESOR items were statistically significant. The combined results indicate that significant difference across the groups for ethical decision-making was found. The results combining both national groups and analyzing the relationship with age indicated a significance value of .000 for all age categories (18-34, 35-49, and 50-64) except one age group. The age group of 65+ had a significant value of 0.127. The significance value of .000 was found for age groups below 64, meaning the null hypothesis was rejected. The combined results indicate that significant difference across the dimensions and PRESOR and age groups between 35 and 64 was found. The data was evaluated to see if any statistically significant differences were found in Mexican ethnic supervisors due to age. The results focusing solely on Mexican ethnic supervisor's responses indicate a significance value higher than 0.100 for all dimensions and PRESOR variable for all age categories so the null hypothesis was not rejected. The significance value of 0.400 or higher demonstrates that the differences were not statistically significant the the null hypothesis was not reject. The combined results indicate that no significant difference across the groups for ethical decision-making was found in Mexican ethnic supervisors. The data was evaluated to see if any statistically significant differences were found in White Ethnic American supervisors due to age. Results focusing solely on White ethnic supervisor's responses indicate a significant value higher than 0.100, meaning the null hypothesis was not rejected. The combined results indicate that no significant difference across the groups for ethical decision-making was found. The results combining both groups and analyzing the relationship with education indicated a significance value of .000, for Bachelor's degree and Master's or Doctorate, meaning the null hypothesis was not rejected. The significance value of .000 for master's and doctorate education levels demonstrates that the differences were statistically significant. With a significance value below 0.05, the researcher rejected the null hypothesis. The combined results indicate that significant differences across the groups for ethical decision-making was found. The data was evaluated to see if any statistically significant differences were found in Mexican ethnic supervisors due to Education. Results focusing solely on Mexican ethnic supervisor's responses indicate a significance value higher than 0.05, meaning the null hypothesis was not rejected. With a significance value above 0.05, the researcher did not reject the null hypothesis. The combined results indicate that no significant difference across the groups for ethical decision-making was found. The data was evaluated to see if any statistically significant differences were found in White Ethnic American supervisors due to Education. Results focusing solely on White ethnic supervisor's responses indicate a significance value higher than 0.05, meaning the null hypothesis was not rejected. The combined results indicate that no significant difference across the groups for ethi-

cal decision-making was found. The results combining both groups and analyzing for the relationship with age indicated a significance value of .000, meaning the null hypothesis was rejected. The combined results indicate that a significant difference across the groups for ethical decision-making was found. The data was evaluated to see if any statistically significant differences were found in Mexican ethnic supervisors due to Gender. Results focusing solely on Mexican ethnic supervisor's responses indicate a significance level of 0.374 or higher, meaning the null hypothesis was not rejected. The combined results indicate that no significant difference across the groups for ethical decision-making was found. The data was evaluated to see if any statistically significant differences were found in White Ethnic American supervisors due to Gender. Results focusing solely on White ethnic supervisor's responses indicate a significance value of 0.276 or higher, meaning the null hypothesis was not rejected. The combined results indicate that no significant difference across the groups for ethical decision-making was found in gender. The results were as expected based on the literature review results. Mexican ethnic supervisors make more ethical decisions than White Ethnic American supervisors. The total cultural dimensions (Uncertainty Avoidance, Masculinity, long-term orientation, Individuality, and Power distance) were significant predictors of PRESOR. Therefore, significant results demonstrate a correlation between cultural dimensions and ethical attitudes. This phenomena was true for both Mexican ethnic and White Ethnic American supervisors. As for age, education, and gender, these variables were not significant enough to see a difference between Mexican ethnic and White ethnic supervisors. Older individuals make more ethical decisions in both Mexican ethnic and White Ethnic American supervisor groups. Individuals with a Master's and higher education made less ethical decisions in both supervisor groups. Lastly, females made more ethical decisions in both supervisor groups. Mexican ethnic supervisors also were found to be significantly different from White Ethnic American supervisors in all five cultural dimensions. The same was found for PRESOR items.

Limitations

First, although the sample was doubled to increase responses, the rate was a little over 10% (47 out of 420). Survey response rates would have been increased by providing incentives, creating a shorter survey, and through a personal greeting (Guo, Kopec, Cibere, Li, & Goldsmith, 2016). Also, only two sites were used in the southern urban region targeted. The sites available in this region, should time have allowed, could have all been contacted and included in this study for a more thorough understanding. The limited sites contacted then limited the data gathered. Also, assumptions were made that the population would be representing the Mexican ethnicity and the White ethnicity. Cultural diffusion was not measured in this study, so the degree of overlapping cultures was not measured. Using the Wilcoxon Signed Rant Test, the researcher calculated the effect size by dividing the z value by the square root of N. For the Mexican Ethnic sample Z=-2.023, for the White Ethnic sample Z=-5.646 and N=47. The effect size was -.2950 for Mexican Ethnic supervisors and -0.82355 for White Ethnic supervisors. Using the Cohen (1988) criteria of .1=small effect, .3=medium effect, and .5=large effect (Field, 2009), the results indicate a medium effect (r=-.29) from culture on ethical decisions in Mexican ethnic supervisors compared to a large effect (r=-.82) among White ethnic supervisors. However, smaller sample sizes do reveal larger effect sizes (Field, 2009). This increased the chances of making a Type I error, believing there is a significant relationship when in reality there is not (Field, 2009). On the other hand, a Type II error is the belief that there were no relationships between variables when indeed there was (Field, 2009). Setting a p-value of .05 was created to address these issues. Also, the sample size for Mexican ethnic supervisors were 5 and White ethnic supervisors were 42, providing skewed data, leading to limited inferences of the population. However, the data did provide insight otherwise not known.

Recommendations for Future Research

Although all dimensions were significant, Power Distance and Individualism had higher influences on ethical decisions. These dimensions should be closely monitored in future research. Future studies should also consider qualitative components to understand the participant's perception of their culture better. Specifically, what ethnicity, regardless of nationality, does the participant relate to the most? Whether it is a mixture of cultures or a culture that differs from the origin of birth this phenomena must be understood better. Finally, the sample size must be increased to meet the power analysis recommendation of 210.

Conclusions

Mexican ethnic and White ethnic supervisor's ethical decision-making and influences from age, education, and gender was the focus of this study. Data based ethical training may increase organizational success and economic success (Ionescu, 2014; Timofeyev, 2015) through the inclusion of cultural dimensions that we now know influence ethical decisions. Also, findings may contribute to effective training through contributing to the knowl-

edge of how age, education, and gender influence ethical decision-making. This study supports the idea that ethics needs to be studied through supervisor's ethical decision-making and requires further inquiry.

References

Albert, L. S., Reynolds, S. J., & Turan, B. (2015). Turning inward or focusing out? Navigating theories of interpersonal and ethical cognitions to understand ethical decision-making. *Journal of Business Ethics, 130*(2), 467-484. doi: 10.1007/s10551-014-2236-2

Anderson, M. A. (2015). *Assessing the correlation of culture with business ethics of company managers in the United States and Mexico.* (Doctoral dissertation). Retrieved from Northcentral University Dissertations.

Baker, T. L., Hunt, T. G., & Andrews, M. C. (2006). Promoting ethical behavior and organizational citizenship behaviors: The influence of corporate ethical values. *Journal of Business Research*, *59*(7), 849-857. doi: 10/1016/j.jbusres.2006.02.004

Bonem, E. M., Ellsworth, P. C., & Gonzalez, R. (2015). Age differences in risk: Perceptions, intentions, and domains. *Journal of Behavioral Decision Making, 28*(4), 317-330. doi: 10.1002/bdm.1848

Campbell, J. L., & Göritz, A. S. (2014). Culture corrupts! A qualitative study of organizational culture in corrupt organizations. *Journal of Business Ethics, 120*(3), 291-311.

Chen, C. (2014). Does job position moderate the relationship between gender and ethics? A cross-cultural analysis. *Cross Cultural Management, 21*(4), 437-452. doi: 10.1108/CCM-01-2013-0018

Chugh, D., Kern, M. C., Zhu, Z., & Lee, S. (2014). Withstanding moral disengagement: Attachment security as an ethical intervention. *Journal of Experimental Social Psychology*, *51*, 88-93.

Creswell, J. W. (2009). *Research design: Qualitative, quantitative, and mixed methods approaches* (3rd ed.). New Delhi, India: Sage.

De Grassi, S. W., Morgan, W. B., Walker, S. S., Wang, Y. I., & Sabat, I. (2012). Ethical decision-making: Group diversity holds the key. *Journal of Leadership, Accountability and Ethics, 9*(6), 51-65.

Deshpande, S. P. (1997). Manager's perception of proper ethical conduct: The effect of sex, age, and level of education. *Journal of Business Ethics, 16*, 79-85.

Doyle, E., & O'Flaherty, J. (2013). The impact of education level and type on moral reasoning. *Irish Educational Studies, 32*(3), 377-393.

Fein, E., & Weibler, J. (2014). Review and shortcomings of literature on corruption in organizations in offering a multi-faceted and integrative understanding of the phenomenon. *American Psychological Association, 19*(3), 67-77.

Ferrell, O. C., & Gresham, L. G. (1985). A contingency framework for understanding ethical decision making in marketing. *The Journal of Marketing*, 87-96. doi: 10.2307/1251618

Field, A. (2009). *Discovering statistics using SPSS.* Thousand Oaks, CA: Sage.

Ford, R. C., & Richardson, W. D. (1994). Ethical decision making: A review of the empirical literature. *Journal of Business Ethics, 13*(3), 205-221.

Gilmour, N. (2015). Understanding the practices behind money laundering-A rational choice interpretation. *International Journal of Law, Crime, and Justice, 44*, 1-13. doi: 10.1016/j.ijlcj.2015.03.002

Hadjicharalambous, C., & Walsh, L. (2012). Ethnicity/race and gender effects on ethical sensitivity in four sub-cultures. *Journal of Legal, Ethical and Regulatory, 15*(1), 119-130.

Ionescu, L. (2014). The adverse effects of corruption on growth and development. *Economics, Management, and Financial Markets, 9*(4), 125-130.

Krstic, M. (2013). Rational choice theory and addiction behavior. *Trziste, 26*(2), 163-177.

Lahat, A., Helwig, C. C., & Zelazo, P. D. (2012). Age-related changes in cognitive processing of moral and social conventional violations. *Cognitive Development*, *27*(2), 181-194.

Lau, W. W. F., & Yuen, A. H. K. (2014). Internet ethics of adolescents: Understanding demographic differences. *Computers & Education, 72*, 378-385.

Mazanec, J. A., Crotts, J. C., Gursoy, D., & Lu, L. (2015). Homogeneity versus heterogeneity of cultural values: An item-response theoretical approach applying Hofstede's cultural dimensions in a single nation. *Tourism Management*, *48*, 299-304.

McGavin, P. A. (2013). Conversing on ethics, morality, and education. *Journal of Moral Education, 42*(4), 494-511.

Peterson, D., Rhoads, A., & Vaught, B. C. (2015). Ethical beliefs of business professionals: A study of gender,

age, and external factors. *Journal of Business Ethics, 31*, 225-232.

Riivari, E., & Lämsä, A. M. (2014). Does it pay to be ethical? Examining the relationship between organisations' ethical culture and innovativeness. *Journal of Business Ethics*, *124*(1), 1-17. doi: 10.1007/s10551-013-1859-z

Singhapakdi, A., Vitell, S. J., Rallapalli, K. C., & Kraft, K. L. (1996). The perceived role of ethics and social responsibility: A scale development. *Journal of Business Ethics*, *15*(11), 1131-1140.

Thomas, S. (2012). Ethics and accounting education. *Issues in Accounting Education, 27*(2), 399-418. doi: 10.2308/iace-50119

Timofeyev, Y. (2015). Analysis of predators of organizational losses due to occupational corruption. *International Business Review, 24*, 630-641.

Vitell, S. J., Paolillo, J. G., & Thomas, J. L. (2003). The perceived role of ethics and social responsibility: A study of marketing professionals. *Business Ethics Quarterly*, *13*(01), 63-86.

Wang, L. C., & Calvano, L. (2015). Is business ethics education effective? An analysis of gender, personal ethical perspectives, and moral judgment. *Journal of Business Ethics*, *126*(4), 591-602.

Wimbush, J. C., & Shepard, J. M. (1994). Toward an understanding of ethical climate: Its relationship to ethical behavior and supervisory influence. *Journal of Business ethics*, *13*(8), 637-647.

Strategic Corporate Social Responsibility: Multinational Enterprises' Nonmarket Strategy in Emerging Markets

Nai H. Lamb
Assistant Professor
Department of Management
University of Tennessee - Chattanooga
Chattanooga, Tennessee

Christi R. Wann
Associate Professor
Department of Finance and Economics
University of Tennessee - Chattanooga
Chattanooga, Tennessee

ABSTRACT

Although scholars have made significant advancements in the field of corporate social responsibility (CSR), an increasing amount of research has been conducted on the multinational enterprises' (MNEs') CSR motivations in emerging markets. Incorporating extant literature on strategic CSR and nonmarket strategy, we propose that MNEs' CSR activities in emerging markets are motivated by filling institutional voids. In essence, using CSR to fill institutional voids is intended to maximize profits and conduct business in imperfect markets. We further theorize the relationship between institutional voids, CSR activities, and financial performance over time. We then discuss several important implications for research and practice and provide limitations and future directions.

Keywords: Multinational enterprise (MNE), emerging markets, institutional voids, corporate social responsibility (CSR), nonmarket strategy

INTRODUCTION

The idea of corporate social responsibility (CSR) has gained a significant amount of attention in recent literature (Brower and Mahajan, 2013; Ferri and Ferri, 2017; Lamb & Butler, in press; Short et al., 2016). CSR has attracted researchers from different fields, such as sociology, psychology, political science, and management, and thus, has had a wide range of interpretations (Lockett et al., 2006; Zheng, Luo, & Maksimov, 2015). The stream of studies on CSR has focused on domestic markets in more developed countries, such as the United States and the European Union countries. However, an increasing number of researchers are starting to conduct comparative studies across different cultures. For example, Singh et al. (2005) analyzed the contents of 197 corporate codes of ethics from Australian, Canadian, and Swedish companies. They found that the codes were more similar between the Australian and Canadian companies. Using Hofstede's (Hofstede, 1980; Hofstede, 2001) cultural dimension scores, they attributed their findings to the similarity in history and cultures. Additionally, Burton et al. (2000) conducted a survey comparing the Hong Kong and the United States business students and found that the Hong Kong students placed more weight on economic over non-economic (legal, ethical, and discretionary) responsibilities than their US counterparts. They also attributed this finding to the cultural differences, as measured by Hofstede's 1994 Values Survey Module.

Given that researchers have made progress in comparative CSR studies across different countries, multinational enterprises' (MNEs') CSR activities in emerging markets have received increasing attention. An emerging market is defined as a lower-income country with fast-growing economic development and a favorable government policy towards a free-market establishment (Hoskisson et al., 2000). Emerging markets have gained importance in the world trade arena because they provide great business opportunities for MNEs' expansion (Boisot and Child,

1996; Garten, 1996; Khanna and Palepu, 1997; UNCTAD, 2015). However, many people fear that MNEs from more developed countries will exploit the natural market imperfections in emerging markets (Campbell, Eden, and Miller, 2012; Dunning, 2003; Murphy, 2004; Reimann, Rauer, and Kaufmann, 2015; Surroca, Tribó, and Zahra, 2013; Zhao, Tan, and Park, 2014). For example, the environmental standards in emerging countries, for the most part, are not as stringent as those in the more developed countries. Thus, this raises an interesting question: Why do MNEs engage in CSR activities in emerging markets?

In response, the focus of our paper is to explore this area. We propose when MNEs from a more developed country enter an emerging market, they face different types of institutional voids due to natural market imperfections. Institutional voids are defined as absence of intermediaries and they occur due to a lack of supporting institutions, such as facilities, laws, and social norms, for a well-functioning economy (Chakrabarty, 2009; Khanna and Palepu, 1997; Khanna et al., 2005). Thus, in order to fill institutional voids, MNEs must engage in certain type of activities. Some of these activities may be considered CSR activities because they improve certain aspects of the welfare of the host country. For example, when an MNE expands to an emerging market from a developed country, it may provide extensive employee training in efforts to use the local labor force. This activity may be viewed as a CSR activity from the outsiders because it helps improve the skills of the local people. Yet for the focal MNE, this is merely an activity motivated by self-interest to fill institutional voids and should be considered strategic CSR (Baron, 2001; Liou & Lamb, in press).

Filling institutional voids may thus be a part of the cost of doing business abroad (Hymer, 1976). This is a conduct uniquely associated with MNEs when they enter an emerging market. CSR activities are also part of the MNE's nonmarket strategy. Nonmarket strategy is intended to improve the overall competitive environment. It is different from market strategy as market strategy is intended to improve economic gains (Baron, 1997). In this paper, we will do the following things. First, we briefly review the literature on MNEs in emerging markets and CSR. Second, we focus primarily on MNEs' strategic CSR activities as one of the nonmarket strategies to fill institutional voids. By strategic CSR, we mean firms' CSR activities motivated by self-interest (Baron, 2001). Therefore, we draw from existing literature on the institutional perspective and nonmarket strategy in explaining MNEs' amount of spending in CSR activities in emerging markets. We believe our paper will enhance the current understanding of CSR activities conducted by MNEs and provide important implications for scholars and practitioners.

THEORY AND PROPOSITIONS

Multinational Enterprises (MNEs) in Emerging Markets

Many studies have been conducted on MNEs and their activities in host countries (Dunning and Lundan, 2008; Guillen and Garcia-Canal, 2009; Husted, Montiel, and Christmann, 2016; Mathews, 2006; Wright, Filatotchev, Hoskisson and Peng, 2005). According to Behrman (1972), there are four types of MNEs: natural resource seekers, market seekers, efficiency seekers, and strategic asset or capability seekers. Emerging markets provide MNEs tremendous market potential and human capital since wages are substantially lower in those markets than in the more developed markets. They are different from other developing countries since their governments also favor economic liberalization, which gives MNEs an added incentive to expand into those markets.

Although emerging markets offer new business opportunities, they also come with costs. Due to natural market imperfections in the emerging markets, MNEs face challenges such as underdeveloped market structure (Peng and Heath, 1996), cultural distances (Ghemawat, 2001; Reus and Lamont, 2009), inconsistent government policies, corruption, and many others (Dunning and Lundan, 2008). In other words, the cost of doing business abroad (Hymer, 1976) could be potentially higher for MNEs in emerging markets compared to those in more developed markets. For example, institutional distances have been found to increase the difficulty of doing business abroad (Kostova and Zaheer, 1999). Institutional distance is the degree of dissimilarity in institutions between the home and host countries (Kostova, 1999). The larger the institutional distance, the harder it is for MNEs to gain legitimacy, which is based on how an organization is accepted by its institutional environment (Kostova and Zaheer, 1999).

Furthermore, many people have feared that MNEs in those markets would apply a strategy of "race to the bottom" economics as they seek to reduce their costs (Dunning, 2003; Madsen, 2009). Their concern might be valid since managers are self-interested rational actors as assumed in transaction costs economics, (Williamson, 1975; 1979). Firms may demonstrate opportunistic behaviors when they seek to maximize their profits. In emerging markets, which contain natural market imperfections, information asymmetry is an added incentive for MNEs to engage in certain opportunistic activities that would not otherwise be discovered by outsiders. Scott Paul (2007) director of Alliance for American Manufacturing, once said, "The mobility of capital and investment encourages a race to the bottom." Several researchers have

expressed similar concerns regarding MNEs' activities in emerging markets, in particular, MNEs' environmental practices (Birdsall and Wheeler, 1993; Zarsky, 1999). In summary, when MNEs expand to emerging markets, they face a higher cost of doing business abroad which is composed of liability of foreignness and the result of market imperfections. Thus, MNEs, as any business, would theoretically want to try to cut their cost from other corners. In addition to higher costs, information asymmetry in emerging markets makes opportunistic behaviors more difficult to be detected. In this vein, MNEs have three choices in their behaviors in response to the antecedents. Figure 1 shows the three choices for MNEs in response to the antecedents.

What is Corporate Social Responsibility (CSR)?

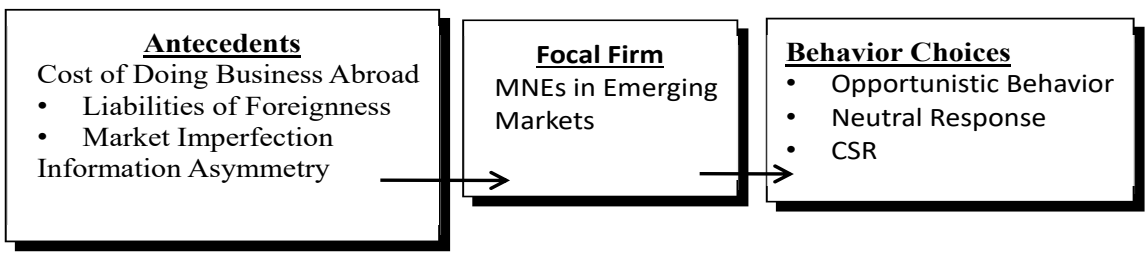
CSR has been studied for several decades (Carroll, 1979; Wartick and Cochran, 1985; Wood, 1991), but its definition has not yet been viewed as satisfactory (Campbell, 2007). In many studies, CSR has been used as a synonym for corporate social performance (CSP) or corporate citizenship (De Bakker et al., 2005). CSR has not been well-defined because it is a valued and complex concept, and an umbrella term that covers relationships between businesses and societies (Matten and Moon, 2008). Following the extant literature, we define CSR as firms' activities that advance a social agenda beyond what is required by law (Campbell, 2007; McWilliams and Siegel, 2001; Rodriguez et al., 2006; Siegel and Vitaliano, 2007).

Much research has been conducted to examine the relationship between CSR and corporate financial performance (Barnett and Salomon, 2006; Luo, Wang, & Zheng, 2015; Orlitzky et al., 2003; Roman et al., 1999; Ruqing & Fangcheng, 2013; Simpson and Kohers, 2002). This stream of research tends to focus on outcomes (e.g., When a firm focuses on investing in its CSP, does it increase or decrease its CFP?), but does not address why firms engage in these behaviors (Liou & Lamb, in press; Rowley and Berman, 2000). On the other hand, some theory papers have assumed that an organizational actor's altruism is the motive behind a superior CSP (Hemingway and Maclagan, 2004; Windsor, 2006); however, few empirical studies confirm this view. Thus, it raises an interesting question: Is altruism the motive behind a firm's investment in CSP, or does a firm use CSR to build legitimacy as Baron (2001) termed it, strategic CSR?

Early writers such as Ackerman (1975, p.32) argued that CSR is the "management of discretion," while Friedman (1970) applied the agency theory to describe CSR initiatives as self-serving and reducing shareholder wealth. Freeman's (1984) stakeholder perspective on CSP went beyond the traditional boundary of stakeholder groups (e.g. employees and shareholders) and argued that firms should build legitimacy by satisfying different constituents such as the government and the community. Since Freeman's initial publication, several scholars have applied stakeholder theory to CSR (Donaldson and Preston, 1995; Jones, 1995). On the other hand, Hart (1995) proposed that CSR can serve as a resource, and this leads to a firm's competitive advantage. Drawing from the resource-based view, McWilliams et al. (2002) also proposed that CSR strategies can create sustainable competitive advantages.

Other researchers have proposed that firms engage in certain types of CSR to maximize profit (Bagnoli and Watts, 2003; Liou & Lamb, in press; McWilliams and Siegel 2000), and it is termed as "strategic CSR" by Baron (2001, p.9). According to Baron (2001; 2009), there are 3 types of motivations for CSR: altruism, threats, and profit-maximization. First, altruistic CSR occurs when firms engage in social actions that are based on their moral standards. This type of CSR activities may be conducted at the expense of firms' own profits. Second, firms may engage in CSR activities because of the social pressure/threats from activists. When the perceived threats are great, firms are more likely to respond to the demands. Lastly, strategic CSR activities are based on profit maximization motivat-

Figure 1
MNEs' Behavior Choices



ed by self-interest, and firms will only engage in this type of CSR when they perceive that the benefit of it is greater than the cost.

Institutional Perspective on MNEs and Their Nonmarket Strategy

Douglass North's (1990) work on institutions has advanced the field of international business, especially on the macro level (Dunning and Lundan, 2008). He defined institutions as "rules of the game" or constraints that the society imposes to influence behaviors and interactions [North, (1990), p.3]. Two types of constraints were identified: formal and informal. Formal constraints are rules such as laws and contracts. Informal constraints are norms or societal expectations. The institutional perspective is different from transaction costs economics since it emphasizes the overall environment and the value/belief system of the host country, whereas the latter emphasizes organizations and economic gains. The institutional perspective is especially useful in the context of CSR as the economic gain for MNEs is usually hard to measure. Therefore, the cost of conducting CSR activities is difficult to justify based on transaction costs economics. According to North (1990), countries need to establish both the formal and informal institutions in order to promote market activities. However, in emerging markets, most institutions are not well established, and thus, this creates institutional voids (Khanna and Palepu, 1997; Khanna et al., 2005). Khanna and Palepu (1997) further identified that institutional voids exist in the product, capital and labor markets in the host countries.

As discussed previously, Baron (2001) proposed a framework of strategic CSR. In the context of MNEs in emerging markets, we propose that two types of strategic CSR exist: symbolic CSR and strategic CSR. An example of symbolic strategic CSR can be the spending on public relations that has no real impact on social agenda. Strategic CSR motivated by reducing the cost of doing business abroad is the result of MNEs trying to fill institutional voids in emerging markets. The model of CSRs for MNEs is illustrated as below in Table 1. Altruistic CSR is by managerial discretion and the presence of institutional voids should not affect this type of CSR. However, when CSR is motivated by activists' target, it is likely to be symbolic regardless of the presence of institutional voids. For example, David et al. (2007) found that when firms are targeted by shareholders, their CSR performance declined. They related the decreased CSR performance to managers' symbolic responses, which creates a signal instead of making any real impact in CSR. MNEs' strategic CSR, on the other hand, can be both symbolic and a result of the cost of doing business abroad. When there are no institutional voids in the host country, MNEs' strategic CSR activities are likely to be symbolic. When there are institutional voids, strategic CSR can be both symbolic or a result of engaging in costly business abroad.

Table 1
MNEs' CSR Activities in Emerging Markets

Institutional Voids	Altruistic CSR	Social Pressure/ Threats	Strategic CSR
Yes	By Discretion	Symbolic	CODB/ symbolic
No	By Discretion	Symbolic	Symbolic

Note: CODB: cost of doing business abroad

At its core, strategic CSR is an MNE's nonmarket strategy. A nonmarket strategy helps firms' overall performance in both nonmarket and market environments, whereas a market strategy improves economic performance (Baron, 1997). For example, Bonardi et al. (2006) found that nonmarket strategies used by U.S. electric utilities influenced favorable public policy decisions. We view strategic CSR as one of the nonmarket strategies used by MNEs in emerging markets since it is intended to fill institutional voids. For instance, when an efficiency-seeking MNE first established an office in an emerging market, it may have to invest heavily in human capital development to fill this pre-existing institutional void. If the MNE does not train the local people, it can suffer from a loss of productivity. Thus, the spending in human capital development is part of the cost of doing business abroad. However, investment in people is usually seen as an act of CSR and has been frequently mentioned in corporations' CSR reports. Based on the discussions above, the following proposition is proposed:

> Proposition 1a. To fill institutional voids, MNEs in emerging markets will engage in certain types of corresponding CSR activities, ceteris paribus.

As part of the cost of doing business abroad, larger institutional voids require larger investments in CSR activities by MNEs. In other words, the bigger the gap between local people's skill and the desired skill, the more training an MNE must provide. Although MNEs must engage in such activities to fill institutional voids, they must impose spending limits on its CSR activities. It is unrealistic to assume that an MNE will spend an infinite amount of

time and money to fill institutional voids. Instead, it is reasonable to assume that an MNE calculates the cost/benefit tradeoff to determine how much it should spend on its strategic CSR activities to achieve profit maximization. Therefore:

Proposition 1b. The relationship between the extent of institutional voids and MNEs' amount of spending in corresponding CSR activities is curvilinear (inverted U-shaped), ceteris paribus.

Time and Financial Performance

Researchers have been interested in the relationship between CSR and corporate financial performance (CFP) (Griffin and Mahon, 1997; Margolis and Walsh, 2003; Rowley and Berman, 2000) but the results have been inconclusive. One of the problems could be that most studies did not take time into consideration. Time is an important element but has been largely overlooked in the international business literature (Eden, 2009). Most studies on CSR have been cross-sectional and few have conducted longitudinal CSR studies on MNEs. When MNEs engage in certain types of CSR activities to fill institutional voids, this generates extra costs that would not have been incurred had MNEs expanded to more developed countries. These are the specific costs associated with doing business in emerging markets. Therefore:

Proposition 2a. In a short run, the amount of spending in corresponding CSR activities that are motivated by filling institutional voids will have a negative impact on the focal MNE's financial performance, ceteris paribus.

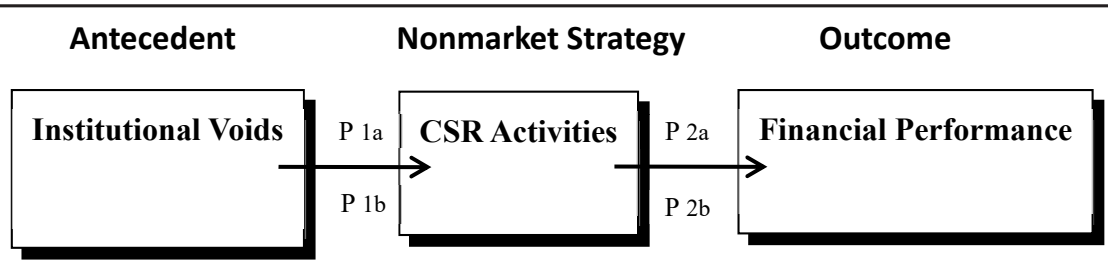
Initially, these CSR activities pose a constraint on the MNEs' financial performance. However, as institutional voids are filled or reduced over time, CSR activities will have a positive impact on MNEs financial performance. Thus, CSR activities should eventually have a positive impact on the focal MNE's financial performance. It is doubtful that the positive relationship is linear. In other words, there will be a maximum financial performance that an MNE can acquire. After reaching the maximum point, the more CSR activities an MNE engages in, the less financial gains an MNE will have. Therefore:

Proposition 2b. In the long run, the amount of spending in corresponding CSR activities that are motivated by filling institutional voids will have a positive impact on the focal MNE's financial performance but the relationship will eventually become curvilinear (inverted U-shaped), ceteris paribus.

DISCUSSION

Social Responsibilities of the Businessman, written by Howard R. Bowen in 1953, is widely considered the beginning of the "modern era of social responsibility" [Carroll, (1979), p.497]. However, approximately six decades later, little is still known about MNEs' CSR motivations in emerging markets. This could be because MNEs are a new kind of business entity and that "rushing to the emerging markets" is a recent phenomenon. Incorporating extant literature on strategic CSR and nonmarket strategy, we provide a new perspective on MNEs' CSR activities motivated by filling institutional voids. Ultimately, filling institutional voids is intended to maximize profits in order to conduct business in imperfect markets. Our paper further examines the relationship between institutional voids, corresponding CSR activities, and financial performance over time. We discuss several important implications for research and practice and provide limitations and future directions in the next sections.

Figure 2
SUMMARY OF THEORETICAL FRAMEWORK



Implications for Research

We have attempted to explain MNEs' strategic CSR activities that are motivated by filling institutional voids in emerging markets. There are two implications for research. First, prior CSR research has primarily focused on firms' altruistic motivations or external pressures. Our study brings a new perspective in rethinking how MNEs might "dress up" their nonmarket strategies as CSR activities. Our paper does not intend to make a statement about whether the outcome of strategic CSR is good or bad; we simply distinguish the motivations. For example, when an MNE gives charitable donations to build schools in the host country, the outcome is likely to be beneficial to the local community, regardless of whether the MNE is doing it for altruistic preference or profit maximization. In this vein, different motivations can generate similar outcomes. First, MNEs motivated by profit maximization can reduce their CSR activities if they perceive that the cost is greater than the benefit, whereas MNEs motivated by altruism are likely to engage in CSR activities regardless of the cost. Second, when MNEs try to fill institutional voids, it does not change the overall environment per se. For example, when MNEs try to fill institutional voids in the labor markets in the host countries by investing in human capital development, the MNEs' investments do not reduce institutional voids in the host country immediately as the proportion of the people employed by the MNEs are relatively small. However, as more MNEs move into emerging markets, institutional voids in the labor markets could be slowly reduced, pending on whether the government in the host country makes necessary policies to facilitate the change. This is an important implication. It implies that if more MNEs engage in this kind of strategic CSR activities, it may be beneficial to both the host country and the MNEs. Our paper thus contributes to the current literature on MNEs' activities in emerging markets.

Implications for Practice

Our paper also has several important managerial implications. First, MNEs should rethink their nonmarket strategy and align it with their business goals and the overall institutional environment. Some MNEs may engage in CSR activities because of external pressure or as a mimetic action of the competitors' practices. Our paper proposes that if MNEs direct their CSR spending in filling institutional voids, they can predict a positive return in the financial performance in the long run. Second, MNEs should be aware that any CSR activity is not likely to generate results right away. There is always the initial cost and this should be treated as part of the cost of doing business abroad. Thus, just like other nonmarket strategies, when MNEs estimate their potential returns, both short-run and long-run returns should always be taken into consideration.

Limitations and Future Directions

Our paper is not without limitations. First, it is very difficult to empirically distinguish CSR activities motivated by altruism, social pressure/threats, and profit-maximization. One way to overcome this issue is by surveys or interviews. However, they can generate misleading information as well if they are not designed well. Additionally, the external pressure from different stakeholders has been cited as an important factor in explaining firms' behaviors (Clarkson, 1995; Donaldson and Preston, 1995; Mitchell et al., 1997). For example, Clarkson (1995) reviewed more than 70 CSP studies from 1983 to 1993 and proposed that CSP can be explained by examining firms' relationships with their stakeholders. However, our paper does not address this issue. We choose not to discuss this possible explanation because it has been widely discussed in the extant literature.

For future research, there are several directions. First, researchers can investigate further on MNEs' nonmarket strategy in emerging markets. We do not propose that CSR activities are the only way to fill institutional voids. For example, to overcome the lack of governmental regulations, some MNEs may engage in activities such as bribing and lobbying. First, future research should examine which activities are more effective in filling institutional voids. Second, researchers should examine the extent to which strategic CSR activities are used as a signal of good corporate citizenship. To our knowledge, few empirical studies have been conducted in this area, especially for MNEs in emerging markets, where information asymmetry is high. Finally, it is very likely that a moderating effect could exist. For example, MNEs' CSR motivation may be moderated by government pressure. A study investigating the moderating effect may yield interesting results. In summary, there are still many unexplored areas researchers can investigate in this field.

REFERENCES

Ackerman, R. (1975). The social challenge to business. Cambridge: Harvard University Press.

Bagnoli, M., & Watts, S. (2003). Selling to socially responsible consumers: competition and the private provision of public goods. Journal of Economics & Management Strategy, 12(3), 419-445.

Barnett, M., & Salomon, R. (2006). Beyond dichotomy: The curvilinear relationship between social responsi-

bility and financial performance. Strategic Management Journal, 27(11), 1101-1122.

Baron, D. P. (1997). Integrated strategy, trade policy, and global competition. California Management Review, 39(2), 145-169.

Baron, D. P. (2001). Private politics, corporate social responsibility, and integrated strategy. Journal of Economics & Management Strategy, 10(1), 7-45.

Baron, D. P. (2009). A positive theory of moral management, social pressure, and corporate social performance. Journal of Economics & Management Strategy, 18(1), 7-43.

Behrman, J. N. (1972). The role of international companies in Latin American integration: Autos and petrochemicals. Lexington: Lexington Books.

Birdsall, N., & Wheeler, D. (1993). Trade policy and industrial pollution in Latin America: Where are the pollution havens? The Journal of Environment & Development, 2(1), 137-149.

Boisot, M., & Child, J. (1996). From fiefs to clans and network capitalism: Explaining China's emerging economic order. Administrative Science Quarterly, 41(4), 600-628.

Bonardi, J., Holburn, G., & Vanden Bergh, R. (2006). Nonmarket strategy performance: Evidence from US electric utilities. The Academy of Management Journal, 49(6), 1209-1228.

Bowen, H. R. (1953). Social responsibilities of the businessman, New York: Harper & Row.

Brower, J. & Mahajan, V. (2013). Driven to be good: A stakeholder theory perspective on the drivers of corporate social performance. Journal of Business Ethics, 117(2), 313-331.

Burton, B., Farh, J., & Hegarty, W. (2000). A cross-cultural comparison of corporate social responsibility orientation: Hong Kong vs. United States students. Teaching Business Ethics, 4(2), 151-167.

Campbell, J. (2007). Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. Academy of Management Review, 32(3), 946.

Campbell, J., Eden, L. A. & Miller, S. R. (2012). Does distance matter? Multinationals and corporate social responsibility in host countries. Journal of International Business Studies, 43(1), 84-106.

Carroll, A. (1979). A three-dimensional conceptual model of corporate performance. The Academy of Management Review, 4(4), 497-505.

Chakrabarty, S. (2009). The influence of national culture and institutional voids on family ownership of large firms: A country level empirical study. Journal of International Management, 15(1), 32-45.

Clarkson, M. (1995). A stakeholder framework for analyzing and evaluating corporate social performance. The Academy of Management Review, 20(1), 92-117.

David, P., Bloom, M., & Hillman, A. (2007). Investor activism, managerial responsiveness, and corporate social performance. Strategic Management Journal, 28(1), 91-100.

De Bakker, F., Groenewegen, P., & Den Hond, F. (2005). A bibliometric analysis of 30 years of research and theory on corporate social responsibility and corporate social performance. Business & Society, 44(3), 283.

Donaldson, T., & Preston, L. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. The Academy of Management Review, 20(1), 65-91.

Dunning, J. H. (Eds.). (2003). Making globalization good: The moral challenges of global capitalism. New York: Oxford University Press.

Dunning, J. H., & Lundan, S. M. (2008). Multinational enterprises and the global

Economy (2nd ed.). Cheltenham: Edward Elgar.

Eden, L. (2009). Letter from the Editor-in-Chief: Time in international business. Journal of International Business Studies, 40(4), 535-538.

Ferri, L. M. & Ferri, L. M. (2017). The influence of the institutional context on sustainability reporting. A cross-national analysis. Social Responsibility Journal, 13(1), 24-47.

Freeman, R. (1984). Strategic management: A stakeholder perspective. Boston: Pitman.

Friedman, M. (1970, September 13). The social responsibility of business is to increase its profits. The New York Times, 12.

Garten, J. E. (1996). The big emerging market. Columbia Journal of World Business, 31(2), 7-31.

Ghemawat, P. (2001). Distance still matters. Harvard Business Review, 79(8), 137-147.

Guillen, M. F., & Garcia-Canal, E. (2009). The American model of the multinational firm and the "new" multi-

nationals from emerging economies. Academy of Management Perspectives, 23(2), 23-35.

Griffin, J., & Mahon, J. (1997). The corporate social performance and corporate financial performance debate. Business and Society, 36(1), 5-31.

Hart, S. (1995). A natural-resource-based view of the firm. Academy of Management Review, 20(4), 986-1014.

Hemingway, C., & Maclagan, P. (2004). Managers' personal values as drivers of corporate social responsibility. Journal of Business Ethics, 50(1), 33-44.

Hofstede, G. (1980). Cultural consequences: International differences in work-related values. Beverly Hills: Stage Publications.

Hofstede, G. (2001). Culture's consequences: Comparing values, behaviors, institutions, and organizations across nations (2nd ed.). London: Stage Publications.

Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000). Strategy in emerging economies. Academy of Management Journal, 43(3), 249-267.

Husted, B. W., Montiel, I., & Christmann, P. (2016). Effects of local legitimacy on certification decisions to global and national CSR standards by multinational subsidiaries and domestic firms. Journal of International Business Studies, 47(3), 382-397.

Hymer, S. (1976). The international operations of national firms: A study of direct foreign investment. Cambridge: MIT Press.

Jones, T. M. (1995). Instrumental stakeholder theory: A synthesis of ethics and economics. Academy of Management Review, 20(2), 404-437.

Khanna, T., & Palepu, K. (1997). Why focused strategies may be wrong for emerging markets. Harvard Business Review, 75(4), 41-54.

Khanna, T., Palepu, K., & Sinha, J. (2005). Strategies that fit emerging markets. Harvard Business Review, 83(6), 63-76.

Kostova, T. (1999). Transnational transfer of strategic organizational practices: A contextual

perspective. Academy of Management Review, 24(2), 308-324.

Kostova, T., & Zaheer, S. (1999). Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. Academy of Management Review, 24(1), 64-81.

Lamb, N. H. & Butler, F. C. (in press). The influence of family firms and institutional owners on corporate social responsibility performance. Business & Society.

Liou, R. & Lamb, N. H. (in press). Buying to be socially responsible: Emerging market multinational corporations' cross-border acquisitions and corporate social performance. Journal of Managerial Issues.

Lockett, A., Moon, J., & Visser, W. (2006). Corporate social responsibility in management research: Focus, nature, salience and sources of influence. Journal of Management Studies, 43(1), 115-136.

Luo, X., Wang, H., Raithel, S., & Zheng, Q. (2015). Corporate social performance, analyst stock recommendations, and firm future returns. Strategic Management Journal, 36(1), 123-136.

Madsen, P. (2009). Does corporate investment drive a "race to the bottom" in environmental protection? A reexamination of the effect of environmental regulation on investment. The Academy of Management Journal, 52(6), 1297-1318.

Margolis, J., & Walsh, J. (2003). Misery loves companies: Rethinking social initiatives by business. Administrative Science Quarterly, 48(2), 268-305.

Mathews, J. A. (2006). Dragon multinationals: New players in 21st century globalization. Asia Pacific Journal of Management, 23(1), 5-27.

Matten, D., & Moon, J. (2008). "Implicit" and "explicit" CSR: a conceptual framework for a comparative understanding of corporate social responsibility. The Academy of Management Review, 33(2), 404-424.

McWilliams, A., & Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective. The Academy of Management Review, 26(1), 117-127.

McWilliams, A., Van Fleet, D., & Cory, K. (2002). Raising rivals' costs through political strategy: An extension of resource-based theory. Journal of Management Studies, 39(5), 707-724.

Mitchell, R., Agle, B., & Wood, D. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. The Academy of Management Review, 22(4), 853-886.

Murphy, D. (2004). The structure of regulatory competition: corporations and public policies in a global economy. New York: Oxford University Press.

North, D. C. (1990). Institutions, institutional change, and economic performance. Cambridge, UK: Cambridge University Press.

Orlitzky, M., Schmidt, F., & Rynes, S. (2003). Corporate social and financial performance: A meta-analysis. Organization Studies, 24(3), 403-441.

Paul, S. N. (2007, March 28). Statement of Scott N. Paul, Executive Director of Alliance for American Manufacturing Committee on House Foreign Affairs Subcommittee on Terrorism, Nonproliferation, and Trade.

Peng, M. W., & Heath, P. S. (1996). The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choices. Academy of Management Review, 21, 492-528.

Reimann, F., Rauer, J., & Kaufmann, L. (2015). MNE subsidiaries' strategic commitment to CSR in emerging economies: The role of administrative distance, subsidiary size, and experience in the host country. Journal of Business Ethics, 132(4), 845-857.

Reus, T., & Lamont, B. (2009). The double-edged sword of cultural distance in international acquisitions. Journal of International Business Studies, 40(8), 1298-1316.

Rodriguez, P., Siegel, D. S., Hillman, A., & Eden, L. (2006). Three lenses on the multinational enterprise: politics, corruption, and corporate social responsibility. Journal of International Business Studies, 37(6), 733-746.

Roman, R., Hayibor, S., & Agle, B. (1999). The relationship between social and financial performance: Repainting a portrait. Business & Society, 38(1), 109.

Rowley, T., & Berman, S. (2000). A brand new brand of corporate social performance. Business & Society, 39(4), 397.

Ruqing, W., & Fangcheng, T. (2013). Mechanism of the CSP-CFP relationship: An empirical study based on stakeholder. Journal of Management, 06-02.

Short, J. C., McKenny, A. F., Ketchen, D. J., Snow, C. C., & Hult, G. T. M. (2016). An empirical examination of firm, industry, and temporal effects on corporate social performance. Business and Society, 55(8), 1122-1156.

Siegel, D. S., & Vitaliano, D. P. (2007). An empirical analysis of the strategic use of corporate social responsibility. Journal of Economics & Management Strategy, 16(3), 773-792.

Simpson, W., & Kohers, T. (2002). The link between corporate social and financial performance: Evidence from the banking industry. Journal of Business Ethics, 35(2), 97-109.

Singh, J., Carasco, E., Svensson, G., Wood, G., & Callaghan, M. (2005). A comparative study of the contents of corporate codes of ethics in Australia, Canada and Sweden. Journal of World Business, 40(1), 91-109.

Surroca, J., Tribó, J. A., & Zahra, S. A. (2013). Stakeholder pressure on MNEs and the transfer of socially irresponsible practices to subsidiaries. Academy of Management Journal, 56(2), 549-572.

UNCTAD (United Nations Conference on Trade and Development). (2015). World Investment Report, 2015. New York, NY: United Nations.

Wartick, S., & Cochran, P. (1985). The evolution of the corporate social performance model. The Academy of Management Review, 10(4), 758-769.

Williamson, O. E. (1975). Markets and hierarchies: Analysis and anti-trust implications. New York: Free Press.

Williamson, O. E. (1979). Transactional cost economies: The governance of contractual relations. Journal of Law and Economics, 22(2), 233-261.

Windsor, D. (2006). Corporate social responsibility: Three key approaches. Journal of Management Studies, 43(1), 93-114.

Wood, D. (1991). Corporate social performance revisited. The Academy of Management Review, 16(4), 691-718.

Wright, M., Filatotchev, I., Hoskisson, R. E., & Peng, M. W. (2005). Strategy research in emerging economies: Challenging the conventional wisdom. Journal of Management Studies, 42(1), 1-33.

Zarsky, L. (1999). Havens, halos and spaghetti: Untangling the evidence about foreign direct investment and the environment. London: OECD Press.

Zhao, M., Tan, J., & Park, S. (2014). From voids to sophistication: Institutional environment and MNC CSR crisis in emerging markets. Journal of Business Ethics, 122(4), 655-674.

Zheng, Q., Luo, Y., & Maksimov, V. (2015). Achieving legitimacy through corporate social responsibility: The case of emerging economy firms. Journal of World Business, 50(3), 389-403.

This page is intentionally blank.

Demand for Management Accounting Information in Small Businesses: Judgment Performance in Business Planning

Dr. David Dearman
Tennessee State University
Nashville, Tennessee

Thomas A. Lechner
Associate Professor of Accounting, College of Business
Tennessee State University
Nashville, Tennessee

Stephen B. Shanklin
Frist Chair of Accounting, College of Business
Tennessee State University
Nashville, Tennessee

ABSTRACT

This paper investigates factors that influence the demand for management accounting information by evaluating entrepreneurs' decisions to prepare business plans in support of the need to obtain financing. Data is obtained from a survey administered to clients of the Arkansas Small Business and Technology Development Center and designed to address various aspects of financing options. Regression analysis is used to develop a descriptive model that indicates the adequacy of capital resources acquired from business financing is related to the interaction of entrepreneurial manager's decision to prepare a business plan and his/her financial knowledge. These findings have implications that support the proposition that the demand for managerial accounting information is based, at least to some extent, on managers' need for key support of optimal decisions.

The authors would like to acknowledge the support provided by the Arkansas Small Business Technology and Development Center by permitting and facilitating access to their small business clients and the thoughtful contributions of John R. Henden and Joseph R. Bell (University of Arkansas at Little Rock) in the development of the survey instrument from which data analyzed in this study was obtained.

INTRODUCTION

The demand for management accounting information in organizations is influenced by the need for organizational efficiencies (Chandler 1977, Yates 1991). Owner-managers of small businesses require management accounting information to better manage their resources (Kirby and King, 1997). However, there is a dearth of specific evidence for how new management accounting information may have influenced business decisions (Luft 1997). While accounting data are typically considered to be the basis for decision making in organizations, there is evidence that accounting data is not always the primary basis for decision making. (Lawrenson, 1992). Furthermore, how accounting may have achieved a particular role in the organization, whether it may be an operational focus on costs and outputs or a more sophisticated strategic focus on planning and control, may be influenced by factors such as social environment, culture, or other organizational forces (Ansari and Euske 1987; Berry et al. 1985; Bougen 1989).

Planning has long been regarded as a cornerstone of management (Fayol 1949; Gulick 1937; Koontz and O'Donnell 1955). Indeed, planning and decision support are considered to be significant, high-value-added aspects of management accounting, in contrast to lower-value – added aspects of cost accounting and performance evaluation and analysis (IFAC 2009). A primary role of planning is to allow organizations and managers to respond proactively to opportunities and threats presented by

uncertain environments (Chakravarthy 1987; Hax and Majluf 1996).

In the management literature, there has been considerable but generally inconclusive debate about the benefits that formal planning activities, such as writing business plans, may bring to organizations and about whether there is a causal relationship between planning and organizational performance (see Gruber 2007 for a review). An important role of written

business plans is to solve a problem of a lack of information for third parties, particularly banks and other lenders (see Aldrich and Fiol 1994; Berger and Udell 1998). Thus, owner-managers of new ventures must decide whether to prepare a formal business plan, including related financial projections. The purpose of this paper is to provide theory-based quasi-experimental evidence about the success of those owner-managers' judgment-based decisions to obtain new-venture financing as a basis for inferring determinants of the demand for management information.

Experimental research in accounting and auditing indicates that managers' judgments and decisions are not always of the highest quality (Bonner 2001; Shields 1997). Furthermore, an important issue concerning the determinants of decision quality is the objective of the decision – making process (Luft and Shields 2009). The propensity of entrepreneurs to decide to prepare a formal business plan, including accounting-based financial analysis, may itself be influenced by the business context of the new venture as well as characteristics of the individual entrepreneurs.

This paper specifically considers the relationship between the adequacy of financial resources received with the preparation of a formal business plan while giving consideration to financial needs of the business and personal characteristics of the entrepreneurial decision maker, including related financial knowledge. Evidence that managers decide to utilize formal business plans including financial projections when seeking outside financing and are thereby more successful in obtaining adequate financing will provide support to the supposition that new management information influences business decisions, thereby providing evidence about how firms profit from adopting management accounting innovations. Thus, this study focuses on the impact of management accounting information developed through business planning on judgment performance, not business performance.

As a result, research on judgment performance in management accounting is extended by developing and testing a psychology-based hypothesis that adequacy of financing is related to preparation of a formal business plan as well as factors that may moderate this relationship including cognitive characteristics of the decision maker and economic needs of the business. This hypothesis is tested using a survey of entrepreneurs who received business counseling services from a government-funded small business development center. Results indicate that adequacy of financing received during the business development process is *negatively* associated with the decision to prepare a formal business plan when controlling for the interaction between managers' confidence in their financial knowledge and business need for external financing, thereby providing empirical evidence for the development of management accounting information to support and influence business financing decisions.

The remainder of this paper is organized to present a review of prior research, develop hypotheses, describe the research method, and present hypothesis testing results. The final section discusses results and implications for future research.

LITERATURE REVIEW

Judgment Performance

Accounting research has long been concerned with whether decisions in organizations are affected by differences in accounting-related stimuli (Ashton and Ashton 1995). Furthermore, prior research in management accounting has found that various characteristics of the manager's task and the organizational context affect accounting-related judgment performance (Binberg 2011). However, there is a dearth of specific evidence how new management information may have influenced business decisions (Luft 1997).

Management accounting tasks like budgeting or financial planning consist of multiple interdependent and often subjective decisions (Luft and Shields 2009). For an entrepreneur with an objective of raising financial capital for a new venture, one accounting-related decision is whether to prepare a formal business plan, including financial projections, in support of the fund – raising effort. The process of determining whether to prepare a formal business plan can be represented as a planning judgment that requires individuals to make a subjective evaluation of the payoff included in the decision-maker's objective (Luft and Shields 2009).

Evaluating the quality of judgment performance requires consideration of both the task and the individual (Bonner 1999; Einhorn and Hogarth 1981; Libby and Luft 1993; Tan and Kao 1999). An important characteristic of the individual is task-related knowledge because failure to have the knowledge that is relevant to the specific decision task results in poor decision performance because the in-

dividual does not have access to the information necessary to make a good decision (Bonner 1990). Furthermore, Bandura (1986) emphasizes that successful achievement of a goal or completion of a task requires reasonably accurate appraisals of one's own knowledge and that judgments of capability that are more task-specific are better predictors of related performance than are more generalized judgments. The knowledge needed to prepare an effective business plan includes, but it not limited to, financial knowledge (Armstrong 1982). Managers' decisions based on accounting and financial knowledge is related to their accounting – based judgment performance (Dearman and Shields 2001, 2005).

Business Plan Development

Despite considerable efforts, there has been little in the way of an agreed consensus as to the value of business plans (Bhide 2000; Boyd 1991; Brews and Hunt 1999; Fredrickson and Iaquinto 1989; Robinson and Pearce 1983; Robinson et al. 1986). A key issue for research seeking a link between preparation of a business plan and organizational performance is that it is easy to confuse the impact of business plans on performance with differences in performance due to selection effects (Burke et al. 2010). Perhaps not surprisingly, the empirical literature points inconclusively to any association between business plans and organizational performance.

This lack of consensus also applies to new ventures. Perry (2001), Delmar and Shane (2003), and Liao and Gartner (2006) all point to a positive relationship between business plans and survival. Gruber (2007) finds that plans help achieve marketing objectives. By contrast, Tornikoski and Newbert (2007), Haber and Reichel (2007), and Honig and Karlsson (2004) all struggle to find any relationship between business plans and new venture performance.

The entrepreneurship literature is divided about the relative merits of planning activities with some authors stressing the possible benefits of planning (e.g. Block and MacMillan 1985; Matthews and Scott 1995; Shane and Delmar, 2004) and others warning against excessive planning (e.g. Allinson, Chell, and Hayes 2000; Bird 1988; Carter, Gartner, and Reynolds 1996). Furthermore, surprisingly little is known about the ways in which business plans are actually used in new ventures and to what extent they are considered useful by the entrepreneurs and managers themselves (see Gartner and Birley 2002). For example, it has been demonstrated in a primitive entrepreneurial setting that the demand for planning arises from the need for control (Gstraunthaler and Hendry 2011); that is, plans provide the basis for performance measures that promote accountability for results.

Business plans are a prevalent feature of new venture management and are encouraged by government agencies, education institutions, and consultants and are sometimes a core requirement when seeking financial support. There is a widespread belief that writing a business plan will impact favorably on venture performance by stimulating faster and better decision

making because entrepreneurs can test their assumptions before expending valuable resources (Bygrave and Zacharakis 2010; Gruber 2007). Furthermore, when there is a need for external financing, an important role of written business plans is to solve the problem of a lack of information for third parties, particularly banks and other lenders (see Aldrich and Fiol 1994; Berger and Udell 1998).

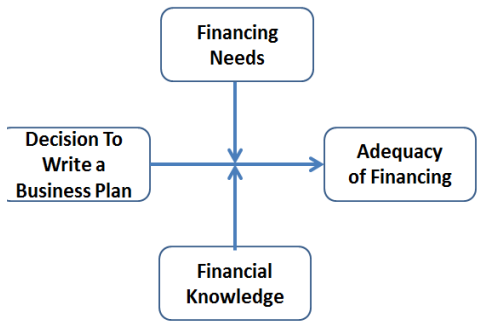
In contrast, Honig and Samuelsson (2008) and Honig and Karlsson (2004) question if written business plans are anything more than mimetic devices that, at best, serve to legitimize the new venture. Indeed, formal business planning by the small business sector has been characterized as unwarranted while recognizing that although planning does not necessarily lead to high performance, high performers are likely to use planning (Gibson and Cassar 2005).

Further, entrepreneurs often write business plans to answer external demands to gain symbolic legitimacy for their actions, after which there is a gradual disconnection of their day-to-day business activities from initial plans (Karlsson and Honig 2009).

Bhide (2000) suggests that the impact of business plans on new venture performance is unlikely to have a generically and consistently positive, negative, or negligible effect. Instead, he posits that the efficacy of business plans is governed by the context within which business plans are written. Some are written to raise loan finance with the purpose of reassuring lenders of the low risk and secure positive cash flow position of the venture; others are written to help a founding, self-funded entrepreneur devise a market entry and growth strategy for a high-risk, innovative new product in an emerging uncertain market. The effects on performance are unlikely to always be the same in such widely varying contexts.

Thus, the efficacy of written business plans may be context specific. This discussion suggests that business context, such as the need for external financing, and cognitive characteristics of entrepreneurs, such financial knowledge, influence the decisions about whether to prepare a formal business plan to support an effort to raise financial resources for a new venture. Figure 1 presents a judgment performance model of these relationships.

Figure 1
Judgment Performance Model Applicable to the Decision to Write a Business Plan



DEVELOPMENT OF HYPOTHESES

Capital acquisition is one of the most important and challenging issues facing small firms (Ang 1992). As the required investment increases, especially investment obtained from outside sources, the pressure to justify and safeguard that investment through formal planning processes is likely to increase. Therefore, the use of a formal business plan is expected to influence the outcome of the capital acquisition process with regard to adequacy of funds obtained (Carter and Van Auken 2007).

H1: Adequacy of financing is positively associated with preparation of a business plan.

In addition, individual characteristics of the owner-entrepreneur, including knowledge of financial issues, may have an impact on the extent of formal planning that is undertaken and the success of that planning effort. A recent study to delineate capital budgeting processes in small firms noted that a majority of small business owners did not have financial expertise due to their educational background (Danielson and Scott 2006). Furthermore, there is some consensus that cognitive processes play a critical role in social behavior and thought (Bandura 2001; Krueger 2005). The role of perceived self-efficacy, an individual's judgment of their capability to attain a designated type of performance, is such that it mediates the relationship between knowledge and human action (Bandura 1986), whereas high entrepreneurial self-efficacy produces strong probabilities of entrepreneurial activity (Boyd and Vozikis 1994; McGee et al. 2009), it is expected that perceived level of financial knowledge by the entrepreneur is related to their efforts to execute formal financial planning. However, given that many lenders require the preparation of a business plan, it is likely that individual entrepreneurs with a low level of financial knowledge may not prepare effective business plans (Chen et al. 1998).

H2a: Adequacy of financing is NOT associated with the self-assessment of financial knowledge.

H2b: Adequacy of financing is positively associated with the interaction of self – assessment of financial knowledge with the decision to prepare a business plan.

Other contextual considerations expected to impact the formal planning decision involve the likely sources of personal financial contribution by the owner(s) at start-up, sources of outside financing (including both debt and equity capital sources), the projected sufficiency of start-up funds, and extent of investor involvement in the activities of the business, but these factors are not expected to be related to successful achievement of the objective of financing adequacy.

H3a: Adequacy of financing is NOT associated with the amount of the initial investment required to start the business.

H3b: Adequacy of financing is NOT associated with the amount of external financing required to start the business.

H3c: Adequacy of financing is positively associated with the interaction of the amount of the initial investment required and the amount of external financing required to start the business.

METHOD

An email survey was administered to small business entrepreneurs identified and selected from the client pool of the Arkansas Small Business and Technology Development Center (ASBTDC). The ASBTDC provides a broad variety of consulting services to different client groups, from entrepreneurs in the planning stage to small companies that have been in business for many years. The survey population included 1,303 going-concern companies that had been in operation for at least two years, having valid email addresses and receiving any type of counseling services from the center. 1

To promote and encourage participation in the survey, all email communications, three sets of messages prepared by the researchers, were sent directly from ASBTDC to the

selected client survey population. The first message was sent was sent one week before the survey was made available to potential respondents. The second message was sent when the survey became available and requested that the clients complete the survey. The third message was sent the following week as a reminder that the survey was on-line and available for completion.

The survey instrument was designed to address various aspects of financing within small businesses including the availability and use of outside debt or equity funds and owner attitudes toward various funding options.2 Survey questions corresponding to the dependent, independent, and control variables employed to test the hypotheses of this study are listed in the Appendix.

BUSINESS PLAN is a dichotomous yes/no variable. Responses for INITIAL INVESTMENT, OUTSIDE FUNDS, FINANCIAL KNOWLEDGE, and ADEQUACY (of financing) were coded as numerical categorical variables (see Appendix).

As required by Institutional Review Board guidelines, potential survey respondents were assured of confidentiality and anonymity, noting that participation was strictly voluntary. No incentives were offered by the researchers or ASBTDC for participation in the survey. This researcher is unaware of the identities of the respondents and is not knowingly involved with any respondents to this study.

Specific question topics included founders' ownership and allocation of equity within the firm, current capital structure, owners' attitudes toward various funding options (both previously employed and potential future options), the purposes for previously received debt and equity funding, and plans for raising additional capital. None of these factors were associated with preparation of business plans.

RESULTS

A total of 162 usable survey responses were collected from the 1303 survey population, resulting in a 12.4% response rate. Descriptive statistics for relevant variables are presented in Table 1A. Business plans were prepared for 109 of the 162 responding businesses (67.3%).

Respondents included 93 males and 69 females. There is no significant difference between gender with regard to the decision as to whether to prepare a business plan (χ^2=0.261, p=0.609, df=1). In addition, there are 78 businesses with one founder, 55 with two founders, 12 with three founders, and 10 with four or more founders (mean=1.7, median=2). This result is generally consistent with a recent national survey in which small business firms had an average of three owners with a median of one (Mach and Wolken 2006). The median initial investment by these entrepreneurs is in the range of $10-50 thousand.

Given that data consists primarily of dichotomous and categorical variables, Spearman rank order correlations

Table 1A
Descriptive Statistics
(N = 154)

Variable	Mean	StdDev	Min	Median	Max	Skewness
Financing Adequacy	2.01	1.01	1.0	2.0	3.0	-0.2
Business Plan	0.67	0.47	0.0	1.0	1.0	-0.7
Initial Investment	2.89	1.57	1.0	3.0	6.0	0.2
Outside Funds	3.18	2.27	1.0	3.0	6.0	0.1
Financial Knowledge	2.03	0.95	1.0	2.0	4.0	0.2

Table 1B
Spearman Correlation Coefficients

	Business Plant	Initial Investments	Outside Funds	Financial Knowledge
Initial Investment	0.224**			
Outside Funds	0.138#	0.460***		
Financial Knowledge	-0.006	0.107	-0.051	
Financing Adequacy	0.035	0.116	0.069	0.211**

# p < 0.100, p < 0.050, ** p < 0.010, *** p < 0.001

are presented in Table 1B. Business plan preparation is positively correlated with the dollar amount of Initial Investment (p=0.004) and with the percentage amount of Outside Funds obtained from outside sources (p=0.081). Interestingly, there is a positive correlation of Financing Adequacy with Financial Knowledge (p=0.007), which suggests that entrepreneurs who consider themselves more knowledgeable about financial matters are on average more likely to obtain adequate financing.

Hypothesis testing and model development is based on regression analysis.[3] The basic model suggested by the hypotheses presented above is specified as:

ß1 BUSwith additional independent variables included in the overall analysis to control for amount of Initial Investment, and Outside Funds.

Results for this analysis are presented in Table 2. The overall model including control variables is significant (F=3.42, p=0.003). While Financial Knowledge is not significantly related to Financing Adequacy, the interaction of the decision to prepare a business plan and Financial Knowledge of the decision maker is significantly positive (p=0.0246). These results support H2a and H2b. However, the significantly negative coefficient of Business Plan does not support H1. Despite the correlation among key variables, multicollinearity is not considered to be a threat to regression results because all of the variance inflation factor (VIF) values associated with this regression model are less than 1.5, which is lower than the critical value of 10.

The negative relationship in the main effect of Financing Adequacy on business plan preparation suggests that a significant number of businesses for which no business plan is Given that the dependent variable is a categorical variable, results were also analyzed using logistic regression with no substantive differences in the significance of observed relationships. prepared may have found or developed access to sufficient capital before it became necessary to prepare and present a formal business plan. Furthermore, further analysis of the interaction effect of Financing Adequacy and Financial Knowledge indicates that en-

TABLE 2
Regression Analysis: Dependent Variable = Financing Adequacy (n=162)

	df	*SS*	*MS*	*F*	*Sig. F*
Regression	6	19.277	3.213	3.42	0.003
Residual	155	150.071	0.968		
Total	161	164.994			

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	2.229	0.375	5.94	0.000
Business Plan	-0.783	0.388	-2.02	0.045
Financial Knowledge	-0.082	0.142	-0.58	0.563
BP x FK	0.394	0.173	2.25	0.024
			-0	
Initial Investment	-0.087	0.089	.99	0.326
Outside Funds	-0.113	0.075	-1.50	0.135
Initial x Outside	0.051	0.022	2.25	0.026

R^2	0.117
Adjusted R^2	0.083
Standard Error	0.970

trepreneurs with high Financial Knowledge who prepare business plans are more likely to obtain adequate financial resources with their business plan while those with low Financial Knowledge are less likely to obtain adequate financial resources with their business plans. However, Financing Adequacy was not significantly different between entrepreneurs with high/low Financial Knowledge who did not prepare a business plan.

DISCUSSION

This paper has identified characteristics of the business context and the individual entrepreneur that are associated with the entrepreneurial decision as to whether to prepare a business plan in support of efforts to obtain adequate financial resources. The implications of the results support the proposition that the demand for managerial accounting information is based, at least to some extent, on managers' need for key support of optimal decisions. Limitations of this method include testing hypotheses by reliance on correlations (which is a necessary but not sufficient condition for causality), omitted variables, and achieved measurement reliability of measured variables.

Future research that may further investigate the link between preparation of business plans and organizational performance should consider the characteristics of the context and the individual entrepreneurs that may impact performance whether or not a business plan is prepared. For example, the greater the amount of the entrepreneur's own resources invested initially into the business, the more likely that entrepreneur is to prepare a formal business plan. However, a significant number of businesses for which no business plan is prepared may have found or developed access to sufficient capital before it became necessary to prepare and present a formal business plan. Furthermore, entrepreneurs confident in their financial knowledge who prepare business plans are more likely to obtain adequate financial resources with their business plan but these business plans are typically prepared for smaller firms whereas they are less likely to prepare a business plan for firms that are larger than average. Systematic differences in capitalization of the firms and in the financial knowledge, and therefore capabilities, of the entrepreneur are likely to be important moderators of the association that links business plans with firm performance.

References

Aldrich, H. and M. Fiol. 1994. 'Fools rush in? The institutional context of industry creation'. *Academy of Management Review*, 19, 645–70.

Allinson, C., E. Chell, and J. Hayes. 2000. Intuition and entrepreneurial behavior. *European Journal of Work and Organizational Psychology,* 9, 31-43.

Ang, J. 1992. Small business uniqueness and the theory of financial management. Journal of Small Business Finance, 1(1), 3–13.

Ansari, S., and K. Euske. 1987. Rational, rationalizing, and reifying uses of accounting data in organizations. *Accounting, Organizations and Society* 12(6), 549–570.

Armstrong, J. S. 1982. The value of formal planning for strategic decisions. *Strategic Management Journal*, 3, 197-211.

Ashton, R.H., and A.H. Ashton. 1995. *Judgment and Decision Making Research in Accounting and Auditing* (Cambridge University Press): 3-25.

Bandura, A. 1986. *Social Foundations of Thought and Action: A Social Cognitive Theory.* Englewood Cliffs, N. J. Prentice-Hall.

Berger, A. N. & Udell, G. F. 1998. The economics of small business finance: The roles of private equity and debt markets in the financial growth cycle. *Journal of Banking and Finance* 22, 873– 897.

Berry, A., T. Capps, P. Ferguson, T. Hopper, and A. Lowe. 1985. Management accounting in an area of the NCB: Rationales of accounting practices in a public enterprise. *Accounting, Organizations and Society* 10(1), 3–28.

Bhide, A. V. 2000. *The Origin and Evolution of New Businesses*. New York: Oxford University Press.

Bird, B. 1988. Implementing entrepreneurial ideas: the case for intention. *Academy of Management Review,* 13, 442-453.

Birnberg, J. G. 2011. A proposed framework for behavioral accounting research. *Behavioral Research in Accounting*, 23(1), 1-43.

Block, Z. and MacMillan, I.C. 1985. Milestones for successful venture planning. *Harvard Business Review,* 63,184-196.

Bonner, S.E. 1990. Experience effects in auditing: The role of task specific knowledge. *The Accounting Review* 65 (1): 72-92.

Bonner, S.E. 1999. Judgment and decision-making research in accounting. *Accounting Horizons* 13 (4): 385-398.

Bonner, S. E. 2001. Judgment and decision making in accounting. Englewood Cliffs, NJ: Prentice-Hall.

Bougen, P. 1989. The emergence, roles and consequences of an accounting-industrial relations interaction. *Accounting, Organizations and Society* 14(2), 203–234.

Boyd, B. 1991. Strategic planning and financial performance: a meta analytic review. *Journal of Management Studies*, 28, 353–74.

Boyd, N. and G.S. Vozikis, 1994. The influence of self-efficacy on the development of entrepreneurial intent and actions. *Entrepreneurship Theory and Practice,* 18(4), 63-77.

Brews, P. J. and M. R. Hunt. 1999. Learning to plan and planning to learn: resolving the planning school/learning school debate. *Strategic Management Journal*, 20, 889–913.

Burke, A., S. Fraser and F.J. Greene. 2010. The multiple effects of business planning on new venture performance. *Journal of Management Studies* 47(3), 391-415.

Bygrave, W. and A. Zacharakis. 2010. *The Portable MBA in Entrepreneurship*, 4th ed. Hoboken, NJ: John Wiley.

Carter, R. B. and H. Van Auken. 2007. Capital acquisition attitudes: Gender and experience. *The Journal of Entrepreneurial Finance & Business Ventures,* 12(2), 55-73.

Carter, N., W. Gartner, and P. Reynolds. 1996. Exploring start-up event sequences. *Journal of Business Venturing,* 11, 151-166.

Chakravarthy, B.S. 1987. On tailoring a strategic planning system to its context: Some empirical evidence. *Strategic Management Journal*, 8(6), 517-534.

Chandler, A. 1977. *The Visible Hand: The Managerial Revolution in American Business.* Cambridge, MA: Harvard University Press.

Chen, C, P. G. Greene, and A. Crick. 1998. Does entrepreneurial self-efficacy distinguish entrepreneurs from managers. *Journal of Business Venturing,* 13,295-316.

Danielson, M.G. and J. A. Scott. 2006. The capital budgeting decisions of small businesses. *Journal of Applied Finance*, 16(2), 45-56.

Dearman, D. T. and M. D. Shields. 2001. Managers' cost experience, cost knowledge and cost – based judgment. *Journal of Management Accounting Research* 14: 1-18.

Dearman, D. T. and M. D. Shields. 2005. Avoiding accounting fixation: determinants of cognitive adaptation to differences in accounting method. *Contemporary Accounting Research* 22(2): 351-384.

Delmar, F. and S. Shane. 2003. Does business planning facilitate the development of new ventures? *Strategic Management Journal*, 24, 1165–85.

Einhorn, H. J., and R. M. Hogarth. 1981. Behavioral decision theory: Processes of judgment and choice. *Annual Review of Psychology* 32: 53-88.

Fayol, H. 1949. *General and industrial management*. London: Pitman.

Fredrickson, J. W. and A. L. Iaquinto. 1989. Inertia and creeping rationality in strategic decision processes. *Academy of Management Journal*, 32, 543–76.

Gartner, W.B. and S. Birley. 2002. Introduction to the special issue on qualitative methods in entrepreneurship research. *Journal of Business Venturing,* 17, 387-395.

Gibson, B. and G. Cassar. 2005. Longitudinal analysis of relationships between planning and performance in small firms. *Small Business Economics* , 207-222.

Gruber, M. 2007. Uncovering the value of planning in new venture creation: A process and contingency perspective. *Journal of Business Venturing,* 22, 782-807.

Gstraunthaler, T. and S. Hendry. 2011. Entrepreneurial and accounting education through action – based learning: The Genesis Project. *Journal of Entrepreneurship Education,* 14, 125-146.

Gulick, L. (1937). Notes on the theory of organization. In: Gulick L & Urwick L (eds.). *Papers on the science of administration*. New York: Institute of Public Administration, Columbia University.

Haber, S. and A. Reichel. 2007. The cumulative nature of the entrepreneurial process: the contribution of human capital, planning and environment resources to small venture performance. *Journal of Business Venturing*, 22, 119–45.

Hax, Arnold C., & N. S. Majluf, 1996. *The Strategy Concept & Process: A Pragmatic Approach*, 2nd ed. Cleveland, OH: Prentice-Hall.

Honig, B. and T. Karlsson, 2004. Institutional forces and the written business plan. *Journal of Management*, 30, 29–48.

Honig, B. & M. Samuelsson 2008. Institutional isomorphism and the likelihood of business planning: The

moderating effects of environmental uncertainty. Babson annual conference, UNC Chapel Hill.

International Federation of Accountants (IFAC). 2009. *Evaluating and Improving Costing in Organizations*. New York: International Federation of Accountants.

Karlsson, T. and B. Honig. 2009. Judging a business by its cover: An institutional perspective on new ventures and the business plan. *Journal of Business Venturing*, 24, 27–45.

Kirby, D. and S. King, 1997, Accountant and small firm development: Filling the expectation gap. *The Service Industries Journal*, 17 (2), 294–304.

Koontz, H., & O'Donnell, C. 1955. *Principles of Management*. New York: McGraw-Hill. Krueger, N. F. 2005. The cognitive psychology of entrepreneurship. In Acs, Z.J. and Audretsch,

(Eds.), *Handbook of Entrepreneurship Research: An Interdisciplinary Survey and Introduction,* pp. 106-140, New York: Springer.

Lawrenson, D. 1992. Britain's railways: The predominance of engineering over accountancy during the inter-war period. *Critical Perspectives on Accounting* 3 (1), 45–60.

Liao, J. and W. B. Gartner. 2006. The effects of pre-venture plan timing and perceived environmental uncertainty on the persistence of emerging firms. *Small Business Economics*, 27, 23–40.

Libby, R. and J. L. Luft. 1993. Determinants of judgment performance in accounting settings: Ability, knowledge, motivation, and environment. *Accounting, Organizations and Society* 18 (4): 425-450.

Luft, J. L. 1997. Long-term change in management accounting: perspectives from historical research. *Journal of Management Accounting Research*, 9, 163-197.

Luft, J. L., and M. D. Shields. 2009. Psychology models of management accounting. *Foundations and Trends ® in Accounting,* 4 (3-4), 199-345.

Mach, T. L., and J. D. Wolken. 2006. *Financial Services Used by Small Businesses: Evidence from the 2003 Survey of Small Business Finances.* Washington D.C.: Federal Reserve Board.

Madsen, E. L. 2007. The significance of sustained entrepreneurial orientation of performance of firms—A longitudinal study. *Entrepreneurship & Regional Development*, 19(3), 185–204.

Matthews, C.H. and Scott, S.G. 1995. Uncertainty and planning in small and entrepreneurial firms: an empirical assessment. *Journal of Small Business Management,* 33, 34-52.

McGee, E. J., M.Peterson, L.S. Mueller, & M. J. Sequeria, (2009) Entrepreneurial self-efficacy: Refining the measure. *Entrepreneurship Theory and Practice,* Vol. 28 (2), 129-144.

Perry, S. C. 2001. 'The relationship between written business plans and the failure of small businesses in the US'. *Journal of Small Business Management*, 39, 201–8.

Robinson, R. B. and J. A. Pearce. 1983. The impact of formalized strategic planning on financial performance in small organizations. *Strategic Management Journal*, 4, 197–207.

Robinson, R. B., J. E. Logan, and M. Y. Salem. 1986. Strategic versus operational planning in small retail firms. *American Journal of Small Business*, 10, 7–16.

Shane, S., and F. Delmar, 2004. Planning for the market: business planning before marketing and the continuation of organizing efforts. *Journal of Business Venturing,* 19, 767-785.

Shields, M. D. 1997. Research in management accounting by North Americans in the 1990s. *Journal of Management Accounting Research,* 9, 3 – 61.

Tan, H. and A. Kao. 1999. Accountability effects on auditors' performance: The influence of knowledge, problem-solving ability, and task complexity. *Journal of Accounting Research* 37 (1): 209-223.

Tornikoski, E. T. and S. L. Newbert. 2007. Exploring the determinants of organizational emergence: a legitimacy perspective. *Journal of Business Venturing*, 22, 311–35.

Van Gelderen, M., M. Frese, and R. Thurik. 2000. Strategies, uncertainty, and performance of small business startups. *Small Business Economics,* 15(3), 165–181.

Yates, J. 1991. Investing in information: Supply and demand forces In the use of information in American firms, 1850-1920. In *Inside the Business Enterprise,* edited by P. Temin, 117-154. Chicago, IL: University of Chicago Press.

APPENDIX—SURVEY QUESTIONS

Dependent Variable:

ADEQUACY

Have you sought additional funds since you opened your business that you did not originally plan to borrow?

1. I did not have enough capital and had to scale back the business
2. I needed more money and I was able to secure it.
3. No unexpected borrowing or investment has been needed.

Independent Variables:

BUSINESS PLAN

Did you write a business plan? (0=No; 1=Yes)

FINANCIAL KNOWLEDGE

Before you attempted to acquire money to start your business, how would you rate your level of financial knowledge?

1. Novice
2. Knowledgeable
3. Competent
4. Expert

Control Variables:

INITIAL INVESTMENT

How much did it cost you to start your business?

1. Less than $5,000
2. $5,000-$10,000
3. $10,001-$50,000
4. $50,001-$200,000
5. $200,001-$500,000
6. Greater than $500,000

OUTSIDE FUNDS

What percent of the total money required to start your business did you obtain from outside sources?

1. Zero
2. Less than 10%
3. More than 10% but less than 25%
4. More than 25% but less than 50%
5. More than 50% but less than 75%
6. Greater than 75%

Why Universal Healthcare is a Trend in the U.S.

Gregory A. Moore
Professo, Department of Health and Human Performance
Austin Peay State University
Clarksville, TN 37044

ABSTRACT

Is the recent Congressional House of Representatives repeal and replacement of the Affordable Care Act a significant event in America's healthcare? Is this a hiccup in a trend for one nation that lacks universal healthcare or the end of a movement? The purpose of this research is to determine if there is a movement to developing universal healthcare in the United States. If there is one, what influences are promoting and supporting that effort, and what influences are slowing or prohibiting that effort? This paper will examine the possibility universal healthcare is a trend over time.

Why might the recent Congressional House of Representatives' repeal and replacement of the Affordable Care Act with the American Healthcare Act not be a significant event in America's future in healthcare? Is this action only a hiccup in a far more significant trend for the one modern nation that still lacks having implemented universal healthcare for its citizens? The purpose of this research is to determine if there is a movement to developing universal healthcare in the United States. If there is a trend, what influences are promoting and supporting that trend? What influences are slowing or prohibiting that effort? This paper will examine the possibility universal healthcare is a trend over time. It will also examine recent events that indicate support for and against a movement toward universal healthcare.

Analysis of Influences
Supporting Forces

ACA Shifts Attitudes

The U.S. spends about twice as much of its Gross Domestic Product (GDP) for healthcare than do other developed nations, but the U.S. only achieves mediocre outcomes in care to its citizens (Teitelbaum and Wilensky, 2017). The more Americans learn about healthcare, it seems they are more willing to expand their options in what healthcare Americans should have. When the Affordable Care Act was introduced in 2010 opponents seemed sufficiently successful in convincing more than half the country to object to the Affordable Care Act (The Daily Signal, 2010). The Kaiser Family Foundation has found some change in those original views about the ACA (Kaiser Family Foundation, Health Tracking Poll, n.d.) Other recent polls have shown higher favorability. Gallup (Norman, 2017) reported the popularity of the ACA had reached 55% favorability. The argument can be made that as the elements of the law are learned and experienced, acceptability of the ACA and its provisions grow among rank and file citizens. The guaranteed coverage of those with pre-existing conditions and coverage of children up to age 26 on their parents' insurance plans are examples of positively accepted elements. (Feldstein, 2011a) Other elements that were initially unacceptable, like a mandate to be insured or pay a tax, were better explained and proved not to be as invasive or intrusive, or as big a burden as opponents claimed. How the mandate or be taxed brings down costs in the overall market by including the young and healthy has not been a big positive, regardless how true it may be. Other clearly false claims, like the ACA implementing death panels, misleadingly derived from the cost saving and family stress reducing ideas like reimbursing doctors for discussing end of life decisions, were debunked (Talking Points Memo, n.d.).

Attitude toward Government Role in Healthcare

The ACA has as a government program both revealed flaws in a market provided system and at the same time, demonstrated the value of government interventions. The reality is that a market system will provide healthcare to those with the means to purchase it, and one must have dollars to "vote." Those without or with limited dollars, like the aged, disabled, unemployed, and low income, will not be full participants in a market driven system. Economists find that not to be a market failure, as the market

can efficiently do its job meeting the demands of those with means to participate. It is not the job of the market to ensure all can participate in purchasing healthcare or insurance (Feldstein, 2011b)

In 1965 Medicaid and Medicare were approved to address this market problem. The ACA today is an indicator how the market may not be meeting the needs of some. Some insurers have limited their participation in the healthcare.com health insurance markets in each state. As private parties some of these private insurers can elect to opt out of selling plans not considered profitable, even when some members of society with government subsidies cannot purchase care. Hence, the ACA has demonstrated how the market will not necessarily result in what citizens deem needed. Only additional government intervention may address the social outcomes sought. (Feldstein, 2011b; Lee, 2015)

Political Shifts

During the 2016 Presidential campaign the left wing of the Democratic Party represented by Senator Bernie Sanders openly promoted universal healthcare. (On the Issues, n.d.) The moderate Democrats avoided that position, but supported continuation of the ACA. Republicans who began the original position to repeal the ACA outright, moved to a repeal but replace the ACA position. An open position for universal healthcare was relatively new even by some of the Democratic Party that promotes government involvement in healthcare. Furthermore, the party that has for six years voted in the one area they controlled, the House of Representatives, to repeal the ACA over 50 times, (Walsh, 2012) now with the potential to take real action on that symbolic vote, has elected not to just repeal the ACA, but to repeal and replace it. A current version of the bill, still not scored by the Congressional Budget Office to date, retains elements of the ACA, but adds some politically ideologically more acceptable components to facilitate passage in one arm of government they control.

John Boehner, a Republican who was until recently the former Speaker of the House of Representatives, scoffed that any repeal and replacement of the ACA by his party would occur. Rather, Boehner suggested, the change would be the ACA with a new name and a "box" around it. Some elected Republicans argue they are fulfilling a longstanding six-year commitment to their voting constituents to repeal the ACA. (Tahir, 2017)

As suggested, the repeal has now included replacement. Can we now connect the lack of a total repeal to the preferences of these same constituents? Have these constituents changed their view on government involvement in healthcare and convinced these elected officials to promote more government intervention to provide better healthcare? The political party that has ideologically fought and resisted any or limited government involvement in healthcare has seemed to have loosened its limits on allowing government in healthcare. The narrative now seems to be less concern about government in healthcare and more about which government. Now it seems the state government should be leading the involvement, they argue, not the federal government. Republicans now in charge of the House of Representatives seem to be including the more popular elements of the ACA supported by the public into more ideologically acceptable legal interventions. Those elected officials that opposed the ACA, the only significant law filling a void in government healthcare activity since 1965, will not repeal it, but replace it. This seems to be a step in the direction of accepting greater government involvement in healthcare.

Younger Ideas

Another factor that seems to have influence on the promotion of universal healthcare is the age of those who supported Senator Bernie Sanders. To the extent that group presents a younger generation of American, the more likely universal healthcare will become reality. This group does not fear the "isms" like their parents and grandparents. This group is not concerned that universal healthcare might be socialized medicine, as their parents and grandparents were told. They seem to be aware of the comparisons of the GDP spending and outcomes of healthcare realized by the U.S. and other nations.

At the other end of the age continuum you would expect to finder older Americans actually needing and using more of the healthcare government programs than their younger fellow citizens. To the extent this group is using the ACA or benefiting from its protection or services, like encouraging states to expand Medicaid, the more likely this group will resist removal of healthcare benefits and popular ACA provisions like guarantees to insure citizens with pre-existing conditions.

Provider Expectations

When President Obama and the Democratically controlled Congress negotiated the ACA, provider groups were included in the bill's development. Insurance companies and physician groups were visibly involved, but pharmaceuticals were omitted. These included provider groups have begun voicing concerns over the repeal and replacement of the ACA. Medical providers and insurance companies are experiencing reimbursement due to increased demand in healthcare by newly insured patients. (DuBois, 2014) To the extent a movement toward universal

healthcare includes these groups as private partners, their support for universal healthcare may be maintained. Universal healthcare may be achieved by a single payer system. Some use a coordinated private insurer or a mix of private services and government providers. To the extent existing providers and insurers are assured a role in the future system, the more likely they will support a move to universal healthcare.

Financial Realities

The ACA will cost the federal government a third of what the Congressional Budget Office projected. (Talking Points Memo, 2017) The ACA over a period of ten years will reduce the deficit and its repeal would increase the deficit. (Congressional Budget Office, 2012, 2012) This comes as a surprising fact as opponents tend to refer to the costs of the ACA, but omit the revenues counted by the Congressional Budget Office. If the ACA can reduce the deficit, what opportunities to reduce our deficit even more do we have with universal healthcare? The financial achievement of the ACA could form a basis for those promoting universal healthcare to move another step farther in financial savings.

Limiting Forces

Political

A number of factors form a basis of forces to potentially delay or prohibit universal healthcare. The Republican right wing Freedom Caucus would prefer to prohibit or limit any government involvement in healthcare, unless initiated by the states. While the Tea Party seems less covered by the media, to the extent it exists, the government role in healthcare for them would also be limited.

Lobbyists

Pharmaceuticals and Pharma were not included in the ACA development. One has to only look at the high cost of drugs to see an indication of that. Congress has done little more than hold hearings with some elements of the drug industry when their prices reach exorbitant levels. Any movement toward universal health would likely be seen as a potential threat to the drug industry. Unless an effort is made to reach an agreement with this lobby to guarantee some future participation or neutralize it, it would be a factor that limits efforts to move to universal healthcare.

Ideologies

About half the state legislators and governors refused to expand Medicaid, having obtained a Supreme Court ruling backing their position that it was unconstitutional for the federal government to remove all Medicaid if it was not expanded (Liptak, 2012). The irony is that neither the mandate or pay a tax, nor the required Medicaid expansion by the states would be needed in a system of the federal government offering universal healthcare as an option to its citizens. However, the fact these states are controlled by the groups who refused to offer healthcare to its citizens at little or no cost to the states, represents a block of potential resistance to universal healthcare, regardless of their economic self-interest.

Conclusion

On balance, will the forces of promoting universal healthcare prevail over the forces that resist it? The ACA has been a catalyst in changing attitudes toward healthcare. Healthcare is being seen as a human right. It may require the necessity of government involvement. A political candidate can use the phrase 'universal healthcare' and be taken seriously. In the long run, the younger age groups will replace older persons and their ideas. This should not be construed that this group is more political, however. Providers have expectations to be involved in the future of healthcare delivery. Fear of financial disaster has not occurred. A Republican controlled House, Senate, and President did not easily repeal the ACA. This suggests the pendulum is not just going to swing one way and then swing back. If repeal had quickly occurred, the best forecast would be healthcare continues just to swing back and forth, going nowhere in particular. The fact the opposition to the ACA has moved to retain elements of the ACA, even as they are carefully trying to fulfill a campaign promise to repeal, is significant. These elected officials seem constrained by their perception of the public interest that more healthcare needs to be offered, not just swing the pendulum back to no care as before the ACA.

How soon universal healthcare will happen is another question. In the area of civil rights in America, the Dred Scott decision upholding slavery was made prior to the Civil War. The Thirteenth Amendment was also legislated. Then Plessey v Ferguson supported racial segregation, making separate but equal the law of the land. However this was overruled fifty years later in Brown v Board of Education. One might observe that this trend has been ongoing for 150 years and continues.

Healthcare had its first event in 1965 with Medicaid and Medicare and a second with the ACA in 2010. How and when a third step occurs is a question. Is this repeal and

replace of the ACA a hiccup or an end in the trend toward universal healthcare? As one examines the forces that promote healthcare by government, and those that limit it, the promotion of a movement toward universal healthcare seems to have a significant edge. The age of those who support it combined with the changes in perceived attitudes by those who have opposed it, are indicators a trend is in process toward universal healthcare, although the speed of its acceptance requires further study.

References

DuBois, S. (2014, April 30). Hospitals Talk ACA Impact. *The Tennessean*. pp. 2D.

Congressional Budget Office. (2012, July 24). Letter to Honorable John Boehner providing an estimate for HR 6079 The Repeal of Obama Care Act. Retrieved from The Congressional Budget Office http://www.cbo.gov/publication/43471.

Congressional Budget Office. (2010, March 20) Letter to Nancy Pelosi regarding HR 4872, Reconciliation Act of 2010 (Final Health Care Legislation). Retrieved from The Congressional Budget Office http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/113xx/doc11379/amendrec onprop.pdf.

The Daily Signal. (2010). New CNN: Poll 59% Oppose Obamacare. http://dailysignal.com/2010/03/22/new-cnn-poll-59-oppose-obamacare/

Feldstein, P.J. (2011a). A Brief Summary of the Patient Protection and Affordable Care Act (PPACA) of 2010. *Health Policy Issues: An Economic Perspective* (pp. 509-515). Chicago, IL: Health Administration Press.

Feldstein, P.J. (2011b). *Health Policy Issues: An Economic Perspective*. Chicago, IL: Health Administration Press.

Kaiser Family Foundation: Kaiser Health Tracking Poll, n.d. http://kff.org/interactive/kaiser-health-tracking-poll-the-publics-views-on-the-aca/

Lee, R.H. (2015). *Economics for Healthcare Managers*. Third Edition. Health Administration Press.

Liptak, A. (2012, June 28). Supreme Court Upholds Healthcare Law, 5-4, in Victory for Obamacare. *The New York Times* retrieved from http://www.nytimes.com/2012/06/29/us/supreme-court-lets-health-law-largely- stand.html?pagewanted=all&_r=0.

Norman, J.; (2017) Gallup: Affordable Care Act Gains Majority Approval for First Time http://www.gallup.com/poll/207671/affordable-care-act-gains-majority-approval-first-time.aspx

On the Issues. (n.d) Bernie Sanders on Healthcare. http://www.ontheissues.org/2016/Bernie_Sanders_Health_Care.htm

Tahir, D. (2017). Politico: Boehner: Republicans won't repeal and replace Obamacare. http://www.politico.com/story/2017/02/john-boehner-obamacare- republicans-235303

Talking Points Memo, Livewire. N.d. "Florida town erupts when GOP official spouts ACA "Death Panels' line. http://talkingpointsmemo.com/livewire/bill-aikens- florida-town-hall-death-panels.

Talking Points Memo (2017) ACA costs federal government a third of projections http://talkingpointsmemo.com/dc/cbo-third-obamacare-costs

Teitelbaum, J.B., & Wilensky, S.E. (2017) *Essentials of Health Policy and Law*, Third Edition, Burlington, MA: Jones and Bartlett Learning.

Walsh, D. (2014, March 5). House Passes 50th Bill to undo Obamacare. CNN Politics. Retrieved from http://politicalticker.blogs.cnn.com/2014/03/05/house-passes-50th-bill-to-undo-obamacare/.

Multiple Authorship Trends in Top Tier Accounting Journals 1980 – 2014

Shawn M. Keough
Assistant Professor, School of Business
Emporia State University
Emporia, Kansas

Kamal Lamsal
Assistant Professor, College of Business
James Madison University
Harrisonburg, Virginia

Timothy Thornton
Assistant Professor, College of Education
Athens State University
Athens, Alabama

Liz Diers
Assistant Professor, School of Business
Emporia State University
Emporia, Kansas

ABSTRACT

This paper examines the authorship trends of eight top tier accounting related journals over the course of thirty-five years (1980-2014). Authorship information from 6,552 accounting related journal articles within four time periods (1980-1989, 1990-1999, 2000-2009, 2010-2014) were analyzed. ANOVA results indicate that the number of coauthored articles has significantly increased during the 1980-2014 timeframe for all eight journals. Reasons for increased collaborative efforts and future research regarding collaborative efforts are discussed.

Introduction

Academics across all disciplines are required to pursue scholarly activities that lead to intellectual contributions adding to the existing body of knowledge. While many forms of scholarly activities exist, the type of scholarly activity receiving almost universal recognition and approval is the peer-reviewed journal article. This viewpoint is expressed through tenure and promotion standards that explicitly articulate that candidates must have published articles in peer-reviewed journals. Because publications in peer-reviewed journals are required for tenure and promotion, academics are highly motivated to pursue scholarly endeavors and the cry "Publish or perish" can be heard resounding the halls of many academic institutions.

The resulting pressure on academics from the imperative to publish varies from discipline to discipline and university to university. For example, universities with a Carnegie classification of R1 (Highest Research Activity) will have significantly higher expectations for publication productivity when compared to universities classified as R3 (Moderate Research Activity). The pressure to publish in peer-reviewed journals is often compounded when institutions only recognize a specific, narrow list of top tier journals as worthy publishing outlets. Journals not included on the list typically will not be considered as quality scholarship for tenure and promotion decisions. Thus, academics are often forced to target top tier journals for their scholarly output.

Study results indicate that co-authorship rates have increased across a variety of disciplines. Some disciplines which have historically been more prone to collaborative research efforts, such as the hard sciences (Glanzel, 2002; Stefaniak, 1982), medicine (Erlen, Siminoff, Sereika &

Sutton, 1997; King, 2000; Norris, 1993), psychology (Cronin, Shaw & La Barre, 2003; Handgraaf & van Raaij, 2005) and economics (Barnett, Ault & Kaserman, 1988; Hudson, 1996) are seeing increases in coauthored articles. Other disciplines which do not have a rich history of co-authored efforts, such as political science and sociology, are exhibiting a trend in increased collaboration (Baum, Griffiths, Matthews & Scherruble, 1976; Endersby, 1996; Fisher, Cobane, Vander Ven & Cullen, 1998; Gelman & Gibelman, 1999; Moody, 2004). While to a lesser extent than a number of other disciplines, even the business disciplines of finance, marketing and management (Swanson, 2004) are not immune to the trend of increased collaboration.

One business area receiving significant attention regarding authorship trends is accounting. Gaunt (2014) provides an in-depth article describing the authorship and citation trends for the journal from 1979-2012, which was an updated analysis of Otchere (2003). Fogarty and Jonas (2013) provided a 20-year (1989-2009) authorship analysis for three accounting journals, and . Englebrecht, Hanke and Kuang (2008) conducted a 26-year (1979-2004) authorship analysis in premier accounting journals. Englebrecht, Chu, Coleman and Martin (2013) performed an analysis of authorship analysis in non-U.S. edited premier accounting journals over a 15-year period (1995-2009). Mathieu and McConomy (2003) performed an 11-year (1990-2000) analysis of Canadian accounting researcher productivity. Each study indicated that the number of coauthored articles increased.

With the exception of Englebrecht, Hanke and Kuang (2008), the scope of the studies were narrow in terms of the timeframe and number of journals examined. This study intends to expand the current literature by examining co-authorship trends in eight premier accounting journals over a 35-year (1980-2014) period.

The number of top tier journals within a discipline are limited, keeping the number of articles possible to be published in top tier journals low. Consider an old drive-in movie theater with 100 parking spots. Once all of the parking spots are full, no more people get to comfortably watch the movie. How do people who want to enjoy the benefits of the drive-in get in? Simple, they carpool with someone else. The result was that very few cars with a single person went to a drive-in movie. It was much more common to see cars with two, three or four people. This phenomenon could be similar to publishing in top tier journals, a large number of people competing for a limited number of published articles. In order to reap the benefits of a top tier journal article, such as tenure and promotion, co-authoring may be necessary.

Previous research has indicated that the number of co-authors has increased within a number of disciplines, accounting included. Collaboration studies in top tier accounting journals on co-authorships indicate a trend toward increased collaboration in accounting research (Englebrecht, Hanke & Kuang, 2008; Englebrecht, Chu, Coleman & Martin, 2013; Fogarty & Jonas, 2013; Gaunt, 2014). This trend is expected to continue during the examined timeframe (1980-2014), spanning 35 years, utilizing ten top tier accounting journals.

Eight top tier accounting related journals were examined: Each of the previous journals were identified utilizing the Australian Business Deans Council (ABDC) Journal Ratings List and were listed as having either an A* or A rating and categorized with an Accounting and Finance code (1501).

Authorship information for articles published in each of the eight journals during the 35-year timeframe from 1980-2014 was ascertained utilizing data from the EBSCOhost database. For comparison purposes, the 35-year timeframe was broken into four separate categories, 1980 – 1989, 1990 – 1999, 2000 – 2009 and 2010 – 2014. Only original research articles were included. Items such as editorials, book reviews, introductions, comments on original articles, biographies and obituaries were removed. Authorship categories of sole authorship, two authors, three authors, four authors and five or more authors were designated. The 35-year timeframe to be examined, 1980-2014, was only completely available for four of the journals, JAR, JAE, JAAF and A&F. Three of the journals began publication after 1980, AJPT in 1981, JAPP in 1982 and MAR in 1990. Complete data for two of the journals, MAR and JBFA, was not available during the data collection. Table 1 provides a list of the journals, along with the dates examined.

A total of 6,552 articles with 13,753 authors were included in the study. Table 2 provides a summary, broken down by time period, of the number of articles published, the number of authors per article and the average number of authors of each article for each journal examined. With a few exceptions, the number of sole authorships as a percentage of total articles published decreased. For all journals, the number of authors per article increased over time. Interestingly, during the 1980 – 1989 timeframe, no articles with five or more authors were published in any of the journals examined.

Analysis of variance (ANOVA) was performed to determine if the number of authors between the four time categories had significant differences. The results of the ANOVA for each journal are found in Table 3. Without exception, the ANOVA results indicate a significant in-

crease in the average number of authors over time for every journal examined.

The results of this study indicate that the trend of collaboration in accounting related journals is continuing to increase. As noted earlier in this paper, higher scholarship expectations for tenure and promotion requirements could be a driving factor in the increase in collaboration. Gelman and Gibelman (1999; p. 205) clearly support this view, commenting that "the most obvious [reason] is the increased emphasis on scholarly production." Collaborative efforts allow the opportunity to achieve higher scholarship requirement through more efficient production of scholarship in terms of both individual effort and time.

When considering the reasons why collaboration efforts have increased, the availability of time for scholars to conduct research should be a consideration. If academics were only required to conduct research, finding time for scholarship would not be especially challenging. However, expectations regarding teaching and service are also part of the time equation. Too often, increases in scholarship expectations are not countered-balanced with equivalent decreases in teaching and service expectations resulting in a time scarce environment for academics which can disrupt the balance of the three tenets of academic life; scholarship, teaching and service (Abbott & Sanders, 1991; Defleur, 2007).

Since universities are under significant pressure to do more with less, it is doubtful that the average academician will have enough time available to meet all of the expectations placed upon them by working alone. This phenomenon provides several potential areas of research. One area would be to address the "why" of increased collaboration. Researchers have suggested higher scholarship requirements are the reason for increased collaboration. Studies could be performed that address the "why". Another area to explore could target the relationship of the scholars collaborating with each other. Are collaborative efforts a result of experienced colleagues mentoring and helping junior faculty down their career path? Or does the majority of collaboration occur between junior faculty? Do collaborators have a common denominator, such as graduating from the same university, working with colleagues at their current institution, or a specialized skill set? Identifying the answers to these questions and exploring other possible collaborative avenues could provide time strapped scholars options for additional collaborative efforts.

Table 1
Journals Examined and Timeframes

Journal Name	Abbreviation	Data Timeframe	ABDC Ranking
Auditing: A Journal of Practice and Theory	AJPT	1981–2014	A*
Journal of Accounting and Economics	JAE	1980–2014	A*
Journal of Accounting Research	JAR	1980–2014	A*
Management Accounting Research	MAR	1997–2014	A*
Accounting & Finance	A&F	1980–2014	A
Journal of Accounting, Auditing & Finance	JAAF	1980–2014	A
Journal of Accounting & Public Policy	JAPP	1982–2014	A
Journal of Business Finance & Accounting	JBFA	1990–2014	A

Table 2

Number of Authors and Percentage of Articles

	Timeframe	# Articles	Total Authors	1 Author	2 Authors	3 Authors	4 Authors	5 + Authors	Ave. # Authors
	1980-1989	143	277	45 (31%)	63 (44%)	34 (24%)	1 (< 1%)	-	1.94
AJPT	1990-1999	200	376	64 (32%)	105 (53%)	25 (12%)	5 (2%)	1 (< 1%)	1.88
	2000-2009	202	506	21 (10%)	77 (38%)	85 (42%)	19 (10%)	-	2.50
	2010-2014	178	492	22 (12%)	48 (27%)	72 (40%)	26 (15%)	10 (6%)	2.76
	1980-1989	111	188	58 (52%)	32 (29%)	18 (16%)	3 (3%)	-	1.69
JAE	1990-1999	250	489	82 (33%)	100 (40%)	65 (26%)	3 (1%)	-	1.96
	2000-2009	272	610	61 (22%)	97 (36%)	101 (37%)	13 (5%)	-	2.24
	2010-2014	171	420	34 (20%)	46 (27%)	72 (42%)	17 (10%)	2 (1%)	2.46
	1980-1989	406	657	208 (51%)	150 (37%)	43 (11%)	5 (1%)	-	1.62
JAR	1990-1999	256	502	77 (30%)	115 (45%)	61 (24%)	3 (1%)	-	1.96
	2000-2009	313	735	53 (17%)	118 (38%)	122 (39%)	20 (6%)	-	2.35
	2010-2014	160	383	29 (18%)	54 (34%)	62 (39%)	15 (9%)	-	2.39
	1980-1989	-	-	-	-	-	-	-	-
MAR	1990-1999	65	114	28 (43%)	29 (45%)	5 (8%)	2 (3%)	1 (1%)	1.75
	2000-2009	199	370	72 (36%)	89 (45%)	34 (17%)	2 (1%)	2 (1%)	1.86
	2010-2014	100	236	14 (14%)	48 (48%)	27 (27%)	10 (10%)	1 (1%)	2.36
	1980-1989	119	177	68 (57%)	45 (38%)	5 (4%)	1 (< 1%)	-	1.49
A&F	1990-1999	132	219	55 (42%)	68 (52%)	8 (6%)	1 (< 1%)	-	1.66
	2000-2009	256	606	38 (15%)	104 (41%)	96 (38%)	18 (7%)	-	2.37
	2010-2014	236	561	45 (19%)	80 (34%)	90 (38%)	19 (8%)	2 (< 1%)	2.38
	1980-1989	204	335	95 (47%)	88 (43%)	20 (10%)	1 (< 1%)	-	1.64
JAAF	1990-1999	249	467	86 (35%)	115 (46%)	41 (16%)	7 (3%)	-	1.88
	2000-2009	189	432	34 (18%)	76 (40%)	70 (37%)	9 (5%)	-	2.29
	2010-2014	111	269	15 (14%)	44 (40%)	42 (38%)	10 (9%)	-	2.42
	1980-1989	113	195	47 (42%)	50 (44%)	16 (14%)	-	-	1.73
JAPP	1990-1999	150	281	46 (31%)	79 (53%)	23 (15%)	2 (1%)	-	1.87
	2000-2009	226	534	46 (20%)	84 (37%)	74 (33%)	17 (8%)	5 (2%)	2.36
	2010-2014	154	394	20 (13%)	52 (34%)	59 (38%)	22 (14%)	1 (< 1%)	2.56
	1980-1989	-	-	-	-	-	-	-	-
JBFA	1990-1999	620	1204	193 (31%)	285 (46%)	130 (21%)	11 (2%)	1 (< 1%)	1.94
	2000-2009	538	1155	119 (22%)	241 (45%)	158 (29%)	20 (4%)	-	2.15
	2010-2014	229	569	35 (15%)	78 (34%)	88 (38%)	26 (11%)	2 (< 1%)	2.48
	1980-1989	1096	1829	521 (48%)	428 (39%)	136 (12%)	11 (1%)	-	1.67
	1990-1999	1922	3652	631 (33%)	896 (47%)	358 (19%)	34 (2%)	3 (< 1%)	1.90
Total	2000-2009	2195	4948	444 (20%)	886 (40%)	740 (34%)	118 (5%)	7 (< 1%)	2.25
	2010-2014	1339	3324	214 (16%)	450 (34%)	512 (38%)	145 (11%)	18 (1%)	2.48
Total		6552	13753	1810	2660	1746	308	28	2.10

Table 3
ANOVA Results with Average Number of Authors as Dependent Variable

	1980–1989 To 1990–1999		1990–1999 To 2000–2009		2000–2009 To 2010–2014		1980–1989 To 2000–2009		1990–1999 2010–2014		1980–1989 To 2010–2014	
Journal	**F**	**p**	**F**	**p**	**F**	**p**	**F**	**p**	**F**	**p**	**F**	**p**
AJPT	0.43	0.51	60.01	***	7.01	**	43.49	***	80.63	***	58.74	***
JAE	8.04	**	15.61	***	5.95	*	32.84	***	33.79	***	46.82	***
JAR	33.67	***	32.67	***	0.3	0.58	157.47	***	27.69	***	115.2	***
MAR	-	-	24.16	***	0.82	0.37	-	-	19.17	***	-	-
A&F	4.72	*	75.54	***	0.02	0.9	107.98	***	64.65	***	91.66	***
JAAF	11.28	***	28.59	***	1.96	0.16	73.06	***	36.15	***	80.8	***
JAPP	2.84	0.09	24.27	***	3.43	0.06	30.58	***	53.17	***	65.64	***
JBFA	-	-	19.01	***	26.14	***	-	-	71.81	***	-	-

Note: –no comparison data available; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

References

Abbott, D., and Sanders, G. (1991). On the road to tenure. Family Relations, 40(1): 106-109.

Barnett, A., Ault, R., and Kaserman, D. (1988). The rising incidence of co-authorship in economics: Further evidence. The Review of Economics and Statistics, 70(3): 539-543.

Baum, W.C., Griffiths, G.N., Matthews, R., and Scherruble, D. (1976). American political science before the mirror: What our journals reveal about the profession. Journal of Politics, 38(4): 895-917.

Cronin, B., Shaw, D., and La Barre, K. (2003). A cast of thousands: Coauthorships and subauthorship collaboration in the 20th century as manifested in the scholarly journal literature of psychology and philosophy. Journal of the American Society for Information Science and Technology, 54(9): 855-871.

Defleur, M. (2007). Raising the questions #5 what is tenure and how do I get it? Communication Education, 56(1): 106-112.

Endersby, J.W. (1996). Collaborative research in the social sciences: Multiple authorship and publication credit. Social Science Quarterly, 77(2): 375-392.

Englebrecht, T.D., Chu, X., Coleman, F., and Martin, R. (2013). An assessment of patterns of coauthorship for academic accountants within premier journals edited outside the U.S.: Evidence from 1995-2009. The Journal of Applied Business Research, 29(4): 1077-1092.

Englebrecht, T.D., Hanke, S.A., and Kuang, Y. (2008). An assessment of patterns of co-authorship for academic accountants with premier journals: Evidence from 1979-2004. Advances in Accounting, 24(2): 172-181.

Erlen, J., Siminoff, L., Sereika, S., and Sutton, L. (1997). Multiple authorship: Issues and recommendations. Journal of Professional Nursing, 13(4): 262-270.

Fisher, B.S., Cobane, C.T., Vander Ven, T.M., and Cullen, F.T. (1998). How many authors does it take to publish an article? Trends and patterns in political science. PS: Political Science & Politics, 31(4), 847-856.

Fogarty, T.J. and Jonas, G.A. (2013). Author characteristics for major accounting journals: Differences among similarities 1989-2009. Issues in Accounting Education, 28(4): 731-757.

Gaunt, C. (2014). Accounting and Finance: Authorship and citation trends. Accounting and Finance, 54(2), 441-465.

Gelman, S., and Gibelman, M. (1999). A quest for citations? An analysis of and commentary on the trend toward multiple authorship. Journal of Social Work Education, 35(2): 203-215.

Glanzel, W. (2002). Coauthorship patterns and trends in the sciences (1980-1998): A biblio-metric study with implications for database indexing and search strategies. Library Trends, 50(3): 461-473.

Handgraaf, M., and van Raaij, W. (2005). Fear and loathing no more: The emergence of collaboration between economists and psychologists. Journal of Economic Psychology, 26(3): 387-397.

Hudson, J. (1996). Trends in multi-authored papers in economics. Journal of Economic Perspectives, 10(3): 153-158.

King, J.T. (2000). How many neurosurgeons does it take to write a research article? authorship proliferation in neurosurgical research. Neurosurgery, 47: 435-440.

Mathieu, R. and McConomy, B.J. (2003). Productivity in "top-ten" academic accounting journals by researchers at Canadian universities. Canadian Accounting Perspectives, 2(1): 43-76.

Moody, J. (2004). The structure of a social science collaboration network: Disciplinary cohesion from 1963 to 1999. American Sociological Review, 69(2): 213-238.

Norris, R. (1993). Journal authorship patterns have changed considerably in the last 20 years. Canadian Journal of Nursing Research, 25(3): 77.

Otchere, I. (2003). Accounting and finance at forty: A retrospective evaluation. Accounting and Finance, 43(2), 211-230.

Stefaniak, B. (1982). Individual and multiple authorship of papers in chemistry and physics. Scientometrics, 4: 331-337.

Swanson, E.P. (2004). Publishing in the majors: A comparison of accounting, finance, management, and marketing. Contemporary Accounting Research, 21(1), 223-255.

The Relationship of Confucian Dynamism and the Strategic Leader: An Upper Echelon Theory Perspective

L. Jeff Seaton
Murray State University
Murray Kentucky

ABSTRACT

It is no secret and has often been shown that strategic leadership is a very important part of organizational success. In today's global environment not only are the decisions and situations becoming more culturally diverse, the individuals in the leadership roles are as well. It is a fact that while strategic leaders of these global organizations are facing similar problems or situations, the perspectives and final decisions of these individuals will be affected by their individual cultural make-up. Hofstede suggested that the individual leader's cultural time orientation, which he referred to as Confucian dynamism, would have an effect on the decisions made by the strategic leader. The current paper conceptually examines this concept and offers some propositions of just how this cultural difference may affect the strategic leader.

Introduction

Organizations in the global economy of the 21st century are facing challenges and threats never before experienced. While these challenges and threats have invoked a sense of fear and anxiety to the organizations unprepared for the new global environment, more prepared organizations are welcoming this new millennium as a great opportunity to excel. Researchers have predicted that the key to success in this new era of globalization is strategic leadership (e.g., Bryson & Alston, 2005; Ireland and Hitt, 1999, Rhine, 2015). The good strategic leader is one who leads the organization in a positive direction by utilizing the organization's resources and strengths in an effort to create innovative strategies that will lead to success (Bryson and Alston 2005). Effective strategic leadership can enhance a firm's ability to cope with the turbulent and unpredictable environments that seems to be increasing dramatically in today's globalized environment (Huey, 1994). Along with the increased importance placed upon strategic leadership in global organizations, comes the paramount importance of understanding the influences upon the behaviors of the strategic leader and thereby, influences that affect the strategic decisions made by the strategic leader.

Previous research has offered the upper echelon theory as a framework for addressing some of these influences (Hambrick and Mason, 1984). This theory posits that the demographics of members of the top management team influence the decision-making processes of the top management team decisions in the form of bounded rationality. Hambrick and Mason suggest that bounded rationality implies that top management team members will make decisions based upon their personal criteria. Hofstede (1980) addresses an individual's personal criteria in a cross cultural context. His four cultural dimensions of individualism/collectivism, uncertainty avoidance, masculinity, and power distance have been well documented in the literature (Geletkanycz, 1997; Medcof & Wang, 2017; Usunier, 2010).

For the purposes of this paper we will examine a cultural dimension from Hofstede's later work called Confucian Dynamism (Hofstede and Bond, 1988). We will propose a conceptual relationship of how Confucian Dynamism has an indirect effect on organizational strategic decisions through the mediating effects of strategic leadership.

Literature Review

The proportion of global income to overall income in U.S. organizations has increased three fold since the end of World War II (Ireland and Hitt, 1999). These authors suggest that this trend will continue as more than ever before organizations are recognizing that a most complex and challenging future lies ahead. Virtually uniform agreement exists that because of the complex, turbulent and extraordinary changes of the 80s and 90s an ultra-competitive global economy has been, and is continuing to be developed (Ireland and Hitt, 1999). Organizations are in search for that key element that will enable them to approach these new challenges not as threats but as op-

portunities. The key, many researchers believe, lies in strategic leadership (e.g., Bryson & Alston, 2005; Harrison and Pelletier, 1997; Ireland and Hitt, 1999). While many organizations boast of efforts to focus on strategic leadership, most are actually stuck in the strategic management paradigm of a decade ago. To these organizations strategic leadership is a contemporary label for the 1980's organizational buzzword "strategic management" (Wilson, 1996). From this perspective, they view strategic management as a continuous process that integrates strategy and day-to-day operations. Stated differently, strategic management is managing of the strategy and operations that currently exists in an organization with an eye on the future.

Strategic Leadership

In previous decades organizations were structured in hierarchical configurations which competed with largely domestic organizations structured in the same manner. The conditions within this competitive environment were considered to be relatively stable and predictable which lead to somewhat linear change (Ireland and Hitt, 1999). Kotter (1990) addressed the problem of continuously using past perspectives of strategic management when he suggested that many organizations of the day are over managed and under led. Today organizations are facing changes that are revolutionary and no longer evolutionary in nature (Greenwood and Hinings, 1996). With a future consisting of restructuring of the marketplace, dramatic changes in the sources of competition and a redefining of industries and the firms within it, what is needed is a long-term vision that focuses on the setting of new organizational directions and a reinventing of the future (Bryson & Alston, 2005; Ireland and Hitt, 1999; Nag, Hambrick, & Chen, 2007; Rhine, 2015).

The key to achieving and maintaining strategic competitiveness in the 21st century is true strategic leadership, not more strategic management (Ireland and Hitt, 1999). Strategic decisions are the essence of strategic leadership. These decisions, which are associated with the long-term health and vitality of the total organization, are closely linked to a consistent pattern for unifying and directing the organization (Harrison and Pelletier, 1997). Strategic decisions lay out specific strategic objectives and the accomplishment of these objectives is obtained through effective strategic leadership (Van der Merwe and Van der Merwe, 1985). Through effective strategic leadership an organization can adopt its behavior in an effort to exploit different growth opportunities (Barney & Hesterly, 2005).

A strategic leader is one who will evaluate an organization's internal and external environment in an effort to formulate and implement strategies that create a viable future for the organization by anticipating, envisioning, maintaining flexibility, thinking strategically, and working with others to initiate change (Nag, et.al., 2007). For organizations to thrive and remain competitive in today's times of dynamic change and fierce competition, their strategic leaders will need to be skilled in building high performance organizations that are a quality place to work and that have organizational cultures that attract and retain talented and highly motivated people. These leaders will also need to be skilled at building teamwork at the top, within teams and between teams, at effectively managing change, and at creating opportunities to continuously improve and prepare the organization for future success (Warrick, 2017).

Ireland and Hitt (1999) posit that if an organization uses strategic leadership in a competitively superior manner, meaning it is difficult for competitors to understand and imitate, then a sustainable competitive advantage will be created and should enable the organization to earn superior returns on its investments.

So where in the organization does the strategic leader or leaders reside?

Upper Echelon Theory

It has been pointed out in many studies that the strategic leaders in an organization are often found within the top management team which consists of the CEO and other management team members who make strategic decisions that commit the organization to a given course of action (c.f., Harrison and Pelletier, 1997; Ireland and Hitt, 1999). John Child (1972) argued that an organization's top management team had the discretion or latitude to make choices that would affect their firm's outcomes. Hitt, Ireland, and Hoskisson (1995) developed a strategic leadership model which consisted of six critical components: (1) Determining strategic direction; (2) Exploiting and maintaining core competencies; (3) Developing human capital; (4) Sustaining an effective corporate culture; (5) Emphasizing ethical practices; and (6) Establishing strategic controls with each of these components having an effect on the organization's vision and strategic focus. A survey of executives from 12 global corporations found that the ability to articulate a vision, values, and strategy for their firm was the most important for global leaders to possess in the future (Ireland and Hitt, 1999). So what does it mean to have the "ability to articulate?"

It is often thought that managers simply look at a situation, a set of facts or some given information and then make a

pre-programed decision. It is also assumed that individual managers will share attitudes of what constitutes right or wrong, good or bad, rational and irrational, acceptable or unacceptable behavior (Gardner, 2015). This paradigm of managerial decision making is based on deductive reasoning. Deductive reasoning assumes that the individual is aware of a set of universal standards or truths and uses this set of universal standards to judge how well actions, situations, events, etc. align with this universal set of truths (c.f. Evans & Over, 1996; Pelissier and O'Connor, 2002). It has often been pointed out however, that logical, deductive reasoning is useful and common in solutions to theoretical problems with well-defined definitions, processes, and/or universal norms, but not so useful or common in less defined problems or decisions where managers have to use their own discretion when articulating a decision. In these type situations, the judgments about the reasonableness of actions and final decision is based on an individual's rationality of reasonableness, and are therefore, limited by the nature of the individual's human cognitive apparatus (Stanovich & West, 1998).

Harrison, (1992) states that the perception of how to be an effective leader and which strategic choices should be made and implemented varies greatly among individual leaders. Perceptions are a psychological function that enables strategic leaders to receive and process information from the external environment (Tregoe and Tobia, 1990). Anderson and Paine (1975) posit that the perceptions that executives have acts as an integral part of their limitations in making strategic choices. A strategy developed by the leader is a set of decisions or choices that has been filtered through his/her perceptions (Ibrahim and Kelly, 1986). Hambrick and Mason's (1984) upper echelon theory offered a theoretical framework that suggests a relationship between individual perceptions and organizational decision-making.

This theory considers a more inductive type reasoning concept where top management team members form cognitive maps based upon their own past experiences (Hambrick and Mason, 1984). These past experiences act to constrain the top management team members as they can only consider solutions that fall within their cognitive map. The members of the management team are limited by such demographic factors as age, national culture, functional background, career experiences, education, socioeconomic roots, and experiences within the firm. The psychological perspectives such as their cognitive base values also restrict the members of the top management team (Hambrick and Mason, 1984; March and Simon, 1958). The more complex the decision (strategic choice) the more likely that the past behavior of top managers will influence the strategic decisions, and therefore, the more likely the manager will move from an deductive to a more inductive type of reasoning where the decision is associated with the individual decision maker and is limited by the nature of the individual's human cognitive apparatus (Stanovich & West, 1998).

With this link between a member of the top management team's (strategic leader) perspective of an effective strategy for the organization and demographic and psychological factors that affect that perspective we can offer the following proposition:

Proposition 1: The strategic leader's perspective of what constitutes an effective strategy will be affected by demographic and psychological factors unique to the strategic leader.

Cultural Differences in Decision Making

The upper echelon theory can be used to explain why managers of foreign organizations make strategic decisions that are different from strategic decisions of western managers. Studies were conducted in an international setting to determine if the upper echelon theory is generalizable to non-western settings (c.f., Sambharya, 1996; Wiersema and Bird, 1996). The results of these studies have shown similar results to those found in the western settings. From these studies the researchers have determined that members of the top management teams who are making global strategic decisions are limited in their decision making by demographic and psychological factors unique to the individual.

Research suggests that individuals from differing national culture tend to make different decisions in similar situations (Hennart and Larimo, 1998; Tayeb, 1994). One explanation for this differentiation of decision making is that national culture affects an individual's perspective by defining the values, myths and beliefs of a people within a national culture (e.g., Hofstede, 1980; Newman & Nollen, 1996). Stewart (1985) posits that values play a crucial role in a manager's decision process in all settings. To understand the manager's decision process it is important to understand the source of the values that the manager holds. Hofstede (1991) states that the collective programming of a nation leaves an imprint on a person's process for daily living, including work, leisure, and social skills. He argues that national culture is a learned trait that influences our values and our decisions. Business decisions made by an individual in a given country are influenced by what is valued by managers in that country (England & Lee, 1974). When those business decisions are made in a state of uncertainty or difficulty, managers tend to rely heavily on their value system to make decisions (Child

and Tayed, 1982). Since managers in the international business arena have more uncertainty than managers in a domestic business arena, they tend to frequently rely on their value systems when making business decisions (Lai & Lam, 1986).

Tixier (1994) conducted research to determine if European managers' decisions of what type of communication style to use would differ according to national culture. Results from this empirical study showed significant differences between Northern and Southern European countries based upon cross-cultural differences found between the two groups. In later research, Hennart and Larimo (1998) empirically examined how national culture impacted ownership decisions of executives from U.S., Japan and Finland using transactions costs theory. They found that national culture had an impact on the decision making of the executives.

Triandis, et.al, (1986) proposed that if culture and its affects on individuals is to be understood, dimensions of cultural variation must be identified. An example of research searching for dimensions of cultural variation is found in the Hofstede (1980) study of the IBM subsidiaries in forty countries. The study found that the cultures of these forty nations differed along four dimensions. The four dimensions of individualism/collectivism, uncertainty avoidance, masculinity, and power distance has been well documented in the literature (Geletkanycz, 1997; Medcof & Wang, 2017; Usunier, 2010).

Studies have found significant support for the existence of Hofstede's (1980) four cultural dimensions at the individual level (Triandi, et. al., 1986; Dorfman and Howell, 1988). Hofstede (1980, 1991) supports this by stating that relating to his four cultural dimensions, variation does exist within societies. Robertson and Hoffman (2000) states that strong evidence exists for the conclusion that many differences associated with the Hofstede (1980) and the Hofstede and Bond (1988) dimensions exist among individuals within each national culture. Using the perspective of the upper echelon theory in strategic leadership decision making in respect to these four dimensions of cultural variance on the individual level, we can make the following proposition:

Proposition 2: The strategic leader's perspective of what constitutes an effective strategy will be affected by the culture from which he/she came.

CONFUCIAN DYNAMISM (LONG-TERM ORIENTATION)

While much research has focused on the effects of Hofstede's four dimensions on decision-making (Hofstede, 1991; Hennart and Larimo, 1998; Tayeb, 1994; Tixier, 1994) little has been done on Confucian Dynamism, the fifth dimension later discovered by Hofstede and Bond (1988). The Confucian Dynamism was discovered when Hofstede and Bond attempted to develop a new cultural measuring instrument with the assistance of a number of Chinese social scientists. The new instrument, Chinese Value Survey, was developed in an effort to alleviate the western bias that was present in the first measuring instrument (Hofstede and Bond, 1988; The Chinese Culture Connection, 1988). Since its initial analysis little attention has been focused on this dimension (Robertson and Hoffman, 2000). This is unfortunate because this dimension has been identified as holding great promise for future research (Samiee and Athanassiou, 1998; Tayeb, 1994).

While Confucian Dynamism is the Hofstede cultural dimension that has had the least amount of attention focused upon it, it seems that this dimension would have the most importance to strategic leadership. Markus and Kitayama (1991) looked at how national culture may offer an alternative explanation as to why U.S. firms reportedly take a short-term perspective relative to their international competitors. The strategic leader's perception of time in making long-term versus short-term strategic decisions has been emphasized as being of paramount importance in the turbulent, uncertain, and fast paced environment of the future (Harrison and Pelletier, 1997; Ireland and Hitt, 1999; Hagan and Hassan, 1998). Hagan and Hassan (1998) stated that to create a vision for the future, an effective leader must balance the short-term needs of organizations with long-term growth and survival. However, the orientation of time differs between managers in different countries (Hofstede and Bond, 1988; Robertson and Hoffman, 2000; Yeh and Lawrence, 1995). A long-term vision for top Boeing executives was given as 15 to 20 years (West, 1994) while Toyota stated they use a 100 year plan to determine its strategic direction (Yang and Rothman, 1993)

Confucian dynamism focuses on time orientation. This dimension, which Hofstede (1991) later renamed "long-term orientation, is used to identify the time orientation of national cultures. A high score along this long-term orientation scale reflects a culture's tendency toward a future minded mentality (Robertson and Hoffman, 2000). People who score high on the Confucian dynamism scale tend to associate more with the values of persistence, respect for status, thrift, and having a sense of shame (Hof-

stede and Bond, 1988). Low scores along this long-term orientation scale reflect a culture's tendency toward the present and past. People who score low on the Confucian dynamism scale tend to associate more with the values of personal steadiness and stability, saving face, respect for tradition, and reciprocation of greetings, favors, and gifts (Hofstede and Bond, 1988). Hofstede and Bond (1988) give examples of both long-term orientated cultures (Hong Kong, Thailand and Japan) and short term orientated cultures (Canada, Pakistan and the United States).

The importance of this dimension is demonstrated in research where a relationship is shown between the long-term orientation of country and economic growth in organization. Early findings suggest that long-term orientation is strongly correlated with national economic growth between 1965 through 1984 (The Chinese Culture Connection, 1988). The results of these studies showed that the countries with high scores on the long-term orientation dimension also seemed to have higher economic growth relative to countries that scored lower on the same scale. Later researchers studying this unique phenomenon found similar findings (Franke, Hofstede and Bond, 1991; Hofstede and Bond, 1988).

The upper echelon theory can now be used to better explain the different decisions made by strategic leaders of different national cultures. The cognitive maps of managers of all countries are made up of demographic and psychological factors (Hambrick and Mason, 1984). The managers are limited by their cognitive base values which are formed over the lifetime of the individual (Hofstede, 1980). One of these values is the perception of time (Hofstede and Bond, 1988). The Chinese Culture Connection (1987) advocates that the belief in long-term orientation is inherent in eastern minds, while short-term orientation in inherent in the minds of westerns. This mind set begins at birth and is developed over the lifetime of an individual as a "collective programming of the mind" (Hofstede and Bond 1988). The literature, for example, suggests that organizations in the United States take a short-term perspective toward economic performance while the organizations in Japan will demonstrate a long-term economic tendency for performance (Drucker, 1986; Laverty, 1996). Based upon the inherent time perspectives of strategic leaders in national cultures, the following propositions can be made:

Proposition 3: The strategic leader's perspective of what constitutes an effective strategy will be affected by the position of the individual on Hofstede and Bond's (1988) long-term orientation scale.

Proposition 4: The strategic leaders of organizations in Hong Kong, Thailand and Japan will perceive the strategic decision as more long-term than strategic leaders of organizations in Canada, Pakistan and the United States.

CONCLUSION

As globalization of the business environment becomes more and more commonplace, strategic leaders will need to develop a better understanding of the many diverse values in the work place. Managers in the United States have not fully perceived the need to consider cultural differences in their international organizational business operations. Tung (1981) estimates that as many as 40% of employees assigned to foreign positions fail in their jobs because of a lack of understanding of cultural differences in the foreign country.

In this paper we have demonstrated that, consistent with the upper echelon theory, leaders are subconsciously bounded by demographic and psychological factors within their personal criteria. These cognitive maps are based upon past experiences that begin at birth and continue throughout the lifetime of the individual (Hambrick and Mason, 1984). These cognitive maps we propose will affect the strategic decisions made by both leaders of western organizations and foreign organizations. However, we also propose that since the value that managers place on things such as time are very diverse according to the national culture in which the manager operates, the perspective of what constitutes an effective strategic decision will vary as well.

The perspective of time, or long-term orientation as Hofstede (1991) referred to it, is proposed in the paper to be the most important of all the cultural dimensions to the strategic leader. This importance is placed on the perspective of time because contemporary research has emphasized that the perception of long-term strategies is one of the key components of the new style of strategic leadership that is needed for an organization to compete in the globalized business environment of the 21st century (Hagen and Hassan, 1998; Harrison and Pelletier, 1997; Ireland and Hitt, 1999).

References

Anderson, C. and Paine, J. (1975). Managerial perceptions and strategic behavior. *Academy of Management Journal*, 18, 811-823.

Barney, J. & Hesterly, W. (2005). Strategic management and competitive advantage: Concepts. Upper Saddle River, New Jersey. Pearson Educations.

Bryson, J. M., and Alston, F. K. (2005). Creating and Implementing your Strategic Plan: A Workbook for Public and Nonprofit Organizations, 2nd ed. San Francisco: Jossey-Bass.

Child, J. (1972). Organizational structure, environment and performance: The role of strategic choice. *Sociology,* 6, 1-22.

Child, J.D. and Tayed, M. (1982). Theoretical perspectives in cross-national organizational research. *International Studies of Management and Organization*, winter, 23-70.

Dorfman, and Howell, (1988). Dimensions of national culture and effective leadership patterns: Hofstede revisited. In Advances in International Comparative Management. Eds. R.N. Farmer and E.G. McGoun. Jai Press. pp. 127-150.

Drucker, P. (September 30, 1986). A crisis of capitalism. *Wall Street Journal*, 31.

England, G.W. and Lee, R. (1974). The relationship between managerial values and managerial success in the United States, Japan, India, and Australia. *Journal of Applied Psychology,* 59, 411-419.

Evans, J. St. B. T., & Over, D. E. (1996). *Rationality and Reasoning*. Hove, UK: Psychology Press.

Franke, R.H., Hofstede, G. and Bond, M.H. (1991). Cultural roots of economic performance. *Strategic Management Journal,* 12, 165-173.

Gardner, J. (2015). The Many Faces of the Reasonable Person. Law Quarterly Review, 131 (Oct), 563-584.

Geletkanycz, M. (1997). The salience of 'Culture's consequences': The effects of cultural values on top executive commitment to the status quo. *Strategic Management Journal,* 18, 8, 615-634.

Greenwood, R. and Hinings, C.R. (1996). Understanding radical organizational change: Bringing together the old and the new institutionalism. *Academy of Management Review,* 21, 1022-1054.

Hagan, A.F. and Hassan, M.T. (1998). Critical strategic leadership components: An empirical investigation. *S.A.M. Advanced Management Journal,* 63, 3, 39-44.

Hambrick, D.C. and Mason, P.A. (1984). Upper echelons: The organization as a reflection of its top managers. *Academy of Management Review,* 9, 193-206.

Harrison, E.F. and Pelletier, M.A. (1997). CEO perceptions of strategic leadership. *Journal of Managerial Issues,* 9, 3, 299-317.

Harrison, E.F. (1992). Perspectives on uncertainty in successful strategic choice at the CEO level. *International Journal of Management Science,* 20, 103-116.

Hennart, J. and Larimo, J. (1998). The impact of culture on the strategy of multinational enterprises: Does national origin affect ownership decisions? *Journal of International Business Studies,* 29, 3, 515-538.

Hitt, M.A., Ireland, R.D. and Hoskisson, R.E. (1995). Strategic Management: Competitiveness and Globalization Concepts. St. Paul, MN; West Publishing Company.

Hofstede, G. (1991). Cultures and Organizations: Software of the Mind, McGraw-Hill, London.

Hofstede, G. (1980). Culture's Consequences. Sage, Beverly Hills, CA.

Hofstede, G. and Bond, M. (1988). The Confucius connection; From cultural roots to economic growth. *Organizational Dynamics*, 16, 4, 5-21.

Huey, J. (1994). The new post-heroic leadership. *Fortune*, Feb. 21, 42-50.

Ireland, R.D. and Hitt, M.A. (1999). Achieving and maintaining strategic competitiveness in the 21st century: The role of strategic leadership. *The Academy of Management Executive*, 13, 1, 43-57.

Kotter, J.P. (1990). What leaders really do. *Harvard Business Review,* 68, 3, 103-111.

Lai, T. and Lam, Y. (1986). A study on work-related values of managers in the People's Republic of China (Part I). *The Hong Kong Manager,* Jan., 23-59.

Laverty, K.J. (1996). Economic "short-termism": The debate, the unresolved issues, and the implications for management practice and research. *Academy of Management Review,* 21, 825-860.

March, J.G. and Simon, H.A. (1958). Organizations. Wiley, New York.

Markus, H.R. and Kitayama, S. (1991). Culture and self: Implications for cognition, emotion and motivation. *Psychological Review*, 98, 224-253.

Medcof, J. & Wang, C. (2017). Does national culture influence exploratory and exploitative innovation? *International Journal of Technology Management*, 73, 4, 235-253.

Nag, R., Hambrick, D., & Chen, M. (2007). What is strategic management really? Inductive derivation of a consensus definition of the field. Strategic Management Journal, 28(9), 935-955.

Newman, K.L. and Nollen, S.D. (1996). Culture and congruence: The fit between management practices and national culture. *Journal of International Business Studies*, 27, 4, 753-779.

Pelissier, M. & O'Connor, P. (2002). Deductive and Inductive Reasoning in Obsessive-Compulsive Disorder, British Journal of Clinical Psychology, 41, 15-27.

Rhine, A. (2015). An examination of the perceptions of stakeholders on authentic leadership in strategic planning in nonprofit arts organizations. Journal of Arts Management, Law, and Society 45, 3-21.

Robertson, C.J. and Hoffman, J.J. (2000). How different are we? An investigation of Confucian values in the United States. *Journal of Managerial Issues*, 12, 1, 34-47.

Sambharya, R.B. (1996). Foreign experience of top management teams and international diversification strategies of U.S. multinational corporations. *Strategic Management Journal,* 17, 739-746.

Samiee, S. and Athanassiou, N. (1998). International strategy research: Cross-cultural methodology implications. *Journal of Business Research,* 43, 2, 79-96.

Stanovich, K. & West, R. (1998). Individual Differences in Rational Thought; Journal of Experimental Psychology. 127(2). 161-188.

Stewart, E. (1985). Culture and decision-making. In William B. Gudykuntz, L.P. Stewart & S. Ping-Toomey, Communication, Culture and Organizational Processes, 177-213. Beverly Hills: Sage.

Tayeb, M. (1994). Organizations and national culture: Methodology considered. *Organizational Studies,* 15, 3, 429-447.

The Chinese Culture Connection. (1988). Chinese values and the search for culture-free dimensions for culture. *Journal of Cross-Cultural Psychology*, 18, 143-164.

Tixier, M. (1994). Management and communication styles in Europe: Can they be compared and matched? *Employee Relations*, 16, 1, 8-27.

Tregoe, B.B. and Tobia, P.M. (1990). Assessing the strategic health of your organization. *Management Review,* August, 10-15.

Triandis, H.C., Bontempo, R., Bond, M., Leung, E., Brenes, A., Geopras, J., Hui, C.H., Marin, Setiadi, B., Sinha, J.,

Venna, J., Spangenberg, J., Touzard, H., and Montmollin G. (1986). The measurement of the etic aspects of individualism and collectivism across cultures. *Australian Journal of Psychology*, 38, 3, 257-267.

Tung, R.L. (1981). Patterns of motivation in Chinese industrial enterprises. *Academy of Management Review*. 481-489.

Usunier, J. (2010). Beyond Hofstede: Culture frameworks for global marketing and management. *International Journal of Cross Cultural Management*. 10, 1, 122-124.

Van der Merwe, A. and Van der Merwe, S. (1985). Strategic leadership and the chief executive. *Long Range Planning,* 18, 100-111.

Warrick, D. (2017). The urgent need to educate present and future leaders in organizational development and change. Organizational Development Practitioner. 49(3). 52-58.

West, K. (1994). The New Jet Set. *Dallas Morning News*, April 9.

Wiersema M.F. and Bird, A. (1996). Universalizing upper echelon theory: Contrasting U.S. theory with Japanese firm performance. *Journal of Asian Business,* 12, 3, 1-29.

Wilson, I.H. (1996). The 5 compasses of strategic leadership. *Strategy & Leadership*, 24, 4, 26-33.

Yang, D.J. and Rothman, A. (1993). Reinventing Boeing: Radical changes and crisis. *Business Week*, March 1, 60-67

Yeh, R. and Lawrence, J.J. (1995). Individualism and Confucian dynamism: A note on Hofstede's cultural root to economic growth. *Journal of International Business Studies,* 26, 3, 655-667.

This page is intentionaly blank.

JOINT CONFERENCE
May 23-25 2018
Nashville, TN

International Conference on Learning and Administration (ICLAHE.org)

All too often learning takes a back seat to discipline related research. The International Conference on Learning and Administration in Higher Education seeks to focus exclusively on all aspects of learning and administration. We wish to bring together, a wide variety of individuals from all countries and all disciplines, for the purpose of exchanging experiences, ideas, and research findings in the processes involved in learning and administration in the academic environment.

We encourage the submission of manuscripts, presentation outlines, and abstracts in either of the following areas:

Learning

We encourage the submission of manuscripts pertaining to pedagogical topics. We believe that much of the learning process is not discipline specific and that we can all benefit from looking at research and practices outside our own discipline. The ideal submission would take a general focus on learning rather than a discipline-specific perspective. For example, instead of focusing on "Motivating Students in Group Projects in Marketing Management", you might broaden the perspective to "Motivating Students in Group Projects in Upper Division Courses" or simply "Motivating Students in Group Projects" The objective here is to share your work with the larger audience.

Academic Administration

We encourage the submission of manuscripts pertaining to the administration of academic units in colleges and universities. We believe that many of the challenges facing academic departments are not discipline specific and that learning how different departments address these challenges will be beneficial. The ideal paper would provide information that many administrators would find useful, regardless of their own disciplines

Academic Business World International Conference (ABWIC.org)

The aim of Academic Business World International Conferences is to promote inclusiveness in research by offering a forum for the discussion of research in early stages as well as research that may differ from 'traditional' paradigms. We wish our conferences to have a reputation for providing a peer-reviewed venue that is open to the full range of researchers in business as well as reference disciplines within the social sciences.

Business Disciplines

We encourage the submission of manuscripts, presentation outlines, and abstracts pertaining to any business or related discipline topic. We believe that all disciplines are interrelated and that looking at our disciplines and how they relate to each other is preferable to focusing only on our individual 'silos of knowledge'. The ideal presentation would cross discipline. borders so as to be more relevant than a topic only of interest to a small subset of a single discipline. Of course, single domain topics are needed as well.

Conferences

Academic Business World sponsors an annual international conference for the exchange of research ideas and practices within the traditional business disciplines. The aim of each Academic Business World conference is to provide a forum for the discussion of research within business and reference disciplines in the social sciences. A secondary but important objective of the conference is to encourage the cross pollination of disciplines by bringing together professors, from multiple countries and disciplines, for social and intellectual interaction.