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GENDER DOMINATED INDUSTRIES: BRIDGING THE GAP

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Abstract
Previous research suggests that gender compositions have different effects on men and women in the workplace. Social norms regarding gender roles have a potential to create bias evaluations of individuals who violate their particular accepted gender role. This bias can affect the individual in a way that causes them to experience work stressors that may affect their performance. This study explores the differences between the type of stressors nontraditional men and women may experience based on their gender, providing a glimpse of the bridging gap between male and female dominated industries. Men in nursing were compared with women in construction based on their responses to the Workplace Stressor Assessment Questionnaire (WSAQ) developed and validated by professionals from Critical Path Institute which measures categories of work stressors. A one-way between subjects ANOVA was conducted to compare the effect of gender on workplace stressors in different categories of stressors: Demands, Control, Support, Role, Relationships, and Rewards on the conditions of either male-dominated industry (construction) or female dominated industry (nursing). There was a significant effect of IV gender on DV workplace stressors at the p<.05 level for the “Demands” stressors \( F(3,105) = 5.308, p = 0.002 \), Control Stressors \( F(3,105) = 4.803, p = 0.004 \), Support Stressors \( F(3,105) = 9.151, p = 0.000 \), and Role Stressors \( F(3,105) = 3.426, p = 0.020 \).

Keywords: gender, sex-role, occupation, conflict, job satisfaction
Taylor (2010) introduces the concept of an occupational minority, defined as a worker who is a numerical rarity in his or her occupation. Examples of occupational minorities include: male nurses, female construction workers, male teachers, and female surgeons. This concept focuses on minorities at the occupational level and does not take into account actual gender composition of their specific organization. This view involves perceptions of appropriate gender roles, interactions, and support. It suggests that gender compositions have different effects on both men and women in the workplace.

In accordance with this theory, women are more likely to receive social backlash when successful in a male-dominate occupation (Heilman, Wallen, Fuchs, & Tamkins, 2004). This negative response stems from social norms regarding gender roles and stereotypes, which has a potential to create bias in evaluations of women in the workplace (Heilman et al., 2004). This bias can lead women to be perceived as having less workplace support than their male counterparts, which can create obstacles in accessing information and gaining assistance in the workplace (Taylor, 2010). Surprisingly, both men and women are prone to see women who violate social gender norms as not likeable, and both have a tendency for hostility against women who are successful in male-dominated occupations (Taylor, 2010; Heilman et al., 2004).

Negative evaluations of women may affect certain occupational rewards, such as salaries and promotions (Heilman et al, 2004). Research further suggests that it is not generally the same when the situation is reversed; when men are successful at female-dominated occupations, it does not produce social disapproval and when it does, it is of benefit to them (Heilman et al., 2004).

Current literature illustrates, for example, women in male-dominated industries are seen as less competent in their occupation when expressing stereotypical femininity. However, when expressing a stereotypically masculine leadership style, women are viewed as successful but not well liked by their peers (Bergman, 2008). Women in these industries seem to have the choice of conforming to unpopularity or viewed as incapable of performing their duties. Men in female-dominated industries face a different dilemma, to the extent that because co-workers or supervisors may feel that they are violating social norms, they are pushed into higher leadership type positions that are more in line with male gender roles (i.e., Director of Nursing) (Taylor, 2010). This process, labeled as access and treatment discrimination (McLean & Kalin, 1994), occur when women and men are selected by employers into gender-traditional occupations, and include as well exclusion from gender-nontraditional occupations.

Furthermore, another form of this type of discrimination is evident in the formation of network ties in which women in male-dominated industries are at a disadvantage in the creation of these ties because in order to establish networking opportunities, one would need to express similar interests and characteristics to the target population. This is difficult for women to reach out to their male supervisors whom they do not express shared interests. Men, on the other hand, do share interests with their same-sex supervisors and therefore have more resources available to obtain assistance/information than their female counterparts (Taylor, 2010).

A 1999 study conducted by Graham & Welbourne found that women have a higher pay satisfaction compared to men, despite women’s pay rate being significantly less than men. Additionally, women generally tend to have lower expectations on what they are worth compared to men (Major & Konar, 1984). This lower expectation is assumed to be a result of
feelings of alienation and inadequacy in the workplace which stems from the inability of women to receive social support in their male-dominated industry (Bergman, 2008). As a result, women may feel less compelled to seek or ask for promotions and/or pay raises which further hinder their ability to advance in their careers leading to the creation of the glass ceiling effect (Cotter, Hermsen, Ovadia, & Vanneman, 2001). The glass ceiling effect refers to the phenomenon of women receiving a wider gap in earnings and status as they gain more experience compared to their male counterparts (Morgan, 1998). Even those who surpass the glass ceiling still experience less authority and fewer benefits compared to their male counterparts (Zhang, Schmader, & Forbes, 2009). In another study conducted regarding gender gap concerning garnishments, it was reported that women choose to stay in occupations that are compatible with female gender stereotypes because they earn more than in a male-dominated occupation (Gabriel & Schmitz, 2006). For example, if they were to pursue a career in a male-dominated occupation they would more than likely only receive two-thirds of the pay rate of men in the same industry (Gabriel & Schmitz, 2006).

Apart from these consequences, there are three other factors on how the minority status may have adverse effects on individuals (Mastekaasa, 2004). The first is visibility, in which the minority will stand out in contrast, receiving more attention which can lead to higher performance pressure. The second is assimilation, in which a minority member is perceived as a representative of their category and therefore more subject to stereotyping. The third is polarization, in which the presence of minority members is in sharp contrast to the similarities between the members of the majority (Mastekaasa, 2004). These factors can cause increase in work stressors, add negative effects in health, and decreases motivation which can result in negative evaluations further hindering the minority and adding to the stereotype (Mastekaasa, 2004).

Also to consider is gender differences in family-work conflict. Family-work conflict is a source of stress that can affect an individual’s work productivity, emotional and physical well being, as well as parenting performance (Duxbury & Higgins, 1991). Even though more women are working full time and there is a sharp increase in dual earning couples today, society still holds traditional gender specific perceptions of work and family responsibilities (Duxbury & Higgins, 1991). This view can create a unique stress for women who are compelled to balance work and family life effectively, almost to impossible standards. Dusbury’s and Higgins (1991) study reports that a redistribution of family responsibilities within the home has not occurred, despite the redistribution of responsibilities outside the home. What this means is that women still have all the responsibilities of the home, with the added bread-winning responsibilities. Other researchers have also found that women receive less support from family than men in their respective fields (Mallincrodt & Leong, 1992). This can be particularly stressful to handle when women are involved in male dominated occupations which are notorious for investing more time and resources to the organization rather than their home life.

Given the current literature, women in male dominated industries face a plethora of dilemmas and obstacles that can add stress to their workplace, many of which men in female dominated industries do not experience. This study seeks to measure the scope of workplace stressors between men and women in gender dominated industries, specifically construction and nursing. Based on previous research, it is hypothesized that women in male dominated industries will have a higher score in overall workplace stressors than that of men in their industry. It is
also hypothesized that the gap between the stressors of female construction workers and male construction workers (male-dominated industry) is wider than that of male nurses and female nurses (female-dominated industry).

Method

Participants

Due to the specific nature of the study, participants were selected on the basis of their occupational status in either the industries of construction or nursing. Because of the rarities of the participants in this field, both a paper-and-pencil and an online survey were administered. Participants were selected from construction companies and hospitals in the South Florida area. The National Association of Women in Construction and the Male Nursing Association were also contacted.

Respondents demographics included forty four female nurses, nine male nurses, thirty seven female construction workers, and eighteen male construction workers totalling one hundred and eight participants.

Instrument

The Workplace Stressor Assessment Questionnaire (WSAQ) and scoring guide were developed and validated by professionals from Critical Path Institute, permission was granted for use by Executive Director, Stephen Joel Coons, PhD. The WSAQ is a 22-item likert scale based questionnaire, included with the WSAQ there is also seven additional questions designed to measure participant demographics. The WSAQ measure stressors according to categories: demands, control support, rewards, relationships, and role.

Procedure

Participants were handed a package containing the informed consent form, demographic questionnaire, and WSAQ. When meeting with participants personally at associate meetings, instructions were given verbally to fill out survey and return to researcher; where participants were not present physically, they were given written instructions via email with a link to the online survey that included the same. The web based data was extracted from the website (Kwiksurveys.com) and kept in a secure location by the researcher a long with the collected paper formats.

The data was then scored and coded in accordance to the WSAQ scoring guide provided by the Critical Path Institute and the demographic information was also coded for analysis.

Results

A one-way between subjects ANOVA was conducted to compare the effect of (IV) gender on (DV) workplace stressors in different categories of stressors: Demands, Control, Support, Role, Relationships, and Rewards on the conditions of either male-dominated industry (construction) or female dominated industry (nursing). There was a significant effect of IV gender on DV workplace stressors at the p<.05 level for the “Demands” stressors [F(3,105) = 5.308, p = 0.002], Control Stressors [F(3,105) = 4.803, p = 0.004], Support Stressors [F(3,105) =
The relationship stressors \(F(3,105) = 3.426, p = 0.020\). The relationship stressors \(F(3,105) = .418, p = .741\) and Rewards stressors \(F(3,105) = .634, p = .595\) were not significant.

Tukey Scheffe Post hoc test revealed on only one level was female construction workers significantly different in their stress levels compared to their male counterparts, and that is on the Demands stress level category. On all other categories of control, support, role, relationships, and rewards, the female minority did not represent significant results compared to their male counterparts. A closer look at the analysis reveals that the female construction workers represented less stress levels than that of male construction workers, therefore, we cannot accept the study’s hypothesis.

**Discussion**

Based on the results, the hypothesis that women in a male dominated industry would experience higher levels of workplace stressors than that of their male counterparts, was not supported by the study. Also not supported, was the hypothesis that males in female dominated occupations will significantly less workplace stressors than that of their female counterparts. One possible explanation based on these findings is that gender roles are changing with women increasingly becoming less stigmatized in the workplace, even in a male dominated industry. Ulku-Steiner, Kurtz-Costes, & Kinlaw (2000) note that because of recent changes in gender ratios, the experiences of men and women could be more similar now than previously, a prominent theme in the present findings.

Researchers have illustrated that role-model relationships are more important to women’s professional development than that of men (Ulku-Steiner, Kurtz-Costes & Kinlaw, 2000). Given that the majority of females who partake in male dominated industry were contacted through associations like the National Association of Women in Construction (NAWIC), this may explain the study’s reported findings of low relationship and role stressors in female construction workers.

In support with these findings, a study conducted by Goyder, Guppy, and Thomson (2003) claimed that they found no differences in the allocation of male and female occupational prestige. They stress, however, that the overall equality of scores in their study of prestiges occupational titles do not mean “sex-role factors” have disappeared entirely. Nonetheless, it does hold interesting implications, along with the current study, that there is a growing acceptance of conflicting gender roles in occupations, with a breakdown of gender stereotypes.

Future implications for research should include a broader range of participants, perhaps an addition of more classes of gender dominated occupations to compare between groups; for instance, McCleean & Kalin (1994) detail how men are generally over presented in professional and technical occupations while women are largely found in clerical, sales and service occupations.
References


THE IMPACT OF COUNTRY OF OWNERSHIP ON BRAND PERSONALITY:
DOES IT MATTER WHO OWNS THE BRAND?

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Abstract

Firms from emerging economies are increasingly acquiring established consumer brands, often with little fanfare or media promotion. China’s Wanda Group recently purchased AMC Theatres and its over 5,000 North American movie screens, and India’s Tata Motors now owns Jaguar and Land Rover, both iconic British automobile brands. In this paper, the authors seek to determine if knowledge of country of ownership of a brand, a heretofore unexplored dimension, distinct from country of origin or manufacture, influences consumer perception as measured by Aaker’s brand personality scale.

The authors seek to fill a gap in the literature by determining if brand personality perceptions change as a result of the consumers’ knowledge of country of ownership of a well-known brand. Through a survey of 150 students in a U.S. university, the study shows that country of ownership does not affect perceived brand personality. Managerial implications include brand positioning, public relation activities and marketing communication strategies when acquiring brands based in developed countries.

Keywords: country of ownership, country of origin, brand personality
Introduction

A group of teens shop for the latest blouses in a trendy boutique; a middle-class mom takes her kids to a local multiplex to see the latest blockbuster; an affluent car shopper deliberates which luxury sports car will take up residence in his garage. A considerable body of academic research (Rosenbloom & Haefner, 2009) as well as business practices question if any of these consumers are aware where their products originated and—if so—do they care? Does the origin of their latest purchase have any significant influence on their perception of the product, the brand or their purchase intent? Given the evolving state of global products and firms and the interchange between them, this issue becomes increasingly important, not only for those researching the impact—if any—of country of origin (COO) but also for practitioners seeking to develop brand positioning and the marketing communications supporting that positioning.

The nationality of a firm or an individual has historically mattered in business transactions. Whether it was Rupert Murdoch having to become a U.S. citizen in order to be able to purchase U.S. television stations in 1985 or Haier having to back off of its bid to purchase Maytag in 2005, the fact is that a crucial issue in both cases was the nationality of the would-be owners.

The purpose of this paper is to explore whether the country of ownership of a product or company matters to the consumer. The COO literature in marketing has extensively explored the impact on consumers of the country of origin of a brand/product as well as the country where it is manufactured (Pharr, 2005). However, a review of marketing research has not yielded any studies assessing the impact of the country of ownership of the brand/product/company on consumers. This paper aims to fill this gap in the literature.

Using the case of the very British-centric Jaguar and Rover brands which are now owned by India’s Tata Motors, this study empirically explores if attitudes and perceptions of these brands vary when consumers are aware that the brand is owned not by the expected British firm, but rather by a firm in an emerging economy (India). Using a sample of undergraduates at a small private U.S. university and J. L. Aaker’s (1997) brand personality scale, the authors investigate if the growing phenomenon of well-known brands being acquired by firms originating in emerging countries influences consumer perceptions and attitudes.

The paper is structured as follows. After this brief introduction, the next section will develop the concept of country of ownership (CON) and discuss its potential influence on consumers. The third section will review the concept of brand personality and present the paper’s hypotheses. The following section will then describe the methodology and the experiment. The fifth section presents the results. The paper will then conclude with a discussion of the findings and their implications.

Country of Ownership

One of the more widely researched issues in the marketing literature is country of origin (COO), and whether or not consumers’ perceptions and attitudes are influenced by where
products are manufactured (Fetscherin & Toncar, 2010; Magnusson, Westjohn, & Zdravkovic, 2011). While researchers have yet to reach unanimity on the matter (Magnusson, et al., 2011; Rosenbloom & Haefner, 2009), anecdotal evidence would suggest advertisers do indeed believe consumers care about where products originate, and in fact, associate products with specific countries. Orbit chewing gum has made their British spokeswoman a television regular and Volkswagen frequently reminds viewers of their engineering heritage with German-accented announcers in their advertisements (Magnusson, et al., 2011), to name but two examples.

This paper introduces the related yet unique dimension of country of ownership (CON), defined as the country in which the parent firm that holds a majority ownership is headquartered, regardless of where the company’s products are manufactured or what country is most closely associated with the brand.

The country of ownership of a firm clearly has relevance in the economic and political fronts. Countries seek to attract investment from foreign companies. Even developed economies benefit from foreign direct investment (FDI).

Foreign direct investment into the U.S., while decreasing during the recession, has nonetheless been substantial in the last ten years, totaling $1.7 trillion (Payne & Yu, 2011). While none of the top ten countries investing in the U.S. are classified as emerging, a recent report from the U.S. Department of Commerce suggests the most likely candidates for FDI growth are countries with substantial trade surpluses, including China, Mexico and members of OPEC (Payne & Yu, 2011). These emerging countries are not only increasing their U.S. FDI, they are also acquiring brands which are American or British in origin, including China’s Lenovo’s acquisition of IBM’s ThinkPad, Qatar Holding’s purchase of Harrod’s department store, and India’s Tata Steel’s purchase of British Steel. China’s Wanda recently acquired America’s second largest movie theater chain, AMC, for $2.6 billion, giving them access to over 6,600 screens (Weissmann, 2012) and, in an ironic reversal of stereotypes, India’s Aegis has purchased U.S. based call centers employing over 5,000 Americans.

In February of 2006, a political firestorm erupted when DP World, owned by the government of Dubai in the United Arab Emirates (UAE), attempted to purchase Britain’s Peninsular and Oriental Steam Navigation Company (P&O). This acquisition would have given Dubai indirect control of six of the U.S. largest ports. Seemingly, American legislators and the general public had no objection to the British operating U.S. ports, yet had strong opposition to them being operated by an Arab country because of potential ties to terrorists. As a result of the reaction from both the American public and Congress, based on the perceptions of the country of ownership, DP World divested itself of the U.S., ports, damaging UAE/American relations and drawing the condemnation of the U.S. throughout the Middle East ("Dubai seeks to calm the storm over ports," March 10, 2006).

Given the rise of global brands and the increasingly common acquisition of brands closely associated with one country by a buyer outside of the original country (Fetscherin & Toncar, 2010; Rosenbloom & Haefner, 2009), the question this study addresses is whether or not country of ownership matters to consumers. The impact, and thus the need for investigation,
may well be exacerbated when the acquiring firm is from an emerging economy (Magnusson, et al., 2011).

**Influence on Consumers**

Lacking substantive literature on the dimension of CON, this paper turns in part to the extensive body of literature on COO in explaining the foundations of the concept and its possible influence on consumer brand perception and behavior. Despite the lack of research on CON, given the obvious commonalities with COO the authors anticipate that consumer behavior will be similarly impacted.

The traditional view of COO, supported by the majority of the academic literature, holds that consumer perceptions and attitudes, and in turn their buying behavior, is undeniably influenced by the origin of the product (Samiee, 2011). Much of the research over the last two decades suggests that the origin of a product provides consumers with both cognitive and emotional cues regarding products (Fetscherin & Toncar, 2009). Consumers may reach product evaluations based on what they believe to be objective facts about a product category such as “Japanese cars have superior customer satisfaction ratings”, or from emotional beliefs such as “women’s fashions from France are more exciting and sexy”, even when these beliefs or assumptions are inaccurate (Louis & Lombard, 2010).

The origin of a product can influence consumers cognitively and emotionally, not necessarily resulting from product attributes themselves, but rather from the consumer’s assumptions regarding the country (Fetscherin & Toncar, 2009; Verlegh & Steenkamp, 1999) (ADD Rosenbloom & Haefner, 2009). Products originating in countries that have favorable perceptions among consumers may benefit from more positive brand images than do products originating in countries with less favorable perceptions, regardless of the actual quality or attributes of the item (Yasin, Noor, & Mohamad, 2007). Research also suggests that lacking knowledge of the product itself, consumers will substitute their beliefs regarding the country as a heuristic to make product evaluations (D. A. Aaker, 1996). Pharr (2005) suggests that the dimension of COO includes country stereotypes and perceived elements of national culture such as those described by Hofstede’s study.

Consider a recent report in the Washington Post regarding competing bids by Indian auto manufacturer Mahindra & Mahindra Ltd. and European investment firm Investindustrial for a 40 percent equity stake in Aston Martin (Kirchfeld & Philip, 2012), the British sports car made famous by decades of James Bond films. Assuming that Mahindra is successful in their bid (as seemed to be the case at the time of publication), what are the implications for consumer perception of one of the most famous British brands being owned in large part by a firm from emerging India, once a British colony? Were this not ironic enough in its own right, the firm that currently owns the brand is Investment Dar, a Kuwaiti firm. While the product may still be built in the country that consumers associate most closely with the brand, will they be influenced by their perceptions of the country (or countries) that own the firm? In the case of Aston Martin, is it still a “Bond” car, with all that suggests, despite being owned by two countries that consumers likely view far differently—and perhaps more negatively—than they do the United Kingdom?
According to some researchers, not only is COO a factor in product evaluations, its influence may vary across product categories (Fetscherin & Toncar, 2009; Magnusson, et al., 2011). Consumers may associate a given product with a specific country (perfume with France, for example) or conversely, associate a given country with a specific product category such as Germany with beer (Pappu, Quester, & Cooksey, 2006). These authors argue that these country and category specific association may vary considerably depending on consumers’ preconceived notions of what products are “right” for which countries. Extending this idea, they also suggest that these associations may vary by specific brands according to the COO of the brand and that consumer perception of quality may vary with COO.

Despite the prevailing literature, several researchers are increasingly arguing that the influence of COO in consumer behavior and product perception is considerably overstated (Magnusson, et al., 2011). There is a growing school of thought that COO has little, if any, genuine impact on consumer product perceptions, brand image or purchase intention (Samiee, 2011). In a study often cited by researchers subscribing to this position, Liefeld (2004) found that the majority of consumers were overwhelmingly oblivious of their purchase’s country of origin. The study revealed that a mere six percent of consumers were aware of the product’s COO before making the purchase and that 88 percent had no plans to investigate the matter. In short, they could have cared less about where their product originated. This is but one of several studies supporting this position. Research by Balabanis and Diamantopoulos (2008); Samiee, Shimp, and Sharma (2005); and Usunier (2006) all suggest that not only has past COO research been flawed in its conclusions regarding the impact of COO and that COO has little influence on consumer perception but, perhaps more importantly, that consumers are largely indifferent and unmotivated to investigate the origin of their acquisitions. Samiee et al. (2005) may best sum up this school of thought by referring to previous research as “inflating” the importance of COO and how practitioners should apply the research in making managerial decisions.

As firms in emerging economies increasingly acquire high visibility brands originating in developed countries, the controversy regarding the impact of COO and the related concept of CON becomes increasingly important to marketing theory and practice. This paper contributes to this discussion, potentially opening a new stream of research around the country of ownership concept.

Brand Personality

A substantial body of marketing research, particularly in the areas of branding and consumer behavior, has been devoted to determining if consumers do indeed assign human personality traits to inanimate products and, if so, how that attribution influences their perception of, and relationship with, a given brand (Fetscherin & Toncar, 2009; Magnusson, et al., 2011; Samiee, 2011).

Marketers have long since adopted brand personality as a strategy for connecting products to consumers (J. L. Aaker, 1997; Arora & Stoner, 2009), using the technique to emphasize the “humanness” of a brand as opposed to mere physical characteristics or feature functionality (Keller, 1993). The physical characteristics of a Harley Davidson “hog” may be
reliability and comfort; however, the firm’s marketing focuses far less on those attributes than it does on building a brand perception that the products are adventurous and exciting.

Given the difficulty of connecting consumers to inanimate objects and thus creating a brand relationship, advertisers resort to anthropomorphism, turning the brand images into living beings with human characteristics (J. L. Aaker, 1997; Louis & Lombart, 2010). This personification allows the consumer to view the brand in the context of their own personality and thus develop an affinity with the product (Caprara, Barbanelli, & Guido, 2001).

In her seminal article introducing the scale employed in this study, J. L. Aaker (1997) suggests the foundation of the phenomenon is the consumer’s tendency to assign human traits to inanimate objects. Aaker initially identified 309 traits believed to contribute to brand personality. Subsequent research involving a representative sample of the U.S. population and a large variety of consumer products ranging from toothpaste to luxury cars allowed her to reduce the dimensions to a far more manageable five—Competence, Excitement, Ruggedness, Sincerity, and Sophistication—, composed of 15 sub-dimensions and 42 total personality traits. The resulting concept, which Aaker defines as “the set of human characteristics associated with a brand” (J. L. Aaker, 1997, p. 347) offers what many researchers consider to be a generalizable and valid scale for measuring brand personality (Fetscherin & Toncar, 2009).

The authors selected the Aaker brand personality scale for several reasons. First, it allows for the measure of a variety of product personality attributes that appear to “fit” the two vehicles in question. Second, the scale’s generalizability allows the measurement of if, and how, brand perceptions change in the case of a transnational brand acquisition. Third, brand personality can be measured regardless of a consumer’s ability or intention to actually purchase the product. Finally, despite some criticism, the scale is widely accepted in the school of branding research and has been successfully employed by previous researchers specifically investigating the automobile industry in emerging economies (Fetscherin & Toncar, 2009).

This paper suggests that for products originally from industrialized countries that are now owned by firms from emerging economies, consumers who are aware of the country of ownership will evaluate brand personality more negatively than will consumers who are not aware of the country of ownership.

Bringing together the new dimension of country of ownership, the expectation that COO and CON will have a similar impact on consumer behavior, and Aaker’s well established brand personality scale, this paper suggests that for products originally from industrialized countries that are now owned by firms from emerging economies, consumers who are aware of the country of ownership will evaluate brand personality more negatively than will consumers who are not aware of the country of ownership.

This leads to the following five part hypothesis:

H1: Consumers who are aware that India is the country of ownership of Jaguar or Land Rover will evaluate the brand as being less (a) competent, (b) exciting, (c) rugged, (d) sincere,
and (e) sophisticated than consumers who are not aware that they are owned by an Indian company.

Methodology

A 2 x 2 between subjects experiment was designed to test the hypotheses. One dimension was the type of automobile: Jaguar (luxury passenger car) or Land Rover (utility vehicle). The other dimension was the country of ownership: either identified as India (subjects were explicitly told that Tata—an Indian company—had acquired the brand in 2008) or not identified at all (all subjects were asked in what country they thought the brand’s headquarters was located to test for prior knowledge).

A scale developed and validated by J. L. Aaker (1997) was used to measure perceived brand personality of the cars (see Figure 1). The scale consists of five dimensions of brand personality broken down into 42 items: Competence (9 items), Excitement (11 items), Ruggedness (5 items), Sincerity (11 items), and Sophistication (6 items). All items were measured using a five-point Likert type scale (1 = not at all descriptive, 5 = extremely descriptive).

A three part questionnaire was developed as the measurement instrument. The first section had questions regarding demographics of the participant.

The second part had a brief description and photo of the automobile (Jaguar or Land Rover), and questions regarding country of manufacture and country of ownership (location of parent company headquarters) of the brand to test for previous knowledge.

The third section had the 42 questions of the Aaker brand personality scale, randomized to avoid potential bias in the clustering of items from the same dimensions. At the beginning of the section, for those in the relevant experimental groups, the Tata Motors logo was displayed and the purchase of the brand (Jaguar or Land Rover) by Tata in 2008 was disclosed along with a brief description of the firm that emphasized the fact that it is an Indian company. At the end of the section, participants were asked to match the country of ownership (four countries: USA, Germany, India, Japan) to three brands of automobiles (Lexus, Jaguar/Land Rover, BMW) as a manipulation check.

The survey was pretested with two undergraduate students that did not participate in the subsequent study in order to refine the format of the instrument.

Data were collected from a sample of 150 undergraduate business students at a small private U.S. university who were randomly assigned to one of the four experimental groups.

Results

In total, 49 subjects completed the survey for Jaguar with Tata ownership not disclosed, 42 for Jaguar with Tata ownership disclosed, 25 completed the instrument for Land Rover with Tata ownership not disclosed, and 34 for Land Rover with Tata ownership disclosed.
The sample was composed of 37% females and 63% males. English was the first language of 84% of the participants, and 49% of the subjects considered the USA to be their home.

A manipulation check of the country of ownership was designed as noted above; 85.5% of the subjects who were told that Jaguar or Land Rover had been acquired by Tata correctly identified India as the country of the parent company’s headquarters.

An assessment of possible common method bias was performed using Harman’s single factor test (Gaskin et al., 2011) with IBM SPSS Amos 20. The single factor accounted for only 27.8% of the total variance explained, well below the 50% threshold and thus supporting the absence of common method bias.

**Reliability and Validity**

The reliability and validity of the measurement model were assessed with partial least squares (PLS) using SmartPLS 2.0. The criteria to gauge the acceptability of the constructs’ psychometric properties require that (1) composite reliabilities be greater than .70, (2) standardized factor loadings of measured variables in a confirmatory factor analysis (CFA) exceed .70, (3) loadings be greater than cross-loadings, (4) average variances extracted (AVE) exceed .50, and (5) AVEs be greater than the squared inter-construct correlations (Hair et al., 2010; Srite & Karahanna, 2006).

Several of the brand personality scale items did not meet one or more of these criteria and were eliminated from the analysis. The final model consisted of 22 items: Competence (5 items), Excitement (5 items), Ruggedness (4 items), Sincerity (5 items), and Sophistication (3 items). The values for each of the brand personality dimensions were calculated as the average of their items.

Table 1 shows the results of the CFA for the final model which is depicted graphically in Figure 2. All items exceed the .70 loading criterion with the exception of SiW2 which was retained for the analysis since it had a loading of .68. These results demonstrate convergent validity.

Discriminant validity can be partially assessed by the fact that the items have a higher loading on their corresponding factor (brand personality dimension) than on the other factors (Table 1). Additionally, the AVEs for all dimensions are greater than .50 and larger than the corresponding squared inter-construct correlations (see Table 2). The brand personality dimensions thus exhibit adequate discriminant validity.

Finally, assessing reliability, Table 2 shows that composite reliabilities for all dimensions exceed .70.

With all of these results, one can conclude that the measurement model has suitable psychometric properties.
Hypotheses Tests

To test the hypotheses, a comparison of means through analysis of variance (ANOVA) was performed with IBM SPSS Statistics 20.

Table 3 shows the results for the four experimental groups, where there is a significant \( p < .001 \) difference in the evaluation of ruggedness and sophistication between the four groups.

A closer analysis reveals that, for each individual brand (Jaguar and Land Rover), there are no significant differences in the perceived personality dimensions between those that were aware of the Indian country of origin and those that weren’t (see Table 4).

The differences detected in the ANOVA of the four experimental groups are in fact due to differences between the brands, with Jaguar being perceived as more sophisticated but less rugged (and also less sincere) than Land Rover (see Table 5).

None of the hypotheses (H1a, H1b, H1c, H1d, and H1e) are thus supported.

Discussion and Conclusions

The results of this study clearly add to the controversy in the country of origin literature on whether or not it is relevant to consumers. It suggests that the effect of brand attributes and perceptions is stronger than the influence of the country of ownership of the product. Consumers care more about the brand itself than about the nationality of who owns the brand.

The implication for companies is that marketing resources need not be diverted to either highlighting or hiding the nationality of the parent firm. Similarly, when assessing potential acquisitions, firms need not consider the change in the nationality of the brand’s ownership as a potential factor in consumer’s perceptions. Consumers will continue to form their opinions about products and brands based on their attributes and performance without regard to the country in which the parent company is headquartered.

This paper presents an initial and very specific study of country of ownership (CON) effects and therefore has a number of limitations that also constitute opportunities for future research. For example, studies could be designed to compare the effect of CON across different product categories. Other relevant aspects of brands could be measured and compared such as perceived brand attributes. The impact of CON on consumer behavior variables including purchase and word-of-mouth intentions could also be studied. Subjects other than undergraduate students in the U.S. could be surveyed to see if the findings are generalizable. The impact of media coverage, especially social and online channels, of the change in ownership might also be evaluated.

The authors were surprised not to find any country of ownership studies in the extant literature and anticipate that this paper could initiate a new stream of research around this increasingly relevant and topical concept.
References


Figure 1. A Brand Personality Framework (J. L. Aaker, 1997, p. 352).

Figure 2. Final Measurement Model from CFA in SmartPLS 2.0.
COMP = Competence, EXCIT = Excitement, RUG = Ruggedness, SINC = Sincerity, SOPH = Sophistication. Numbers on the arrows from the latent constructs to the measured variables are standardized factor loadings.
Table 1
Confirmatory Factor Analysis (CFA) Results

<table>
<thead>
<tr>
<th>Brand Personality Dimension/Item</th>
<th>Competence</th>
<th>Excitement</th>
<th>Ruggedness</th>
<th>Sincerity</th>
<th>Sophistication</th>
</tr>
</thead>
<tbody>
<tr>
<td>CI1</td>
<td>0.81</td>
<td>0.56</td>
<td>-0.03</td>
<td>0.45</td>
<td>0.54</td>
</tr>
<tr>
<td>CR2</td>
<td>0.72</td>
<td>0.44</td>
<td>0.39</td>
<td>0.57</td>
<td>0.19</td>
</tr>
<tr>
<td>CR3</td>
<td>0.71</td>
<td>0.40</td>
<td>0.37</td>
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<td>0.19</td>
</tr>
<tr>
<td>CS1</td>
<td>0.78</td>
<td>0.56</td>
<td>-0.01</td>
<td>0.38</td>
<td>0.50</td>
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<td>CS3</td>
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<td>-0.01</td>
<td>0.28</td>
<td>0.43</td>
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<tr>
<td>ED1</td>
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<td>0.77</td>
<td>0.39</td>
<td>0.50</td>
<td>0.34</td>
</tr>
<tr>
<td>ED2</td>
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<td>0.71</td>
<td>0.05</td>
<td>0.33</td>
<td>0.47</td>
</tr>
<tr>
<td>ED3</td>
<td>0.49</td>
<td>0.84</td>
<td>0.17</td>
<td>0.53</td>
<td>0.56</td>
</tr>
<tr>
<td>ES2</td>
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<td>0.71</td>
<td>0.16</td>
<td>0.42</td>
<td>0.49</td>
</tr>
<tr>
<td>EU1</td>
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<td>0.76</td>
<td>0.00</td>
<td>0.30</td>
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</tr>
<tr>
<td>RO1</td>
<td>-0.05</td>
<td>0.06</td>
<td>0.81</td>
<td>0.27</td>
<td>-0.29</td>
</tr>
<tr>
<td>RO3</td>
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<td>0.17</td>
<td>0.73</td>
<td>0.41</td>
<td>0.02</td>
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<tr>
<td>RT1</td>
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<td>0.30</td>
<td>0.86</td>
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<td>RT2</td>
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<td>0.01</td>
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</tr>
<tr>
<td>SiC1</td>
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<td>0.51</td>
<td>0.25</td>
<td>0.77</td>
<td>0.43</td>
</tr>
<tr>
<td>SiC3</td>
<td>0.39</td>
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<td>0.39</td>
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<td>SiH3</td>
<td>0.42</td>
<td>0.48</td>
<td>0.38</td>
<td>0.74</td>
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<td>SiW1</td>
<td>0.58</td>
<td>0.42</td>
<td>0.31</td>
<td>0.80</td>
<td>0.16</td>
</tr>
<tr>
<td>SiW2</td>
<td>0.31</td>
<td>0.38</td>
<td>0.49</td>
<td>0.68</td>
<td>0.21</td>
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<tr>
<td>SoC1</td>
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<td>-0.01</td>
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<tr>
<td>SoU1</td>
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<td>0.54</td>
<td>-0.12</td>
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<td>0.83</td>
</tr>
<tr>
<td>SoU2</td>
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<td>0.56</td>
<td>-0.15</td>
<td>0.18</td>
<td>0.83</td>
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</tbody>
</table>

Note. Numbers shown are standardized loadings. Loadings > .60 are bolded and in a shaded cell. SmartPLS 2.0 was used for the analysis.
Table 2  
*Reliability and Discriminant Validity Assessment*

<table>
<thead>
<tr>
<th>Brand Personality Dimension</th>
<th>Composite Reliability</th>
<th>Competence</th>
<th>Excitement</th>
<th>Ruggedness</th>
<th>Sincerity</th>
<th>Sophistication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competence</td>
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<td>0.57</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Excitement</td>
<td>0.87</td>
<td>0.42</td>
<td>0.57</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ruggedness</td>
<td>0.87</td>
<td>0.03</td>
<td>0.05</td>
<td>0.62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sincerity</td>
<td>0.87</td>
<td>0.34</td>
<td>0.31</td>
<td>0.23</td>
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</tr>
<tr>
<td>Sophistication</td>
<td>0.84</td>
<td>0.25</td>
<td>0.40</td>
<td>0.02</td>
<td>0.10</td>
<td>0.63</td>
</tr>
</tbody>
</table>

*Note.* First column shows composite reliabilities. Diagonal elements (in bold) in the correlation matrix are the average variances extracted (AVE). All other figures are the squares of inter-construct correlations. For adequate discriminant validity, AVEs should be greater than the corresponding off-diagonal figures.

Table 3  
*ANOVA Results – Means Comparisons of the Four Experimental Groups*

<table>
<thead>
<tr>
<th>Experimental Group</th>
<th>Competence</th>
<th>Excitement</th>
<th>Ruggedness***</th>
<th>Sincerity</th>
<th>Sophistication***</th>
</tr>
</thead>
<tbody>
<tr>
<td>JTU Mean</td>
<td>3.98</td>
<td>3.85</td>
<td>2.10</td>
<td>3.16</td>
<td>4.26</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>0.86</td>
<td>0.66</td>
<td>0.74</td>
<td>0.84</td>
<td>0.62</td>
</tr>
<tr>
<td>N</td>
<td>49</td>
<td>49</td>
<td>49</td>
<td>49</td>
<td>49</td>
</tr>
<tr>
<td>JTD Mean</td>
<td>3.81</td>
<td>3.84</td>
<td>2.35</td>
<td>3.25</td>
<td>4.20</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>0.62</td>
<td>0.77</td>
<td>0.93</td>
<td>0.75</td>
<td>0.67</td>
</tr>
<tr>
<td>N</td>
<td>42</td>
<td>42</td>
<td>42</td>
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<td>42</td>
</tr>
<tr>
<td>LTU Mean</td>
<td>3.74</td>
<td>3.76</td>
<td>3.60</td>
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<td>3.60</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>0.82</td>
<td>0.84</td>
<td>0.85</td>
<td>0.70</td>
<td>0.84</td>
</tr>
<tr>
<td>N</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>LTD Mean</td>
<td>3.90</td>
<td>3.83</td>
<td>3.84</td>
<td>3.52</td>
<td>3.64</td>
</tr>
<tr>
<td>Std. Deviation</td>
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<td>0.69</td>
<td>0.70</td>
<td>0.63</td>
<td>0.85</td>
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<tr>
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<tr>
<td>ANOVA F</td>
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<td>43.17</td>
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<td>8.54</td>
</tr>
<tr>
<td>Sig. Level</td>
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<td>0.000</td>
<td>0.181</td>
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</tr>
</tbody>
</table>

*Note.* JTU = Jaguar with Tata ownership undisclosed, JTD = Jaguar with Tata ownership disclosed, LTU = Land Rover with Tata ownership undisclosed, JTD = Jaguar with Tata ownership disclosed. Results are statistically significant for Ruggedness and Sophistication. IBM SPSS Statistics 20 was used for the analysis.

*** $p < .001$. 

27
Table 4
ANOVA Results – Independent Means Comparisons for Jaguar and Land Rover

Jaguar

<table>
<thead>
<tr>
<th>Country of Ownership</th>
<th>Competence</th>
<th>Excitement</th>
<th>Ruggedness</th>
<th>Sincerity</th>
<th>Sophistication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not disclosed</td>
<td>3.98</td>
<td>3.85</td>
<td>2.10</td>
<td>3.16</td>
<td>4.26</td>
</tr>
<tr>
<td></td>
<td>0.86</td>
<td>0.66</td>
<td>0.74</td>
<td>0.84</td>
<td>0.62</td>
</tr>
<tr>
<td></td>
<td>49</td>
<td>49</td>
<td>49</td>
<td>49</td>
<td>49</td>
</tr>
<tr>
<td>India disclosed</td>
<td>3.81</td>
<td>3.84</td>
<td>2.35</td>
<td>3.25</td>
<td>4.20</td>
</tr>
<tr>
<td></td>
<td>0.62</td>
<td>0.77</td>
<td>0.93</td>
<td>0.75</td>
<td>0.67</td>
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<td>42</td>
<td>42</td>
<td>42</td>
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</tr>
<tr>
<td>ANOVA</td>
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<td>2.05</td>
<td>0.28</td>
<td>0.22</td>
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<tr>
<td>Sig. Level</td>
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<td>0.156</td>
<td>0.597</td>
<td>0.640</td>
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</table>

Note. No results are statistically significant.

Land Rover

<table>
<thead>
<tr>
<th>Country of Ownership</th>
<th>Competence</th>
<th>Excitement</th>
<th>Ruggedness***</th>
<th>Sincerity**</th>
<th>Sophistication***</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not disclosed</td>
<td>3.74</td>
<td>3.76</td>
<td>3.60</td>
<td>3.38</td>
<td>3.60</td>
</tr>
<tr>
<td></td>
<td>0.82</td>
<td>0.84</td>
<td>0.85</td>
<td>0.70</td>
<td>0.84</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>India disclosed</td>
<td>3.90</td>
<td>3.83</td>
<td>3.84</td>
<td>3.52</td>
<td>3.64</td>
</tr>
<tr>
<td></td>
<td>0.61</td>
<td>0.69</td>
<td>0.70</td>
<td>0.63</td>
<td>0.85</td>
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<tr>
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<td>0.04</td>
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<tr>
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<td>0.419</td>
<td>0.839</td>
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Table 5
ANOVA Results – Means Comparisons Between Jaguar and Land Rover

<table>
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<tr>
<th>Brand</th>
<th>Competence</th>
<th>Excitement</th>
<th>Ruggedness***</th>
<th>Sincerity**</th>
<th>Sophistication***</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jaguar</td>
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<td>3.85</td>
<td>2.22</td>
<td>3.20</td>
<td>4.23</td>
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<td></td>
<td>0.76</td>
<td>0.71</td>
<td>0.84</td>
<td>0.79</td>
<td>0.64</td>
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<td>Land Rover</td>
<td>3.83</td>
<td>3.80</td>
<td>3.74</td>
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<td>0.000</td>
<td>0.044</td>
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</table>

Note. Results are statistically significant for Ruggedness, Sincerity, and Sophistication.

** p < .05. *** p < .001.
AN EXAMINATION ON THE EDUCATIONAL AND TRAINING REQUIREMENTS OF
PROSPECTIVE CERTIFIED PUBLIC ACCOUNTANTS: THE REDESIGN OF THE
ACCOUNTING CURRICULUM

Dr. Lamine J. Conteh

Dr. Passard Dean

Saint Leo University
Abstract

The purpose of this paper is to examine the educational and training requirements of prospective certified public accountants (CPA) and the overhaul and redesign of accounting curriculum at U.S. colleges and universities. A survey of accounting students revealed that the extra education was essential for passing the CPA exam (Reckers, 2006). Although the AICPA’s 150-hour rule did not directly address the accounting educational qualification of a Uniform CPA candidate, all the 50 states, and the American Samoa, the District of Columbia, Northern Mariana Islands, and Puerto Rico, Guam now require CPA candidates or licensure for the CPA designation to have at least 150 credit hours of education (AICPA, 2013). According to the AICPA (2013), the educational requirements for CPA licensure in the U.S. Virgin Islands indicate that the candidate must have a diploma from a 4-year high school or a diploma from a recognized college or university, and that the candidate must also complete 30 or more semester hours in the study of accounting, economics, business law, and finance of which the 20 hours must be in accounting. The imbalance of supply/demand was especially greater in Florida where more than 2,300 students took the CPA exam under the old rule. According to Reckers (2006), only 12 candidates met the 150-hour rule requirement in Florida before it was implemented in 2000. Candidly, the implementation of the 150-hour rule in 2000 increased the success rates of CPA candidates in Florida and Utah (Reckers, 2006).
The purpose of this paper is to examine the educational and training requirements of prospective certified public accountants (CPA). This paper also advocates the overhaul and redesign of accounting curriculum at U.S. colleges and universities. For this reason, the redesign and overhaul of accounting courses should include in information technology, international accounting, ethics, and oral and written communications. Consequently, the redesign of the accounting curriculum will enhance the success rates of CPA candidates, the offering of similar accounting subjects across business schools, and preparing accounting graduates to meet the changing dynamics of employment in professional accounting.

During the last century, the accounting profession debated the educational and training requirements of certified public accountants (CPAs). In the mid-1980s, employers of accounting graduates and academicians were concerned about the competency level of accounting graduates (Bui and Porter, 2010). Subsequently, Munter and Reckers (2009); Brown and McCartney (1995); Hurt (2007)); and Albrecht and Stack (2001) have called on accounting educators to make adequate improvements in the perceived deficiencies of accounting graduates.

In retrospect, the AICPA’s approval of the 150-hour rule in 1989 did not specifically address the types of courses that accounting majors should take beyond the minimum credits that are required for an undergraduate accounting degree. Furthermore, the level of accounting education as well as courses and topics from one accounting program to the other continues to differ considerably. Correspondingly, some business schools have redesigned their entire accounting curriculum with the hope of increasing the mastery proficiencies of accounting majors (Hyman, Superville, Ramsey, and Williams, 2005; DeFelice, 2010).

A survey of accounting students revealed that the extra education was essential for passing the CPA exam (Reckers, 2006). While the National Association of State Boards of Accountancy (NASBA) and the AICPA have called for changes in the accounting curriculum for CPA candidates, a significant number of accounting educators and practitioners have rejected a proposal to revise the accounting curriculum (Reckers, 2006). Although the AICPA’s 150-hour rule did not directly address the accounting educational qualification of a Uniform CPA candidate, all the 50 states, and the American Samoa, the District of Columbia, Northern Mariana Islands, and Puerto Rico, Quam now require CPA candidates or licensure for the CPA designation to have at least 150 credit hours of education (AICPA, 2013). According to the AICPA (2013), the educational requirements for CPA licensure in the U.S. Virgin Islands indicate that the candidate must have a diploma from a 4-year high school or a diploma from a recognized college or university, and that the candidate must also complete 30 or more semester hours in the study of accounting, economics, business law, and finance of which the 20 hours must be in accounting.

Accounting graduates rushed to take the CPA exam before the AICPA’s implementation of the 150-hour rule in 2000 (Reckers, 2006). The imbalance of supply/demand was especially greater in Florida where more than 2,300 students took the CPA exam under the old rule. According to Reckers (2006), only 12 candidates met the 150-hour rule requirement in Florida before it was implemented in 2000. Candidly, the implementation of the 150-hour rule in 2000 increased the success rates of CPA candidates in Florida and Utah (Reckers, 2006).

In order to increase the passing rates of first-time CPA examination candidates and to ensure that accounting graduates are meeting the challenging demands of the workplace, high priority should be given to the redesign of the accounting curriculum. Consequently, the following research questions will seek address this endeavor:
1. Does the disparity between the CPA examination content and the accounting curriculum significantly contribute to high failure rates of first-time CPA examination candidates?

2. Are accounting majors adequately prepared to meet the challenges demands of the workplace?

3. Should international accounting be included in the redesign of the undergraduate accounting curriculum?

4. Should accounting ethics be taught exclusively by accounting faculty?

The formulation of research questions on the need of revamping the accounting curriculum is vitally important to the investigation and the findings of the research hypotheses. As a result of this critical assessment, the following hypotheses are depicted:

**H1o:** There is no statistically significant difference between the high failure rates of first-time CPA examination candidates and the disparity between the CPA examination content and the accounting curriculum.

**H1a:** There is a statistically significant difference between the high failure rates of first-time CPA examination candidates and the disparity between the CPA examination content and the accounting curriculum.

**H2o:** Accounting majors are not adequately prepared to meet the challenges demands of the workplace.

**H2a:** Accounting majors are adequately prepared to meet the challenges demands of the workplace.

**H3o:** International accounting should not be included in the redesign of the undergraduate accounting curriculum.

**H3a:** International accounting should be included in the redesign of the undergraduate accounting curriculum.

**H4o:** Accounting ethics should not be taught exclusively by accounting faculty.

**H4a:** Accounting ethics should be taught exclusively by accounting faculty.

The public accounting profession started in Great Britain around the mid nineteenth century, and in 1896 the State of New York passed the first legislation on the title of “certified public accountant” (Dennis, 2000, p. 97). This law paved the way on the state regulation of the public accounting profession in the United States. In 1916, the American Institute of Accountants (AIA), the predecessor of the AICPA structured the first organizational membership of the CPA profession. By 1984, the first joint model bill between the AICPA and the NASBA was published.

There are still differing requirements on the aspect of accountancy in the 50 states and Puerto Rico, the District of Columbia, Guam, Northern Mariana Islands, Puerto Rico, and the U.S. Virginia Islands. Due to these differing requirements, the mobility of CPAs has resulted in the artificial barrier to the practice of public accounting (Shelton, Thompson, and Serrett, 2012). Research on the educational requirements of the 50 states has revealed a lack of consistency on the CPA examination requirements. According to Shelton et al. (2012), some of the states have implemented the general requirements of the National Association of State Boards of Accountancy, while other states have instituted different requirements for prospective CPA candidates and licensure.

Prospective CPA candidates are usually advised to adequately prepare for the examination. However, most of the candidates are given different views on the extent of their
practical experience and academic training (Frisbee, 1947). According to Frisbee (1947), some CPA candidates are even advised to have more training in tax, auditing and accounting studies than in non-accounting courses. Some even have advised the candidates to combine liberal arts and business management courses that include core accounting courses within the curriculum. Interestingly, a number of colleges and universities have implemented comprehensive five-year programs for the undergraduates to have thorough knowledge of accounting (Frisbee, 1957).

The understanding of knowledge-based depreciation would significantly influence the structuring of business law and tax courses so that the passing rates of accounting graduates can increase. For example, the scheduling of macro and micro-economics courses for accounting undergraduate students in the sophomore year and accounting information in the junior year could be the contributing factors of the candidate failure rates in these two important parts of the CPA examination. The minimization of knowledge-based depreciation could contribute significantly to the structuring of accounting programs; thereby paving the way of program alteration in the course content and instructional delivering methods (Kohen and Kipps, 1979). While it is a generally accepted theory that the passage of time places significant role in the knowledge depreciation of a learner, program improvements and increase faculty productivity could also increase the student knowledge and retention (Kohen and Kipps, 1979). Thus, in order to improve the proficiency of accounting graduates, it is imperative for business schools to have courses in information technology, forensic and fraud examination, international accounting. In addition, more courses should be taught in finance, and oral and written communication beyond the undergraduate general education requirements.

Information technology (IT) has been a prominent force in business and non-business productivity. IT, defined as the use of hardware and software, has greatly influenced the production and performance of products and services, respectively. Thus, IT continues to have a leadership role in manufacturing and distribution of financial and non-financial data across businesses. Bagranoff et al. (2005) argued that companies interpret their success or failure rates squarely on the workers’ use or misuse of information. For example, effective use of accounting information should be accurate and that is properly disseminated to stakeholders (Bagranoff et al. 2005).

The Bedford Report highlighted how the development, disclosure and collection of data should be understood (AAA, 1986). In addition, the Bedford Report addressed the importance of how future accountants should understand the design, nature and implementation of information systems.

The business environment continues to use information technology (IT) as the primary driver of change and few business organizations have escaped the sudden advances of IT processes and protocols. The use of IT has drastically changed the structural and operational functions of business enterprises (IFAC, 2003). For example, the exchange of transactional data in real time between businesses has now allowed efficient dissemination of data. Furthermore, the use of XBRL allows business entities to share information via the Internet (e-commerce), perform automatic inventory updates, centrally coordinate databases, and use enterprise resource planning (ERP) tools to organize financial and operational functions.

Though recent progresses in IT have elevated business processes, the accounting profession continues to face several integral challenges. With the inexpensive development of software for the dissemination of tax returns and financial information, the demand for accountants continues to decrease dramatically (Albrecht & Sack, 2001). Candidly, accountants are now required to be knowledgeable in information technology as a consequence of performing
The current business environment requires prospective employees to be proficient in databases, computer operating systems, groupware and spreadsheets. Thus, without the mastery of computer protocols, it would be practically impossible for accounting graduates to effectively perform in the current business environment. Additionally, a professional accountant is now expected to be knowledgeable in the design and support of the business information systems. Unfortunately, the rapid technological and structural organizational changes have made it increasingly difficult for accountants to efficiently render their services (IFAC, 2003).

The apparent consensus of requiring professional accountants to have IT skills does not specifically address the IT skills that are needed to be taught in the accounting curriculum. However, in 1995, the International Federation of Accountants issued the International Education Guide (IEG) on specific IT skills that are required for accounting majors (IFAC, 1996). Additionally, the AICPA’s Technology Curriculum and Competency Model Tax Force agreed that the memorandum of the (IFA) were profoundly applicable to accounting professional education in the U.S. According to IFAC (2003), the Technology Curriculum and Competency Model Tax Force have provided the following IT competency and knowledge requirements that professional accountants are required to be equipped with:

1. A general IT knowledge in business systems
2. A set of knowledge on IT related controls
3. A set of competency in IT related controls
4. A set of user role competency; and
5. A set of role-related competency relative to as IEG 11 designer, evaluator or manager.

The IEG study revealed that at least two courses should be taught on competencies and skills in the above three noted areas and that competencies and skills should cover related roles as a designer, evaluator or manager. The IEG 11 has categorically indicated that IT skills and competencies should not be relegated to one or two courses, but instead distributed in a variety of courses.

Since 1959, the American Accounting Association (AAA) has considered including computerized data processing in accounting education (Wu, 1983. In fact, Nestman and White (1978) suggested that that accounting information system (AIS) is an essential component of accounting curriculum. Both accounting practitioners and educators have extensively concluded that AIS courses increase the ability of students to proficiently understand the protocols of information systems (Albrecht and Sack, 2000; Borthick, 1996. Unfortunately, due to continuous evolution, widespread proliferation, and different aspects of information technology in business processes, accounting educators are challenged in determining the appropriate AIS courses that should be included in the accounting curriculum.

According to O’Donovan (1995), there was a source of disagreement and discussion about the proper definition of how computers should be incorporated into the accounting curriculum. Similarly, discussions had shifted to the clarity and relevant topics that should be used in accounting courses (Bhaskar, 1982; Er and Ng, 1989). Collins, 1983; Collier et al., 1990; Bromson, et al, 1994 (1987) argued that due to the changing dynamics of the business environment, accounting information courses are needed in the accounting program. In other words, the incorporation of accounting information systems should pay specific attention to several curriculum proposals (William, B. C., 1991), as well as proper understanding of the
importance of AIS in business and nonbusiness undergraduate education (Armitage and Boritz, 1986; Collier et al., 1990; Bromson et al., 1994; Harrison, 1994).

Yaverbaum (1996) argued that accounting educators need to change their ideas about IT and that accounting students are better served when technology is introduced in the classroom. Ideally, Najjar (1998) examined whether there is a direct correlation between the use of technology in the classroom and the performance of students. For instance, the general argument has indicated that testing without using technology did not conclusively indicate that student performance has increased. Another argument confirmed that there was a possibility that a computerized test is more visual than a non-computerized test.

The Accounting Education Change Commission (AECC) discussed about the inclusion of international business and accounting as part of accounting education (AECC, 1990). Likewise, executive officers of major public accounting firms have supported this idea. In fact, in a document on the perspective on education, it was stated the success of a practitioner depends the general education requirements as well incorporating issues in economics and political thought. More specifically, the American Assembly of Collegiate School of Business (AACSB) recommended the inclusion and coverage of global issues in accounting courses (AACSB, 1991, p. 18).

It is of profound interest if accountants and auditors in the US are familiar with the accounting principles of other countries. The premise of this argument is that the financial statements of several US companies include consolidated data of non-US subsidiaries. Furthermore, a US company seeking external financing may be required to prepare financial statements that are in conformity with the generally accepted accounting principles of these countries. Finally, a US company may prepare two sets of financial statements that are in conformity with the generally accepted accounting principles of domestic and foreign countries. Table 1 provides valuation information on different accounting treatments. For example, before Canada adopted international financial reporting standards (IFRS), it had similar methods with the US on foreign currency translation and accounting treatments on gains and losses. With regard to recognition of gains and losses as income or adjustments in the stockholders’ equity, companies in the US and Canada had previously used either the current rate or the temporal methods. For instance, the foreign currency translation gains and losses in the UK, Australia, and the Netherlands are surprisingly similar to those in the US. In France and Germany, there were no prescribed accounting treatments for foreign currency translation gains and losses. Wu (2001) has stated that Japanese companies use the “modified temporal method” while foreign currency translation gains and losses are treated as adjustments and then disclosed as assets or liabilities in the balance sheet.

As stated by Meek (1985), topics such as transfer pricing, performance evaluations and planning should be discussed in international managerial accounting courses. Meek (1988) has advised accounting instructors to use international accounting materials in other courses. Other advocates have called for the incorporation of international accounting topics in introductory accounting courses (McClure, 1988). However, adversaries argued that students in other courses may have insufficient knowledge of international accounting (Wu, 2000). In surveys by Burns (1979) and Mintz (1980), respondents have called for the integration of international
Table 1: Accounting Topics That Can Be Integrated into Financial Accounting Courses

<table>
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<tr>
<th>Topics</th>
<th>US</th>
<th>Canada</th>
<th>Australia</th>
<th>UK</th>
<th>France</th>
<th>Germany</th>
<th>Netherlands</th>
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<td>Required Financial Statements</td>
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<td>Balance Sheet</td>
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<td>Income Statement</td>
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<td>Cash Flow Statement</td>
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<td>Statement Of Changes</td>
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<td>Historical Financial Statements</td>
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<td>Lower-Of-Cost-Or-Market for Marketable Securities</td>
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<td>Lower-Of-Cost-Or-Market for Inventories</td>
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<td>Provisions For Bad Debts</td>
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<td>Straight-Line Depreciation</td>
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<td>Excess Depreciation Over Book Value Permitted</td>
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<td>Financial Leases Capitalized</td>
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<td>Deferred Taxes Recorded</td>
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<td>Equity Method Used For</td>
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accounting in accounting program instead of merely discussion international accounting topics in other undergraduate accounting courses. In addition, Wu (2001) argued that accounting instructors are unfamiliar with international accounting topics and that insufficient materials are available for class instructions.

In order to strengthen undergraduate accounting knowledge, Wu (2001) has suggested the incorporation international accounting topics in upper-level financial accounting courses. Accounting students should be introduced to the dimensions of international accounting that include accounting for marketable securities, goodwill, deferred taxes, segment reporting, foreign currency translation, consolidation, and inventory valuations (Wu, 2001). Instructors should be able to present the use selected countries when discussing international accounting topics in the classroom.

Due to the accounting scandals in the early late 1990s, the reputation of the accounting profession suffered a setback. More specifically, the public perceived these scandals squarely on a lack of ethics in the accounting profession. Similarly, Russell and Smith (2003) pointed their fingers at academia and depicted the following:

If we are looking for a primary contributing course of corporate malfeasance at firms such as Enron, Equity Funding, WorldCom, Sunbeam, Arthur Andersen, and HealthSouth, we need to look no further than the classrooms at colleges and university accounting programs that have not significantly adapted their methods of instruction or approach to accounting and management education over the last 50-60 years (p.1).

Ever since the issuance of the Bedford Committee report in 1986, there have been calls by the American Accounting Association (AAA), the Accounting Education Change Commission (AECC), the American Institute of Certified Public Accountants (AICPA), and the National Commission on Fraudulent Financial Reporting (NCFFR) to include ethics courses in the accounting curriculum. Admittedly, subsequent to the accounting scandals in the late 1990s, there were no meaningful changes of incorporating ethics in the accounting curriculum (Blanthorne, Fisher & Kovar, 2007).

The proposed changes to Rules 5-1 and 5-2 of the Uniform Accountancy Act have been proactive in addressing the ongoing ethical deficiencies in accounting education. In inevitably, the exposure draft have highlighted discussions on the accounting curriculum and also sparked needed attention within the accounting profession. One of the major proposals of the exposure draft had suggested the inclusion of ethical conduct and professional responsibilities of CPA in proposed 150-hour curriculum. In effect, NASBA’s Board of Directors created task forces to specifically revisit the content of the 150-hour requirement for the accounting education. However, after a prolong three-year discussion, the board declined to approve the three additional hours of accounting ethics into the 150-hour accounting education requirement. Similarly, proponents of change have contended that the impact of ethical behavior of the accounting profession far outweigh the cost of including ethics education in the accounting program.
As part of this study, the researchers will examine the impact of not offering ethics to accounting students and the subsequent unethical behavior of accountants in the workplace. In addition, the study would like to assess whether accounting ethics should be offered as a single or multiple courses. In order to ensure success in the accounting profession, accounting programs should use rudimentary tools (Albrecht and Sack 2000). As a result, there has been a long standing argument that accounting programs should focus on ethics, values and integrity (Albrecht & Sack, 2000). Unethical behavior has tarnished the image of the accounting profession and during the first few years of employment, accounting graduates have continued to face ethical challenges (Chang and Leung 2006). In addition, Chang and Leung (2006) have asserted due to the reluctance of identifying ethical issues, accounting students and graduates may be unable to determine what is ethically right or wrong. Hence, accounting educators should evaluate the impact of ethical issues on the accounting profession than merely arguing the lack of resources and additional costs of offering ethics courses to not including accounting ethics in the curriculum (Bean & Bernardi, 2005). Likewise, accounting educators must further evaluate the impact of unethical behavior as a primary threat on professional accounting.

Research studies have revealed that many accounting programs continue to struggle with methodology of including accounting ethics into the curriculum (Blanthorne et al., 2007). For example, Blanthorne et al.’s (2007) study concluded that 98.1% of accounting professors affirmed that at least one course in ethics should be included in the accounting curriculum, and that the course should be three credit hours.

The accounting academic community has raised questions on who should teach ethics to accounting students. A group of proponents has suggested that accounting faculty should teach accounting ethics because it believes that accounting instructors are knowledgeable and experienced with the ethical dilemmas that accounting practitioners face (Callahan, 1980). In fact, the National Commission on Fraudulent Financial Reporting (NCFFR) and the American Assembly of Collegiate School of Business (AACSB) have agreed that accounting ethics should be taught by accounting educators and that the teaching of ethics should be offered in all accounting courses (Callahan, 1980). Candidly, the flexibility of AACSB’s standards has called for incorporating ethics as an existing or stand-alone course.

Since ethics involves moral development and reasoning, Callahan (1980) has cautioned whether accounting faculty can effectively teach ethics because the author has contended that ethics is intertwined with human actions, which in effect may be different from accounting. In addition, accounting faculty may not have the necessary training to teach ethics as a subject to accounting majors. Callahan (1980) pinpointed that since anecdotal evidence has revealed that few accounting educators are interested in teaching accounting ethics, the accounting students will have minimal exposure to ethics if ethics is taught only by accounting educators. Another argument is that accounting professors are more comfortable in teaching courses that they have technical competence in (Callahan, 1980).

More specifically, accounting faculty who lack adequate preparation in teaching ethics will most likely avoid the topic or superficially discuss it (Owens, 1983). However, a survey of accounting department chairpersons, Cohen and Pant (1989) revealed that accounting faculty is relatively qualified to teach ethics. Conversely, in another study by Carver and King (1986), 52% of respondent accounting practitioners do not believe that accounting faculty is capable of adequately addressing the ethical issues that accountants face. Langenderfer and Rockness (1989); Loeb (188), Klein (1988); and Lawson (2002) countered because philosophers are trained in the subject matter, they should be allowed to teach ethics to accounting majors.
Similarly, Klein (1998) argued that ethics teaching is more than discussing ethical dilemmas and cases, and that it would be more of a fraud if a philosopher is not allowed to teach ethics to accounting students. In addition, Klein (1998) prefers an accounting and philosophy professor to “team-teach” ethics to accounting majors.

According to Klein (1998), the use of team teaching has significantly reduced the inherent weaknesses that are associated with depending on accounting faculty to teach ethics. This pedagogical approach greatly enhanced cross-disciplinary format of disseminating course content to accounting majors. Moreover, team teaching has greatly influenced the ethical perception of business students (Ducoffe, Tromley & Tucker, 2006; Helms, Alvis & Willis, 2005; Loeb & Ostas, 2000; Wenger & Hornyak, 1999). Remarkably, team teaching has been perceived to be time consuming (May, 1980) and a considerable challenge on how it should be managed (Callahan, 1980)

In a study by Lawson (2002), 92.1% of respondent business faculty surveyed confirmed that a joint venture of other schools should assist business schools to teach ethics to accounting majors. In other words, “team-teaching” approach exposes accounting students to ethical issues in accounting increase their moral reasoning skills (Lawson, 2002). Likewise, due to the limited interest of accounting educators in ethics, Loeb (1988) accentuated that ”team-teaching” is a viable approach to teaching accounting ethics. Thus, colleges and universities should provide monetary or other incentives to faculty to accounting ethics in a “team-teaching” format.

Grimstad (1964) disputed whether ethics should be taught as a single course and that limited space has been another controversial debate of including ethics in a four-year accounting curriculum. Prior research studies have indicated that many accounting educators were reluctant to include ethics-related topics in their courses because of insufficient materials and inadequate space in an already full accounting program (Cohen and Pant, 1989; McNair and Milam, 1993; Tan and Chua, 2000).

Research studies have discovered that only 8.5% of 281 accounting chairpersons believed that there is a significant value of offering ethics as a separate course. Despite a call by the AAA’s Bedford Report and the AACSB’s Treadway Commission to have increased coverage of ethics in the accounting program (Karnes and Sterner, 1981), majority of the responding chairpersons agreed that little time has been spent in teaching ethics and that a separate ethics course should not be offered to accounting majors. In fact, a survey by Armstrong and Mintz (1989) disclosed that 7.3% of the respondent 137 AACSB schools have supported the idea of offering ethics as a separate course to accounting students. In the same survey, nine of the participating schools disclosed that they have offered ethics to graduate students, and only one institution has offered ethics to both graduate and undergraduate students (Armstrong and Mintz, 1989). In fact, in a similar survey by Karnes and Sterner (1988), respondents established the same conclusion that Armstrong and Mintz (1989) discovered.

Unfortunately, most accounting courses do not require writing assignments (Rothenburg, 2000). Thus, upon graduation, a successful accounting major may not have the necessary writing skills that employers expect from newly hired accounting graduates. Consequently, this might hinder a new accounting graduate from drafting a letter to a vendor or even to a governmental agency on accounting or tax related issues.

In order to improve the writing abilities of accounting students, accounting departments should adopt writing across the curriculum. Colleges and universities should incorporate writing in all the disciplines instead of relying on the English department to perform the task. By assigning papers in each of the subject areas and allowing students to do peer reviews, student
writing ability will significantly improve (Ashbaugh, Johnstone, and Warfield, 2002). In addition, accounting students should be encouraged to keep a log on what they have written, and accounting instructors should allow their students to submit their assignments in piecemeal so that prompt feedback is given, instead of waiting for feedback at the end of the semester.

Previous research studies have described that writing skills are developed through repeated practices (e.g., Schank and Abelson, 1977; Tulving, 1985; Riesbeck and Schank, 1989; Boshuizen and Schmidt, 1992). In addition, other researches have concluded that relevant professional tasks are important to the development of cognitive skills (e.g., Brown et al., 1989; Collins et al., 1989; Bedard and Chi, 1993; Johnstone and Biggs, 1998). Flower and Hayes (1981) have stated that cognitive skills are integral in the long-term memory of a writer. This is especially true because long-term memory development enhances greater gains in the writing and communication skills of a writer.

Ashbaugh et al. (2002) suggested that professional writing experiences for accounting majors improve student writing skills than general writing experiences because professional writing experiences require students to adhere to relevant content and strict business conventions. In addition, research studies have confirmed direct link between professional writing demands and the ability of students to how they were able to complete previous writing assignments (Ashbaugh et al., 2002).

Other research studies have called for improvements on writing programs in higher education (Williams, 1988). Several of these research studies have called for accounting programs to improve the quality of student writing and communication skills so that their graduates can be professionally successful (Hirsch, Jr., & Collins, 188; Brown & Paapanen, 1996). According to Riordan, Riordan, and Sullivan (2000), interviews with accounting graduates and their employers revealed the need of effective writing and communication skills in the workplace. In retrospect, both the Graduate Management Admission Test (GMAT) and the Uniform CPA Examination content have now moved to meet the writing demands of the business environment.

Carson (1997) indicated that writing across the curriculum has been considered as one of the most successful educational reforms in US colleges and universities. Proponents believe that the incorporation of writing assignments explore student writing skills (Stocks et al., 1992). Riordan et al (2000) argued that writing activities in the accounting programs enable students to understand accounting procedures, improve analytical skills in accounting concepts and issues. Thus, this article is keenly interested in the restructuring of writing and oral communication programs so that accounting students can develop the skills that are required in the workplace.

Accounting education research has called for communications programs within the accounting program that is similar to the accounting program at J. M. Tull School of Accountancy at the University of Georgia (May and Arevalo, 1983). May and Arevalo (1983) stated that the J. M. Tull School of Accountancy require accounting students to complete in-class writing memoranda on accounting topics and that the students are also required to write six-to ten-page technical papers on selected topics outside of class. In intermediate accounting, the J. M. Tull School of Accountancy grade students on problem simulations and a writing expert is available to assess student writing and communication skills (May and Arevalo (1983).

Accounting faculty at Adrian College stated that the writing ability of their students has improved and that the institution should continue to have letter-writing assignments for their students (DeLespinasse (1985). In the letter-writing assignments, accounting faculty were required to use proper business formats of writing and to also assess oral communication in the
context of business client communication. Though the student writing assignments at Adrian College were graded and returned to them, the college did not provide any objective assessment on student writing (DeLespinasse 1985). However, DeLespinasse (1985, admitted that the writing assignments had positive impact on student performance and learning process. Consequently, students have expressed their interests in additional writing courses and that most Adrian College graduates have impressed their respective employers on their writing and communication skills.

Southern Illinois University at Edwardsville requires general writing assignments in managerial and cost accounting classes (Hirsch and Collins, 1988). Accounting students at Southern Illinois University at Edwardsville are also required to write memoranda to management, conduct critical assessments on their classmates’ papers, and prepare case analysis. Hirsch and Collins (1988) argued that there was no empirical test to validate the writing abilities of auditing classes at Southern Illinois University at Edwardsville. However, the university has used consultants to evaluate student writing assignments.

Riordan et al (2000) stated that the skills test from the GMAT is an objective measure of student writing ability. Research studies have concluded that inclusion of essays in quizzes and exams subjectively improve student writing skills. At Saint Leo University, writing across the curriculum is now required for all the students at the main campus, continuing education centers and center for online learning.

This research suggests that the writing initiative in the accounting curriculum should begin in the junior year, and ends with a three-month intensive writing at the end of the senior year. Since writing in a professional context is an important part of a writing initiative, accounting departments should require their students to write in a professional context and also assume that that the writing assignments are for a professional audience. For example, a writing assignment in an auditing class should take the role of an audit staff member writing an audit report to a supervisor.

In addition, there should be coordinated lectures to students that emphasize the importance of professional writing in accounting and provide writing assistance resources to students. The researchers believe that the lectures are important because they give perspectives and purposes on the importance of writing and oral communication. Another dimension is to give consistent feedback to students after they submit their writing assignments. A successful writing requirement should consider having two graders to evaluate the different dimensions of each writing assignment. In order to have continuous improvement on student writing, one grader should be an English or Journalism professor and the other should be accounting instructor. The objective is that the two-grader system provides both technical and general feedback to students on their writing experiences.

Accounting research has historically relied on research methodology for empirical testing. In addition, experimentation on controlled variables and statistical prediction on the outcomes are also used in the format of research methodology. On the other hand, the influence of social science has greatly influenced research methodology in accounting (e.g., see Chua 1986; Lodh and Gaffikin 1997; Tinker et al. 1982; Hopper et al., 1987). Furthermore, the appropriateness of a research method cannot be judged without placing much emphasis on the exploration of research questions. Conceptually, routine research questions provide greater opportunity for respondents to answer the research questions.

In the 1970s, there was a shift from quantitative (positivist) research to subjective (qualitative) thinking in accounting research (Laughlin, 1995). Thus, qualitative applied research
has gain popularity in the management accounting areas (Parket, 2012). Accounting researchers have used alternative or nonmainstream research to understand the aspects of accounting practices. In addition, different sets of steps are used to achieve the outcome of a research study.

Research methodology uses underlying sets of beliefs to guide the researcher to choose one set of research methods over another. Thus, the use of a research design is valuable in connecting research methodology. An appropriate set of research methods should be used so that proper research questions and or hypotheses are established to examine the research study. Research questions are the starting points for developing a research design (Berry and Otley, 2004; Saunders, Lewis and Thornhill 2009; Yin 2012). Ideally, Wahyuni (2012) asserts that when collecting data, a multiple case study design should be used. The rationale is that descriptive modes and suggestions efficiently observe research subjects.

In this study, a random selection of 1000 accounting academicians from US colleges and universities and accounting practitioners from private and public business entities will be drawn. The objective of this study is to examine whether the redesign of the accounting curriculum would enhance the success rates of CPA candidates and prepare recent accounting graduates to meet the changing dynamics of employment in the accounting profession. For this reason, the study will focus on the redesign and overhaul of accounting courses, such as information technology, international accounting, forensic and fraud examination, accounting ethics, and oral and written communications.

A postal questionnaire containing demographic data, institutional or company data, educational data, age, marital status, sex, years of teaching, years in professional accounting practice, and attainment of professional certifications will be asked. Research questionnaires on whether the disparity between the CPA examination content and the accounting curriculum has negatively impacted the success rates of passing the CPA examination. In addition, the research questionnaires will investigate when accounting programs adequately prepare accounting graduates to meet the challenges demands of the workplace.
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SERVANT LEADERSHIP IN MULTINATIONAL CORPORATIONS: A GLOBAL MANAGEMENT PERSPECTIVE

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Abstract

The world in which we live seems to be growing smaller – places and societies once viewed as distant are now just hours away. In every aspect of our lives, we are bombarded with new ideas, new concepts, and new ways to view old problems. Leaders are constantly faced with the issue of how to increase productivity, whether on a national or multinational level. Different approaches such as training, rewards, and coercion, are used. In addition, leaders must find ways to motivate and inspire employees towards achieving success in the workplace. This paper will reflect on servant leadership from an international management perspective. Global competition has forced businesses to change how they manage at home and abroad. The increasing rate of change, technological advances, shorter product life cycles, and high-speed communications are all factors that contribute to these changes. The aim of this paper is to discuss the value of a potential global servant leader in multinational corporations.
**Introduction**

The purpose of this paper is to reflect on how Servant Leadership might impact Multinational Corporations within a Global Management Perspective. According to Deng and Gibson (2008), we are living in a century where the era of globalization of the world economy is partly focused on leadership. The new management approach focuses on establishing a new communication system that features a high level of employee involvement. Leaders need to develop a global mindset, develop a self-authored identity, while developing an adaptive worldview. Story (2011) states that these features are challenging as developmental activities.

Management values are constantly evolving. Managers must now have a vision and be able to communicate the vision to everyone in the firm. In the twenty-first century, leaders in organizations, governments, and many professions face a phenomenon called “globalization” (Moran, Harris, & Moran, 2007). Hill defines globalization as, "The shift toward a more integrated and interdependent world economy" (2009, p. 7). He further indicates that, from a market standpoint, historically distinct and separate national markets are being replaced by barrier free trade that diminishes or eliminates distinctions based on nationality.

The range of problems confronted in an international business setting is broader, while the problems are more complex than those in a domestic business setting (Hill, 2009). Research indicates that the range of problems faced by managers is greater and more complex in an international sphere. For example, corruption is one complex issue associated with international business.

Many countries have become increasingly concerned with the subject of corruption, and managers today must deal with changes in ethical norms and laws. New laws and international agreements seek to create a worldwide shift towards the reduction of corruption. Servant leadership could be a panacea because it seeks to serve the interests and parties involved in an exchange relationship and transaction, rather than the self-interested private gains associates with complex international business transactions.

**Background**
Understanding Servant Leadership from a global perspective

The term servant leadership originated from an essay entitled “The Servant as Leader” written in 1970 by Robert Greenleaf (Spears, 2004). Greenleaf created this theory soon after reading Hermann Hesse’s fictional novel “Journey to the East” (Spears). This fictional book chronicles the journey of a group searching for spirituality (Spears). Greenleaf (1977) defined servant leadership as:

The natural feeling that one wants to serve, to serve first, then conscious choice brings one to spire to lead. The difference manifest itself in the care taken by the servant first to make sure that other people’s highest priority needs are being served. (p.8)

Leaders who consider themselves servant leaders take a transformational approach to leadership. Spear lists the following characteristics that make a servant leader: listening, empathy, healing, awareness, persuasion, conceptualization, foresight, stewardship, commitment to the growth of people, and building community. The possession of these characteristics allows the servant leader to lead others by serving them and the community. Servant leaders ensure that the needs of others are their highest priority.

These leaders also communicate a moral and ethical vision (Savage-Austin & Honeycutt, 2011). The servant leader serves the people they lead, which imply that employees are an end in themselves rather than a means to an organizational purpose or bottom line. Servant leadership is meant to replace command and control models of leadership, while being more focused on the needs of others (Greenleaf, 1977). Story (2011) reveals that the literature on global leadership provides many articles that state traits, characteristics, and attitudes of successful global leaders, one of which may not be servant leadership. Robinson & Harvey (2008) asserted that leaders are exposed to many complex challenges, and what we know about leadership theory and development may no longer be effective in this global context or global environment. Barbuto and Wheeler (2006) found that the servant leader’s behavior moves beyond transforming leadership with the objective of aligning the leaders and followers motives.

International and Global Management can be considered from the perspective of the different functions of the organization: marketing, operations (often called production), human resources, finance, other support activities like research, development, and legal issues (Hill, 2009). In any event, it is important that global managers understand these and many other international institutions because they could have an impact on their decision making - perhaps directly through negotiations and certainly indirectly through decisions taken by other international organizations. For some managers, the impact of other global institutions or host country governments may be more direct. There may be a need to negotiate directly with an individual host nation organization; it may be over a tax issue or a proposed acquisition. Bargaining between companies and countries then becomes a major issue. Hill asserts that to be
successful, you have to be able to conform and adapt to the value system and norms of the host country. One way of gaining knowledge of the local culture is to hire local citizens. Developing a cadre of cosmopolitan managers who have been exposed to different cultures can also be helpful. Servant leadership may allow for this broad view of leadership, particularly in an international setting where the host nation and their demands should be met. Thus, it is important for international businesses to avoid engaging in any form of ethnocentricity, which servant leadership, by its very characteristics, eschews.

**What are the main risks of a globalization model?**

According to Hill (2009) International managers must consider the following:

1. **Political risk** is the likelihood that political forces will cause drastic changes in a country’s business environment that adversely affects the profit and other goals of a company. Clearly, this type of risk is going to be higher in countries that are in the midst of social unrest or disorder, and its effects can be sudden and dramatic.

2. **Economic risk** is the likelihood that economic mismanagement will cause drastic changes in a country’s business environment that adversely affects the profits and other goals of a company. They might think of the Asian financial crisis and its implications.

3. **Legal risk** is the likelihood that a trading partner will opportunistically break a contract or expropriate property rights. They have already talked about the importance of a strong legal system to make a country an attractive market.

These risks can be pre-empted by a servant leader, because the characteristics of servant leadership encourage collaboration in service of the needs of the host nation. According to North (2004), there are 10 characteristics of a servant leader drawn from Greenleaf’s writing that can serve as traits for a global servant leader:

- **listening** – servant leaders clarified a group by listening receptively to what is being said
- **empathy** – servant leaders strived to understand and empathize with others
- **healing** – servant leaders had the potential for healing self and others
- **awareness** – servant leadership was strengthened by general awareness, and especially self-awareness
- **persuasion** – servant leaders relied upon persuasion, rather than positional authority, in making decisions within an organization
- **conceptualization** – servant leaders sought to nurture their abilities to dream numerous dreams
- **foresight** – servant leaders could foresee the likely outcome of a situation in the future
- **stewardship** – servant leaders’ ultimate commitment was to serve the needs of others
- **commitment to the growth of people** – servant leaders were deeply committed to the personal, professional, and spiritual growth of every individual within the institution
- **building community** – servant leaders sought to identify means of building community among those who work within a given institution
Servant leadership, by its very nature can contribute to a global business environment where collaboration rather than competition may be the norm. It has the potential to do so if the servant leaders see the world stage as a forum to serve others rather than a forum to compete fiercely with others. The model below presents five factors an international leader can undertake in the framework of servant leadership below:

**Factor 1:** A servant’s heart (humility & selflessness) – Who we are (Self-identity)

**Factor 2:** Serving and developing others globally – Why we want to lead (Motive)

**Factor 3:** Consulting and involving others globally – How we lead (Method)

**Factor 4:** Inspiring and influencing others globally – What affects we have (Impact)

**Factor 5:** Modeling integrity and authenticity – How others see us (Character)


From an international environment, this five-factor model of servant leadership captures the essential aspects of servant leadership and provides a useful conceptual framework for practice (Wong, 2002).

**Methodology and approach**

The researchers use a qualitative approach. To develop international, multinational and global business strategies, the researchers used three key questions:

1) Will Servant Leadership enhance global perceptions of global corporations?

2) Can Servant Leadership improve relationships between global corporations and communities in their host nations?

3) Can value be found in managers of global corporations adopting a Servant Leadership approach?
Servant Leadership is an expression of genuine emotion from a leader to create and develop positive trust to followers while encouraging high motivation and strong spirit to followers. In practice, there are five main areas in analyzing international opportunities for servant leaders:

- Customer demand in the main broad geographical areas: market size, growth and history; including special customers such as large multinationals already involved as customers in a particular region. These factors include, but go beyond, the population and wealth issues identified in the film.
- Competitors - local and international companies already in country markets, their market shares and basic facilities; what major competitive advantages do they have?
- International and regional infrastructures: what are the major costs involved in communicating, transporting, and distributing in various parts of the world?
- Country politics and economic trends: some basic considerations only at this stage such as political risk and economic growth; too much to analyze in depth at this stage.
- International trade barriers, tariffs and quotas: are there any major issues here that will support or block the market opportunity?

Discussion

International leaders may experience a range of exciting roles throughout their business interactions in foreign countries. Servant leaders can serve to manage pricing and promotion. Servant leaders can help navigate troubled waters and make inevitable changes less stressful for the employees. In a research study, Romig (2001) showed that thousands of employees have demonstrated practices of servant leadership implemented through leadership training in a business. The findings indicated that the overall performance improved by 15 – 20% and work group productivity by 20 – 50%. This could mean an increase in profitability. According to Wong (2004), based on theoretical analysis, empirical research, and case studies, there is sufficient evidence to suggest that Servant Leaders may indeed qualify as the best leadership style in a domestic or foreign country for all situations for the following reasons as described by Wong (2007):

- Being freed from egotistic concerns, such as insecurity and self-advancement, Type Servant leaders are able to devote their full attention to developing workers and building the organization.
- Servant leaders have a positive view of workers as individuals who are capable of developing their full potentials and becoming leaders, if they are given a supportive and caring work environment.
- Being concerned with individual needs and sensitive to individual differences in personality, servant leaders are able to bring out the best in the workers.
- Being situational leaders, servant leaders recognize situations in which absence of their power actually facilitates self-management and productivity.
• Being good stewards, servant leaders will do whatever necessary and appropriate to maximize leadership effectiveness in all kinds of situations.
• Being worker-centered and growth-oriented, servant leaders can turn ordinary workers into future leaders by developing their strengths.
• Servant leaders serve as an antidote to corruption and abuse in power positions.
• Servant leaders can help reduce burnout and build an emotionally healthy organization. Servant leaders focus on cultivating the intrinsic motivation through inspiring workers to believe in their own growth and embrace the vision and purpose of the organization.
• Servant leaders seem most suitable for the next generation of workers, who are very cynical of authority and demand authenticity from their bosses.
• Servant leaders seem most suitable for knowledge workers, who value independence and creativity.
• Servant leaders recognize that leadership is a group process, which should not be centralized in one or two individuals. Therefore, servant leadership is based on team-building.
• Servant leaders are deeply rooted in humane, spiritual and ethical values.
• Servant leaders represent the most effective and comprehensive approach to human resources management and development.

Managers who adopt a servant leadership approach strive to serve the needs of others, and place the needs of others above the attainment of organizational or individual goals. Servant leaders appear to be driven by core personal values of honesty and integrity, and by their nature; they value humility, equality, and respect for others (Russell, 2001).

Conclusion

As Wong (2007) wrote previously, servant leadership is not new, because it was practiced and taught by Jesus more than 2000 years ago; however, it is new and revolutionary in today’s competitive consumer driven society in a globalized world. Servant leadership is about influence rather than power and control. It is about inspiration rather than position and title. It is about character and caring rather than skills. SL is about creating a climate of love rather than a culture of fear, it focuses on others’ strengths rather than weaknesses, it is about listening rather than giving orders, it is about humility rather than pride, it is about long-range benefits rather than short-term profits, it is about global vision rather than territorial instinct. Servant leadership is about creating new futures rather than maintaining the status quo. From a global perspective, servant leadership seems to offer an answer to recent concerns about corporate scandals, toxic work environment, employee-burnout, and retention problems (Wong, 2007). It is hoped that these attributes of servant leadership will find utility in an increasingly connected global business environment where the needs of multiple stakeholders will be have to be met.
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LEADER MEMBER EXCHANGE: RAMIFICATIONS
IN THE GLOBAL ORGANIZATIONAL ENVIRONMENT

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Leader Member Exchange: Ramifications in the Global Organizational Environment

Abstract

Leader member exchange (LMX), a concept fostered beginning in 1975 and then largely marginalized because of some associated limitations, is enjoying a resurgence in its appeal. Much of the credit for the renewed popularity of the concept attaches to successful efforts to quantify the quality of the leader-to-member relationship and hence to quantify the impact upon organizational effectiveness in the organization under scrutiny. This ability enhances LMX as a tool for success.

Scholars, worldwide have proposed ways to overcome some challenges remaining in the measurement tool. The concept is now the subject of scholarly investigation in cultural economies which are at an early stage in development. Indeed some major advancements in our ability to measure LMX performance and the connection to organizational performance have emerged from work being done in these econo-cultures. While the work extant is by no means comprehensive in terms of its cross cultural coverage, a more complete picture emerges in this work. In particular, authors in New Zealand, Turkey and Malaysia are attempting with some success to establish a positive correlation between LMX quality and Organizational Citizenship Behaviors (OCB). Researchers in China examine trends in job performance with an eye toward the impact of LMX quality as a progenitor. In Australia and India, studies examine the effect upon turnover intention created by the quality of LMX relationships. Korean scholars cite job satisfaction as one of the factors driven by LMX. This article examines the progress reported in these contributions. It goes on to suggest some additional strategies for investigation.
Leader Member Exchange: Ramifications in the Global Organizational Environment

A Brief History of LMX

From the very beginning of organized scholarly examination of supervisory relationships, Dansereau, Graen and Haga (1975) saw the tenets of Leader Member Exchange as a force multiplier in working toward organizational effectiveness. Scholars reasoned that the quality of the relationship between a supervisor and the persons he or she supervises will have a correlative impact upon the quality of work those supervised will produce. They set about describing the relationship permitting their description to settle upon the understanding which survives to this day.

A model emerged which embodied dyadic relationships between one supervisor and one person supervised. To clarify, the relationship involves only two individuals; the supervisor or “leader” and the person being supervised, referred to as the “member”. Dansereau, et al. postulated that the relationship will take on a uniqueness that is driven by the behaviors, traits and interests of the leader and the member and the ways in which these features impact the human interaction between the participants in the dyad. In instances where one leader supervises more than one member, a unique relationship will develop between that leader and each of the members. That is to say that a leader who supervises, for example, four members will be a participant in four different leader member exchange dyads. Further, each dyadic relationship will be unique.

The model embodies a natural extension. Since these relationships are unique, it will be assumed that some relationships will be positive involving quality interaction between leader and member. Conversely some relationships suffer from deficiencies engendered by poor interaction between the leader and the member. Where multiple Vertical Dyadic Linkages (VDL) exist, an organizational climate will develop in which members with positive VDLs will be perceived to be members of the “Ingroup” and members with negative VDLs will be perceived to be members of the “Outgroup” (Graen & Cashman, 1975; Liden & Graen, 1980).
The Effect upon Organization Effectiveness

Researchers found a weak but demonstrable correlation between the quality of the leader member exchange climate manifested in good relationships as reported by participants in the study and productivity in the organization (Graen, Novak, & Sommerkamp, 1982; Scandura & Graen, 1984). In one of these studies researchers noted an improvement in performance which roughly matched the administration of a training program for supervisors which was intended to enhance the quality of the VDL in leader member linkages within the organization (Scandura & Graen, 1984). The correlation demonstrated in these studies was tenuous, nonetheless the correlation did exist.

Challenges in Measuring the Quality of the LMX Relationship

Expansion of the initial concept of LMX (Graen & Cashman, 1975) found its place as scholars hypothesized that behaviors on the part of the supervisor that serve to influence the quality of the relationship in a positive way should be engaged to more clearly define the role into which a member gravitated. Serving as the antecedent to the studies mentioned previously, the concept took its place in leadership training strategies contemporary to those explorations. The objective of the associated strategies was to reduce, ultimately to zero, the number of VDLs in which the member perceives him or herself to be part of the outgroup to the extent that organizational effectiveness suffers.

After more than ten years, scholars continued to struggle with three weaknesses in LMX methodology and theory (Dienesch & Liden, 1986). Initially, authors on the topic complained of a lack of data to support continued thought. Secondly, measurements failed to focus on organizational outcomes attaching to LMX climate. Possibly the most damaging weakness was that little commonality in LMX operationalization was identified. Dienesch and Liden (1986) proposed a partial remedy to their primary concern as they suggested three dimensions of LMX which they proposed to subject to quantification.

(a) Perceived contribution to the exchange – perception of the amount, direction, and quality of work oriented activity each member puts forth toward the mutual goals of the dyad.

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(b) Loyalty – the expression of public support for the goals and the personal character of the other member of the LMX dyad
(c) Affect – the mutual affection members of the dyad have for each other rather than work or professional values. (Dienesch and Liden, 1986)

While these two researchers presented a model (See Figure 1.) by which the dimensions of LMX can inform the understanding of VDL development, they were mute on the topic of how the development or ultimate quality could be measured.

*Figure 1.* Model of the Leader-Member relationship developmental process.
As has been shown the ultimate pay-off flowing from high quality LMX relationships is enhanced performance of the organization. As has also been shown we do not need to rest upon that assumption of a positive correlation since one has been shown to exist. What has more consistently eluded efforts to quantify and what is capably informed in Figure 1. as the measurement of those factors impacting the nature of LMX (the inputs) as well as the measurement of the quality of the LMX in the first place.

Early attempts to examine the inputs focused on the traits of the leader (Fielder, 1961) and the traits of the member (Zaccaro, Foti, & Kenny, 1991). Two studies conducted in relative close chronological proximity looked at leader behavior (Yetton, 1984) and member behavior (Yukl, 1988). These were preceded as has been said by the analysis of the actual interactions, from Dansereau et al (1975) and the impact of charisma in the leader (House, 1977).

Bhal and Ansari, (1996) developed a scale which they used to more clearly establish the quality of the interaction between leader and member. They developed construct definitions of relationship factors, however their work suffered in that it considered only two of the dimensions mentioned above, leaving out dimension b; Loyalty. Their work did add substantively because of the definitions and the features of the measurement.

Leader member exchange relationship measurement continues to suffer from two impediments. Primarily, the methodology to measure the psychometric factors present in the LMX relationship (Schriesheim, Castro, and Cogliser, 1999) do not adequately consider all factors which might contribute to the participant’s responses in the survey. The tool extant makes use of a question and response survey in which participant response may be challenged as succumbing to mood. Finally, measurements may not be consistently appropriate to measure the relationship (Graen & Uhl Bien, 1995). Survey data analysis may lead one to conclude that the relationship is good, when performance of the organization indicates otherwise. LMX7 the most recent tool has been challenged on these grounds. Law, Wang, and Hui (2009) suggest an amendment which revises the dimensions of LMX including professional respect as the fourth dimension. They cite the need for more research to validate their hypothesis.

Why is the Quality of the LMX Relationship Important?
As has been said, the original researchers on the topic of LMX believed that an understanding of the relationship and the antecedents to which the relationship responds could serve two essential purposes. Initially they successfully attempted to show that there is a positive correlation between high quality LMX relationships over a broad spectrum of dyads within an organization and the effectiveness of that organization. Additionally, they developed strategies to influence supervisory behaviors in ways which promoted the development of universally positive relationships. The ultimate goal of these strategies was and is to reduce “outgroup” membership to zero.

We are informed by Varma, Stroh and Schmidt (2001) of two pivotal observations which relate to the globalization of business and commerce. These authors concluded that women are chosen for international assignment most often because their past performance including their LMX performance has been laudable. The researchers also demonstrated that there appears to be continued superior performance of these female managers while executing their foreign assignments.

A perhaps unanticipated outcome of high quality LMX relationships is to be found as we learn that negotiations between supervisors and workers enjoy more positive outcomes when LMX quality is high. In their study, Mieners, and Boster, (2012) found that leader member exchange quality was a predictor of the occurrence of mutual concessions during the negotiation process. The correlation was direct and positive implying that when those relationships can be described as being of high quality, the likelihood of a positive outcome in a negotiation event was also high.

Low quality LMX impacts employee’s intention to remain with the organization. Studies by Brunetto, Farr-Wharton, and Shacklock, (2010) and McWilliams, (2011) drew a parallel between low quality LMX and turnover intention. These two studies examined a sample population from different industries and from different cultures. Brunetto, et al, studied an international sampling of medical field workers. McWilliams reviewed information technology workers in Australia. Nevertheless, their conclusions were identical. Both studies demonstrated that LMX relationship quality is a factor in employee retention. Those organizations in which long term employment is part of the organizational strategy are informed by these studies which suggest the application of measures to positively influence LMX relationships.
The connection between Organizational Citizenship Behavior (Organ, 1988) and LMX has been long established (Dansereau et al., 1975; Liden & Graen, 1980; Vecchio & Gobbel, 1984, and Deluga, 1994) and has recently been confirmed not only in organizations domestic to the United States, but in developing econo-cultures as well (Lo, Ramayah, and Kueh, 2006). In their study, Lo et al. confirmed once again that positive LMX relationships lead to increased frequency of occurrences of organizational citizenship behaviors. One additional dimension of Lo et al is that the relationship between LMX and OCB appears not to be influenced by the gender of the supervisor, the gender of the member, or the fact that the gender of supervisor and member may be different.

While the above cited study examined the manufacturing industry, a more recent parallel study, also conducted in Malaysia, (Kandan & Ali, 2010) confirmed these findings in public sector employees. Bhal and Gulati, (2007) writing in India, obtained similar results from a very robust study which examined members of the information technology industry. This robust study made use of a sample of 700 IT professionals from all over India.

LMX as a Tool for Success.

In a study in South Korea, researchers identified a profound effect in that high quality LMX relationships were demonstrated to cause enhanced career satisfaction and hence lower turnover. The authors suggested employment of techniques which are useful in improving supervisory behaviors leading to improved LMX relationships as a way of reducing turnover (Joo & Ready, 2012). This study is particularly useful in that it served to confirm the moderating effect of LMX upon those workers who are goal oriented. Those employees who are able to positively visualize their future in the industry were more likely to view that future as facilitated by remaining with the organization when high quality LMX relationships were part of the picture.

Opportunities for Future Research

A common thread in the research and literature on the topic of leader member exchange assumes that the organizational model involves one leader and several members. This thread is woven through the fabric of LMX and informs the studies upon which the research is based. The idea of ingroup versus outgroup has always implied that members of the group may see themselves as being in competition with one another. Those in the ingroup see ways in which they can prevail
or succeed in the organization relative to those who they perceive to be members of the outgroup. Conversely members of the outgroup are at pains to find ways to maintain control over their personal situation while occupying the disadvantaged position in which they perceive themselves to be.

However, it has always been the case that many organizations include at least one LMX dyad in which the member has no parallel. The situation in which an office manager is supervising one and only one administrative person is quite common. It is not a strenuous undertaking to imagine similar situations. Indeed these situations which may be awarded the moniker, “single dyad Structures” may actually be more numerous than the multiple dyad model which is suggested in the literature.

In these cases, the member has two alternatives. He or she can view the organizational structure as being devoid of ingroup and outgroup. Hence the member’s self-image has nothing to do with the perception that he or she is performing in a way that enhances or diminishes personal affection of the leader relative to other members of the organization, since there are no other members. In this case, turnover intention, occurrence of OCBs, and task effectiveness rest not upon competition on the one hand or frustration on the other. They rest upon the ability of the supervisor to create a dyadic relationship which is positive. One might argue that the techniques which might be employed by the supervisor in this endeavor are very similar to those which would reduce the number of members who perceive themselves to be in the out group in multiple dyad situations. This presents a potential gap in the body of knowledge which calls for additional experimentation.

The second alternative presented to the member who is in a single dyad situation is to consider him or herself to be a member of a multiple dyad situation in which the other members are imaginary employees. This presents two possibilities as personified by the parameters of the two imaginary employees. The first of the imaginary employees is the member’s own conceptualization of what a perfect employee is and how a perfect employee would behave. The second possibility is the member’s own conceptualization of the supervisor’s desires in a perfect employee. The member is including him or herself in the ingroup or outgroup in comparison to the two imaginary employees. This latter situation can lead to some interesting and indeed humorous mental gymnastics.
Again the gap in the research inferred by this train of thought leaves us with a clear direction for future research. One potential hypothesis might be:

Techniques which enhance leader member exchange relationships in multiple dyad situations will enhance the quality of the leader to member relationship in a single dyad situation.

One additional consideration addresses the application of the precepts of leader member exchange to group self-perception and hence group leadership. The research has always addressed the dyadic relationship between leader and member as individuals. However, this need not be the case. It is entirely plausible that the commonalities in the perceptions of a team of employees about the team of which they are members can be described in ways that are not dissimilar to the perceptions of an individual. In this way, the team is taking on the persona of a member in a dyadic relationship with a leader in the organization. Group members are comparing themselves as a group with other groups. As an example, we might envision a sales organization with several different teams, each responsible for a different geographical region. In one of the teams does consistently well in comparison with other teams, the members of the team might assume membership in the ingroup while viewing members of other teams as outgroups. We are prompted to imagine which of the techniques that a supervisor may use to enhance the LMX relationship with an individual might be useful in enhancing the relationship with members of the team.

Taking it “Global”

It is interesting to note that the exploration of LMX precepts has gone global. Of the sources cited in this paper, fully half of them originated in nations other than the United States.


UNIVERSITY/COMMUNITY PARTNERSHIPS:
ENGAGING BUSINESS STUDENTS IN LEADERSHIP
AND SOLUTION BASED APPROACHES

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ABSTRACT

This paper will address the importance of engaging business students in new approaches to problem solving that will enhance their ability to create vibrant economies and collaborate with other professionals in an effort to sustain development in a global economy. These approaches include service-learning opportunities, teaching about microenterprises, and applying business principles to social entrepreneurship. A review of the literature regarding how service learning can benefit business students is included.

In the last few years, companies have implemented this phrase, Integrated Talent Management, to describe an integrated system approach to recruiting, employee development, performance management, compensation, and overall training and development of their workforce (Bricout, 2004). Besides creating a more efficient talent management system, organizations require the ability to rapidly address and effectively respond to business needs. Just as companies are in desperate need of a critical thinking workforce and abled leaders, business schools have come under more scrutiny for teaching practical and critical thinking skills to their students. Courses where students can apply theory to practice are becoming popular as universities respond to issues of sustainable community development and social responsibility. Leadership is a key topic in global business (Pless, Maak, & Stahl, 2011). While the literature review provides much inquiry on leadership, little is known about responsible leadership.
The new challenge in global management is to develop a new model of leadership training that provides the ‘out of the box’ experience (Pless Maak, & Stahl, 2011a). This has become a challenge for educators as well. While some schools are using virtual courses to teach students about practical business problems and solutions, others are offering their students the opportunity to test their newly acquired skills in areas of the world where leadership and business solutions are lacking.

The scholarship of engaging students in the learning process has become more important in institutions of higher learning. Due to changes in awareness, teaching of ethical issues and values, and a sense of social responsibility, universities have an increasing interest and often a social mandate to develop courses on student leadership, sustainable community development and social enterprise. It is not unusual to see a multi-disciplinary approach to teaching this plethora of skills. Harvard University (2010) now offers a summer institute every few years to bring human services and business professionals together to collaborate on social problems and combine their expertise. Teaching human services professionals about marketing, budgeting, working with a nonprofit agency, or conducting a program evaluation, the Harvard Institute brings new business skills to the social service profession.

At the same time they develop the business professionals’ skills in interpersonal helping, group dynamics, an understanding of social policy, and current social problems. Combined groups of human services and business professionals tackle real life problems using a combination of skills that each discipline possesses. Role plays are sometimes used but a common thread in the development of these leadership skills for both human services and business students is the service-learning opportunity. This enables the student or professional to visit an agency and put into practice the knowledge, values, and skills they have learned to assist the program in some way.

The literature review reveals that service learning programs foster student engagement within the community and promote leadership, social, and civic responsibility. Several studies have presented their findings regarding the engagement of students in these activities. Experiential education and service learning activities is an area which can easily complement the traditional business classes, by enhancing business students’ learning outcomes (Manring, 2004). Specifically, these engagement activities would include service learning projects embedded within courses while providing community service opportunities and leadership training.

These activities would enhance the learning and allow students to apply what they have learned in the classroom to a real life situation. An evaluation of the activity would occur in the classroom at another time, giving students the opportunity to learn a concept, practice it, and then evaluate the outcome. This type of learning is seen as beneficial at all levels of higher education. The development of university and community partnerships has been studied indicating that service learning and internships allow students the opportunity to link theory to practice at both the micro and macro level. Students receive invaluable community practice opportunities and when universities and communities work together, they have the necessary resources to enable residents to strengthen the capacity for control over their lives (Brown and Kinsella, 2006).
Brown and Kinsella (2006) talk about two separate Service Learning Projects which were developed in Georgia with a focus on university and community partnerships. In one project, a neighborhood family support center was established in a disadvantaged neighborhood near the University of Georgia in Athens. Approximately 163 residents who were African American, Latino, or Anglo shared a resource center that provided English classes, day care, parenting classes, legal assistance, case management, needs assessments, counseling, as well as social activities for the children and adults in an attempt to develop a cohesive neighborhood. The goal was for people to benefit from locating resources, and to meet and sustain good relationships with their neighbors in an effort to become empowered to maintain a healthy and vibrant neighborhood by working together with other residents. Students from a variety of disciplines were recruited to use their expertise in working with the residents, assist with the creation of the center, complete the landscaping, develop a playground for the children who attended the after school program, teach the children in the day care center, translate both the English and Spanish languages for the immigrant families who lived nearby, help with issues like family budgeting, tax preparation, or banking, and finally to assist with the legal aspect of citizenship for many of the families.

The Center was an ongoing project coordinated by the School of Social Work with other university faculty, students, and community resources collaborating for a number of years to benefit both the residents of the community as well as the students who completed volunteer and service learning activities at the center. A number of project grants enabled the continued development of the program for 8 years, after which the Center was incorporated as a local Boys and Girls Club. Successful outcomes for the residents included a more engaged and safer community with parental involvement in school and educational activities for their children. English as a second language was useful for immigrants who needed the skills to obtain jobs and acquire citizenship. Local gangs were deterred from entering the neighborhood since parent, community and university cohesion was strong.

The occurrence of crime decreased and the availability of local resources was beneficial to the residents who were not aware of all the community services. Outcomes for the university students included learning about a variety of community development models, learning about and using advocacy models, assisting in the development of cultural diversity curricula and then teaching residents the program, facilitating groups, using business accounting techniques with the residents like tax preparation, budgeting, and maintaining a check book. Student assessment methods included observation of students by a faculty member, writing assignments that focus on theories used in practice, evaluating peers in their teams, conducting research projects, reviewing service learning journals, and obtaining resident feedback about student contact.

A second project at another public institution, Georgia Southern University, also involved a partnership with the university and several rural counties surrounding the school. As a result of an increasing Latino population in southeast Georgia due to agricultural needs, services were seen as vital for this population. The goal of the partnership was to increase practice on the individual, family, and community level with the Latino population. Academic and social supports for the children were seen as essential since many of the children did not speak English and could not participate in school assignments. English as a second language was seen as
imperative for the families and seminars on work permits and immigration law was also necessary.

Community support was needed as well since businesses and local residents were not knowledgeable about Hispanic culture, language or customs. The Center for Latino Outreach and Research Services was developed and included faculty from such disciplines as political science, sociology, social services, business, education, nursing, and dental hygiene. Many grants were received to continue providing basic services like English classes, tutoring for the children, an afterschool program and summer camp, immigration and legal services, referrals to local resources for food, clothing, or housing, banking information, and other socialization programs for the families. The community was provided with interpretation services and information on the Hispanic culture.

Businesses were informed as to immigration law and worker permits so they were in compliance with federal and state policies. Student learning outcomes included increased knowledge of cultural diversity, community problem solving, better skills in observing, interviewing, and researching, and increased empathy and knowledge regarding social issues. Assessment techniques included reflective journaling, writing assignments, and observations by faculty members.

A program called *Project Ulysses* was launched by PriceWaterhouseCoopers to explicitly link leadership development to global community development and channel the resulting learning back to the organization to assist in strategic management. Using an integrated service-learning program, small teams were sent to developing countries to apply their business expertise to complex social and economic challenges. The cross-cultural PriceWaterhouseCoopers teams worked on a pro bono basis in field assignments for eight weeks with Non-Government Organizations, community-based organizations and intergovernmental agencies where communities were facing the effects of poverty, political conflict and environmental devastation. Some of the learning outcomes indicated that cultural differences should be an enabler, not an inhibitor; team collaboration will bring success; and leadership is about building sustained relationships (Pless, Maak, & Stahl, 2011a).

After interviewing 70 of the participants about their experiences of living and working abroad, a learning narrative was produced and highlighted six key areas. This evaluation of the service-learning project revealed that learning occurred in ethical literacy, cultural intelligence, global mind-set, self-development, and community building. A postprogram survey was sent to the participants and later confirmed that the project had the long term effect of developing and enhancing these six competencies which are seen as necessary for global leadership. International service-learning is recommended in this study as a valuable tool in developing global leaders.

There have been several successful collaborations between business students and service-learning projects which involved non-profit, human services agencies (Hagan, 2012; n.d., 2010). In one project, business communication students used their skills to incorporate Facebook and Twitter into the non-profit’s communication profile. They improved their public image and visibility, allowing people to donate to the non-profit’s fundraising campaigns as well as promote
their annual activities. The students marketed a new Facebook slogan for the agency and encouraged people to donate to several of their events bringing a visibility to the nonprofit that had not existed beforehand.

Outcomes for the students included learning how to think critically, write more consistently, and to use social media in a constructive and socially responsible way. They also learned about the agency’s mission statement, history, and purpose of their service (Crews and Stitt-Gohdes & Wanda, 2012). In some projects human services professionals have worked with business students as they interned with non-profit agencies and learned about Board of Trustee governance, developed leadership skills, and an understanding of the value of community service (Purdy and Lawless, 2012). This article discusses how a course in Board Governance combines an internship with a non-profit organization to create a service-learning activity. Students learn about community needs, social responsibility, and how working with other disciplines can produce unique results. The community also benefits because students now recognize the value of service and leadership.

Microenterprises have also become increasingly important in social development and have helped to alleviate some poverty in developing countries. This concept can be utilized in business classes to teach both financial and nonfinancial issues to students as they embark on a humanitarian service-learning activity. The value of stimulating entrepreneurs and the impact this has on student learning has been discussed in several papers (Mungaray, Ramirez-Urquidy, Texis, Ledezma, & Ramirez, 2007).

Students can participate as a class in making a loan to a small enterprise in a developing company. For as little as $25 a class can make an investment in a microenterprise and learn about models of finance. As the class proceeds the students can get updates as to how their company is doing. Within time, they may even see their money repaid and the fruits of their labor realized in the continuation of an enterprise in a developing country. Many microenterprises in developing countries can be accessed online for further research.

Along these same lines, service-learning can be used to teach sustainable development (Brower, 2011). Students may spend time actually studying abroad or in a local indigenous community where they experience poverty, malnutrition, education that lacks resources, and other social problems. In her study Holly Brower (2011) took 2 faculty members and 8 students to such a community in a third world country and spent one month studying the issues and then worked with her class to develop a plan of sustainable change. She then developed a framework for a business elective that includes service learning as a component of change. As an alternative, they may study about the experience of living abroad but then learn to apply the same techniques to bring sustainable change to a local indigenous community.

Building upon recent developments in entrepreneurship education, business students can be taught how to use the same skills they have learned in private entrepreneurship to develop social entreprenurships. This will involve learning about three competing and distinct logics. These include learning about social welfare, the public sector, as well as commercial strategies. In her article she discusses how students need to create new and innovative hybrid strategies in the development of social entrepreneurships. Since business students need to address the services
that are necessary for all people, the social entrepreneurship is another avenue for building a business within a community that may be lacking in such services as affordable housing, job skills training, or health care. In the article she addresses the strategy of adapting pedagogical tools to the goal of teaching students how to combine the three logics successfully (Pache & Chowdhury, 2012).

Creating vibrant global economies is a challenge that affects everyone. Using a multi-disciplinary approach and applying techniques like service learning, as well as teaching about social entrepreneurships, and microenterprises will enhance the traditional method of teaching to engage business students in leadership and solution based approaches that will be necessary if we are to sustain development as we move forward in the twenty-first century.
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Promoting learning in small entrepreneurs and higher education students through service


Japan Revisited Before and After The 90’s: The Importance of the Japanese Enterprise Keiretsu Model

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Abstract:

Japan became a developed nation in the late 70’s and 80’s. Japan’s experience had been studied by business academics very closely throughout the late 80’s and 90’s. Since the economic bubble of the early 90’s, Japan has been having major economic difficulties. While the Japanese model developed under the high growth environment of the 50’s and continued through the 80’s, it has been under pressure since the major down turn of the Japanese economy. Today Japan has very low growth and a high debt to GDP ratio, (230%). In this presentation, we will examine Japan’s post WWII model of development in two segments. The first segment will be the early development of the Japanese Enterprise System as a main pillar of the Japanese Model. The second part will be examining what has happened since the early 90’s bubble period. The Keiretsu model provided the main source of dynamism to Japanese development until the bubble period, when it apparently became a burden to the Japanese economy. This study also touches on the USA experience of financial difficulties of 2008 and analyzes differences with the Japanese bubble.
THE IMPACT OF NATIONAL CULTURE ON WORK GROUPS: EFFECTS OF CULTURAL DIVERSITY, TASK AND LEADERSHIP ON INDIVIDUAL PERCEPTIONS OF GROUP MEMBERS

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ABSTRACT

In this article, we focus how graduates and young professionals experience and perceive cultural diversity, task and leadership in homogeneous and heterogeneous group settings in an experiment. We review and evaluate current management research on the effects of cultural diversity in various group compositions by investigating the diversity of leaders and followers in terms of culture, gender, race and ethnicity. Furthermore, we diagnose group direction, group norms, and strength and weaknesses of the different work groups. Moreover, we also aim to make a contribution to followers’ perception of leadership and leaders’ coaching behaviors.

We conducted an experiment at a large European university with 80 students from Austria, Turkey, China, and the United States with a fairly even gender split. Participants had to work on tasks in homogeneous and heterogeneous settings. We assess participants’ ratings following a modified version of the Team Diagnostic Survey (Wageman, Hackman & Lehman, 2005) that we enhanced accordingly. Results are analyzed and discussed with relation to diversity, leadership and cross-cultural differences. Furthermore, we emphasize important implications for future research, teaching and development in this field.

KEY WORDS

Diversity, Cross-Cultural Studies, Work Groups

INTRODUCTION

Nowadays, many organizations expand into foreign markets and focus on a global business strategy (Knight & Cavusgil, 2004). Hence, managers and employees are exposed to global strategic decisions and cross-cultural interactions (Bücker & Poutsma, 2010). In this competitive situation, companies face the challenge to adapt quickly to the challenges of their environment to remain successful on the market (Bartlett & Ghoshal, 2002). Organizations are aware of the fact that they need an outstanding staff with excellent competences, skills and abilities to gain a competitive advantage (Mühlbacher, Kodydek, Kovac, Putnová & Novotny, 2012). Therefore, employees have to develop appropriate skills and competences to meet the requirements and needs of their firms (Currie, 2007; Mühlbacher et al., 2012). The heterogeneity of national cultures of group members ultimately brings value to organizations and improves their performance when cultural diversity is properly used (Shachaf, 2008). For this reasons, globally operating firms try to find the best internationally oriented and multiculturally educated staff that generates a substantial output to cope with challenges and complexities of global competitors, different cultures and languages and international business activities (Bachmann, 2006). They focus on workgroups and teams that are composed of people with diverse backgrounds and experiences to deal with the challenges and issues of a competitive environment (Jehn & Bezrukova, 2004).
WORKING UNDER DIFFERENT CONDITIONS

By globalizing their operations, organizations face two important trends: a growing influence of diversity and diversity management and an increased preference for group work (Sippola & Smale, 2007; Jehn & Bezrukova, 2004; Milliken & Martins, 1996). The first aspect of a work group is to determine the appropriate composition and size. One of the most important reasons for groups and teams is the fact that every member possesses certain skills, abilities and competences that influence processes, quality and outcome of groups (Horwitz, 2005). In this paper, we focus on two different group compositions – homogeneous and heterogeneous work groups. “Groups with all members from the same nationality and ethnic background are referred to herein as culturally homogeneous groups.” (Watson, Kumar & Michaelsen, 1993, p. 593)

Otherwise, groups consisting of individuals from two or more nationalities and three or more ethnic backgrounds underline certain heterogeneity and are known as culturally diverse groups or multicultural groups (Stahl, Mäkelä, Zander & Maznevski, 2010; Watson et al., 1993). To understand possible differences in group composition it is important to define and emphasize the research topic “diversity”.

We illustrate diversity as the differences between individuals that may lead to the interpretation and attribution that certain differences exist (Homan, Greer, Jehn & Koning, 2010). It is an all-inclusive term that incorporates people from many different classifications (Herring, 2009). The wide impact of diversity can be generally found in identity group memberships (e.g., race or sex), organizational group memberships (e.g., hierarchical positions or organizational function), and individual characteristics (e.g., idiosyncratic attitudes, values, and preferences) (Ely & Thomas, 2001). We underline that, in principle, diversity refers to a number of different dimensions – from task skills to relational skills, and from political preferences to sexual liking (van Knippenberg, De Dreu & Homan, 2004). In any case, diversity is dependent on the context and situation and thus, group and organizational factors have to be considered (Jehn & Bezrukova, 2004; Ely & Thomas, 2001). Cultural diversity comprises different backgrounds of members of work groups and teams related to national cultures (Barinaga, 2007). “National culture acts as the frame of reference, which societal members utilize to comprehend and understand in organizations, the environment, and their relationships with one another.” (Kreiser, Marino, Dickson & Weaver, 2010, p. 961) The active management and handling with issues such as culture differences and value, interpersonal interaction, bridging differences, or the challenges of leader-member exchange is called “diversity management” (DiTomaso & Hooijberg, 1996). “Diverse organizations possess a wider range of knowledge and perspectives and thus are able to make better decisions and exhibit greater creativity, innovation, and performance than homogeneous ones.” (Gonzalez, 2010, p. 198) Organizations focus on implementing diversity management to follow strategic advantages of plurality and different views and opinions (Jehn, Northcraft & Neale, 1999). In summary, multicultural work groups are task-oriented groups consisting of individuals of different national cultures (Matveev & Nelson, 2004). “People of different ethnic backgrounds possess different attitudes, values, and norms that reflect their cultural heritages.” (Cox, Lobel & McLeod, 1991, p. 828) Thus, in a culturally diverse team, all team members have to know the cultures with which they interact. They also have to appreciate the personalities, behaviors, and experiences of all team members (Matveev & Nelson, 2004). Hence, we emphasize the importance of intercultural competence which has been pointed out many times (e.g., Bachmann, 2006).
Individuals as group members interact within a group by communicating, influencing, making decisions, cooperating, and competing. All these processes influence group performance and group dynamics (Hopkins & Hopkins, 2002). In comparison with individual work group processes can lead to greater efficiency (e.g., increasing speed in decision-making, effective brainstorming processes, reducing costs) or greater effectiveness (e.g., making better decisions). Group processes can be influenced by diversity by having positive and negative effects on group cohesion, creativity, innovation, frequency and quantity of communication, or conflicts within the group (Knight, Pearce, Smith, Olian, Sims, Smith & Flood, 1999). Group members contribute to outcomes through social inputs and task inputs. Thus, challenges and issues within groups could lead to interpersonal or relationship conflicts, task oriented conflicts, and agreement-seeking (Greer, Caruso & Jehn, 2011; Yang & Mossholder, 2004; Jehn, 1997). An interpersonal conflict relates to personal or emotional relationships between people whereas some groups struggle with conflicts that are task oriented in nature, such as disagreements about distributions of resources, procedures and policies, and judgments and interpretations of facts (De Dreu & Weingart, 2003; Knight et al., 1999). In addition, the task setting has a substantial influence on the understanding of the situation among members of a work group. Furthermore, a certain level of group information process leads to a better understanding of the task setting (Rico, Sánchez-Manzanares, Gil & Gibson, 2008). Group work is also influenced by leaders who create and manage groups and foster the integration of subordinate action (Zaccaro, Rittman & Marks, 2001). Researchers in this field have explored how leaders help groups through different coaching-related activities, such as promoting team learning and adaption, managing events that occur in the group context, the role of team leaders in managing team boundaries, or leadership roles shared in teams (Morgeson, DeRue & Karam, 2010). Leader coaching “can directly affect team members’ engagement with their task, their ability to work through interpersonal problems that may be impeding process, and the degree to which members accept collective responsibility for performance outcomes.” (Wageman, 2001, p. 561)

In any case, whether it is a diverse or a homogeneous work group – working in different group settings is often a challenge for many individuals (Pelled, Eisenhardt & Xin, 1999). Hence, proactive leadership and coaching could affect group processes and outcomes substantially (Wageman, 2001). There are many opinions underlying the influence of national culture and ethnic background on individuals’ perceptions, attributions, and expectations of group work, tasks, and leadership (Hackman & Wageman, 2005).

In this study, we investigate these challenges and mainly focus on the different perceptions and attributions of group members to their leaders in an experimental setting. We concentrate on four different groups, participants from Austria, Turkey, China, and the United States of America. Our goal is to find reasons and answers for the following research question: “How do members of work groups perceive the influence of cultural diversity, task and leadership on group work in homogeneous versus heterogeneous groups?”
METHODOLOGY

In our study, we analyzed the perceptions of students concerning their group work and their attribution of leader coaching during a task in an experimental setting. Participants were 80 undergraduate students from four nations (Austria, Turkey, China, and USA) at WU Vienna University of Economics and Business, Vienna, Austria. Eight work groups consisted of 72 participants while eight students were selected as leaders in this experiment ($N = 72$, 33 male and 39 female; mean age = 22.43 years). All participants were full-time or exchange students at WU Vienna at the time of the experiment and could speak English fluently.

At the beginning of the study we divided the participating students into eight homogeneous work groups and selected eight leaders for the task that took two rounds. Every participating nation (Austria, Turkey, China, and USA) was represented by two leaders and an identical number of followers for every group. The subordinates had to work in a homogeneous and heterogeneous work group. In order to prevent learning effects we decided to compose groups differently (e.g., in the first round “American leader A” led a homogeneous team while “American leader B” led a multicultural team). In the second round the leaders remained stable but the followers had to move to a predefined specified group. The experiments took place in different rooms and were observed by experienced instructors. The task was handed over by these people. The assignment was to design and build a tower made of cardboard and predefined tools within 30 minutes. The leadership style and the working process were not specified by the instructors. After 30 minutes the leaders of the work group handed over the output of the group to the observer. The followers adjourned themselves to another specified room and worked on the task within another group. After every round the participants were asked to complete a questionnaire asking them to rank their own personal view of their group performance, the task and the leader coaching.

The questionnaire consisted of 28 items based on selected scales from the Team Diagnostic Survey (TDS) of Wageman et al. (2005) – an instrument intended for the diagnosis of the strengths and weaknesses of groups and for research on group behavior and performance (Wageman et al., 2005). The TDS has been used in numerous studies and was shown to be an ideal instrument to assess group or team members’ perceptions of the group’s socio-structural features, such as compelling direction or enabling structure (Higgins, Weiner & Young, 2012; Wageman et al., 2005). We adapted the TDS for our experiment and research context. All items in this questionnaire were rated on a five-point Likert-scale, ranging from “disagree strongly” (response score = 1) to “agree strongly” (response score = 5). Demographic information regarding age, sex, and nationality was also collected. In this study, we measured “clarity”, “challenge” and “consequentiality” using the six-item scale “compelling direction”. Furthermore, group members rated the task design by focusing on sub-scales “the whole task”, “autonomy/judgment”, and “knowledge of results” using eight-item scale “enabling structure”. We also measured direct interactions with groups that usually intend to shape group processes to produce good performance (Wageman, 2001) by using 14-item scale “leader coaching”. We investigated “task focused coaching”, “operant coaching”, “interpersonal coaching” and “unhelpful directives”.
RESULTS

Tables 1 to 4 show two-sample t-Tests for all comparison groups (homogeneous and heterogeneous) and settings. The analyses outline the differences of attributions and perceptions of group members relating to group work. We also investigate the work and appearance of the leaders.

Table 1: Analysis of dimensions of TDS – Austrian Leaders

<table>
<thead>
<tr>
<th>Items</th>
<th>1. There is great uncertainty and ambiguity about what this work group is supposed to accomplish.</th>
<th>Mean_hom</th>
<th>SD_hom</th>
<th>Mean_het</th>
<th>SD_het</th>
<th>p-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clarity</td>
<td></td>
<td>3,00</td>
<td>1,64</td>
<td>3,94</td>
<td>0,80</td>
<td>0,038*</td>
</tr>
<tr>
<td>Consequentiality</td>
<td>5. The purposes of this work group don’t make much of a difference to anybody else</td>
<td>3,28</td>
<td>0,83</td>
<td>2,39</td>
<td>0,61</td>
<td>0,001* **</td>
</tr>
<tr>
<td>Operant Coaching</td>
<td>20. The leader provides positive feedback when the work group behaves or performs well.</td>
<td>2,72</td>
<td>1,27</td>
<td>3,61</td>
<td>0,85</td>
<td>0,020*</td>
</tr>
<tr>
<td>Operant Coaching</td>
<td>21. The leader provides corrective feedback when needed.</td>
<td>3,00</td>
<td>1,28</td>
<td>3,94</td>
<td>0,64</td>
<td>0,010* **</td>
</tr>
<tr>
<td>Unhelpful Directives</td>
<td>23. The leader instructs the work group in detail about how to solve its problems.</td>
<td>1,83</td>
<td>0,62</td>
<td>2,72</td>
<td>1,41</td>
<td>0,022*</td>
</tr>
<tr>
<td>Interpersonal Coaching</td>
<td>24. The leader helps members work on improving their interpersonal relationships.</td>
<td>1,94</td>
<td>0,73</td>
<td>2,61</td>
<td>1,09</td>
<td>0,039*</td>
</tr>
<tr>
<td>Task Focused Coaching</td>
<td>26. The leader helps the work group identify and use well each member’s unique talents.</td>
<td>1,94</td>
<td>1,06</td>
<td>2,67</td>
<td>0,77</td>
<td>0,025*</td>
</tr>
</tbody>
</table>

*p < .05; **p < .01; ***p < .001.

Table 2: Analysis of dimensions of TDS – Turkish Leaders

<table>
<thead>
<tr>
<th>Items</th>
<th>1. There is great uncertainty and ambiguity about what this work group is supposed to accomplish.</th>
<th>Mean_hom</th>
<th>SD_hom</th>
<th>Mean_het</th>
<th>SD_het</th>
<th>p-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clarity</td>
<td></td>
<td>2,56</td>
<td>0,86</td>
<td>3,89</td>
<td>0,96</td>
<td>0,000 ***</td>
</tr>
<tr>
<td>Operant Coaching</td>
<td>21. The leader provides corrective feedback when needed.</td>
<td>3,5</td>
<td>0,86</td>
<td>2,39</td>
<td>1,04</td>
<td>0,001 **</td>
</tr>
<tr>
<td>Unhelpful</td>
<td>23. The leader instructs the work group in detail about how to solve its problems.</td>
<td>3,28</td>
<td>1,23</td>
<td>2,06</td>
<td>1,21</td>
<td>0,005</td>
</tr>
<tr>
<td>Directives</td>
<td>Items</td>
<td>Mean_hom</td>
<td>SD_hom</td>
<td>MeanHet</td>
<td>SD_Het</td>
<td>p-Value</td>
</tr>
<tr>
<td>------------</td>
<td>------------------------------------------------------------------------</td>
<td>----------</td>
<td>--------</td>
<td>---------</td>
<td>--------</td>
<td>---------</td>
</tr>
<tr>
<td>Interpersonal Coaching</td>
<td>24. The leader helps members work on improving their interpersonal relationships.</td>
<td>3.06</td>
<td>1.16</td>
<td>1.89</td>
<td>0.83</td>
<td>0.002 **</td>
</tr>
<tr>
<td>Task Focused Coaching</td>
<td>25. The leader keeps the work group alert to anything that might require a change of work strategy.</td>
<td>3.33</td>
<td>0.91</td>
<td>2.56</td>
<td>1.10</td>
<td>0.027 *</td>
</tr>
<tr>
<td>Task Focused Coaching</td>
<td>26. The leader helps the work group identify and use well each member’s unique talents.</td>
<td>3.33</td>
<td>1.03</td>
<td>2.22</td>
<td>0.94</td>
<td>0.002 **</td>
</tr>
<tr>
<td>Unhelpful Directives</td>
<td>27. The leader tells the work group everything it is doing wrong.</td>
<td>3.28</td>
<td>1.36</td>
<td>1.94</td>
<td>1.11</td>
<td>0.003 **</td>
</tr>
</tbody>
</table>

*p < .05; **p < .01; ***p < .001.

Table 3: Analysis of dimensions of TDS – Chinese Leader
<table>
<thead>
<tr>
<th>Focused Coaching</th>
<th>Task Focused Coaching</th>
<th>Unhelpful Directives</th>
<th>Operant Coaching</th>
<th>Unhelpful Directives</th>
<th>Interpersonal Coaching</th>
<th>Task Focused Coaching</th>
<th>Task Focused Coaching</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>16. The leader works with the work group to develop the best possible approach to its work.</td>
<td>17. The leader helps the work group build a high shared commitment to its purposes.</td>
<td>18. The leader micromanages the content and process of work group discussions.</td>
<td>21. The leader provides corrective feedback when needed.</td>
<td>23. The leader instructs the work group in detail about how to solve its problems.</td>
<td>24. The leader helps members work on improving their interpersonal relationships.</td>
<td>25. The leader keeps the work group alert to anything that might require a change of work strategy.</td>
</tr>
<tr>
<td></td>
<td>3.56 0.92 4.28 0.57</td>
<td>3.33 0.77 4.00 0.84</td>
<td>2.94 0.80 3.67 1.03</td>
<td>3.00 1.03 3.72 0.75</td>
<td>2.61 1.14 3.89 0.83</td>
<td>2.22 0.81 3.00 1.14</td>
<td>2.61 0.92 3.44 0.98</td>
</tr>
</tbody>
</table>

*p < .05; **p < .01; ***p < .001.
Table 4: Analysis of dimensions of TDS – US American Leaders

<table>
<thead>
<tr>
<th>Items</th>
<th>Items</th>
<th>Mean_hom</th>
<th>SD_hom</th>
<th>Mean_het</th>
<th>SD_het</th>
<th>p-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clarity</td>
<td>1. There is great uncertainty and ambiguity about what this work group is supposed to accomplish.</td>
<td>4,17</td>
<td>1,10</td>
<td>2,83</td>
<td>1,20</td>
<td>0,001 **</td>
</tr>
<tr>
<td>Challenge</td>
<td>2. This work group’s purposes are so challenging that members have to stretch to accomplish them.</td>
<td>2,17</td>
<td>0,86</td>
<td>3,00</td>
<td>1,08</td>
<td>0,015 *</td>
</tr>
<tr>
<td>Consequentiality</td>
<td>6. This work group’s purposes are of great consequence for those we serve.</td>
<td>1,89</td>
<td>0,68</td>
<td>2,83</td>
<td>1,04</td>
<td>0,003 **</td>
</tr>
<tr>
<td>Task Design</td>
<td>7. We do a whole, identifiable piece of work.</td>
<td>4,39</td>
<td>0,70</td>
<td>3,11</td>
<td>0,90</td>
<td>0,000 ***</td>
</tr>
<tr>
<td>Task Design</td>
<td>12. The only way we can figure out how well we are performing is for other people in the organization to tell us.</td>
<td>4,17</td>
<td>0,71</td>
<td>2,78</td>
<td>1,11</td>
<td>0,000 ***</td>
</tr>
<tr>
<td>Task Design</td>
<td>13. The work we do requires the team to make many “judgment calls” as we carry it out.</td>
<td>3,94</td>
<td>0,54</td>
<td>3,33</td>
<td>0,97</td>
<td>0,027 *</td>
</tr>
<tr>
<td>Task Focused Coaching</td>
<td>15. The leader helps members learn from one another and from the work group’s work experiences.</td>
<td>3,78</td>
<td>0,55</td>
<td>3,11</td>
<td>1,18</td>
<td>0,040 *</td>
</tr>
<tr>
<td>Task Focused Coaching</td>
<td>16. The leader works with the work group to develop the best possible approach to its work.</td>
<td>4,28</td>
<td>0,89</td>
<td>3,56</td>
<td>1,04</td>
<td>0,033 *</td>
</tr>
<tr>
<td>Interpersonal Coaching</td>
<td>19. The leader helps members resolve any conflicts that may develop among them.</td>
<td>3,72</td>
<td>0,67</td>
<td>2,89</td>
<td>1,02</td>
<td>0,007 **</td>
</tr>
<tr>
<td>Operant Coaching</td>
<td>20. The leader provides positive feedback when the work group behaves or performs well.</td>
<td>4,11</td>
<td>0,58</td>
<td>3,06</td>
<td>1,21</td>
<td>0,003 **</td>
</tr>
<tr>
<td>Operant Coaching</td>
<td>21. The leader provides corrective feedback when needed.</td>
<td>3,83</td>
<td>0,99</td>
<td>2,94</td>
<td>1,06</td>
<td>0,013 *</td>
</tr>
<tr>
<td>Task Focused Coaching</td>
<td>22. The leader helps the work group sustain the motivation of all members.</td>
<td>4,06</td>
<td>0,54</td>
<td>2,67</td>
<td>1,14</td>
<td>0,000 ***</td>
</tr>
<tr>
<td>Unhelpful</td>
<td>23. The leader instructs the work</td>
<td>3,89</td>
<td>0,76</td>
<td>2,56</td>
<td>1,20</td>
<td>0,000 ***</td>
</tr>
</tbody>
</table>
The analyses of the dimensions show different significances related to the cultural background of all participants. The results illustrate that the responses of group members led by Austrian and Turkish leaders show fewer significant differences than answers of individuals led by Chinese and American leaders. We examine that there exist significant differences for item 1 (sub-scale “clarity”) in groups led by Austrian, Turkish, and American leaders. The scales “clarity”, “challenge” and “consequentiality” generally illustrate the averaging group member responses that assess the degree to which the direction of a group is clear, challenging, and consequential. The highest significant difference can be identified in groups led by the Turkish participants. Obviously the reasons for the group work and the intention were communicated differently in their homogeneous and heterogeneous work groups that they led during the task. Results for the groups led by Chinese students show a significant difference concerning the clear communicated purposes what the work group exists to accomplish (item 3). Participants who worked in groups led by American leaders show some significant differences between homogeneous and heterogeneous groups concerning a possible challenge so that group members have to stretch to accomplish the groups’ purposes (item 2). Moreover, we also identify significant differences in these groups related to consequentiality (item 6). The results also show significant disparities between homogeneous and multicultural groups led by Austrians concerning the proposition that the purposes of the work groups didn’t make much of a difference to all followers. In this case, the difference between the attributions of the homogeneous and the heterogeneous work groups refers to the engagement of the full range of the group members’ talents.

Significant differences of our analyses for items of the scale “task design” are only identified in groups led by Chinese and American leaders. Participants who worked in groups led by Chinese leaders mainly attribute a disparity relating to the knowledge of results. We argue that followers attribute the allocation of knowledge differently on a regular basis. They think that the task design itself was communicated unequally. On the other side, group members led by American students show the most significant differences in item 7 and 12. Obviously, there is lack of motivational leadership and insufficient autonomy to exercise judgment about work procedures. We also argue that the duties and the task itself within the work group were communicated inadequately.
The analyses of our third scale show the most significant differences of our study. We investigate three items of leader coaching that illustrate varying perceptions and attribution of operant coaching (item 21), unhelpful directives (item 23), and task focused coaching (item 26) in all work groups that we investigated. The results show that in every group composition existed significantly different perceptions of leader performance. We argue that leaders provide corrective feedback when needed and coaching that focuses on performance strategies, group effort, and the use of knowledge and skills in homogeneous versus heterogeneous groups differently. Interpersonal coaching focuses on reasonable intervention of leaders concerning challenges of relationships in a group. Significant disparities in this aspect of coaching can be identified in homogeneous and multicultural groups led by Austrian, Turkish and Chinese participants. The biggest significant differences concerning leader coaching are shown in groups that were led by Chinese and American leaders. This led to the situation that some leaders found themselves many times excluded from the group, failed to stress out the competitive character of the setting and neglected agreeing upon rules and improvement opportunities.

CONCLUSION AND MANAGEMENT IMPLICATIONS

The empirical findings showed obvious significant differences of attributions and perceptions of followers with different backgrounds in relation to group direction and leader coaching. The compelling direction of groups is the specification of its overall purpose (Wageman et al., 2005). We analyzed that group directions and the accomplishments of group work were communicated and perceived differently in various group compositions. We emphasize that the example of leading homogeneous work groups by American participants was attributed and perceived considerably different than the leadership in multicultural groups under the same leadership. Moreover, we underline this finding with reference to the behaviors of leaders that are learned and developed in their own culture. We also argue that languages and communication issues can always lead to different interpretation of meanings. Some people find it difficult to understand and follow an English native speaker. Furthermore, some leaders could not motivate the followers appropriately. Our results also show that the influence of leaders in homogeneous versus heterogeneous groups vary significantly. As mentioned before, leader coaching was also assessed differently. As a result, we highlight that some students have more experience in leading and working with people. Moreover, we also stress that some participants have more knowledge about cultural differences and are more satisfied with the outcome, direction, and performance of their leaders in this experiment than others. Overall, we argue that cultural diversity leads to varied perceptions and experiences of diversity, task and leadership.

REFERENCES


USING TOOLS OF GOVERNMENT FOR SUSTAINABILITY MANAGEMENT IN CENTRAL FLORIDA

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Abstract

This paper considers the problem of local sustainability management and examines how various tools of government are used in Orange County, Florida. Sustainability management is a complex, multi-dimensional concern that impacts both the private and public sectors. As such, it is highly suitable to the governance approach of public administration and the application of diverse tools of public action such as strategic planning, social regulation, contracting, grants, government corporations, vouchers, performance measurement and benchmarking considered in this paper. The implications are that the resourceful and results-oriented public manager should (1) adapt the right combination of tools to a particular situation; (2) persistently measure performance and learn from experience; (3) develop leadership skills that facilitate motivation and coordination of multiple stakeholders; and, (4) consistently strive to maintain the highest standards of accountability and transparency.
Using Tools of Government for Sustainability Management in Central Florida

Introduction

There is considerable ambivalence regarding the definition of sustainability. As defined by the landmark Brundtland report over twenty years ago, sustainable development is realized when it meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987, p.8). This widely cited definition is quite useful in emphasizing the inherent intergenerational equity concerns associated with sustainability. Yet, this broad characterization may not sufficiently address the multiple tradeoffs between evaluation criteria (e.g., equity versus efficiency) that often prevail in policy making nor does it provide explicit reference to varied aspects of sustainability that governments typically confront.

More recently, a multi-dimensional definition of sustainability has emerged. The private sector in corporate social responsibility reporting frequently makes reference to the triple bottom line as planet, people, and profit while the public sector often alludes to the three pillars of sustainability as being environmental protection, social progress, and economic growth (Elkington, 2004: United Nations General Assembly, 2005).

The aim of this discussion is to suggest that sustainability should not be about swinging the pendulum from the extreme pursuit of greed is good towards the other extreme of tree hugging but more about the difficult task of finding the right balance between these different facets of sustainability and their respective evaluation criteria. Sustainability is thus promoted when we seek to move towards adopting a more balanced and long-term approach to social progress, economic growth, and environmental protection (Adams, 2006). While a universally accepted definition of sustainability is widely acknowledged to remain elusive in the literature, we rely on this conceptualization as we consider how various Central Florida communities have recently employed various tools of governance in their attempts to pursue sustainability management.

The Problem and Need for Governance

Economists have long been advocating market-based policies to help clean up the environment. To address the issue, the economist simply applies the fundamental rule of economic rational decision-making to the problem. If the environmental transgressor faces marginal costs that are higher than their marginal benefits of producing the environmental damage they will find it in their economic self-interest to change their behavior. From an economic standpoint, this result is viewed as more efficient than a directive or regulatory standard since the overall cost of reducing environmental damage may be lowered given that the economic incentive will be in place for it to be borne by entities that have lower abatement related costs.
A negative externality arises when third parties (i.e., parties other than those directly involved in an economic transaction) are detrimentally impacted by a private transaction. Consequently, a negative externality is a case of market failure since allocative efficiency is distorted due to private costs not fully reflecting social costs (Coase, 1960; Steinenmann, Apgar, & Brown, 2005). Of equal or greater significance, equity concerns also surface as a result of externalities. In the case of a negative externality, costs and benefits may not be fairly distributed among different segments of the population (Steinemann et al., 2005, p.200). Steinenmann suggests that there are eight common approaches for addressing an externality. These typical approaches are: (1) voluntarism; (2) prohibition; (3) separation; (4) directive; (5) regulation; (6) taxes; (7) subsidies; and, (8) marketable permits (Steinemann et al., 2005, p.209).

Environmental resources are generally classified as either public or common pool goods. Common pool goods are a special type of public good. While pure public goods lack the exclusive and rival nature of private goods, common property resources lack only the former attribute (Steinemann et al., 2005). Examples of common property resources or collective goods include groundwater basins, fisheries, forests, pastures, lakes, public parks, and public beaches. As Hardin noted in his classic essay on the tragedy of the commons, unrestricted (i.e., nonexclusive) consumption of common pool goods can eventually lead to severe degradation and, ultimately, destruction of the resource (Hardin, 1968). Consequently, according to Steinenmann, "effective management [of common pool resources] usually requires some sort of public intervention to protect the resource from being depleted or destroyed by overconsumption." (Steinemann et al., 2005, p.225).

Effective management of common pool resources is facilitated when there are (1) low costs of resource use monitoring, (2) moderate rates of change in resources, resource-user populations, technology, and socio-economic conditions, (3) high levels of social capital, (4) low cost means of excluding outsiders, and (5) users that support compliance and enforcement (Dietz, Ostrom, & Stern, 2003). With respect to the import of social capital, it is worth mentioning that high performance social networks have already had a profound effect at local and regional levels. In her research, Pretty has documented nearly half a million, mostly successful, cases of such local groups organizing at the community-level with the goal of addressing environmental related concerns (Pretty, 2003). While governments are needed to adequately coordinate global environmental issues (e.g., climate change), smaller scale environmental concerns may be appropriately addressable at the community level (Pretty, 2003).

Research has shown that thoughtful analytical deliberation between scientists and interested parties including resource users; a variety of institutional types (e.g., public, private, community self-governance); and, complex and nested institutional arrangements are indispensable principles that tend to promote vibrant governance of environmental resources (Dietz, Ostrom, & Stern, 2003). The importance of a supportive institutional structure, effective personal communication, and the use of coordinating mechanisms are paramount and have been shown to promote sustainable resource use (Ostrom, Gardner, & Walker, 1994; Hackett, Schlager, & Walker, 1994).

According to Paavola, a fundamental challenge with public goods (either pure or common pool) is that these resources create interdependencies among users due to their joint
consumption (i.e., nonexclusive nature). While the detrimental aspect of this relationship is often raised as the free rider or exploitative effect, recent studies articulate that the same interdependency creates an opportunity to potentially seek favorable outcomes by exploring varied institutional types and arrangements (Dietz, Ostrom, & Stern, 2003; Paavola, J. 2007). Furthermore, institutional theory research indicates this governance decision may be facilitated by consideration of principles of social justice as well as economic efficiency (Paavola, J. 2007).

“Although social invention is incredibly difficult, the way is open for new concepts of the role of government to liberate our thoughts and guide our actions.” (Wildavsky, 1969, p.200) These words resonate as veritable today as they did when written by Wildavsky so many years ago. Notwithstanding the vital role of government, it is also imperative to distinguish when sustainability initiatives may not be within the scope of government and when they are best left addressed by resources from the private sector or individual citizens. While there are differing views on the proper role of government, there is not a shortage of policy instruments (e.g., taxes, permits or allowances, mandates, subsidies) available to address environmental externalities (Goulder & Parry, 2008). Goulder and Parry state that “no single instrument is [universally] superior” and acknowledge that selection of the appropriate instrument is as much art as science (Goulder & Parry, 2008, p.25). While consensus among economists may tend to support more “flexible, incentive-based policies” as opposed to direct regulatory mandates or standard setting, many trade-offs and challenges remain with implementation (Goulder & Parry, 2008, p.25). In addition to efficiency differences, there are frequently notable distributional disparities (e.g., regressive taxes, intergenerational equity concerns) that impact not only fairness or equity, but also political viability (Goulder & Parry, 2008, p.15).

Byrne, et al suggest that state and local governments are where we are seeing the greatest successes on the sustainability agenda (Byrne, Hughes, Rickerson, & Kurdgelashvili, 2007). Legislative gridlock and the power of special interests appear to offer greater opposition to sustainability related policies at the national level than the regional level (Byrne, et al, 2007). The 2009 Nobel Prize winner in economics, Elinor Ostrom, was actually a political scientist that focused her research on improving governance of the commons. As Ostrom noted, the most effective sustainability policies adapt to local cultures and institutional arrangements (Ostrom, 2008). Substantial research supports this notion that sustainability development may potentially be best addressed at the local level (Banerjee, 2003; Gibbs, 2002; Goldman, Thompson, and Daily, 2007).

Salamon characterizes the governance paradigm as being associated with the employment of tools rather than programs or agencies as well as the generation of networks that enable greater collaboration between public and private sectors (Salamon, 2002). Salamon defines a tool of government as an "identifiable method through which collective action is structured to address a public problem" (Salamon, 2002, p.19). With this framework in mind, several applications of the governance model and the corresponding uses of multiple tools of government, as they relate to sustainability management in Central Florida, will now be further examined.
Strategic Planning as a Tool

In the public sector, strategic planning is typically more mission oriented and frequently more constrained by political, social, and economic conditions (Cohen and Eimicke, 1998). The importance of organizational mission cannot be underestimated. Strategic planning efforts that lack a clear sense of organizational purpose are likely to fail (Bryson and Roering, 1996). Cohen and Eimicke include strategic planning as an essential innovation tool that is essential for effective public management (Cohen & Eimicke, 1998). While strategic planning is also seen as a more established and traditional management tool, it is included in this discussion since it is typically considered a prerequisite for organizational change. Peter Drucker, often called the father of management, described planning as an entrepreneurial activity that involved actions that must be taken now to achieve tomorrow's objectives (Drucker, 1973). The process of organizational strategic planning typically involves a self-assessment of strengths and weaknesses as well as developing a better understanding of the organization's environment. In MBA and MPA programs worldwide, students studying management undertake SWOT analyses (assessments of strengths, weaknesses, opportunities, and threats) to model the strategic planning process of private businesses and public organizations. More comprehensively, the strategic planning process involves (1) environmental scanning (for problems and opportunities); (2) identification and analysis of key stakeholders (to better understand sources of support and opposition); (3) historical analysis (to gain perspective); (4) organizational and situational analysis (to help formulate operational objectives); (5) operational strategy (to develop a work plan to accomplish objectives); (6) feasibility analysis (to assess likelihood of success); and, (7) evaluation (to determine results and facilitate needed adjustments) (Cohen and Eimicke, 1998).

Strategic Planning - Tool Application

The Orange County, Florida serves a county of nearly 1.1 million residents (Orange County EPD, 2010). The county government has shown recent strong support for sustainability management through various related projects such as promoting commuter rail, the Convention Center solar panel project, combating urban sprawl (e.g., Wekiva Parkway and Econlockhatchee River), green building programs, and energy efficiency incentives (Orange County EPD, 2010).

In 2007, the county hosted a climate change summit and committed to addressing climate change by adopting a strategic plan. The resulting Climate Change Plan formally stated Orange County’s commitment to become a leader in environmental stewardship (Crotty, R. and Orange County Board of County Commissioners, 2009). Specifically, the plan called for reducing greenhouse gas emissions by 15%, 28%, and 40%, by 2010, 2015, and 2020, respectively, by embracing eight pro-environment initiatives (Crotty, R. and Orange County Board of County Commissioners, 2009). The initiatives encompass three primary themes: (1) implementing environmental practices; (2) adopting environment related incentives and ordinances; and, (3) providing environment related education. In a recent performance report, while acknowledging
some challenges, the county reported that it had accomplished or was on track to complete most of their outlined environmental goals (Crotty, R. and Orange County Board of County Commissioners, 2009).

With respect to the key elements of strategic planning, the Orange County climate change strategic plan quite thoroughly covers environmental scanning, key stakeholders, historical analysis, organizational and situational analysis, operational strategies, and performance measurement intentions. The county is to be commended for developing a separate sustainability plan as opposed to integrating it within a broader strategic plan. However, the Orange County plan limits itself to primarily targeting environmental sustainability whereas recent local sustainability literature suggests that the most effective and enduring sustainability practices tend to more fully balance the three dimensions of sustainability, i.e., environment, economic, and equity (Saha & Paterson, 2008).

Another area where the Orange County plan appears to have shortcomings is on the integration of budgetary considerations as well as feasibility analyses. Clearly, garnering political support is immensely important to the ultimate success of a strategic planning process. Without political support, it will be difficult, if not impossible, to attract the interest of key stakeholders as well as needed resources to implement a given strategy. Strategic planning also necessarily involves integration of budgetary constraints. Mercer argues that strategic planning without consideration of the realities of the budget is merely abstract wishful thinking rather than a pragmatic, actionable plan (Mercer, 1991). In this regard, the Orange County climate change strategic plan could be strengthened by greater consideration of resource allocation trade-offs as well as providing the findings of feasibility studies. To be most effective, a strategic plan should be very explicit in aligning mission with resources (Cohen and Eimicke, 1998). The ultimate sustainability of any strategic plan may well depend on this critical factor.

Social Regulation as a Tool

The traditional view of social regulation as a tool of government is associated with firm directives, i.e., the stick approach of government, that attempt to mandate compliance with rules. Rules, standards, sanctions, and enforcement are the four key aspects of any social regulation (May, 2002). Notwithstanding, the current trend in social regulation is towards integrating the use of incentives, i.e., the carrot approach of government, to reach desired standards (May, 2002).

May indicates that the distinction between social and economic regulation is “somewhat artificial” and “increasingly blurred” (May, 2002, p.157). There are, however, some noteworthy distinctions. The latter is generally associated with promoting the competitiveness of markets while the former is usually targeted at protecting quality of life. Social regulation also tends to have a broader scope in terms of its effect. While economic regulation is typically limited to influencing the action of businesses, social regulation is frequently aimed not only at changing the behavior of business but also lower levels of government and individuals (May, 2002).

With respect to sustainability, social regulation has been used to address numerous public concerns such as air pollution, water quality, land conservation, green construction, and waste management. While advocates of increasing social regulation regularly emphasize the
environmental benefits of regulation, opponents suggest that regulations are often poorly designed and that the total costs of compliance are frequently overlooked. While it is difficult to capture the total effects of compliance, a 1997 OMB study concluded that the benefits of social and environmental regulation exceeded the costs (OMB, 1997). Nonetheless, Ayres suggests that social regulation environmental improvements may be more difficult to churn out since most of the initial objectives that were cost-effective have been already addressed (Ayres, 2008).

**Social Regulation - Tool Application**

Local governments have considerable experience with using social regulation for environmental protection. One local example of social regulation designed to promote environmental sustainability is the recent fertilizer management ordinance which became effective in March 2010 in Orange County, Florida. The new fertilizer ordinance is designed to protect surface waters from the harmful effects of two fertilizer related chemicals, phosphorous and nitrogen. The county ordinance regulates the quantity, strength, as well as periods when fertilizer can be applied. The ordinance applies to both commercial and residential users and requires that commercial users complete a best practices training program. All new hires of commercial applicator business are required to complete the training within six months of employment. The training is also open to residential applicators and the general public (Orange County Environmental Protection, 2010).

The ordinance does provide for limited exemptions such as golf courses, parks, athletic turfs, and bona fide farm operations outside the authority of Orange County regulations. The ordinance includes a variance section that provides guidance on requesting exceptions to the ordinance on a case by case basis. With respect to enforcement, the ordinance indicates the written warnings will be issued for the first two violations while fines of $50 and $100, may be assessed for the third and subsequent violations, respectively (Orange County Environmental Protection, 2010).

While it is too soon to evaluate the impact of the regulation, information on the new ordinance is clearly explained on a well-designed Orange County Environmental Protection website. The ordinance website includes information on FAQs, the required training program, fertilizing tips, a fertilizing video, and a link to the actual ordinance. The informational website also briefly describes how clean lakes, streams, and watersheds are associated with protecting the environment, enhancing quality of life, and economic prosperity. One constructive criticism would be that this information could be expanded to further educate the public on the damaging effects of non-compliance in order to promote greater awareness of the problem as well as encourage voluntary compliance. In this regard, it also bears mention that enforcement is likely to be a weak aspect of the regulation. The sanctions for violators are relatively minor and unlikely to serve as major deterrents so education and reliance on voluntary compliance are likely to be key determinants of the success of this local example of a social regulation.

**Contracting as a Tool**

Contracting is one the most common tools of government. While some agencies of government may find little need for several of the other tools of government, it is difficult to
imagine any public or private organization that can do its work without using the tool of contracting (Kelman, 2002). As a tool of government, contracting involves an economic transaction between a public and private entity where the latter promises to provide either products or services to the public entity or to others on the behalf of government in exchange for financial remuneration (Kelman, 2002). It is important to note that the private entity that contracts with the government can be either a for-profit or a non-profit establishment (Kelman, 2002).

Kelman insightfully describes three key characteristics of government contracting. The first characteristic is that contracting involves a choice by a public entity to not make a product or render a service. The second characteristic is that government contracting involves an economic transaction in a manner similar to the type of exchange between two private entities. In other words, unlike some of the other tools of government, contracting is not uniquely associated with government. Lastly, government contracting can involve procurement contracting (contracting for goods or services for government use) or purchase of service contracting (government funded provision of goods or services by a third party to non-governmental recipients) (Kelman, 2002).

**Contracting - Tool Application**

The county has a well-designed purchasing and contracting website that provides detailed guidance to contractors on how to conduct business with the county. Annually, Orange County contracts out nearly half a billion dollars of goods and services (Orange County Purchasing and Contracts Division, 2010). With respect to the physical environment budget, Orange County annually contracts out its refuse and recycling services for approximately $34 million dollars. This service provides collection services to approximately 200,000 homes located in the unincorporated areas of Orange County. The county contracts out the refuse and recycling collection services to four private haulers. Each hauler is assigned approximately one-fourth of the households. Invitations for bids (IFBs) are solicited every seven years. The stated selection criteria for IFBs are price and responsiveness. The refuse and recycling services are paid via user charges assessed to households as a non-ad valorem tax on property tax bills. A special revenue fund is established for this purpose and is self-sustaining i.e., user fees fully offset the expenses of the fund (Orange County, 2009).

The Orange County Environmental Protection Division also frequently contracts with outside vendors for land and water restoration and remediation projects within the county. One example of a water restoration project was the Rio Pinar Wetland Restoration Project. In 2007, the wetland was overgrown with vegetation and had become increasingly unsightly for local citizens. The Environmental Protection Division along with the Orange County Utilities Division, the owner of the property, hired a private contractor to restore the wetland with more aesthetic as well as functional vegetation that would also serve to promote local wildlife. After completion of the project, the area remained under an annual maintenance contract (Orange County Environmental Protection, 2010).
This latter type of contracting (purchase of service) has, in particular, fostered a greater degree of interdependency between public and private (including non-profit) entities that raise important questions about their respective roles in our society (DeHoog & Salamon, 2002). For example, to what extent should government relinquish its control over the delivery of public services? To what degree does financial reliance on government funds potentially create moral hazard or distort the self-sustaining nature of private enterprises? This loss of control and role ambiguity are two of the recurring challenges that impact government contracting decisions (DeHoog & Salamon, 2002).

Recent national studies also claim that there are significant inefficiencies in government contracting. In a report to Congress, the Government Accountability Office (GAO) recently indicated that nearly a third of federal government contracts were non-competitive contracts (GAO, 2010). A 2009 survey of National Institute of Governmental Purchasing (NGIP) members (N=614) found that while performance contracting is well known procurement approach in the literature, it continues to lack widespread practice. In fact, over 60 percent of survey respondents reported no use of performance contracting by their respective purchasing departments (Martin, McCue, Allaf, & Borger, 2009). The three most commonly cited impediments for lack of use revealed a need for performance based contract training for purchasing staff, contractors, and senior administrators (Martin, et al 2009). As Martin asserts, performance contracting can be potentially beneficial for both contractors and governments. With performance contracting that targets performance outcomes rather than design specifications, contractors have greater flexibility to perform their work and are potentially compensated at higher levels for exceptional work. Similarly, with performance contracting, governments can spend less time (and cost) on contract monitoring and pay only for results obtained (Martin, et al 2009). With the significant future fiscal hurdles facing governments at every level, it is likely that future trends in contracting will, by necessity, require greater use of competitive contracting methods as well as performance based contacts that focus more attention on cost-efficient outcomes.

**Grants as a Tool**

Grants, as a tool of government, are a means of a donor government (i.e., grantor) encouraging the performance of a desired activity by a recipient (usually a public or non-profit entity). Since grants incentivize rather than restrict activity, they are generally deemed to be relatively non-coercive tools with a high degree of automaticity, i.e., grants strive to make use of existing administrative infrastructure rather than necessitating creation of a separate delivery mechanism (Beam & Conlan, 2002). Grants can be provided in-kind but cash payments are most common and are considered primarily indirect tools since they often leave considerable discretion to the receiving government or organization (Beam & Conlan, 2002). While grants appear on budgets and are quite visible from a funding perspective, some grants are not as well publicized as others.

In terms of the restrictions placed on the use of funds (from most to least), the three broad types of grants are categorical grants, block grants, general purpose assistance. Based on allocation methods, grants can be classified as formula or project grants. The former frequently
take on the nature of an entitlement program, lasting longer and less controllable, by the donor government while the latter tend to be associated with a controlled, competitive selection process, more narrowly confined to a specific purpose, and usually of limited duration (Beam & Conlan, 2002). The level of donor control for grants is usually determined by the application process, requirements for matching contributions or maintenance of effort, required financial reporting, and related audits (Beam & Conlan, 2002).

**Grants - Tool Application**

In 2009, the Orange County Convention Center (OCCC), the second largest convention center in the United States, completed the installation of a nearly $9 million dollar solar array system designed and built by Johnson Controls. This completed OCCC project is now the largest rooftop solar photovoltaic (PV) system in the southeastern United States (Orange County Convention Center, 2010). While the convention center directly contributed nearly half of the cost of the project, this environmental project was realized through the funding and collaboration of multiple organizations at the local, state, and federal levels.

From a financing perspective, nearly 30 percent of the total cost of the project was funded by an intergovernmental grant. The Florida Department of Environmental Protection (FDEP) provided a $2.5 million renewable energy grant for the OCCC project. This funding was related to the Renewable Energy Technologies Grants Program that was established by the Florida state legislature in 2006. A total of $15 million dollars was awarded annually by the state under this program and the maximum grant per project was $2.5 million. The convention center project received the maximum grant in two installments. These grants were intended to "provide renewable energy matching grants for demonstration, commercialization, research, and development projects relating to renewable energy technologies in Florida" (Florida Department of Environmental Protection, 2010).

There were also multiple, smaller in-kind grants including non-cash contributions from the Florida Solar Energy Center, a research institute of the University of Central Florida, and U.S. DOE (related to technical assistance), the Orange County Environmental Protection Division (related to creation of a climate change education center) and Orange TV (related to promotion and public service announcements on the local government network). The total aggregate cash value of all of these in-kind grants was estimated to be less than $500,000.

From a purpose, allocation, and control perspective, the FDEP grant was a state-level categorical, project grant with a limited three year duration that required an application as well as matching funds (Florida Department of Environmental Protection, 2010). Among the items required in the application process were a project description and objectives, project measures of success, a detailed budget, and any commitment letters from third parties. To further control the funding process, the FDEP paid the recipients of this grant on a cost reimbursement basis up to the award amount. With respect to cost sharing, during the recipient selection process, projects that had greater proportions of matching funds to grant funds received preferential consideration. In fact, the cost sharing percentage was the most important criteria used in ranking the applications. Other significant criteria used in ranking the applications were economic development potential, technical feasibility, use of an innovative technology, renewable energy
production potential, energy efficiency, fostering awareness potential, and project management capacity (Florida Department of Environmental Protection, 2010).

When evaluating the effectiveness of the grant, it is important to keep in mind that the intent of this project was to serve as a research, demonstration, and educational project. In that regard, while it has been barely a year since completion, the solar project has received significant attention. As indicated earlier, Orange County was the first municipality in Florida to achieve gold level certification by the Florida Green Building Coalition, a nonprofit dedicated to providing green building programs (Florida Green Building Coalition, 2010). The project itself received national recognition from the U.S. Department of Energy as a "Solar America Showcase" and the City of Orlando was selected by U.S. DOE as one of only 25 "solar cities" in the country and the only "solar city" in Florida (U.S. Department of Energy, 2010). The convention center was also the host site of the 2009 Green Cities convention. Accordingly, the OCCC solar project and related climate change education center appears to have had some degree of success in meeting one of its stated objectives of increasing familiarity with renewable technologies. From an economic standpoint, the cost-effectiveness of solar power remains challenging. The energy cost savings represent a small proportional amount of the total energy costs and the simple, undiscounted financial payback is likely to exceed 40 years. While the high visibility of the solar project (in the second largest convention center in the United States) clearly has the promising potential to attract renewable energy industries and related jobs to Florida, more time and metrics are needed to properly evaluate this important economic development objective, which, arguably, over time, may be the ultimate measure of success.

Government Corporation as a Tool

There are a variety of organizational forms that can be used to help government accomplish its objectives. The four principal organizational forms are a government agency, a government corporation, a government sponsored enterprise, and a private corporation. While little confusion exists between the opposite extremes of this spectrum (i.e., a government agency versus a private corporation), the differences between a government corporation and a government sponsored enterprise are less obvious. One way to distinguish a government corporation from a government sponsored enterprise is by considering ownership rights and control. A government corporation is owned and directly controlled by the government whereas a government sponsored enterprise typically is privately owned and only indirectly controlled by government via regulatory oversight (Stanton, 2002). While government corporations, as governmental entities, have the explicit backing of the government, government sponsored enterprises are also viewed by the credit markets as having implicit public financial support which facilitates their access to capital. The recent failures of Fannie Mae and Freddie Mac, two major government sponsored enterprises, have highlighted the potential moral hazards that may accompany government sponsored enterprises when profits are privatized while risk is nationalized. Stanton suggests that transforming these two government sponsored enterprises into wholly owned government corporations may be the best solution available (Stanton, 2009).

According the U.S. General Accounting Office, most government corporations are separate legal entities that may be best suited for revenue producing, potentially self-sustaining financial activities with the public. As Stanton states, "the essence of the government corporation is its ability to keep its accounts and manage its affairs on a business-like basis" (Stanton, 2002,
This revenue producing, business-oriented nature of a government corporation generally translates into greater flexibility to conduct its affairs (Stanton & Moe, 2002). While government corporations typically have a higher regard for equity considerations than government sponsored enterprises and private companies, government corporations are generally not appropriate for inherently governmental purposes such as law enforcement or tax collection since their business-like culture and greater operational flexibility may tempt them to subordinate non-profit seeking mission oriented objectives to protect or enhance the bottom line (Stanton & Moe, 2002).

Government Corporation - Tool Application

The Orlando Utilities Commission (OUC) is a municipal utility owned by the City of Orlando within Orange County. OUC is an electric and water utility with more than $2 billion in assets and annual operating revenues in excess of $673 million (Orlando Utilities Commission, 2009). The utility was previously a privately owned company prior to being acquired by the city of Orlando in 1922. According to the U.S. Energy Information Administration of the U.S. Department of Energy, there are over 2,000 publicly owned electric utilities in the United States. As of 2008, according to the American Public Power Association, OUC was the 16th largest utility in the country based on customers served.

OUC has been an innovative local leader in renewable energy. Its newly designed customer service and administrative center in downtown Orlando is perhaps the most environmentally conscious building in the city. In 2009, the local chapter of the U.S. Green Building Council selected the OUC building as the Leadership in Energy and Environmental Design (LEED) New Construction Project of the Year. In the aforementioned Orange County Convention Center solar panel project, OUC was an integral partner and providing $1.5 million in funding or approximately 17 percent of the total cost. In partial consideration for its support, OUC received ten years of renewable energy credits (i.e., form of social or environmental regulation) associated with the project. These renewable energy credits may have future value to the utility if the state or country transitions to a cap-and-trade system (Orlando Utilities Commission, 2009).

OUC has been significantly involved with several renewable energy projects. Since partnering with OCCC on the solar panel project, OUC has continued to develop similar, albeit, in most cases, smaller-scale, partnerships with others in the community. Among its many related renewable energy initiatives, OUC has partnered with the local science center, the county public school system, an apartment complex, as well as Harris Engineering firm and a IKEA furnishings store to install solar arrays. OUC is also partnering with Florida State University to develop a solar and biomass hybrid power plant in nearby Harmony, Florida. The municipal utility is also encouraging its local residential and business customers to install solar systems by
providing low cost financing terms as well as monthly energy credits (Orlando Utilities Commission, 2009).

OUC’s financial strength has enabled it to be a leader and reliable partner in sustainability management. The utility maintains a high quality, AA and Aa1 credit rating from Standard & Poor’s and Moody’s, respectively (Orlando Utilities Commission, 2009). Before consideration of financing and investing related cash flows, net cash flow from operating activities in 2009 was over $245 million. In 2009, in spite of the challenging economy, OUC was not only self-sustaining, but generated nearly $73 million dollars of income. This income figure was after payment of a revenue based dividend of over $27 million to the City of Orlando and other smaller payments to the local governments of Orange County and the City of St. Cloud. In addition, an income based dividend equal to 60 percent of income is also paid to the City of Orlando. Even after paying all expenses and dividends, the net assets of OUC increased by over $38 million in 2009. The utility held over $169 million dollars in cash or cash equivalents at the end of 2009 (Orlando Utilities Commission, 2009). If performance and accountability for a government corporation are measured to a large extent by the bottom line, Central Florida city and county governments are fortunate to have the well-managed and financial strong Orlando Utilities Commission as a valued strategic partner in sustainability management. OUC has clearly demonstrated through its multiple initiatives that it desires to be on leading edge of sustainability practices, particularly as they relate to renewable energy technologies.

Vouchers as a Tool

A voucher is a type of subsidy. One of the key differences between a voucher and other tools is the greater level of control and choice extended to the intended beneficiary or consumer. Notwithstanding, a voucher is not a regarded as a blank check but, rather, typically comes with restrictions such as eligibility criteria, the type and amount of goods or services that can be purchased, as well as a limited period of use. Vouchers can, therefore, be used to encourage a desired activity and to aim assistance at specific segments of the population. To prevent frivolous consumption, vouchers frequently require that the recipient share some of the cost of the subsidized product or service (Steurele & Twombly, 2002).

To implement a successful voucher program, several administrative decisions must be considered. Clearly, the first step is to decide which product or service should be subsidized. Additionally, it will be necessary to determine initial recipient eligibility; establish distribution methods; institute, if applicable, a mechanism for recertifying eligibility; recruit authorized suppliers; provide consumer information; and, set up monitoring, enforcement, and evaluation programs (Steurele & Twombly, 2002).

Vouchers - Tool Application

Orange County has recently utilized a variety of voucher programs in their local sustainability management practices. Two such voucher programs are the toilet voucher exchange program and the Orange County Homeowner Energy Efficiency Program (OCHEEP).
The toilet voucher exchange program is aligned with water conservation efforts by inducing the replacement of high-flow, inefficient toilets. Newer low-flow toilets can yield water savings of more than 60 percent. To qualify for the voucher, a homeowner must replace an older high-flow, low efficiency toilet that utilizes 3.5 gpf (gallons per flush) or more with a new low-flow, high efficiency model with a water usage of 1.28 gpf or less (Orange County Utilities Water Division, 2010). Under U.S. Federal law, new toilets must not use more than 1.6 gpf so high efficiency toilets are well above this requirement.

The voucher provided by the toilet voucher incentive program ranges between $100 and $125. To receive the voucher, an application to the Orange County Utilities Water Division is required. The program restricted consumer choice by providing designated suppliers as well as approved models that qualified for the voucher. The program was set up to provide two vouchers (replacement of two toilets) for each household (Orange County Utilities Water Division, 2010). The EPA has stated that if every home in the United States replaced one low efficiency toilet with a high efficiency toilet, the annual water savings would be almost one trillion gallons of water (EPA, 2010). The EPA estimates that a family of four would save approximately $90 per year on their water bill by upgrading to a high efficiency toilet (EPA, 2010). Based on online pricing available from the major home improvement stores, most high efficiency toilets cost between $200 and $300.

It is not surprising that toilet replacement voucher programs have been quite popular and spread across the nation since the combination of the voucher and the annual water savings make the decision economically sensible as well as environmentally friendly. Unfortunately, Orange County has temporarily suspended the program due to fiscal year budget constraints and lack of available funding. To measure the success of the program and to evaluate its cost-effectiveness, it would be helpful for the county to publish relevant metrics such as the participation rates across different communities within the county as well as the estimated savings in water usage and cost.

In contrast to the toilet voucher incentive program, the Orange County Homeowner Energy Efficiency Program (OCHEEP) is set up as a rebate program. While rebates work similar to vouchers there are some important differences. The main disadvantage of a rebate to the beneficiary is paying the full cost of the product or service upfront. This may discourage some participants especially those that are low-income so it may disproportionately benefit more affluent households. The advantage of a rebate to the government entity is that coordination between suppliers and the government is minimized since reimbursement to the beneficiary is made directly by the government rather than via the supplier.

The OCHEEP program was set up as a social networking, educational program. The program was open to a minimum of ten participants that would form a group to attend a workshop on energy efficiency. Following the workshop, each interested participant would hire an energy efficiency consultant to perform a Class I energy rating and recommend any necessary upgrades to their home. If a contractor was subsequently hired by the homeowner to complete any of these recommended energy efficiency upgrades, the homeowner would be eligible for a rebate of up to $1,000 (Orange County Environmental Protection, 2010). The program, which began in April 2010, was funded with $600,000 of federal stimulus funds and was designed to promote energy efficiency as well as generate work for contractors. By October 2010, the
program had already trained over 600 participants and future workshops have been currently suspended due to the uncertainty of future funding (Orange County Environmental Protection, 2010).

Both the toilet voucher incentive program and OCHEEP underscore a main concern associated with voucher (and rebate) programs. The beneficial impact of vouchers may be offset, to some degree, by the problem of asymmetrical information. Higher income, better informed citizens may benefit disproportionately from a voucher or rebate program unless there is an adequate outreach and eligibility criterion that proactively seeks a representative group of participants (Steurele & Twombly, 2002). If this problem is not properly addressed, adverse selection can result that may serve to further “reinforce existing inequities of knowledge and resources” (Steurele & Twombly, 2002, p.457).

Performance Measurement and Benchmarking as a Tool

Since Frederick Taylor, frequently revered as the father of scientific management, developed time and motion studies nearly a century ago, performance measurement has been viewed as an essential responsibility of effective management (Taylor, 1911). Much more recently, in the reinventing government movement of the 1990's, Osborne and Gaebler stressed that the need for performance measurement was as critical in the public sector as it is in the private sector (Osborne & Gaebler, 1992). Performance measurement is vital if an organization wishes to know where it stands and how to distinguish success from failure (Osborne & Gaebler, 1992).

There are multiple uses of performance measurement as a tool of government. Performance measurement can be used to identify gaps between desired levels of effectiveness, efficiency, and equity and their respective actual levels. Consequently, performance measurement serves an important control function that can provide invaluable information to decision-makers on needed changes in course. In this regard, performance measurement can be useful as a motivational tool by providing appropriate recognition to those that are performing beyond expectations as well as corrective guidance to those that may be falling short. Regular performance measurement in government may also serve to promote transparency, accountability, and legitimacy (Salamon, 2002). The highest level of assessing strategic management capacity in government has also been associated with the control and evaluation aspects of performance measurement (Vinzant & Vinzant, 1996). Notwithstanding all of these potential benefits, it remains a disappointing, if not surprising outcome, that two recent studies revealed that less than one quarter of local governments surveyed reported "using performance measures across the board in conjunction with strategic planning efforts" (Poister & Streib, 2005, p.49; Willoughby & Melkers, 2001).

Innovative, high performing public organizations seeking best practices and continuous improvement frequently utilize a more sophisticated technique of performance measurement called benchmarking (Cohen & Eimicke, 1998). Regular performance measurement is a prerequisite for benchmarking since the latter compels the public manager to look beyond their own program or government to compare relative performance. Comparing performance to those that are doing similar things better enables an organization to more readily recognize the
possibilities for improvement. There are many other potential positive outcomes associated with benchmarking that include, but are not limited to, fostering internal collaboration, creating an externally oriented competitive culture, identifying priorities, encouraging creative thinking, and building a commitment to on-going performance measurement (Cohen & Eimicke, 1998).

Performance Measurement and Benchmarking - Tool Application

Since developing a strategic sustainability plan and holding a related summit in late 2007, Orange County has produced and released two annual performance updates. In the initial plan, the leaders of Orange County clearly indicated a commitment to on-going performance measurement and evaluation (Crotty and Orange County Board of County Commissioners, 2007). With the assistance of ICLEI (formerly International Council for Local Environmental Initiatives), Orange County developed baseline indicators of sustainability performance. ICLEI, now known as Local Governments for Sustainability, is an international non-profit organization dedicated to promoting sustainability at the local level. The ICLEI is headquartered in Germany with U.S. offices in Boston and Washington, D.C. In addition to assisting local governments with sustainability initiatives, ICLEI also seeks to help local communities improve their disaster risk management processes which the organization believes is a necessary prerequisite to sustainability efforts (ICLEI, 2010). The organization strives to cost effectively advance sustainability at the local level through information sharing and capacity building (ICLEI, 2010).

The latest performance update discusses how each of the goals outlined in the strategic plan are progressing by indicating the current status, measurement basis, anticipated timeline for completion, and cost estimate. Contacts for each goal are also provided to promote accountability and transparency. In terms of reduction of greenhouse gas emissions, the 2009 performance plan indicated the county's rate of progress was slowing from the baseline year but still appeared within reach of the 15 percent reduction goal by 2010 (Crotty and Orange County Board of County Commissioners, 2009).

One clear shortcoming of the Orange County performance report is the lack of precision. While the report uses easy to interpret color coded symbols (e.g., green, yellow, red) to denote whether a goal has been achieved, is on track, or behind schedule, more detail on costs as well as percentage of completion could be provided on certain objectives. Notwithstanding this suggested improvement, Orange County appears to be one of the relatively few local governments that appreciates the importance of linking performance measures to a strategic plan (Poister & Streib, 2005).

With respect to benchmarking, Orange County is a member of the Florida Green Building Coalition (FGBC), a non-profit 501(C)3 corporation. The FGBC provides green building training and certifications for those working in the construction industry as well as green standards and certifications for commercial and residential construction, land development, and local governments. The local government green standards were developed in conjunction with the Florida Solar Energy Center, a research institute of the University of Central Florida, as well as
other local governments. Orange County became the first local government in Florida to achieve the gold standard certification in 2009 (Orange County Environmental Protection, 2010; Florida Green Building Coalition, 2010).

There are multiple opportunities to benchmark local sustainability progress. The aforementioned ICLEI has over 1,200 city and town members worldwide and provides informational and training resources to local governments. The International City/County Management Association (ICMA) recently completed a survey of nearly 2,200 local governments. In addition, ICMA Center for Performance Measurement allows members to benchmark their sustainability performance against 200 participating communities (ICMA, 2010).

Closer to home and, perhaps, with the most promising future due to the narrower Florida focus, the Florida Benchmarking Consortium (FBC) offers a unique opportunity to Orange County government. FBC consists of approximately 50 local governments in Florida and collects and shares metrics across 14 different service areas with over 300 performance measures. One of the service areas is environmental management and it currently has over 90 related performance measures (Martin & Mikovsky, 2009). While FBC is a relatively young organization, participation is voluntary, and there is plenty of room for growth in membership, FBC has the distinct advantage of being a source of benchmarking indicators that are, arguably, most comparable to Orange County since "local governments are creatures of their respective states" (Martin & Mikovsky, 2009, p.11).

Lessons Learned

Multiple Tools

For a complex issue such as sustainability management, there are no silver bullets or one size fits all approaches. It is not uncommon for sustainability management initiatives to necessitate the use of multiple tools. The aforementioned OCCC solar panel project illustrates how multiple tools such as (1) contracting (private vendor provision and installation of the solar panels); (2) grants (intergovernmental renewable energy grant funding from the state); (3) government corporation funding; and (4) social regulation (renewable energy credits granted to government corporation in exchange for funding assistance) can be effectively used within a single project. As Cohen and Eimicke suggested, finding the right combination of tools for a given purpose may be the most important determinant of success (Cohen & Eimicke, 1998).

Evidence-based Persistence

Challenging problems are not easily solved. Sometimes tools will not work entirely as intended and unforeseen implementation difficulties will develop or related funding may lapse. It is always uncomfortable to recognize when we fall short of expectations, but this humility is essential to create a culture of continuous improvement. Public managers need to not only be persistent in pursuing their objectives, but should actively seek to learn from their experiences as well as those of other similar entities. Implementing a performance measurement system and practicing the art of benchmarking should go a long way in this effort. As discussed previously,
there is considerable opportunity for progress in this area (Poister & Streib, 2005; Willoughby & Melkers, 2001; Cohen & Eimicke, 1998).

**Leadership**

Effective management of multiple tools and partnerships demands more than technical knowledge. Competency with strategic planning, team building, negotiation, and persuasion can be enormously helpful when working within environments that have multiple, interdependent stakeholders. Clearly, the ability to identify, mobilize, and coordinate resources is vital. Perhaps, equally important is developing the art of wise judgment to distinguish between when enough has been done versus when more is needed which ultimately may serve to promote the most effective and efficient use of scarce resources (Salamon, 2002).

**Accountability**

Citizen confidence and the allocation of future resources depend heavily on accountability. Yet, the various tools of public governance frequently relinquish considerable discretion and control to outside entities. The public manager must resist the temptation to associate this loss of control with a lack of ownership over results or outcomes. More decentralized structures have a greater, but also more elusive, need for accountability. With interdependent networks, this challenge may be further complicated by the necessity for horizontal as well as vertical accountability. Unfortunately, there are no simplistic answers here except to suggest that an unswerving focus on measuring performance as well as a firm commitment to transparency may help put the odds in our favor.

**Conclusion**

Sustainability management is well suited to the new governance approach of public administration. The experiences of Orange County, as illustrated by the recent use of various tools discussed in this paper, provide credence to the belief that sustainability management can be successfully pursued with various tools of public action. Overall, Orange County has generated a supportive strategic management capacity that encompasses all levels of an efficacious model from the development of a strategic plan to an aligned performance measurement system (Vinzant & Vinzant, 1996). A 2003 study indicated that Orlando, the largest city in Orange County, Florida was among the U.S. cities not taking sustainability seriously (Portney, 2003). While much remains to be done, Orange County, Florida, through its creative use of multiple tools of government since adopting a strategic plan in 2007, has made notable progress in helping the county and City of Orlando alter that perception. Given these recent efforts, it is likely that the county and city would welcome a reassessment of their joint commitment to local sustainability management.
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KNOWLEDGE SPILLOVER THROUGH THE USE OF LOCALIZED AND VIRTUAL ALLIANCES AND FIRM SUCCESS

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The degree of participation of local alliances defines formal and informal relationships designed to share the knowledge base of a particular region. Local alliances have played an unprecedented role in firm performance in the past. A firm's involvement with those alliances can often be a measurable component to overall success (Levy, 2011). Today, the inclusion of virtual alliances may often serve as a supplement to the facilitation of relationships and support networks.
The access to relationships often serves as an entry way for new product introduction (Acs, Audretsch, & Feldman, 1994). The knowledge spillover when engaged in a business or personal relationship with a party in the same or similar industry can often encourage innovative activity. This notion that a reciprocal relationship amongst alliances exists has been demonstrated amongst firms in similar geographic locations. The localization of the relationship and the strength of the tie is what ultimately encourages this knowledge spillover (Levy, 2011). Yet, today the communication barrier of support networks has extended far beyond the geographically bounded region into the virtual universe. This research embodies the significance of local alliances on firm performance with a new perspective on the inclusion of virtual relationships in future firm success.

The theoretical underpinning of the aforementioned research stems from the knowledge based theory (Decarolis & Deeds, 1999). Knowledge generation is seen as source for superior performance. Moreover, the knowledge that flows within the organization is seen as a constant flow. In order to achieve this flow, access to knowledge generators such as; educational institutions, research labs, suppliers, partners, and so forth must be a part of the foundation for decision making and organizational action. These generators are seen as an entrepreneurial support system whereby the encouragement of the relationship fosters innovative activity.

While the spatial context of the firm plays a role on corporate performance (Delios & Beamish, 1999), it is the strength of the tie (Sternberg & Litzenberger, 2004) and commonality amongst the relationships that formulate a clustering, allowing the potential for growth of the firm. The research within this article demonstrates the dependence on alliances in a spatially concentrated area. However, the need for supplemental alliances and resources is demonstrated by an increase dependency on virtual alliances.

The conceptual foundation for this research is proposed in the theoretical background of the knowledge based theory. An internet survey assessing firm performance of senior managers and executives in the professional business and technology service sector in South Florida serves as the basis for determining entrepreneurial support systems, including alliances.

Herein, the hypotheses are identified:

**H1**: Senior management of professional business and technology service firms in the NAICS 541 category view accessibility to alliances as a prime component of a successful firm.

**H2**: As the number of alliances increases for professional business and technology firms in the NAICS541 category so does the performance outcome of that firm.

The literature has argued that senior management has generally viewed alliances as a very important contributor to success (Boasson, Boasson, MacPherson, & Shin, 2005). The propensity to engage in alliance networks will encourage knowledge spillover, and contribute to a business model of high performing and innovative firms.

At the descriptive level, the survey findings display a high level of importance on local alliance building as a key to success. It is important to note that these findings relate to local alliances,
which is perceived as an important value for the localization of a professional business or technology service firm. However, there is some evidence that virtual alliances also play a contributory role. The notion that virtual alliances can be considered a proponent for local success or virtual success of a firm is of significant value in that it can be explored further in future research.

The mean percentage of alliances each firm in South Florida indicated they have is roughly 76.6% and of those alliances 81.7% of them are located in South Florida. This illustrates that the majority of firms appreciate the value of strategic alliances. When the total number of firms is examined, each firm had a mean of 8.8 alliances that they consistently network with (refer to table one).

Table 1 - Firms with Alliances

<table>
<thead>
<tr>
<th>Q2 Firms with Alliances</th>
<th>Descriptive and Frequencies</th>
<th>Q3 Number of Alliances in S. Florida</th>
<th>Descriptive Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>8.8</td>
<td>Mean</td>
<td>43%</td>
</tr>
<tr>
<td>Median</td>
<td>3.0</td>
<td>Median</td>
<td>15%</td>
</tr>
<tr>
<td>Number of Cases</td>
<td></td>
<td>Number of Cases</td>
<td></td>
</tr>
<tr>
<td>Don't have alliances</td>
<td>53</td>
<td>Don't have alliances</td>
<td>49</td>
</tr>
<tr>
<td>Percent having alliances</td>
<td>76.6%</td>
<td>Percent having alliances in S. Florida</td>
<td>81.7%</td>
</tr>
<tr>
<td>Total No. of Cases</td>
<td>73</td>
<td>Total No. of Cases</td>
<td>30</td>
</tr>
</tbody>
</table>

Table two illustrates that respondents find particular alliances significant to their overall success. It is clear that business partners are ranked the highest in terms of importance of alliance with a percentage of importance of 93.1%. Professional associations as well as complementary business are also highly valuable as their percentage of importance is ranked second and third consecutively with a percentage of 86.5% and 81%.
### Table 2 - Importance of Alliance by Type of Alliance

<table>
<thead>
<tr>
<th>Q5</th>
<th>Important (Top 3 categories)</th>
<th>Not Important (Bottom 2 categories)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research institutions</td>
<td>54.80%</td>
<td>46.20%</td>
</tr>
<tr>
<td>Universities &amp; Colleges</td>
<td>39.10%</td>
<td>61.90%</td>
</tr>
<tr>
<td>Supplier Partnerships</td>
<td>78.80%</td>
<td>21.20%</td>
</tr>
<tr>
<td>Business Partners</td>
<td>93.10%</td>
<td>7.90%</td>
</tr>
<tr>
<td>Professional Associations</td>
<td>86.50%</td>
<td>13.50%</td>
</tr>
<tr>
<td>Complementary Business</td>
<td>81.00%</td>
<td>19.00%</td>
</tr>
</tbody>
</table>

Table 2 is based on a Likert type 5-point scale ranging from Not Important (1) to Very Important (5)

In addition to determining the importance of alliances, the type of alliances was examined. Business partners were seemingly the most important alliance in that the firms in South Florida had over 44% of their alliances from that category. Professional associations, again was a close second with 43.5% and complementary business at 42% (refer to table three).

### Table 3 - Types of Alliances

<table>
<thead>
<tr>
<th>Q4</th>
<th>Research Institutions</th>
<th>Universities &amp; Colleges</th>
<th>Supplier Partnerships</th>
<th>Business Partners</th>
<th>Professional Associations</th>
<th>Complementary Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Firms In Each Category</td>
<td>4.2%</td>
<td>19.2%</td>
<td>33.4%</td>
<td>44.1%</td>
<td>43.5%</td>
<td>42.8%</td>
</tr>
<tr>
<td>Total Number of Cases</td>
<td>72</td>
<td>73</td>
<td>72</td>
<td>72</td>
<td>73</td>
<td>72</td>
</tr>
</tbody>
</table>

One of the significant elements of the research illustrated the importance of the strength of alliances within each category as it pertained to entrepreneurial success (refer to table four). Although all the categories were important in terms of choosing a location for a business, access to business partners, suppliers, and professional associations were the strongest networks that encourage alliance building. A Kendall’s Tau-b correlation was executed to show the linkages between the importance assigned to each category. The correlation table demonstrates the importance placed on links between universities/colleges with research institutions, and between business partners and complementary business (refer to table five).
Table 4 - Importance of Strength of alliance by Type of Alliance

<table>
<thead>
<tr>
<th>Q5</th>
<th>Research Institutions</th>
<th>Universities &amp; Colleges</th>
<th>Supplier Partnerships</th>
<th>Business Partners</th>
<th>Professional Associations</th>
<th>Comple - mentary Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>2.1</td>
<td>2.7</td>
<td>3.5</td>
<td>4.1</td>
<td>3.7</td>
<td>3.5</td>
</tr>
<tr>
<td>Not Important (Bottom 2 categories)</td>
<td>46.2%</td>
<td>61.9%</td>
<td>21.2%</td>
<td>7.9%</td>
<td>13.5%</td>
<td>19.0%</td>
</tr>
<tr>
<td>Important (Top 3 categories)</td>
<td>54.8%</td>
<td>39.1%</td>
<td>78.8%</td>
<td>93.1%</td>
<td>86.5%</td>
<td>81.0%</td>
</tr>
<tr>
<td>Number of Cases</td>
<td>21</td>
<td>26</td>
<td>33</td>
<td>38</td>
<td>37</td>
<td>42</td>
</tr>
</tbody>
</table>

Table 4 is based on a Likert type 5-point scale ranging from Not Important (1) to Very Important (5)

Table 5 - Inter-correlations (Kendall’s Tau-b) Between the Importances of Specific Types of Alliances

<table>
<thead>
<tr>
<th>Kendall Tau-b Correlations</th>
<th>Q5A</th>
<th>Q5B</th>
<th>Q5C</th>
<th>Q5D</th>
<th>Q5E</th>
<th>Q5F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q5A Universities</td>
<td>1.00</td>
<td>.67*</td>
<td>-.07</td>
<td>.14</td>
<td>.04</td>
<td>.26</td>
</tr>
<tr>
<td>Q5B Research Institutions</td>
<td>1.00</td>
<td>.04</td>
<td>.12</td>
<td>.24</td>
<td>.36</td>
<td></td>
</tr>
<tr>
<td>Q5C Business Partners</td>
<td>1.00</td>
<td>.21</td>
<td>.34*</td>
<td>.36*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q5D Professional Associations</td>
<td>1.00</td>
<td>.11</td>
<td>.27</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q5E Suppliers</td>
<td></td>
<td>1.00</td>
<td>.27</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q5F</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.00</td>
</tr>
</tbody>
</table>

* Represents correlations that are significant at the 95% level of confidence or higher

The usefulness of alliances with research institutions, universities, business partners, and so forth is empirically confirmed in the descriptive analysis. It is clear that the tables provide strong evidence for alliance building and clustering in the South Florida region.

The emergence of other types of alliances, such as distant alliances and virtual alliances also can have significant impact in decision making processes within an organization. When the firm has access to these supplemental knowledge generators, there is a reaffirmation that they are contributory to the overall success of the firm. Although they are secondary to local factors, firms in the sample acknowledged that they have virtual alliances and their significance. 21.1% percent of the firms sampled indicate that they have virtual alliances (refer to table six).
Table 6 - Firms Having Virtual Alliances

<table>
<thead>
<tr>
<th></th>
<th>Virtual Alliances</th>
<th>No. of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent with Virtual Alliances</td>
<td>21.1%</td>
<td>16</td>
</tr>
<tr>
<td>Total Cases</td>
<td></td>
<td>76</td>
</tr>
</tbody>
</table>

The importance of these virtual alliances among those firms that acknowledge that they have virtual alliances also plays a role in admitting that the common practice of going to the local supply house or neighbor for business advice has changed. While the localization of a business' immediate economy is communal, the dialog that is now being reached virtually helps to enhance the innovative environment through knowledge spillover. This is not to say that the local firm will no longer be a source of stimulation for practical operations, but the ability to access additional knowledge resources may play a deciding factor in business decisions. Table seven illustrates that 43.8% of the firms sampled feel that their virtual alliances are of significance to their entrepreneurial effort.

Table 7 - Importance of Virtual Alliance Among those having Virtual Alliances

<table>
<thead>
<tr>
<th>Q7 If established virtual alliances, how important</th>
<th>Virtual Alliances</th>
<th>No. of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all important</td>
<td>6.3%</td>
<td>1</td>
</tr>
<tr>
<td>Somewhat Important</td>
<td>31.3%</td>
<td>5</td>
</tr>
<tr>
<td>Important</td>
<td>43.8%</td>
<td>7</td>
</tr>
<tr>
<td>Very Important</td>
<td>18.8%</td>
<td>3</td>
</tr>
</tbody>
</table>

The second phase of the analysis concentrates on structural equation methodologies to determine the effects of a firm’s adoption of traditional alliances coupled with the significance of virtual alliances as it impacts organizational performance. As previously stated, the research determines both the accessibility to alliances and the impact of alliances on firm success.

H1: Senior management of professional business and technology service firms in the NAICS 541 category view accessibility to alliances as a prime component of a successful firm.

H2: As the number of alliances increases for professional business and technology firms in the NAICS 541 category so does the performance outcome of that firm.

A two-step approach for modeling (Anderson & Gerbing, 1988) was utilized in this procedure.

Firstly, an adequate measurement model was established and later tested for adequacy of fit (refer to figure one).
Figure 2 indicates a model with path coefficients. Note that the path coefficients are not correlation coefficients. In this case, the model demonstrates a statistically significant path relating to the establishment of traditional alliances to business performance. As the number of traditional alliances increase, a firm gradually increases its’ performance. The meaning of the path coefficient (e.g., 0.803 in figure 2) is that as the number of strategic alliances is increased by one standard deviation from its mean, business performance is expected to increase by 0.803 of its own standard deviation from its own mean (Bullmore et al., 2000). The data was screened for skewness, kurtosis, and possible outliers to avoid any violations of the assumptions identified.

Once the measurement in the model was defined, the hypotheses were then tested. When tested, the first hypothesis test confirmed the significance of alliances has a positive impact on the establishment of alliances. Moreover, the second test confirmed that the number of strategic alliances is positively related to performance in firms. As discussed below, the model was supported by various fit indices. Table eight indicates a significant relationship between traditional alliances and virtual alliances and business performance outcomes with a t-value of >2.00, and p<0.05.

<table>
<thead>
<tr>
<th>Path</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>t-Value</th>
<th>Two Tailed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 8 - Hypotheses Test Results
<table>
<thead>
<tr>
<th>H1: Significance of Alliances → Strategic Alliances</th>
<th>p Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.503</td>
<td>0.066</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>H2: Strategic Alliances → Organizational Performance</th>
<th>p Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.803</td>
<td>0.092</td>
</tr>
</tbody>
</table>

Note: df = 25

The analyses also provided evidence of model fit. With respect to commonly accepted fit statistics, all are suggestive of a well-fitting model. The \( \chi^2 \) test for goodness of fit measures how well our model fits our set of observations. In other words, a measure of goodness of fit summarizes the discrepancy between the observed values and the expected values with regard to the postulated model. Bollen and Long (1993) explain that for models with 75 to 200 cases, the \( \chi^2 \) test provides for a reasonable measure of fit. The significance of the \( \chi^2 \) test for goodness of fit value is determined by examining the \( \chi^2 \) statistic (here, \( \chi^2 = 30.779 \)), the predetermined alpha level of significance (\( \alpha = 0.05 \)), and the degrees of freedom of the model (here, df = 25). Given these values (and a critical value of the \( \chi^2 \) statistic of 37.653) for a model with 25 degrees of freedom (Hill & Lewicki, 2007), the null hypothesis indicating that business performance is independent of the establishment of alliances and that neither the proximity to resources nor organizational culture have an impact on the establishment of alliances.

Moreover, in table nine an examination of the fit model is done using the comparative fit index (CFI). The CFI compares the fit of the model we developed to the fit of a null model, in which the variables are assumed to be uncorrelated. With values exceeding 0.930 (Byne, 1994), it is considered to be an acceptable fit, and the current model is deemed to be a better model than the null. In this case, the CFI was 0.968 implying that the model fits the data collected better than the null. This challenges the original notion that local alliances are the only acceptable form of alliances to achieve firm performance. The CFI indicates that the presence of virtual alliances is significant in predicting and influencing firm performance.

Lastly, the root mean square of approximation (RMSEA) and the standardized root mean square residual (SRMR) were also examined. The RMSEA had a measurement of 0.033 indicating a good fit, according to MacCullum, Browne, and Sugawara (1996). The SRMR also ranges from zero to 1.0, with well fitting models attainable at 0.05 (Byrne, 1998). The aforementioned model has a SRMR of 0.035, which again indicates a good model fit.
Conclusively, the significance of alliances is a positive predictor of the establishment of alliances and the establishment of alliances is a positive predictor of firm performance. This conclusion is based upon the adequate fit of our model to the data and the significance of the t-Values associated with the path coefficients demonstrated in table nine. Thus, the two hypotheses of this study are supported and the model is valid.

Although this study was geared toward the acknowledgement of local alliances as a contributing factor to entrepreneurial and innovative development, the research suggests that there are different types of alliances and knowledge generators that encourage spillover. The analyses clearly demonstrate the need for alliances in organizational decision making, and ultimately firm performance. However, the studies’ mere glimpse into types of alliances shows the inclusion of virtual alliances as a supplemental knowledge generator, and possible contributor to nurturing an innovative culture within an organization.

<table>
<thead>
<tr>
<th>Fit Statistic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\chi^2$</td>
<td>30.779</td>
</tr>
<tr>
<td>CFI</td>
<td>0.968</td>
</tr>
<tr>
<td>RMSEA</td>
<td>0.033</td>
</tr>
<tr>
<td>SRMR</td>
<td>0.035</td>
</tr>
</tbody>
</table>


“LIKE” A GLOBAL ENDORSEMENT. HOW CLICKING “LIKE” INFLUENCES FACEBOOK USERS BRAND RECALL AND FUTURE PURCHASING INTENTIONS.

Dr. Ronda Mariani
Saint Leo University
Donald R. Tapia School of Business
Abstract

Social media has become a global phenomenon. Facebook alone boasts over 100 billion connections worldwide. Each day Facebook users flock to their timeline flaunting their activities, pictures, and likes. Dye (2010) states “Facebook has already provided us with innovative meanings for words such as “friend” and “poke.” Now, it’s aiming to put its own spin on the word “like”. According to jeffbullas.com (2012) Facebook users contribute to 2.7 billion “likes” every day. Many of these likes represent a personal cause, picture, or something a friend wrote. But then there is the “like” brands desire, the endorsement, users clicking “like” broadcasting their favorite brands among their friends. This form of marketing engagement has become a global force which has left many marketers wondering how to measure its effectiveness. One Nielson study found “people who viewed ads with a friend’s endorsement were 68% more likely to remember the ad than people who viewed ads with no endorsement” (Hof, 2012). What was even more startling was people who viewed ads with their friends endorsements, “where more than four times likely to develop the intent to purchase the product sometime in the future” (Hof, 2012). Burson-Marsteller (2012) found “the largest global companies were mentioned on Facebook a total of $10,400,132 times in one month. With the average Facebook user having at least 130 friends on their friends list, this type of reach is profound. Traditional forms of marketing reaches a limited amount of individuals and is even more limited when it comes to global brands outside the individual’s domain. The purpose of this study is to conduct a quantitative survey among Facebook users to explore and analyze the impact of friends clicking “like”. This study will test brand recall and the impact a friend’s endorsement, “like” has on future purchasing decisions of global brands.
INDUSTRY AND FIRM INFLUENCES ON PERFORMANCE:
EVIDENCE FROM POLISH PUBLIC FIRMS

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Abstract: This study examines the influence of industry and firm effects on performance of Polish listed companies. The study uses data on 387 companies listed on the Warsaw Stock Exchange in the period 2007-2010 (companies from financial and commercial industries were excluded). Each of the companies has also been classified into a specific industry according to the Polish PKD classification (similar to NACE Rev.2). The study employed panel data analysis with the use of the financial data of industries and Polish listed companies. The results of this research shows that industry effects have non-significant influence on companies performance while one of the used models (with ROA as a dependent variable) showed significant influence of company effects.

Keywords: industry effect; company effect; company performance; Poland.

JEL classification: C22; D21; L21.
INTRODUCTION

Strategic management has been based on some basic assumptions that in a smart way explain the scale and complexity of the problems affecting today’s companies. However, for some of these assumptions there are some difficulties with finding empirical confirmation. One of such assumptions is the importance of the industry factors for strategic decisions making, as well as companies performance. Strategy textbooks usually do not devote attention to this subject, occasionally you can see the importance of this issue in the extensions of the chapters (Grant, 2005).

Meanwhile, there has been a mayor discuss on the empirical confirmation of the industry impact for the last 30 years. Many research articles addressed this issue but the results are usually significantly differentiated. Most of the research was based on the results of U.S. companies, some related to the example of other mature economies (e.g. the UK, Japan). There is, in principle, lack of research confirming the importance of industrial factors on the performance of companies on the example of the emerging economies, particularly in Central and Eastern Europe.

Hence, the purpose of this study is to examine the impact of the firm and industry effects on the performance of Polish companies (listed on the Warsaw Stock Exchange). Given the significant differences in the development of the Polish capital market, you can also expect differences in the results of the proposed research. To the indicated differences between the markets (and companies) we can include, for example: a much greater level of concentration of ownership in the case of Polish companies in comparison to mature markets (Jeżak, 2010b), a two-tier board model as the only one in Poland to the dominant one-tier board model (Jeżak, 2010a), or the gender differences in the composition of management and supervisory boards (Bohdanowicz, 2012).

LITERATURE REVIEW

The first study to analyze the impact of firm- and industry factors on companies performance was conducted by Schmalensee (1985). The sample was the population of U.S. industrial companies, the reference year was 1975. The results strongly influenced future debate within this issue – it turned out that industry effects explained over 20% of the performance of examined companies compared to just less than 1% of firm effects. In Schmalensee’s opinion “the apparent nonexistence of firm effects is somewhat surprising. […] The absence of firm effects […] means that knowing a firm’s profitability in market A tells nothing about its likely profitability in randomly selected market B. This is consistent with the conglomerate bust of the past decade […]: wise firms do not diversify beyond their demonstrated spheres of competence” (Schmalensee, 1985).

Schmalensee’s research caused a mayor impact in industrial organization and strategic management research. The first response was prepared by Rumelt (1991). In his research the time frame was a bit longer (4 years), with the same sample. The results showed by Rumelt were
almost completely inverse – this time firm effects were extremely important (explained almost 44% of the total performance of examined companies), with industrial effects responsible for just 4% of it.

Such a large discrepancy between these two articles caused an ongoing debate among researchers within industrial organization and strategic management areas. Rumelt’s research took into account a longer time horizon, allowing to average the results - any deviation from the long-term annual average was much less important for the final result. But the question how much industry-level effects are influencing firms’ performance remained open. These early years of research were in fact summarized by McGahan and Porter (1997) – on the basis of their research they stated that both firm (32%) and industry (19%) effects are important for companies performance. This time the time period was much longer (covered the years 1981-1994), the sample was much larger (covered all but financial industries).

The above results of early studies were just a prelude to a huge body of research within this area for the next 15 years. For over a decade there has been conducted many research articles which results are summarized in table 1.

Based on the data contained in the table we can see significantly increased interest in the problem of the industry (and firm) effects on companies performance. The samples were larger, time horizons longer than in the previous research, moreover some samples took into consideration data from SME’s (small and medium-sized companies) beside public companies.

Table 1. Summary of the results of previous research

<table>
<thead>
<tr>
<th>Author</th>
<th>Method</th>
<th>Sample/country</th>
<th>Time horizon</th>
<th>Industry Effect</th>
<th>Firm Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chang and Singh (2000)</td>
<td>VCA (entire sample) VCA (small firms) VCA (medium firms) VCA (large firms)</td>
<td>709 (USA)</td>
<td>1981-1989</td>
<td>7,3% 4,0% 40,6% 19,3%</td>
<td>47,2% 44,2% 8,8% 47,6%</td>
</tr>
<tr>
<td>Ruefl and Wiggins (2003)</td>
<td>OLS</td>
<td>1797 (USA)</td>
<td>1984-1996</td>
<td>0,14%</td>
<td>12,33%</td>
</tr>
<tr>
<td>Hawawini et al. (2003)</td>
<td>VCA ANOVA</td>
<td>562 (USA)</td>
<td>1987-1996</td>
<td>8,1%</td>
<td>16,0%</td>
</tr>
<tr>
<td>McNamara et al. (2005)</td>
<td>VCA</td>
<td>2686 (USA)</td>
<td>1987-1996</td>
<td>9,1%</td>
<td></td>
</tr>
<tr>
<td>Short et al. (2007)</td>
<td>VCA ANOVA HLM</td>
<td>1165</td>
<td>1991-1997</td>
<td>19,3% 16,9% 19,2%</td>
<td>65,8% 71,8% 65,8%</td>
</tr>
<tr>
<td>Lee (2009)</td>
<td>OLS</td>
<td>7158</td>
<td>1987-1997</td>
<td>10,0%</td>
<td>10,0%</td>
</tr>
</tbody>
</table>
The above mentioned key research results allow to draw some general conclusions:
- generally the initially assumed (both in strategic management and industrial organization) impact of industry effects on performance of companies can be confirmed in research, although it’s not as large as it was assumed;
- as in the early studies, the results of the recent ones indicate a large spread of the results. Industry effects range from 0.14% (almost complete lack of effect) to 40.6% (a very large effect). This implies the need for further research in this area;
- it should be noted that in general more important factors are firm effects – usually two to three times larger influence. However, it is also possible for most of the research to overlook the impact of intra industrial level – the level of strategic groups. The inclusion of this level in the studies could reduce the role of firm effects.

**DATA AND METHODS**

The primary objective of the study is to verify the impact of industry and firm effects on performance of listed Polish companies. Data for this study were gathered from all Polish public companies whose values were listed at the end of the years 2007-2010 on the Warsaw Stock Exchange. Each company selected for the study was also classified into a specific industry according to Polish PKD classification (analogous to NACE Rev. 2). Financial and commercial companies were excluded from the data due to preliminary assumptions of the study. Data were collected from the Amadeus database (companies listed on the Stock Exchange), a PONT-info database (industrial data), as well as the consolidated annual reports or reports of individual companies, if the company did not prepare consolidated reports (both of them were hand-collected).

Given the above assumptions the sample comprises 387 companies and 1208 observations. The composition of the companies changed from year to year depending on the availability of data. Hence the individual company may be subjected to from one to four observations. The industrial data and assignment of companies into selected industries are presented in Table 2.

<table>
<thead>
<tr>
<th>PKD No.</th>
<th>Industry</th>
<th>No. of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Entire sample (SIC4)</strong></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Manufacture of food products</td>
<td>22</td>
</tr>
<tr>
<td>11</td>
<td>Manufacture of beverages</td>
<td>2</td>
</tr>
<tr>
<td>13</td>
<td>Manufacture of textiles</td>
<td>5</td>
</tr>
<tr>
<td>15</td>
<td>Manufacture of leather and related products</td>
<td>2</td>
</tr>
<tr>
<td>16</td>
<td>Manufacture of wood and of products of wood and cork, except furniture</td>
<td>8</td>
</tr>
<tr>
<td>17</td>
<td>Manufacture of paper and paper products</td>
<td>5</td>
</tr>
</tbody>
</table>
The analyzed variables were divided into three basic groups: characterizing the profitability of individual companies (thus representing firm effects), the profitability of the industry (industry effects) and the control variables describing the size of the companies. List of all analyzed variables can be found in table 3.
Table 3. Variables used in research

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description of the variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA – firm level</td>
<td>Return on assets – firm level</td>
</tr>
<tr>
<td>ROS – firm level</td>
<td>Return on sales – firm level</td>
</tr>
<tr>
<td>ROA – industry level</td>
<td>Return on assets – industry level</td>
</tr>
<tr>
<td>ROS – industry level</td>
<td>Return on sales – industry level</td>
</tr>
<tr>
<td>Revenues (log)</td>
<td>Overall revenues – firm level (natural logarithm)</td>
</tr>
<tr>
<td>Total assets (log)</td>
<td>Total assets – firm level (natural logarithm)</td>
</tr>
</tbody>
</table>

The list of the variables is similar to that used in previous studies, particularly in research by Bamiatzi and Hall (2009). The decision on the use of certain variables in the study was dictated by the availability of these variables within the research project.

METHODS

The study was conducted with the use of panel data analysis. The general panel data model was specified as:

\[ \pi_{it} = \alpha + p\pi_{i,t-1} \beta X_{it} + \epsilon_{it} \]

for \( i = 1, \ldots, N; \ t = 1, \ldots, T \)

where \( \pi_{it} \) is the dependent variable for firm \( i \)'s profit rate in period \( t \) (ROA and ROS in two different panels), vector \( X_{it} \) includes independent and control variables such as: ROA and ROS of industry and scale of firm. The error term \( \epsilon_{it} \) may vary across the \( N \) individual firms (individual effects) as well as across the \( T \) time periods (time effects).

Panel data analysis enables simultaneous analysis in two dimensions (temporal and spatial), which makes possible to effectively analyze cross-sectional data. As pointed out by Lee (2009) it offers two advantages over traditional least-squares models: allows to control for unobserved factors (constant over time but differ from one firm to another), and allows to control for variables that vary through times, but not across companies.

EMPIRICAL FINDINGS

DESCRIPTIVE STATISTICS

Table 4 gives the mean, standard deviation, minimum and maximum values of the variables across all firm-years in the sample. There is a significant standard deviation within variables ROA and ROS at the firm level (it is particularly the case with ROS variable) – it is due to a financial performance of two small firms. All results are depicted in graph 1.
Table 4. Descriptive statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA – firm level</td>
<td>4.35369</td>
<td>26.59072</td>
<td>-388.5294</td>
<td>150.6329</td>
<td>1208</td>
</tr>
<tr>
<td>ROS – firm level</td>
<td>5.19941</td>
<td>1619.051</td>
<td>-55220.00</td>
<td>3918.239</td>
<td>1208</td>
</tr>
<tr>
<td>ROA – industry level</td>
<td>6.118493</td>
<td>3.595412</td>
<td>-9.590000</td>
<td>32.34000</td>
<td>1208</td>
</tr>
<tr>
<td>ROS – industry level</td>
<td>5.783212</td>
<td>3.523021</td>
<td>-12.03000</td>
<td>24.13000</td>
<td>1208</td>
</tr>
<tr>
<td>Revenues (log)</td>
<td>3.997107</td>
<td>2.257319</td>
<td>0.000000</td>
<td>11.34236</td>
<td>1208</td>
</tr>
<tr>
<td>Total assets (log)</td>
<td>4.116757</td>
<td>2.288549</td>
<td>0.000000</td>
<td>10.90500</td>
<td>1208</td>
</tr>
</tbody>
</table>

Table 5 gives the correlation matrix between the variables. As we can observe there is a significant correlation between relative types of variables: ROA and ROS at firm level, ROA and ROS at industry level, and control variables (revenues and total assets).

Table 5. Correlation matrix

<table>
<thead>
<tr>
<th>Variable</th>
<th>ROA – firm</th>
<th>ROS – firm</th>
<th>ROA – industry</th>
<th>ROS – industry</th>
<th>Revenues (log)</th>
<th>Total assets (log)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA – firm</td>
<td>1.000000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROS – firm</td>
<td>0.112221***</td>
<td>1.000000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA – industry</td>
<td>-0.007651</td>
<td>0.044352</td>
<td>1.000000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROS – industry</td>
<td>0.003940</td>
<td>0.026215</td>
<td>0.776551***</td>
<td>1.000000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues (log)</td>
<td>0.153865***</td>
<td>0.064667**</td>
<td>-0.145312***</td>
<td>-0.075285***</td>
<td>0.145312***</td>
<td>1.000000</td>
</tr>
<tr>
<td>Total assets (log)</td>
<td>0.124243***</td>
<td>0.041427</td>
<td>-0.149876***</td>
<td>-0.146717***</td>
<td>0.934934***</td>
<td>1.000000</td>
</tr>
</tbody>
</table>

Notes: * significant at 10% ** significant at 5% *** significant at 1%
REGRESSION ANALYSIS

Results of estimation are reported in table 6. Analyses were conducted separately for two dependent variables: ROA and ROS of the firm. These two models gave different results, particularly in terms of the significance of firm-level effects influencing firm performance. In model 1 (ROA) there is a significant influence of the lagged profit rate ($ROA_{i,t-1}$) as an important factor influencing its performance. There is also a significant influence of the second firm-level
effect used within this study – ROS at the level of the firm. The results of model 1 strongly support the thesis about the advantage of firm-level effects over industry-level effects.

Results for model 2 doesn’t show any significant influence, both at the company, as well as on the industry level, on firm performance. The only significant variable is a control one (revenues calculated as natural logarithm). But the adjusted R^2 statistics indicate that this model accounts for less than 1% of the overall variance of the dependent variable.

The results of these study are somewhat consistent with an earlier results obtained in the research conducted by Matyjas (2011) on the sample of 85 Polish public companies for the years 2005-2007.

Table 6. OLS regression results

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ROA – firm level</td>
<td>ROS – firm level</td>
</tr>
<tr>
<td>ROA – firm level (t-1)</td>
<td>0.299175***</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(11.90120)</td>
<td>-</td>
</tr>
<tr>
<td>ROA – firm level</td>
<td>-</td>
<td>5.310779</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>(1.552311)</td>
</tr>
<tr>
<td>ROS – firm level (t-1)</td>
<td>-</td>
<td>-0.007222</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>(-0.209117)</td>
</tr>
<tr>
<td>ROS – firm level</td>
<td>0.000901**</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(2.295157)</td>
<td>-</td>
</tr>
<tr>
<td>ROA – industry level</td>
<td>-0.212950</td>
<td>45.96916</td>
</tr>
<tr>
<td></td>
<td>(-0.524315)</td>
<td>(1.274500)</td>
</tr>
<tr>
<td>ROS – industry level</td>
<td>0.333530</td>
<td>-23.34856</td>
</tr>
<tr>
<td></td>
<td>(0.929721)</td>
<td>(-0.733731)</td>
</tr>
<tr>
<td>Firm size – revenues (log)</td>
<td>1.131654</td>
<td>181.4452**</td>
</tr>
<tr>
<td></td>
<td>(1.116383)</td>
<td>(2.055591)</td>
</tr>
<tr>
<td>Firm size – total assets (log)</td>
<td>-0.280116</td>
<td>-139.0507</td>
</tr>
<tr>
<td></td>
<td>(-0.281674)</td>
<td>(-1.599789)</td>
</tr>
<tr>
<td>Constant</td>
<td>-3.450780</td>
<td>-359.5576^</td>
</tr>
<tr>
<td></td>
<td>(-1.516869)</td>
<td>(-1.787077)</td>
</tr>
<tr>
<td>Adjusted R^2</td>
<td>0.170802</td>
<td>0.008046</td>
</tr>
<tr>
<td>Observations</td>
<td>842</td>
<td>839</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-3778.579</td>
<td>-7521.904</td>
</tr>
<tr>
<td>F-Statistics</td>
<td>29.87216</td>
<td>2.132885</td>
</tr>
</tbody>
</table>
Notes: t-statistics are in parentheses. * significant at 10% ** significant at 5% *** significant at 1%

CONCLUSIONS

To sum up the above studies conducted with regard of the current state of knowledge it should be noted that the great interest of researchers in the world taking up the issue of industry effects on companies performance is not a coincidence. Theoretically the level of an industry has a strong influence on strategic decision-making in every company – that’s one of the key principles of strategic management.

Further research in this area seems to be appropriate, with particular emphasis on Polish (and other Central and Eastern Europe markets) specificity. The development of emerging economies often took place in a completely different way from established routines of many developed economies. And it can also affect the results of similar studies. Further studies in this area should take into account somewhat broader spectrum of the analyzed variables, particularly at the level of individual companies (for example, expenditure on R & D, capital expenditures, or advertising expenditures).

In addition, further studies should benefit from a comparison of the simultaneously conducted quantitative tools (e.g. nonparametric methods or variance components analysis). This would increase the accuracy of the conclusions based on the results of similar studies with simultaneous use of several statistical tools.

ACKNOWLEDGEMENTS

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REFERENCES


THE IMPACT AND IMPLEMENTATION OF E-COMMERCE IN GOVERNMENT & LAW ENFORCEMENT

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ABSTRACT

This paper examines the success and restraints in implementing a fully integrated government through the usage of the Internet and various technologies in law enforcement. Information technology has become a key element in the success of e-commerce and has brought many new developments into the idea of an Internet government. This research is designed to evaluate various components of a citizen-oriented government that will present services that mimic private sector programs while maintaining the traditional scope of what government provides for citizens. Research into e-government is moderately new; however, research has illustrated various access and skill divides that will help assist law enforcement & public administrators when shifting towards an Internet based government. Using data from various scholars and e-government enthusiast, the comparison between e-commerce and e-government will illustrate the correlation between services that are geared towards customers and their success.

Keywords: E-Commerce, E-Government, Law Enforcement

INTRODUCTION

The U.S. Constitution represents an attempt to codify the social contract between the government and its citizens in an enduring document that supports a functioning government and society. The expansion of federal power has been by accelerating development and use of technology. From curing disease and increasing food quality and supply, to the space shuttle and the iPhone, technology has revolutionized how individuals live and communicate (Thompson and Wilkinson, 2009). Governments are going on-line and using the Internet to provide public services to its citizens (Layne and Lee, 2001). Ultimately, the Internet has the capability to delivering the traditional model of government while also taking advantage of incorporating services that are citizen-oriented.

The struggle between the governments-to-citizen relationships has forever been prevalent since the establishment of the United States. The purpose for Internet government, e-government, is to bridge the gap of communication and awareness between the citizens and the government. Restoring a healthier balance can best be accomplished by strengthening the
citizens or by limiting the government. Changing technology, such as facebook, twitter, social media, and e-advertisements, creates opportunity for citizens to speak and mobilize, even during economic turmoil and heated political debates (Thompson and Wilkinson, 2009).

E-government is the use of technology to enhance the access to and delivery of government services to benefit citizens, business partners and employees. It has the power to create a new mode of public service where all public organizations deliver a modernized integrated and seamless service for their citizens (Silcock, 2001). Daily people utilize emails and text messages because response times are, in essence, immediate; therefore, obtaining results in a shorter span of time. Citizens manage their personal finances through bank applications for cell phones or through the Internet at any time of day that is convenient to them, not their bank. People have grown accustom to having services readily available through these types of services that are available through the Internet. Do to this modern mentality of immediate responses, e-government can provide everything a citizen needs at the click of a finger; therefore, the ability to fully integrate e-government is what must first be established.

Technology is not a solution in and of itself, but is a set of tools to achieve particular goals. The aim is not to sidestep government with technology, but rather to make government’s size and physical scope more consistent with principles of liberty while using technology to achieve societal goals- old and new alike- more effectively (Thompson and Wilkinson, 2009).

CONTEXT OF THE PROBLEM

The primary justification for the move toward e-government, an electronic channel of service delivery that has proven tremendously successful in the private sector … is the belief that it holds considerable potential for positively transforming government service delivery in a manner that is consistent with recent market-centered theories of public sector reform. Governments worldwide are moving toward e-government and implementing services that can be utilized through various social media websites and agency websites. The digital divide that exists today is between the computer literate and computer illiterate and the haves and have-nots. (Belanger and Carter, 2009).

The lack of access to the Internet is a major element of the digital divide. Making the Internet accessible to every square inch of the United States is a divide that can never be
satisfied. However, making information technology accessible in certain venues in communities can and will allow access to all those that are able to take advantage of.

These divides can be identified as ethnicity, income, age, and education as significant forecasters of admittance to technology (Belanger and Carter, 2009).

There are a significant amount of citizens that lack the dexterity necessary to effectively and efficiently navigate online government sites (Belanger and Carter, 2009). Unlike the private sector, government agencies have a charge to make their information and services available to everyone; therefore, the digital divide has to be minimized in order to maintain transparency amongst those who are being governed.

Accountability plays a very important role in the implementation of e-government. Government accountability equates government openness, transparency, and interactivity. Wong and Welch suggest that transparency refers to the extent to which an organization reveals work and decision processes and procedures.

Website transparency is equivalent to a basic map of an organization as it reveals the depth of access it allows, the depths of knowledge about processes it is willing to reveal, and the level of attention to citizen response it provides. Interactivity refers to the relation between government and citizen (Wong and Welch, 2004).

A transparent government allows citizens to monitor the performance of public organizations more easily though the increase in the availability of information. A more interactive public organization enhances accountability by being more responsive to the preferences of the citizenry (Wong and Welch, 2004). The amount and caliber of information that is accessible on the websites gives citizens the impression that the agencies are providing all information necessary to maintain transparency.

STATEMENT OF PROBLEM

Governance is moving from traditional methods of tangible communication to technology, which has become “one of the core elements of managerial reform” (Moon, 2002). With this new technology implemented into the way that citizens are governed, come many challenges such as accessibility, accountability, restraints, and whether the services will promote and increase citizen participation. Individuals are hesitant to trust information technology because of the many negative connotations that come along with Internet services: stolen
identity, credit card fraud, non-secure sites, etc. E-government, though in its current developmental stage, will provide general information for government agencies, local, state, and federal, policy updates and regulations, online voting, online voter’s registration, and other services. The availability of information and services that can be obtained through the Internet and its accessibility to the citizens are key components to the citizen-to-government relationship.

Movements towards government agencies on the Internet through facebook, twitter, and other social media’s have already begun to be implemented and accessed. Moving towards the fully integrate and interactive websites is the e-government administrative goal.

**SIGNIFICANCE OF THE STUDY**

The significance of this study is to illustrate how dramatic changes in technology over the past few centuries have affected the strain that the Framers built into our system. There has always been a functional limit on democratic government because it is difficult to muster the resources for a full referendum whenever an issue needs to be decided. Nonetheless, the Internet allows and provides a venue for citizens to have a collective voice that can be heard at unimaginable levels that have not been seen before (Thompson and Wilkinson, 2009). Technologies can go further to transform both the delivery of services and the more efficient and transparent regulation of market participants (Thompson and Wilkinson, 2009).

There is a genuine concern among policy makers that developing electronic service delivery and communications will lead to already excluded groups becoming, if anything, further disadvantaged. Disadvantaged citizens are those of lower income and those that live in communities with limited Internet access. There are innovative possibilities for ensuring better access to those said disadvantaged groups (Silcock, 2001). In addition to social disadvantaged, the digital divide is not so much a question of access but of education.

You can put computers in libraries or community centers, but they cannot be utilized if individuals do not know how to use them (Silcock, 2001). In order for e-government to be successful, all disadvantage groups must be satisfied.

Technology is democratically neutral. Used wrongly, it could stifle diversity or reinforce current patterns of power and debate; used well, it could create new ways for people to interact, particularly at the global and local level (Silcock, 2001). Just as citizens have matriculated from simply searching information on the internet to purchasing items; soon, citizens will move from simply searching information on government agencies to expecting to be able to cast online votes (Silcock, 2001).
In addition, the major goal for government is to gain more participation with the citizens and constituents to better service the nation. Unlike traditional structures, which are hierarchical, linear, and one-way, Internet delivery systems are nonhierarchical, nonlinear, two-way, and available 24 hours a day, seven days a week. The nonhierarchical character of Internet delivery frees citizens to seek information at their own convenience, not just when a government office is open (West, 2004). By allowing this type of access to information, citizens will be more inclined to interact with these government sites at their leisure. Moreover, this study will examine the new technologies and how they enhance communication by overcoming geographical distance, promoting ideological variety, opening citizens to more diverse viewpoints, and encouraging deliberation (West, 2004)

**Literature Review**

There have been many challenges as to why the traditional model of government is shifting to e-government. Traditional governments are departmentalized and emphasize routinization (Ho, 2002). This form of government is centralized with a hierarchy of power placed in the office of fiscal affairs, mayor’s office, and city council. Through traditional government, backroom meetings take place in order to determine what is best for the citizens. The ideas and pleas from the citizens are barely heard simply because there is no power in the citizen’s voice. However, all is not lost in traditional government. Two advantages of traditional government are that the cost of communication is reduced drastically because all communication is departmentalized and all procedures are routine.

Many times citizens complain about the long waits in line at the county court house or county tax office and this is due to the routine procedures of checks and balances. The fact that one form had to go through four different offices before returning to the citizen was quite extensive; however, those checks and balances insured that the form was filed correctly. The problem with this process is that fraud, human error, and other acts of negligence would occur, resulting in paperwork being filed incorrectly and ruining the government-to-citizen relationship.

Attending council meetings, hand-writing feedback, and responding to surveys are all deterrents to citizen participation.
The revamping of the government is an effort to re-establish the government-to-citizen bond. Governments have to consider citizens as customers and try to understand what they need in order to better participate and trust the government. Governments have to think about ways to empower the citizens and allow them to take ownership of community and regional problems. Citizens seem to think that only people in that area can actually facilitate the needs of that community; therefore, by giving those citizens ownership of that problem and giving feedback and suggestions to the government will allow citizens to view the government-to-citizen bond as a partnership.

Technology has forever altered the structure of daily activities; constantly revitalizing the way businesses, social media, and governments handle daily activities. Appealing to the modern, technology sound person has become the main purpose for government agencies. Five years ago, touch screen cell phones were hardly tangible articles; today, it is unheard of a flip phone or a non-touch screen phone. Social media sites such as facebook, twitter, and other sites, allow individuals to maintain and remain in contact with friends and family, all at the touch of a button. Emails have almost become a thing of the past since text messages and various instant messaging programs have become such popular means of communication. Everything is at the click of a button, swipe of a bank card, or tip of the finger, technology continues to revolutionize how individuals live and communicate.

Governments, state, local, and federal, have grown to realize the shift in which the world is turning towards. Since the changes and advancements of technology, governments are shifting towards services that are available and accessible through the same media programs that individuals are custom to utilizing during their daily routines. Ultimately, the internet or World Wide Web has allotted the possibility for these services to be available. Nonetheless, the problems with these technological advancements are the social and technological disconnects between generations and ongoing struggle with citizen-to-government relations.

The purpose for integrating technology into the disbursement of government information and services is to create a link between the citizens and the government to establish a better relationship and connection. Restoring a healthier balance can best be accomplished by strengthening the citizens confidence and illustrating government transparency through medias that are frequently utilized; facebook, twitter, social media, and e-advertisements, etc. By utilizing these medias, the government is ultimately mobilizing its information and accessibility through the information highway. Currently, President Obama has a twitter account, and though he personally does not update his account, he is utilizing that particular social media to present information to the public in an effort to keep them informed. E-government will not decrease the
amount of information or news presented on television or radio; it simply presents information to the citizens who are constantly on-the-go. The purpose for integrating the internet is not to diminish traditional means of obtaining information, rather, to increase the outlets for maximum delivery.

Before the Internet emerged in the late 1980’s, the government was already actively pursuing information technology to improve operating efficiency and to enhance internal communication (Ho, 2002). After the internet evolved and the World Wide Web was developed, internal communication was not longer the goal and the shift to external dissemination of information became the goal. By allowing the shift to give access to fiscal information, missions and updates on current programs and projects, and contact information to citizens, governments began to realize that internet government was the shift in citizen relations they had been waiting for.

The availability and rise of e-commerce also contributed to the shift to internet government. Companies began to allow customers to conduct business through the internet by making payments, money transfers, account management, and provided access to purchasing merchandise. The rise and establishment of e-commerce shifted how citizens viewed shopping and fiscal management. No longer did citizens have to physically go to stores during holiday seasons and fight the crowd, rather, sit in the comfort of their own homes and purchase items through secure payment sites that protected their identity, privacy, and fiscal information. Instead of going to the bank and transferring funds to different accounts; customers can go the banks website, sign in with a unique username and pass code, and electronically transfer funds. It was e-commerce that illustrated to the government that in order to increase in value, citizens must increase in worth. As they say in sales, the customer is always right.

The modern government has transitioned from a period of being active and having the mentality that only the people can help the people, to currently being in an activated period where the government is intertwined with its citizens. Governmental information and transparency has been a progression with the citizens. In the modern government model, citizens are empowered and governments are negotiators (Bannister & Wilson, 2011). The key component to a well working government-to-citizen relationship is the way information is delivered.

One of the purposes for e-government is to establish a two way interaction between citizens and government agency. The problem with this relationship is that governments have a plethora of department and agencies within, which illuminates the complexity of government structure within itself. In Rachel Silcocks article, “What is e-Government,” she suggests that there are six stages that government agencies will have to pass as electronics develop internally
and externally. Information publishing/dissemination is the first stage in which government departments and agencies set-up their websites with their designated information services and contacts.

This is considered one way communication because there is no interaction with the citizen. One-way communication is just like the billboards that line the interstate; not interactive, simply informative.

After one-way communication is established, two-way transactions, which allow citizens to submit personal data, such as, change of address, paying a parking ticket, or enrolling in school. At this stage of e-government, citizens have to be reassured that the information that is being inputted will remain safe and private. With so many Internet hackers roaming around the World Wide Web, providing private information such as birth dates and maiden names has caused citizens to be hesitant. In order for two-way communication to work, government departments and agencies have to keep the site piracy free. In this stage, citizens are looking for accountability.

Governments cannot assume that all because technology is increasing, that citizens want to use or have government services through the Internet. This is the main restraint that prohibits e-government from being utilized as projected. Though the Internet accounts for the majority of the “e” in e-government, the proper channels have to be met in order for maximum access and utilization. The gap between fully integrated systems and the perception of fully integrated systems is what keeps citizens hesitant. Silcock states that citizens are looking for electronic self-services that offer all the traditional procedures for service from an employee and be fully automated from intake to uptake (Silcock, 2001). Meaning, citizens do not want to file electronically and then have to physically file the same papers again. Citizens need to be assured that e-government is truly a reality.

The skill divide is when citizens lack the knowledge and ability to successfully navigate a computer and/or internet services. This is called technical incompetence because a person lacks the general technique and knowledge of how to use a mouse, keyboard, or navigate basic functions. Secondly, citizens that lack basic knowledge of technology vocabulary and resources are at a disadvantage. Most of these citizens that represent this divide are grandparents and members of rural/agricultural communities. Members of these communities could utilize the internet to project growth of crops, find new ways to manage their land, or increase productivity. Using the internet has limitless capabilities and once the divide is decreased, e-government will see an increase just as e-commerce has.

In addition, governments could utilize incentive programs that will encourage citizens to utilize the internet services. Citizens will be more inclined to utilize the internet services if they knew that there was an incentive to gain. Another avenue to gain participation from the disadvantaged group is by having tutorials to give a step-by-step instruction on how to fully
utilize the internet and the benefits from the services. Along with the tutorial, citizens have to be able to navigate department and agency websites effortlessly. The biggest deterrent for citizens when searching for information is the inability to easily navigate to the site or service that needs to be accessed. Norris and Moon stated that in 2000, 83.6 percent of local governments had websites, and in 2002, that number increased 4.1 percent to 87.7 (Moon & Norris, 2005). Many times, the availability of local websites is contingent upon the population and regional size.

Data accuracy is another restraint that disables the ability to obtain accurate and efficient information. In a 2002 survey on the age of government websites, 68.5 percent of websites were three years old or less, 27.1 percent were 4 to 5 years old, and 4.4 percent were more than five years old. In order to maintain some sense of impartiality or fairness, the gap between five years or older and three years and younger needs to be drastically decrease. Updating websites has to be a priority when moving towards a fully integrated government system that provides services to the general public. In order to keep customers/citizens content with e-government, departments and agencies will have to spend more money for IT personnel.

Information Technology plays a vital role in the implementation, sustainability, and accountability of e-government. It is the key component that links the government-to-citizen boundary which leads to the government’s openness and accountability. Change in the level of website openness represents the revealed level of change in accountability of the public agency (Welch & Wong, 2004). The ability to interact with the government allows the citizens to view what various departments and agencies are doing. If the government limited the information, it would show a lack of transparency and accountability.

Technology is attempting to put the individual back at the center of life, liberty, and government (Thompson & Wilkinson, 2009). Dating back to the development of the United States Constitution to the Supreme Court’s decision to overturn the “separate by equal” doctrine in the Brown v Board of Education case in 1954, the citizen has always been the determinant in what the government will stand for. The history of this nation illustrates the struggle between government and citizen relations. Birthed into a land of slavery and inequality, to the current President being an African American citizen, and this rebirth of citizen being a priority has again illustrated that citizens control government.

Finally, citizens have to choose to adopt e-government and accept the shift in how information is delivered. Do to the digital divide, it can be said that the acceptance of e-government is going to be more prevalent in certain groups, such as, younger, better educated, and have higher income status. Demographics such as age, education, and income help determine the divide and illustrate how technology has influenced America. Citizens that represent the divide as listed above are inclined to utilize e-government because they utilize e-commerce sites; eBay, twitter, facebook, social media, online banking, and purchasing other goods. The younger generation has embraced technology because technology assisted in the world in which they grew up.
Individuals, whose education and community upbringing was established on traditional means of communication, are the same individuals that represent the digital divide and lack the knowledge to fully accept e-government and all that it offers. Currently, administrators are shifting from the traditional operations of physically filing, setting up appointments in books, and typing out speeches, to moving everything to electronics. Office phones are now internet driven and e-files are emailed across the nation. Personnel can now receive monthly checks on a credit card instead of receiving a tangible check. All this to illustrate that the digital divide is not what is prohibiting e-government from being fully integrated into daily lives; rather, the digital divide lack the skills and knowledge to help fully integrate e-government.

Citizens who represent the digital divide, between the ages of 50-75, do not trust e-government because they lack the knowledge of how e-government can increase their voice and input in their own communities. Therefore, the quality of performance that citizens anticipate receiving should not overshadow the ability of services that can be delivered. One thing that most citizens have to realize is that, technology, though it appears to move very quickly, is very slow in implementation because there has to be consideration on security, privacy, and ability. For instance, anyone can suggest that e-government should be able to allow citizens to register to vote, vote, and see the number of voters in their community. Though it sounds fine in nature, the problem still exist that how a person votes is personal preference and is not public knowledge. Also, even with unique usernames and passwords to acknowledge yourself, online voting is still a long ways in the future. There are expectations as this that illustrate the restraints of how far e-government can go.

Nevertheless, e-government aims to satisfy the citizens of the United States. Undeniably, satisfaction represents the predominant concept in contemporary marketing research (Morgeson & Mithas, 2009). Citizen satisfaction is e-governments foundation. The purpose for e-government is to re-establish the government-to-citizen relationship; therefore, the implementation of e-government relies heavily on the services provided and satisfaction of those services. Inevitably, e-government cannot be an effective influence on citizen’s behavior if the citizens are not satisfied with their services.

In addition, the view that citizens have on their local or state government and their trust in Washington, dictates their general trust in government all together. Many times people distrust the government because of what they have heard on the radio or television; not realizing that the radio and television are forms of e-government. Citizens distrust the nation’s federal government, which trickles down to distrust in state and local governments as well. Though there is no obvious connection to e-government and Washington that can account for the distrust in both governments, it can be said that if the perception of one is changed, the perception of both will change as well. In other words, the perception of government holistically has to be positive in order for e-government to work and increase citizen participation. There are many models that scholars have used to illustrate the connection between human behavior and the acceptance of e-government.
traditional government and internet government, and they all are surrounded by the citizen’s perception of government and their satisfaction level.

The implementation of e-government has to be real and practical. Governance through the internet is going to happen, internally and externally. Internal governance is going to focus on system efficiency and security, while externally, citizens will determine if the government is transparent and effectively presenting information and services. Internally, the power conflicts over departmental boundaries and control of services will surface as integration progresses (Layne & Lee, 2001).

In e-government, citizens must have the option and freedom to express services and effectiveness of sites. Layne and Lee suggest that fully integrated government sites should have check boxes for citizens to determine whether they want other agencies to be able to view their information or not. By putting this power in the citizen’s hand, various agencies and departments are allowed to understand the citizen’s wants and needs. Rethinking how e-government works and the key components of its implementation into the World Wide Web, it can be said that in order for it to succeed, the government-to-citizen relationship has to be good, citizen input has to be respected, and total system integrity has to be accomplished.

**Methodology**

The practice and implementation of e-government is moderately new and has a long while before its adaptation to the world is fully integrated and accepted. Avenues in which researchers have gone down to determine the best strategy for implementation has been presented through surveys, focus groups, case studies, and simply analyzing data in reference to governmental styles and its effectiveness. Various governmental sites began to pop up in the early 1990’s which simple one-way information that the general public could access. Information included contact information, general information on department, and very little access to the inner workings of the department or agency. With technology progressively transforming and evolving, the delivery methods and services provided have begun to shape what the modern economy views as government.

**RESEARCH QUESTION**

Research Question: Will e-Government decrease or increase public interaction with local, state, and federal governments in the United States?

Implementation of anything that is new will surely present its restraints and constraints after a couple practice runs. Just as in sports, a basketball team can only shape its strategy based off of the height and size of its team members; therefore, it would not be in the best interest of the team to establish a game plan that centers on speed when the team consist of tall and bulky members. This same strategy has been applied to e-government and the technology that surrounds the implementation and longevity of the transforming government. Websites are the common place
to view and obtain information dealing with local, state, and federal government; however, not all local governments have websites dedicated to their citizens needs.

In 2004, 96.2 local governments were affiliated in some sort of internet government, providing minimum information to its citizens (Coursey and Norris, 2008). Nonetheless, this percentage was also based off of populations of no less than 10,000, which leaves out quite a few rural communities whose population is less than 10,000. It is suggesting that communities, whose population is small, do not utilize the internet or need to communicate via internet because they have a ‘family” oriented community. These types of communities suffer from the geographic digital divide because their voices are too little to be heard. Meaning, in the hierarchy of government, local yields to state and state yields to federal; in political terms, small cities do not yield large voting power and luxuries are given to those who present to have power to change.

In addition, of these local governmental Web sites, only 23 percent of the citizens actually utilized the sites (Coursey and Norris, 2008). Researchers believe that local and state governments have bought into the ‘field of dreams” mentality that if they build it, the citizens will come; however, this mentality it not the one to utilize when presenting information in a capacity that costs and its success is based off of participation. It seems as though public administrators and the government combined have missed the point that the services and information that is being provided has to be something that the citizens want and need. If the demand is low, e-government officials have to recognize this demand and present something that will encourage citizens to utilize the services.

The findings suggest that the movement of e-government not be rushed, rather, allow the shift to progress in increments. As stated before, e-government needs to mimic the tortoise in regard to maintaining a steady pace and making changes when it best suits the administration.

Electronic government is continuously evolving which is why it is important that researchers continue to develop and uncover different models to analyze for implementation to ensure that the best model is adopted. As Web sites mature, so will the technology and the ability to fully integrate government sites. The restraints or barriers that have been discussed are not deterrents of e-government, rather, tools to sharpen the blade of e-government so that when it has come out of the fire, e-government will be a well practiced way of governing it citizens. The ability to give citizens what they want will always be the demand of government; therefore, e-government sites will continue to be tested to ensure that its citizens are obtaining the services in the manner in which they feel is best or most convenient.

Simply providing classes illustrating the types of services that are and can be available could assist in increasing the likelihood of a better e-government. Table one illustrates a survey given to a diverse group to identify the demographic characteristics that differentiate users from non-users of e-government services (Belanger and Carter, 2009).
E-government, unlike the private sector, has a duty to ensure that citizens have full access to information and services that is available to everyone, but because of the various restraints in the implementation of technology, the adoption of e-government has been limited. With further research on gaining access to the internet and decreasing the amount of computer illiterate citizens, e-government should see an increase in services used. The internet has proven to improve the citizen-to-business interaction by providing citizens with online payments, online banking, e-commerce, and other various services. With the same technologies implemented by the government, the government-to-citizen interaction will increase as well.

The digital divide accounts for many of the setbacks in regard to the implementation of e-government; however, e-government has proven to be a hindrance of its own. Some theorist believe that with the implementation of an internet based government, the physical size of the administration will decrease as well. Therefore, the modern public administrator has to battle the issue of various digital divides and current administrators that are, in essence, fighting for their careers. Not only are current administrators thinking of their own careers, but these are the same citizens who lack the knowledge of computer usage and capabilities. In order to alleviate this divide, government agencies and departments need to implement continued education classes that assist with current employees learning the internet and services that are available.

### Digital Divide and E-Government Usage

<table>
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<tr>
<th>ACCESS DIVIDE</th>
<th>SKILLS DIVIDE</th>
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**Table 1: Internet and Web Experience. Percentage of respondents who…**

| had convenient access to the Web | 96% |
| used the Web everyday | 80% |
| used the Web to gather information several times a week | 67% |
| used the Web to make a purchase never or less than once a month | 61% |
| used the Web to gather information from the government | 83% |
| had used the Web to complete a government transaction | 66% |
Technology has afforded citizens the opportunity to look at government beyond the physical structure and has begun to usher in a new era of government that can be accessed 24 hours a day and seven days a week. Once the technology has been fully integrated and has proven to provide services that the citizens want, brand new technologies can be implemented to continuously increase the limitless possibilities of technology and the internet. The increasing possibilities of technology and internet, offers the ability to aggregate in a new way and take the social contract of individual rights and the power in the citizens voice to new bounds.

**Conclusion**

Governments are beginning to utilize social media to begin the process of allowing citizens to understand their office/department and provide needed information on a daily or weekly basis. Some social media sites that are being utilized are twitter, facebook, and linkedin. Not only are governments providing needed information on these sites but also they are slowing shifting their way of disseminating information into an internet based method. This way of disseminating information is very effective because citizens utilize these social medias hourly, if not sooner.

Not only are social networks utilized but news companies have also engaged in disseminating information through the internet because it allows companies to deliver information in “real-time.” CNN, FOX, and other major news organizations have applications...
that can be downloaded to any smart phone, and information can either scroll on the home screen as a marquee or text messages can be delivered to the handheld to keep the citizen informed. These capabilities have only scratched the surface as to what technology can bring to the citizen. The capabilities and services that can be provided for citizens are limitless, public administrators just have to realize this potential.

The world has shifted towards the instant gratification model in regards to making money, seeing results, marriage, and a plethora of other aspects of life, and this same instant gratification has spread to governments and the services that they can provide. Private sectors have solidified their ability to provide services to their customers that are customer-oriented and have limitless availability. Services such as personal banking through banking applications, eBay, and Amazon; customers are no allotted the privilege to deposit and transfer funds while shopping for merchandise. Some bigger metropolitans have even begun to provide online grocery shopping to prevent customers from standing in lines or having to go to grocery stores early in the morning or late at night to avoid the lines and crowds. It is this type of forward thinking that has catapulted e-commerce and the private sector into the leading organizations in regard to online services that customers want.

If e-government was to mimic the forward thinking that the private sector has presented, citizen’s utilization of internet government services would definitely increase. The question is not so much if e-government will increase or decrease citizen interactions, rather, what can citizens do to assist the government during the shift and implementation of e-government in the United States. As stated before, the private sector has been successful simply because they have listened, polled, and researched customer feedback and have developed services based solely off of what those evaluations stated. The fact that the government is grossly larger than the private sector does account for many of the drawbacks when shifting to fully integrated government sites; however, with time, e-government will be able to develop internal programs that will intertwine departments to assure a smoother transition to other departments that can be related. By developing this type of program, e-government public administrators will be able to provide departmental transparency and accountability.

In addition, e-government officials must also take into consideration the financial savings as well as the decrease in personnel. Utilizing the internet to provide services will grossly decrease the amount of salaries, operational costs, paper usage, office equipment, and actually office space. Though the economy will be gaining more funds to allocate to different departments in which would see an influx of money that can be reallocated into the economy; however, on the backside is that unemployment would increase as well. Research suggests that though the sheer size of government would decrease drastically, the physical government would not totally die. There would be two forms of government: those that monitor internet services and those that handle the physical aspect. With this new government, some positions will be duplicated simply because administrators will not be able to handle both internet clients and
physical clients; resulting in a system that is fully integrated with both technology and traditional forms of governing.

Also, public administrators and other officials can research and apply for grants that can fund programs to assist citizens that are victims of the digital divide. Most grandparents are not able to navigate the Internet, let alone, have the knowledge or skills to use the basic operations of a computer. These grants can provide needed assistance to citizens and illustrate how the basic usage of computer components and after that skill mastered, usage of the internet will be taught. Many senior citizen programs have classes that teach patrons how to use a computer; therefore, that same system could be adopted into programs that are geared to but not limited to senior citizens or individuals who lack the knowledge of computer usage.

AUTHOR INFORMATION

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GLOBALIZATION AND COMPETITIVENESS: CHALLENGES OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI, KENYA

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Abstract
Globalization, increased competitive pressure and rapid technological changes have brought the business world to a point in history where managers are painfully aware that none of them can succeed in a vacuum. With the onset of regional economic integration experienced the world over, businesses today face immense pressure for survival. Thus, the small and medium enterprise (SMEs) sector in Africa and Kenya are the hardest hit and are now experiencing new challenges as they attempt to globalize their operations and become competitive. The objective of this study was to establish the extent to which the challenges affect small and medium enterprises’ globalization and competitiveness in Kenya. The total number of SMEs in Kenya was 3127. The study focused on the 213 SMEs that were involved in export business. Out of this, 176 SMEs responded for the study. A structured questionnaire was used to collect data on the SMEs and analyzed using descriptive statistics including means and standard deviation. A multiple regression analysis was also used to determine the extent the challenges affected the SMEs in their attempt to become global and competitive. The study revealed that globalization and competitiveness of the SMEs was affected greatly by the level of competition, increasing technology and lack of a clear rules and procedures governing business transactions. The study recommended that for the SMEs to become global and competitive, they need to put in place the right strategies in order to embrace the changing circumstances in the world market place.

Key Words: Globalization, Competitiveness, Competitive Advantage, Small and Medium Enterprises
Introduction

Globalization has led to the spread of business and cultural activities across the globe. The term is rather confusing. Globalization is used by some to refer to the efforts of the International Monetary Fund (IMF), the World Bank and others to create a global free market for goods and services. However, many believe the current situation is of a fundamentally different order to what has gone before. Craig and Douglas (1995) assert that globalization is no longer an abstraction but a stark reality that virtually all firms, large and a small, face. The researchers further suggest that in order for the SMEs to survive in the 21st century they must confront this all encompassing force that pervades the global environment. In a wide range of industries from manufacturing to food and clothing, firms face the pressures of global competition at home as well as in international markets. Choosing not to participate in global markets is no longer an option. Therefore, all firms must anticipate, respond and adapt to the competitive environment the world over.

To date, globalization has largely been perceived as the preserve of large multinationals with operations in all parts of the global market (Yip, 1995). Of key importance to all firms is the need to remain responsive to local markets, while at the same time achieving global efficiency through integrating and coordinating operations across world markets and allowing for the transfer of learning from operations in one part of the world to another (Prhalad and Doz, 1987). Scholte (2000) and Bataoel (2003) report that globalization has triggered an economic order, describing ways in which business concepts and events are organized around the world. It thus amounts to an effective opening up of national borders for economic activities. Pasricha (2005) suggests that the world has become a global market place that is open to everyone. It is a state whereby national boundaries turn totally porous with respect to the movement of goods and services.

Statement of the Problem

With increased economic interconnection has come a deep-seated world change to the extent that poorer nations have become even more dependent on activities of the developed nations of the world. To this extent, there has also been a shift in power away from the nation state and towards multinational corporations. Globalization involves the diffusion of ideas, practices and technologies. Firestone et al. (2009) state that the Kenyan market is less saturated and as such, offers a significant demand for more products from overseas firms, like the mitumba (second hand) business. Given this fact, Kenya has attracted many global/international firms entering the market with superior products, for example, clothing, cheap electronics and many other items. When these high quality products are put to compete in the Kenyan market, they get a higher acceptance than those from local firms. This hinders the Kenyan SMEs from competing effectively against other players. In addition, Bokea et al. (1999) state that the infrastructure which relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs in Kenya.

The 1999 National Baseline Survey conducted by Central Bureau of Statistics, provide the most recent comprehensive picture of SMEs in Kenya. Research shows that majority of small and
medium enterprises in Kenya are not quite well equipped in terms of education and skills. A study by King and McGrath (2002) suggests that those with more education and training are more likely to be successful in the SME sector. Greenwald and Kahn (2005) suggest that that competitiveness of SMEs has been constrained by a range of well-known and studied factors which include size, limited managerial capacity and their inability to obtain information about the market. Bowen et al. (2009) conducted a study on the challenges affecting SMEs in Nairobi and concluded that factors like competition, insecurity, debt collection, and lack of working capital and power interruptions were the top five factors that affected business performance. Despite the few studies that have been conducted on SMEs in Kenya, no study has addressed the extent that the challenges have affected the firms in their attempt to join globalization and become competitive in the market place. It was with this in mind that this study was conducted to understand the extent of these challenges on SMEs in Kenya.

Objectives of the study
1. To examine the challenges facing SMEs in globalization and competitiveness.
2. To establish the extent to which the challenges affect SMEs in globalization and competitiveness.

Research Questions
1. What are the challenges facing SMEs in globalization and competitiveness?
2. What is the extent to which the challenges affect SMEs in globalization and competitiveness?

Literature Review

Globalization
The concept of globalization now cuts across the entire spectrum of academic thinking as it is being defined differently by different scholars. For example, Levitt’s (1983) in his seminal paper describes globalization as a common village. Despite the fact that globalization has now been in use for several years, its contemporary connotation is rooted in the study of international relations (Burns and Holden, 1995; Youell, 1998). According to Bayo (2000), globalization is a process that affects firms, industries, economies and nations. Further, Awake (2002) concurs with Levitt (1983) and reports that globalization will heighten the level of interconnectedness between and among nations through a systematic integration of autonomous economies into a global system of production and distribution. Therefore, globalization refers to the shift toward a more integrated and interdependent world economy.

SMEs in Africa
Most economies in both developed and developing countries acknowledge the role and importance of SMEs in generating employment, stimulating growth and creating social cohesion. Moreover, interest in SMEs also seems to have been further revived in the face of globalization, which is increasingly becoming an influential force in world trade. Because of their flexibility and quick adaptability to change, SMEs are viewed as instruments capable of responding to globalization. While it is true that globalization creates opportunities for SMEs to be effectively involved in global markets, it also poses numerous challenges and problems.
Czinkota et al. (1983) argue that SMEs are weak in Africa because of small local markets, entry of many firms into their markets with sometimes superior products, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal systems, and unattractive tax regimes or difficult business conditions. That is, many firms stay small and informal and use simple technology that does not require great use of national infrastructure. This is a fact that hinders them from becoming competitive in the market place.

**SMEs in Kenya**

National Micro and Small Enterprise Baseline Survey (1999) define small and medium enterprises to include businesses employing up to 50 employees. This definition covers a range of establishments including informal sector which employs one or more persons and, enterprises in the formal sector employing up to 50 employees. Kenya has a developing economy, agriculture being the chief economic activity. Most people in Kenya work in agricultural sector. Some practice subsistence farming while a very small number practice large-scale farming. For those who practice small scale farming, their source of income is mainly from the sale of the farm produce. Some are in small businesses like selling of agricultural goods in market places while others trade in livestock and selling of milk while others are involved in petty trade and other wares. The *Jua Kali* (term referring to the hot sun) sector, is comprised of low scale artisans who mostly apply appropriate intermediate technology. This sector, given all conditions for growth can bring about industrial revolution in Kenya. For example, most SMEs are slowly and steadily moving towards embracing the technology evidenced everywhere in the major Kenyan towns with the rate at which cyber café and other information and communication technology businesses are coming up. The SME sector employs close to 80 per cent of Kenya’s total workforce and contributes about 20 per cent to the gross domestic product, according to the Kenya National Bureau of Statistics (2010). The survey reveals that sale of goods and services in neighbouring Uganda and Tanzania is the top most driver of revenue growth for Kenya’s economy.

**Globalization and Competitiveness**

According to Samuelson and Nordhaus (2001) competitiveness refers to the extent to which a nation’s goods can compete in the market place, which largely depends on the relative prices and quality of domestic vis-a-vis foreign goods and services. That is, a firm’s products and services must have an edge over other competitors for continued survival in the marketplace. Today, globalization has increased competitive pressures on all firms. Together with rapid technological change, globalization has altered the environment in which firms operate. While globalization offers unprecedented opportunities for firms to act successfully, it simultaneously heightens the risks for firms lagging behind. Thus, in an open and liberalized world, increasing firm competitiveness has become a major challenge to the SMEs.

On the other hand, competitiveness has become a central concern in an increasingly open and integrated global economy. Porter (1990) defines the concept as firm’s ability to attract and maintain activity which increases the prospects for achieving a competitive edge. Krugman (1994) refers to competitiveness as a complex, multidimensional and multilevel concept while scholars like Greenwald and Kahn (2005) agree that competitiveness can refer to the ability of firms to compete for markets, resources and revenues.
Challenges of Globalization

According to OECD (1997) the process of globalization has presented new opportunities for those enterprises most able to respond flexibly and adaptively to rapidly changing regional and global markets but, it has also presented new challenges. It presents large and small firms with a number of challenges which may influence their competitive advantage in a global market. This is likely to determine how readily the SMEs can achieve economies of scale and scope as well as realize synergies from operation in an ever changing environment. It is generally recognized that SMEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to participate in globalization and competitiveness. There are many problems inherent in SME operations in Africa and Kenya. Some of the challenges include;

Market Liberalization and Competition
According to Adrien (2005) liberalization of markets is influenced by globalization, which is the free flow of factors of production across borders. Globalization is today forcing companies to compete at global standards of efficiency, productivity and quality. With its advent, most markets are now open to free trade thereby increasing competition in each market making it almost impossible for SMEs from the less developed countries like Kenya to survive the stiff competition. As markets open up and become more integrated, the pace of change accelerates, technology shrinks distances between markets and reduces the scale advantages of large firms making all markets accessible, thus creating new sources of competition. It has generally been noted that, through cross-border trade and investment, Kenyan consumers have been buying more foreign goods and most local traders have found themselves selling goods from other countries. Their local markets have been invaded with secondhand and cheaper products, especially textiles and clothing, electronics among others particularly from South East Asia, China and the Western countries. To this extent, small scale enterprises have been even more vulnerable than larger enterprises from the effects of liberalization, globalization and competition.

Information Technology
Globalization has come with advancement in information technology which has resulted in the opening and exposure of the people of the world to more fronts than ever before. According to Levitt (1983), a powerful force drives the world toward a converging commonality and that force is technology. It has facilitated communication, transport and travel. Almost everyone everywhere wants all the things they have heard about, seen, or experienced via the new technologies. Change of technology has posed a great challenge to small and medium enterprises. Since the mid-1990s there has been a growing concern about the impact of technological change on the work of SMEs. Even with change in technology, many small businesses appear to be unfamiliar with new technologies particularly those in the less developed countries. On the contrary, foreign firms still remain in the forefront in accessing the new technologies.
According to Muteti (2005), most of the African nations, Kenya included the challenge of connecting indigenous small enterprises with foreign investors and speeding up technological upgrading still persists. The researcher reiterates that there is a digital divide between the rural and urban Kenya, and with no power supply in most of the rural areas, it is next to impossible to have Internet connectivity and access to information and networks that are core in any enterprise.

**Market Environment**

Globalization has dramatically changed the business landscape facing both large and small firms throughout the world. In addition, the impact of industrial activity on the environment has also heightened, adding to the complexity of doing business in today's world. The basic competitive challenge to SMEs in the emerging global environment is how to participate in global markets in a way that leads to sustained profitability. The emerging global environment is changing in fundamental ways including the very nature of exports. The world market place today is faced with market liberalization, accelerating technological change, more intense and diversified market demands, increasing mobility of capital all leading to a more complex and demanding competitive environment at home and abroad. Ohmae (1995) and Drezner (1998) assume that globalization has dissolved borders and rendering the nation-state and traditional concepts of sovereignty irrelevant or obsolete. Aina (1999) states that globalization is a complex process that has created new conditions of proximity, intensity and even intimacy with what used to be a distant faraway.

The turbulent environment poses new challenges to managers that require different organizational responses depending on the degree of involvement in global business particularly, new forms of packaging, demand for recycling, more efficient use of resources, greater responsibility for protecting the environment, as well as to educate consumers and to develop more user friendly products are all compounding the tasks and demands placed on the SMEs. Through globalization, companies have also faced stiffer competition from larger multinationals hence rendering most of the local companies less competitive (Porter, 2008). Wanjohi and Mugure (2008) also indicate that business environment is among the key factors that affect the growth of SMEs.

**Sampling, Data Collection and Analysis**

The population of SMEs was 3127. Out of this, only 213 SMEs were engaged in export and import businesses which was the focus for the study. Data was collected from the managers or owners of the businesses who carried out the firms’ daily activities. Questionnaires were sent out to the 213 SMEs. And only 176 firms responded for the interviews. This represented a response rate of 82.6% which compares well over another empirical study where the response rate was 65% (Bhunian, 1996). Data was collected through the use a semi structured questionnaire. The questionnaire was used as a main procedure to gather accurate, less biased data and increased the quality of data being collected (Sekaran, 2006). A pilot study on 25 firms (25 managers or owners) was conducted to ascertain the clarity of the questions. The study employed descriptive statistics, percentages and mean scores. The key challenges facing SMEs were identified and
measured using 5 point Likert scale ranging from greatest influence denoted by 5 to least influence denoted by 1. This scale tested the extent to which the managers perceived the challenges as being very extensive or critical on their operations. Mean scores were calculated to determine the challenges affecting SMES and helped in identifying the factors with the highest weights. Multiple regression analysis was used to determine the extent of challenges on SMEs’ operations.

Results and Discussions

The study was conducted with the aim of identifying critical challenges affecting SMEs and the extent to which the challenges mentioned affected SMEs in their attempts to globalize their operations. From the analysis, it is evident that SMEs in Kenya are facing hindrances that make them unable to compete well with other firms in the global arena (Muteti, 2005).

A total of 176 SMEs were interviewed. They were categorized as follows; food and beverage 41, textile and leather 58, retail and wholesale 53 and real estate 24. The results of the study indicated that out of the 176 firms interviewed, 35 (19.9%) had been in existence for less than 5 years, 87 (49.4%) firms between 5 and 10 years and 54 (30.7%) firms over 10 years. This showed that over 80% firms had been in existence for more than 5 years experiencing the challenges from the globalized market with increased levels of competition in their backyards.

From the findings, 78% of the SMEs reported experiencing stiff competition from firms outside the country while only 22% SMEs reported competition from the domestic firms. This implied that globalization of markets has increased competition for all firms in the Kenyan market and for they need to reconsider their position in globalization.

The analysis of objective one was done using descriptive statistics. The objective focused on establishing the challenges that affect SMEs in their attempt to become globalized and competitive. The SMEs that participated in this study acknowledged that they faced various challenges in their attempts to join globalization and be competitive. The results of objective one showed that there were many challenges facing SMEs in Kenya. The respondents interviewed rated the challenges in terms of the most critical to least critical. From table 1, the greatest challenge facing SMEs is the increased competition (mean score of 4.84).

Table 1: Challenges of globalization and Competitiveness

<table>
<thead>
<tr>
<th>Challenge</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of regu. Policies</td>
<td>176</td>
<td>1</td>
<td>4</td>
<td>2.75</td>
<td>.745</td>
</tr>
<tr>
<td>Poor Infrastructure</td>
<td>176</td>
<td>3</td>
<td>5</td>
<td>3.44</td>
<td>.602</td>
</tr>
<tr>
<td>Insufficient Market Know</td>
<td>176</td>
<td>3</td>
<td>5</td>
<td>3.88</td>
<td>.586</td>
</tr>
<tr>
<td>Changing Technology</td>
<td>176</td>
<td>4</td>
<td>5</td>
<td>4.72</td>
<td>.452</td>
</tr>
</tbody>
</table>
Increased Competition | 176 | 4 | 5 | 4.84 | .367

This is because most markets have opened up their borders for free trade thereby increasing entrants into the Kenyan market. This was followed by technological advancements (mean of 4.72) and lack of market knowledge (mean of 3.88). That is, increasing level of competition, technology, lack of market knowledge were the top three cited challenges facing SMEs in Kenya.

The second objective was analyzed using multiple regression analysis which was used to establish the extent of the challenges on SMEs’ level of globalization and competitiveness. Pearson’s product moment correlation was performed and the results showed a significant negative relationship between the independent variables (challenges) and the dependent variable (globalization and competitiveness). All the r values were more than all negative 0.7. That is, $r = -0.723$, $-0.676$, $-0.664$ and $-0.637$; $p < 0.05$ for increasing competition, advancement in technology and uncertainty in the environment respectively. This showed a significant negative relationship and implied that with the increased challenges in the market place, firms become less globalized and competitive. This led to the confirmation of hypotheses that there was an inverse relationship between the challenges and globalization and competitiveness of SMEs.

Conclusion
Globalization and competitiveness is highly crucial for the survival of SMEs in Kenya in order to be at par with the rest of the firms from across the world now that the market place is open to all players. Thus, in an increasingly globalization and in the face of competition from bigger firms with plentiful resources, the survival and growth of the SMEs hinge on the formulation of effective competitive strategies. However, for SMEs to fully develop and use this potential, they need to have a global look, develop strategies for success and improve ways of gathering information about the global market to ensure their competitiveness.
REFERENCES


PARTNERING INTERNATIONALLY TO DELIVER A HYBRID MBA PROGRAM

Dr. Debra Petrizzo
Franklin University

Dr. Wendell Seaborne
Franklin University
Franklin University in Columbus, Ohio brought on its fourth president, Dr. David R. Decker in August, 2007. Dr. Decker was a visionary leader that wanted to know where our student body was then and where it will be in the future. Although that was a good question to ask, not many in the education community had thought to ask at that point in time. What he found changed the way Franklin thought about its business model, although we were never the university with traditional students that many are. He found the trend to be one of older students, already engaged in their chosen profession, with a need for a degree to compete in the marketplace. No big surprise there. What he also found was the growth of the for-profit education sector and they had targeted the same students as Franklin. Layer on top of that, the lower population growth and it was soon obvious that there will not be enough students for the growing education system to remain amply supplied as we had historically. But, Franklin had an advantage in Dr. Decker and his having been with institutions that had students around the globe. He was not tied to the vision that students of an English-speaking, American university must be native English speakers, or Americans. The Association of International Educators predicts that by 2020, from a year 2000 base, global higher education demand for seats will double to 200 million, suggesting a growth market in international higher education (Redden, 2009). Much of this growth will be in distance education.

So, one of his early steps was to recruit two former colleagues experienced in the recruitment of partner universities in other countries, Drs. Klaus Heberlich and Godfrey Mendes. Their new role was to find prospective partners in areas of the world where we could gain a steady supply of new, qualified students and each partner could gain from the collaboration. The first partners they found were in Poland, Slovakia, China, Viet Nam, Oman and Macedonia. Some of these
partners—and their governing structures politically and educationally—were easier to work with and we found our MBA program offered in some sooner than others. The School of Banking in Wroclaw, Poland was our first—and to date most successful—partner. (WHY were they first?? Talk about EU support) To date, we have had two cohorts, totaling 52 students, to complete the MBA program and graduate with a third cohort of 23 students scheduled to finish in June 2013. There is also a fourth cohort of 18 students that are about one-quarter of the way through the program. In addition to these students, we work with the School of Banking in an advisory role for their own polish-language MBA and our professors also have taught undergraduate courses while in Poland.

Our additional partners include University of Economics in Bratislava (EUBA), and their Bratislava Business School, where we have graduated a cohort of seven students with a second cohort of ten scheduled to finish in July. They are recruiting for a third cohort now, with plans to start in late spring 2013. Also among our partners in the Modern College of Business and Science in Muscat, Oman, where the first cohort of 14 students just finished their final class, a second cohort of 16 students is about one-third finished and a third cohort began in February, 2013. Our final active partner is University St. Kliment Ohridski in Prilep, Macedonia where the first cohort of eleven students will finish in August, 2013. Our additional partners with recruitment of student efforts going on now are Megatrend University in Belgrade, Serbia and Vienna, Austria, and the National Mining University in Dnepropetrovsk, Ukraine. Each of these partners has a goal of launching cohorts in 2013 as well. Our relationships mentioned earlier in China and Viet Nam proved too difficult to arrange governmental approvals and those have lapsed, even though we had Higher Learning Commission approvals in place.
When our new global expansion team went out and visited with institutions, we found that a 100% online education was not approved in many parts of the world, so we had to build a new, hybrid format for our course offerings. In each of the four partners already mentioned, we have used this hybrid structure. Our MBA program consists of ten courses, four-credit-hours each. And, these courses are taught by both Franklin University professors and qualified partner university professors; specific courses depend on the location and the agreement between our two institutions. In Poland, we teach eight courses and the local faculty teaches two, while in both Slovakia and Macedonia, we teach seven and the local faculty teaches three and in Oman we each teach five courses. These arrangements have all met the approval of the Higher Learning Commission here in the USA and the various ministries of education in our partner countries, as well as the IACBE, our accrediting body. Our initial format was five weeks in an online environment followed by two weeks in a face-to-face environment and a final week in the online environment for each class, with a new class starting immediately upon completion of the former one. There have been a few exceptions in the earlier cohorts to accommodate varying national and religious holidays. However, the second cohort in Oman wanted to change the structure to accomplish each class in a six-week total length, so we revised our format to four weeks total in the online environment and maintained the two weeks in the face-to-face environment. This made a slightly heavier work load for the students and professors during each week of each class, but the students also have a one-week break between the end of one class and the beginning of the next. This seems to work very well for them and they have maintained this format for the new third cohort.

Global distance learning is facilitated by the fact that many countries teach English in addition to their own native languages, making English a de facto standard in the global distance education
marketplace. International students not only become part of the fabric of university and classroom life, but the curriculum incorporates global learning themes across disciplines (Rovai, 2009). In order to meet the needs of the students in this hybrid format, we had to be careful in selecting the professors assigned to these classes. Those professors had to show proficiency in both the online and face-to-face environments as well as a mastery of the materials covered. We need to explain our teaching faculty; we have two full time lead faculty members assigned to the MBA program with three courses each, an additional three full-time Franklin faculty members assigned to one of the courses each and the Management & Marketing Department Chair/MBA Program Chair assigned to one as well. Our lead faculty members have responsibility to oversee their assigned courses for content and materials. They each work with a dedicated, doctoral-qualified course designer faculty member—also assigned to the MBA program—to develop the courses in their various formats. We deliver the same content to our students in each of our formats: domestic face-to-face, domestic online and global hybrid. Beyond these responsibilities, each lead faculty member oversees a body of adjunct faculty members that comprise our teaching faculty. So, while our assigned fulltime faculty members do travel and teach these courses, as well as other full time faculty members without specific responsibilities for the MBA program, we also assign some of our adjunct teaching faculty to these global courses. One of our full-time MBA faculty members has the responsibility to train those faculty members that are traveling and teaching how to be successful in this effort. And, one of our operational staff members holds cultural training with each faculty member before going. Our future goal is to assign our teaching faculty into undergraduate, domestic graduate and global graduate based on abilities and training.
This two-week face-to-face assignment adds a degree of complexity to our offerings. We fly the faculty member to the partner country through one of our internal departments and a travel agency. When the faculty member arrives in the country, the partner institution has arranged transportation from the airport, hotel accommodations, transportation to and from the school for classes, and return trip to the airport. All personal activities while visiting in the country are at the faculty members’ discretion, although if requested the partner will help arrange sightseeing trips during the faculty members’ free time. Many persons have thought the faculty members were “going on vacation” but those traveling retain responsibility for their other duties while away. We each stay connected through e-mail and often by phone to be certain that everything stays running smoothly in our other areas of responsibility. For the adjuncts traveling, this part varies depending on their personal arrangements.

Our future goal is to have established credibility for the Franklin MBA program and gain acceptance of online education in other parts of the world, and be able to move to a more online environment. We know this will increase our scalability to offer our program in more places and to more students. In fact, we are able to start this move to a future state with new agreements we are just launching in Guatemala and Nepal. We have identified partner universities in these two countries where we will launch a 100% online MBA later this spring. Hopefully, we will be back to report on that program’s success in the future.
References


CRISIS LEADERSHIP – AN ORGANIZATIONAL OPPORTUNITY

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Abstract

Reactive leadership and crisis management have been synonymous for years. This flows from the belief that crisis is unpredictable and unexpected, which is simply not true. Crisis has its genesis in the values, beliefs, culture, or behavior of an organization which become incongruent with the milieu in which the organization operates. A leader, who is able to read the signals of looming crisis and understands how to harness the exigency brought on by the situation, can diminish the potential dangers and take full advantage of the resulting opportunities.

This paper presents a generic crisis lifecycle as a representation of overall crisis. Since a crisis can be broken down into three unique phases, crisis lifecycles can be understood and utilized for the benefit of the organization. In the first phase of the lifecycle, the organization finds itself mired in a static phase which equates to a comfort zone. In this first phase leaders struggle when they attempt to introduce change or learning due to the organizations preference to avoid conflict and maintain stasis. When a crisis engulfs an organization then the stasis that envelops the organization evaporates and gives rise to the second phase or the disaster phase. The disaster phase often threatens the very existence of the organization. When the organization successfully eliminates the immediate organizational threat, the organization is able to enter the adjustive phase of the crisis lifecycle. In this third phase, the leader has the undivided attention of the organization and the underlying urgency to solve the issues that led to the crisis in the first place. Regrettably, many leaders don’t take advantage of this golden opportunity and push the organization back toward the status-quo which ensures that the crisis will return in force.

The study of crisis leadership has become more important since the dawn of the new millennium because leaders in all areas face differing degrees of crisis in their daily work life. This emphasis on crisis leadership has spawned many books and academic journal articles which has resulted in a wide-ranging body of work from which we have divined the three stages of crisis and six strategies crucial for organizational success. These strategies are illustrated with examples of crisis leadership and how leaders saved their organization and tailored them for long-term significance.
Crisis Leadership - An Organizational Opportunity

This paper addresses the challenges that leaders face before, during, and after crisis by using a generic crisis lifecycle model. Effectively dealing with a crisis is a competitive advantage, while ineffective crisis response can place the existence of an enterprise in jeopardy. Unfortunately many leaders that have garnered credit for leadership tools such as vision, strategic focus, and discipline preside over undisciplined crisis responses, often at great risk to the leader’s career and the enterprise’s future. We collectively recognize the immense significance inherent in understanding crisis theory and the leadership strategies that can be employed in these situations. Our hope is that this paper will improve the reader’s theoretic and practical understanding of crisis and be of value as they prepare, lead, and adapt their organizations to face challenges and crisis, but also grow from those same challenges and crisis.

Crisis, for the scope of this paper, is defined as an unexpected, dramatic, and unprecedented event that forces and organization into chaos and may destroy the organization without urgent and decisive action.

The study of crisis leadership is important today due to the unpredictability, intensity, duration, and cost. Leaders throughout the world struggle with the challenges of crisis from the corporate boardroom to the nonprofit board, the small businessman to the city hall. Decisive action is demanded immediately from organizational leaders due to globalization, organizational transparency, and technological advances. As a consequence, leaders are required to endure intense public examination while weathering the disrupting forces of catastrophe. Leaders must get ready for the inevitable, unforeseen, and unprecedented.

Organizational leaders at all levels will be able to exploit this paper for the benefit of their organizations. It provides a structure to better comprehend the crisis lifecycle and institute strategies for leaders to use as they plot a course through the crisis. The research presented herein provides organizations and leaders with an opening point to study and refine their leadership knowledge, skills, and abilities in preparation for the imminent crisis their organization will inevitably face.

Crisis Lifecycle

Crisis is a worldwide reality. Crisis is simply an ineffaceable part of the human condition (Mitroff, 2004). Thomas Kuhn (1996) described how crisis begins in his book on the scientific revolution, The Structure of Scientific Revolution. In it Kuhn states that “existing (organizations) have ceased to adequately meet the problems posed by an environment that they (in part) have created…the sense of malfunction that can lead to crisis” (p. 92). The failure to take note of the preliminary signals or tremors and recognize that our connection with the surroundings has changed is what leads us headlong into crisis.
Our research indicates that crisis can be defined by a generic model of a crisis lifecycle, as represented in Figure 1 (Heifetz & Linsky, 2002). This crisis lifecycle model represents a single event. It also needs to be understood that organizations face a repeated bombardment of overlapping conflicts or small crises. Likewise, most crises can’t be defined by one event and the fundamental challenge may rematerialize numerous times, overlapping its beginning and ending phases (Pinsdorf, 2004). For the purposes of this paper and clarity, our discussion will revolve around a single, cataclysmic crisis event that threatens an organization’s very existence.

The crisis lifecycle is defined over time and disequilibrium. The vertical axis represents disequilibrium and it illustrates the amount of stress felt by organizational members. This axis can further be divided into the comfort, learning, and danger zones. The comfort zone is the status quo, where organizations and bureaucracies prefer to remain. The comfort zone is a state of equilibrium or stagnation. Most organizations endeavor to dissipate conflict or stress in order to preserve the status quo. Ronald Heifetz (1994) notes “there is nothing ideal or good about a state of equilibrium…achieving adaptive change probably requires sustained periods of disequilibrium” (p. 35). Regrettably, organization that remain locked in the comfort zone keep their values, culture, or operating archetype static in relation to the ever-shifting environment.

Above the comfort zone is the learning zone. The learning zone is a critical area flanked by equilibrium and danger. This zone is where a minimum amount of stress is desirable for an organization to elicit change and it causes anxiety and conflict within the organization. It is the conflict linked with change that facilitates an organizations growth and the size of an organizations learning zone is directly correlated to its capacity to handle stress. Responsive and flexible organizations have larger learning zones and are better able to handle organizational
chaos and conflict. Organizations that are large and bureaucratic are less able to handle change; therefore they have much smaller learning zones.

Above the learning zone is the danger zone. The line separating the learning zone and the danger zone is represented by the amount of stress that may cause an organization to implode and disintegrate. Crisis characteristically causes the stress level in an organization to hurdle into the danger zone. Perhaps the most complicated and illusive key to effective leadership is creating sufficient stress within the organization to transform it into a learning organization but not enough stress to rocket it into the danger zone.

Leaders can change organizational stress using technical or adaptive techniques. Technical responses provide quick solutions and harness a set of procedures toward well-understood problems. When a leader applies technical responses to problems, organizational stress typically abates (Heifetz, 1994). However, an adaptive solution is used when a predicament is not well understood or there is no adequate response, expertise, or procedure. Adaptive solutions address the fundamental issues that are creating the conflict. Heifetz explains, “adaptive solutions tend to demand a more participative mode of operating and shift responsibility to the primary stakeholders (and) problem solving takes place in their hearts and minds” (Heifetz, 1994, p. 121). Adaptive challenges compel people within the organization to face “dysfunctional habits, values, and attitudes;” thus escalating organizational stress. In essence, crisis leadership is recognizing that technical solutions may be essential to diminish immediate danger, but are insufficient for long-term organizational growth; which requires innovative and adaptive approaches (Goethals, 2004, p. 291).

The horizontal axis of the crisis lifecycle model is composed of three phases: preparation, emergency, and adaptive. Prior to any crisis, an organization is in the preparation phase. During this time, leaders should be cognizant of tremors or signals of misplaced values and behaviors. Complacent organizations are ripe for crisis.

The transition point from the preparation phase to the emergency phase begins when an eruption is followed by institutional awareness of the crisis (point A on Figure 1). Stress and disequilibrium become unendurable and the survival of the organization is at stake. The transition point from the emergency to adaptive phase (point B on Figure 1) is difficult to distinguish and occurs when the pressing danger is controlled. Sadly, leaders and followers don’t want to face these hard challenges, particularly after overcoming the immediate crisis. They do not take into account the urgency, attention, and opportunity gained. Staying in the learning zone after the crisis is the most complicated, least understood and largest delineator of leaders who effectively navigate crisis.

The preparation phase

Once you understand why leaders are ineffective at adapting their organizations during the preparation phase, then you can understand crisis. Without a crisis it is extremely difficult to move an organization from a state of comfort to a state of growth. Change threatens stable relationships, balance of power, standard operating procedure, and/or the current distribution of resources (Heifetz, 1994). Even when leaders are aware of their organization’s need for change, they struggle with the paradoxical requirement to provide direction without causing pain to the organization (Heifetz & Linsky, 2002). Leaders must also continually balance the severe pressure to remove stress from their organization while fighting the tendency to return to the status quo. In order to facilitate organizational adaptation or prior to crisis, the leader must
establish credibility and create an atmosphere that allows people to face change in relative safety. It requires them to lead from the front.

Another way that a leader can prepare an organization for crisis is to recognize, prioritize, and mobilize awareness for change. The leader must understand and focus on the core purpose of the organization. This strategy is at the crux of understanding how an organization’s values are related to a changing environment. Positive illusions, self-serving biases, and a tendency to discount the future often prevent leaders from listening to their environment and gaining much needed feedback. Sometimes leaders are unable to overcome the state of denial or the awareness of indicating tremors (Bazerman & Watkins, 2004).

Organizations need a structured dialog, systematic decision analysis, and they must conduct continuous planning in order to ensure that actions are prioritized toward the organizations long-term health. Unfortunately, leaders often tend to ignore problems and avoid making the much needed hard choices; this is why it is important to build the team within the organization. Leaders who construct effective teams are able to rapidly respond to crisis in an unified manner. It is the leader that overcomes these obstacles and mobilizes resources toward learning, who may avoid crisis altogether.

Emergency Phase

The emergency phase begins when the crisis erupts. If an organizational leader fails to examine their fundamental assumptions of the world, connect the dots to see the big picture, or think differently from everyone else, that leader risks experiencing devastating tragedy and crisis. The most important factor during the emergency phase is to mitigate the threat and reduce disequilibrium to a level where the organization and people within are at a safe level (Stern, 1999). A leader can leverage an organization’s high expectations for security as capital for autocratic and technical solutions that will reduce the immediate stress; unfortunately, without addressing the underlying misalignments, crisis will return to the organization. A timely intervention is key to mitigating the immediate threat and limiting long term danger (Stern, 1999). At this time it is perfect for a leader to use quick, technical fixes to reduce organizational stress to levels that are tolerable. The leader must, however, weigh the need for action against the uncertainty that surrounds the event.

First impressions of the crisis are usually accompanied with limited factual information that often misses the underlying causes. Because of this, it is advantageous to focus on the core purpose when formulating the initial response (Mitroff, 2004). A leader must not be overcome by the urgency of the crisis; instead the leader must step back and draw from the guiding principles of the organization. The leader must weigh the quick decisions against the realization that stress reduces cognitive abilities (Goethals, 2004). Even when they do not apply perfectly, utilizing standard operating procedures may help to lower the tension due to the routine being calming and reassuring to people within the organization (Heifetz, 1994). As information becomes available that helps to clarify the situation, action and communication become even more essential so the leader can tell the story to the organization and get their backing. Leaders must explain the facts of the situation and the actions that are being taken. People begin to relax when they see a calm, poised leader relating to their loss (Heifetz). All of these responses are crucial to seizing the initiative during the emergency phase.

The Adaptive Phase
The adaptive phase begins when the organization returns to a sense of stability. The leader must take advantage of the fleeting organization mandate to address the underlying cause of the crisis so that the event will not be repeated, even though the immediate crisis and danger is under control. The leader has an opportunity during this phase to change and grow, develop new procedures, alter the organizational culture, and help the organization to profit from the crisis. Technical solutions may still be needed during this phase, but the leader must focus on reorienting the organization to face tough choices. The adaptive phase requires a balancing act between maintaining urgency for change while at the same time fostering a sense of safety and security.

Crisis provides us with the ultimate signal that we have ignored, avoided, or failed to recognize the most pressing issues of the changing environment. As situations worsen, signals and tremors foreshadow impending disaster, giving us an opportunity to prepare for or adapt to it. Sadly, most institutions resist the needed change and prefer to chimera of safety that is provided by the status quo. When disaster strikes, the leader must refocus the organizations resources and attention on survival. The leader must use this small window of opportunity to seize the initiative. Yet when survival seems assured, leaders face a crucial choice. The leader can either harness the urgency and attention provided by the crisis to alter the organization with the environment or risk the return of crisis and danger.

**Crisis Leadership Strategies**

Our research has led us to uncover some essential strategies that a leader must apply to lead their organization out of crisis. These strategies were identified from historical crisis situations that have been written about in the existing body of research. Not every strategy is applicable to every crisis situation and the strength of the strategy varies with the crisis. Similarly, these strategies are not confined to use during a certain, prescribed phase in the crisis lifecycle model. A strategy may fit neatly into one phase of the crisis or it may span the boundaries of several or all phases of the crisis.

Each strategy should be viewed as another tool that the leader has in their tool kit for crisis leadership. The strategies show that it is not important that the leader hit the nail squarely on the head to be effective, the leader must just hit the nail head in some way to make it useful for the organization.

**Lead from the Front**

“During periods of crisis, people look for a strong leader. They don’t look to committees or to teams; they look for a confident, visibly engaged leader to pull them through” *(Harvard business essentials: Crisis management, 2004)*. Unfortunately, leaders that are hit by crisis often withdraw behind the protective curtain of their peers and lawyers or blame their subordinates and the media *(Pinsdorf, 2004)*. Analysis of crisis situations shows how common and costly this mistake is *(Pinsdorf, 2004)*. The leader must be many things at many times and during a crisis, at an irreducible minimum, the leader must be visible, poised, courageous, committed, and attentive. If an individual’s job during a crisis is to lead, then he must assume the role and do it well *(Harvard business essentials: Crisis management, 2004)*. The leader must understand the importance of people seeing him face the challenges head on, walking the walk and talking the talk as it were *(Witt, 2002)*. The leader must create opportunities for visibility and use the power of his role as a leader to provide assurance, direction, and inspiration.
Visibility & Image

Peter Arfenti conducted a study of the September 11, 2001 tragedy in New York City and this study clearly validates the power of a visible leader (Harvard business essentials: Crisis management, 2004). Arfenti found that “the most effective leaders during the crisis displayed high levels of visibility” (Harvard business essentials: Crisis management, 2004, p. 87). Those leaders understood that people needed concrete evidence that their leaders were concerned about their distress and were working to make things better (Harvard business essentials: Crisis management, 2004).

However, a visible leader must present the right image. “A crisis can quickly expose a leader’s hidden strengths as well as his core weaknesses” (Klann, 2003, p. 1). Former Federal Emergency Management Agency (FEMA) director James Lee Witt wrote that leaders who handle crisis best are the ones that think of others before they think of themselves (Witt, 2002). Fortunately, “crisis frequently brings out courage, honor, selflessness, loyalty” (Klann, 2003, p. 8) and many other positive behaviors in leaders. “During a crisis, a leader’s first mechanism to contain distress must be to contain himself. If a leader remains poised and indicates through his calm demeanor that the situation is serious but that there is no cause for panic, he reduces the possibility of one” (Heifetz, 1994, p. 140).

Demonstrate Courage

Courage is not the absence of fear, but the ability to act in its presence (Collins, 2003). Whether a leader is the departmental director or a corporate CEO, if the resources are being threatened, it is imperative that he demonstrates courage and accept responsibility for dealing with the situation (Witt, 2002). John Kennedy reminded us that courage is the willingness to speak “truth to power.” “Demonstrating courage is one action that is indispensable if a leader expects to mobilize people” (Bazerman & Watkins, 2004, p. 215) to prevent, mitigate, or learn from a crisis. Many great leaders throughout history made their reputations through their courageous actions before, during, and after crisis; often in the face of significant uncertainty and resistance (Bazerman & Watkins). A demonstration of courage is central to crisis leadership because it signals the leader’s “willingness to act against one’s own and other’s short-term interests to avoid heavy long-term costs” (Bazerman & Watkins, p. 12). Additionally, it puts members on notice of the need for action (Bazerman & Watkins).

Show Commitment

A leader must show that he is committed to see the task through to successful completion. A leader that demonstrates the ability to accept the harsh reality brought on by the crisis, yet continues to persevere, demonstrates a personal investment in the team and their mission. Perseverance sends a clear message about the leader’s commitment and creates an opportunity for the team to rally to achieve a common goal. Similarly, if a leader signals a lack of personal investment in the team and mission, “he presents an invitation to the people who are uncommitted” (Heifetz & Linsky, 2002, p. 51) to dismiss his perspectives and push his agenda aside.

Maintain Perspective

Leaders must ensure they don’t lose sight of their ultimate goal. Regardless of where a leader is in the lifecycle of a crisis, it is imperative that he maintain perspective. “Occasionally, leaders get so caught up in the action and energy that they lose their perspective, their wisdom” (Heifetz
& Linsky, 2002, p. 165). Franko Bernabe, CEO that successfully transformed Italy’s large energy industrial group Eni, was very much aware of this trap (Harvard business essentials: Crisis management, 2004). He understood that executives leading their companies through crisis often don’t have time to think. They don’t have the time to tune-in to their organization and environment; they only have time to react. Consequently, he walked to work every day. He said that this gave him an extra half hour to think (Harvard business essentials: Crisis management). Bernabe believed that the ability to step away and think clearly is “one of the most critical skills a crisis leader must have (Harvard business essentials: Crisis management). Heifetz describes this stepping away or need to get perspective as “getting off the dance floor and going to the balcony” (Heifetz & Linsky, 2002, p. 51). The intended “image captures the mental activity of stepping back in the midst of action and asking, ‘What’s really going on here?’” (Heifetz & Linsky, p. 53).

**Focus on the Core Purpose**

When people understand and pursue their purpose, a purpose that puts meaning into their life, they can weather any storm. Victor Frankel (1987) discovered this in a Nazi concentration camp. As a trained psychologist he observed that when a person has a greater meaning for living, they lived (Frankl, 1985). Those that had lost purpose died (Frankl). The same can be said of organizations.

*Know and Understand the Core Purpose*

An organization that has a relevant, acknowledged purpose can survive even the worst crisis. On the contrary, an organization which has no clear purpose, or a valueless purpose such as simply raising capital – as in the Enron scandal, will eventually fail. Successful leaders know they must understand their organization’s core purpose and then ensure that their people appreciate and support it. Both the leader and the people of an organization must believe in something higher than themselves. In planning for crisis, identifying the organization’s core purpose is essential for it will provide a foundation for every action and decision.

*Instill Value and Align with Reality*

An organization’s purpose must align its values and its reality. If a company’s leaders or personnel are acting contrary to the business’ core purpose, values, or environmental reality; crisis, in some form, is sure to develop. The leader must define what the future should look like, align structures and processes, and inspire people to make it happen despite obstacles (Mitroff, 2004). In this case, leadership is influencing the organization to face its problems (Heifetz, 1994). According to Heifetz (1994), “tackling tough problems – problems that often require an evolution of values – is the end of leadership; getting the work done is the essence” (p. 26). The leader must confront and close the gaps between his organization’s values, its behaviors and its realities. This may require the organization to endure a period of significant, adaptive change. In this situation, “it becomes critically important that the leader communicates, in every way possible, the reason to sacrifice” (Heifetz & Linsky, 2002, p. 94). He must justify “why they need to sustain losses and reconstruct their loyalties” (Heifetz & Linsky, p. 94). People need to be reassured that the final results are worth it (Heifetz & Linsky).

*Provide Vision and Embody Values*
Where the purpose and values are the foundation of the organization’s vision, a leader can leverage this vision as a rallying point to provide stability to employees during a crisis. But to make this vision truly credible, the leader must embody and be seen living the organization’s purpose and values. Successful crisis leaders know that a purpose, value, and vision system that have been effectively communicated so employees understand them, feel ownership of them, and endorse them, become a powerful influencing tool during all phases of a crisis. The vision, grounded in values, will clarify what is, and is not important to the organization. Additionally it can serve as a compass for action, providing direction and stability to people who become unhinged by the crisis (Klann, 2003, p. 14). A leader must also remain mindful of his organization’s purpose and vision when overseeing the crisis planning. The vision will ensure that crisis actions are in line with the mission, goals, and objectives of the organization (Klann). During the crisis, a successful leader can provide stability and security as well as reduce anxiety by consistently returning to the organization’s values and vision (Klann).

Consistently Assess and Update Purpose

A leader must periodically reassess the organization’s purpose and values to ensure they remain relevant to the current and future environment. He should look at how well the purpose prepared the organization to identify or avoid a crisis and if it enabled or hindered the response. Based on the outcome of the analysis, the leader may want to realign or redefine the organization’s purpose to make it more relevant to the environment, current and future operations, and especially crisis (Klann, 2003, p. 63).

Build a Team

The success of any business organization hinges upon successful organizational team building. The question is sometimes ask, why have a team? And the answer is rather simple; the success of any organization cannot be accomplished by managers or leaders alone. To build a successful team begins with the leader who has been placed in the position to build a bona fide, competent, and resourceful team for the development, improvement, and the eventual fulfillment of the desired mission of the organization (George & Jones, 2005).

Before an appointed leader can begin the team building process, the leader must first recognize the mission of the organization and then organize the people and resources to fulfill the mission of the organization. This idea of fulfilling a team based mission is supported upon the notion of having a vision. A leader must first develop the vision and have that vision in place before she can identify people, skills, and behavior needed to meet challenges of the organization (Heller & Hindle, 1998).

Once the leader has developed the mission vision for the team concept, the process of team building must now focus on bringing together the right people with the right skills. The selection process of team members must be focused on four critical areas:

- Intellectual integrity
- Results
- The ability to make decisions
- The ability to think conceptually

Leaders must select team members, who are superfluous with intellectual integrity and who are willing to confront reality at all times with total honesty. Leaders want to select team
members who are results based oriented, i.e., not only are they willing to talk the talk, but they are also willing to walk the talk. Results based team members are doers and they focus on finding the right solutions. Leaders want to select team members who are not afraid to make decisions. They cannot be afraid to make decisions that are based upon empirical evidence whether in whole or in part.

Furthermore, a leader should select team members who are willing to step up to the plate despite the possibility that their decision just might be wrong in spite of their best efforts. Leaders should also select team members who have the ability to just use good old plain common sense and wisdom. Finally leaders should select team members who have the uncanny ability at conceptual thinking. Teams should be superfluous with conceptual thinkers who can put the pieces of the puzzle together and figure out the right answers in timely fashion.

Once a leader has selected teams members based on the fundamental skills needed to accomplish the task at hand, the leader is now put back under the microscope and she is now the being assessed by her followers based on her own leadership style. You see, one of the key ingredients a leader must possess in their attempt to build a successful team is the element of transparency. This must be apparent from the very start of the team building process. Leadership transparency is just not only about honesty, credibility, and integrity; it is also about interacting with team members through straight talk, openness, and accountability. Leaders must understand people are not willing to follow them until that indispensable element of transparency is exhibited in her style of leadership early on the process (Klits, Mandredi, & Lorber, 2007).

Furthermore, leaders have to realize the members of the team are not willing to follow them until they are satisfied and know that she truly care about them. In this aspect of team building relationships, leaders must adhere to the principles of Abraham Maslow hierarchy of needs and these needs must be incorporated into the team building process. From an organizational perspective the hierarchy of needs reflect:

a) **Physiological Needs** – In bona fide organizational settings, team members want to know that they are being adequately compensated for their participation towards the mission of the organization. Fair and equitable compensation is a means to buy food, clothing, and have adequate and fair housing.

b) **Safety Needs** – In bon fide business organizational setting, team members desire to know they have job security, adequate medical benefits, and safe working conditions.

c) **Belongingness Needs** – In bon fide organizational settings, team members desire to have a good relationship with each other and their leader. They desire to be a member in good standing with a cohesive work group, and they want to be included in organizational social functions such as company picnics and holiday parties.
d) Esteem Needs – In bona fide organizations, team members desire to know that their work product may someday offer a chance for promotions; moreover, team members desire to be readily recognized for job performance.

e) Self-Actualization Needs – In bona fide organizational setting, team members desire to know that they will have the opportunity to use their skills and abilities to the fullest and they strive to be all that they can be in job performance (Mears & Voehl, 1997).

The next important steps in the process team building process, is the leaders’ responsibility to nurture the relationships among team members and promote internal team building. Leadership nurturing and internal team building is supported by giving team members the required training, education and development needed so that team members can enhance their knowledge, skills, and abilities to assist the leader in accomplishing the mission of the organization. Astute leaders of authentic organization understand the future success of the team hinges on how effectively each member of the team is developed. The right training, education, and development helps the internal system thinking process whereby team members learn how their knowledge, skills, and abilities will affect the organization in whole and part through intellectual conceptualizing and application. Undergoing this team building process allows team members to develop their natural talents and advance their careers. The nurturing and internal team building process from a team perspective must be superfluous, i.e., leaders must continually coach and motivate followers with the notion to help them find meaning in their work, and to instill in them that their efforts do in fact matter for the good of the organization.

The external process of building a team gives team members the opportunity to view how their mission task affects others and organizational systems outside the walls of their own organization. Again this manner of system thinking is but one motivational factor that encourages creative thinking among team members and generates new ways of doing things. External team building provides opportunities to build relationships outside the parent organization in an organized fashion, and it offers a way for teams from multi-variant organizations to work on critical problems that can and will have long term globalize effects on business organizations (Ponder, 2001).

Lastly, continuous successful team building still rest upon Abraham Maslow hierarchy of needs, but of one that I would like to point out that is especially important and that is “Esteem Needs”. To maintain the continuity of the team and its mission, recognition of team members go a long way with stabilizing the mission of the team, and in this 21st Century the idea of using a holistic approach in recognizing and rewarding team members will play an important part in building and maintaining an effective team.

**Continuous Planning**

In addition to leadership vision and organizational mission statements, every thriving organization succeeds by having a clear plan that allows the organization the wherewithal to
march forward towards its goals and objectives (Lewis, Goodman, & Fandt, 2004). Therefore, unambiguous planning leads to greater and sustained goal achievements. Peter Drucker once said “Long range planning does not deal with future decisions, but with the future of present decision” (Griffith, 1990, p. 254).

Organizational planning must incorporate SWOT techniques that allow the organization to sustain a clear path towards reaching its goals from year to year. SWOT is the acronym that stands for Strengths, Weaknesses, Opportunities, and Threats. Applying SWOT techniques in the business realm is but one aspect that helps business organizations conduct the kind of organizational analyses that helps to mitigate or prevent organizational crises.

From a team perspective the notion of identifying organizational strengths and weaknesses in the planning process, offers leaders and team members an opportunity to internally assess and identify those probabilities and mechanisms that will assist or hinder the organization from attaining its goals. Some examples of organizational strengths possibly include:

- Competent personnel possessing relevant knowledge, skills, and abilities;
- Staff development and training programs;
- Customer loyalty; and
- Capital investments and strong balance sheets; and
- Efficient procedures, systems, and social responsibility, etc.

Some examples of weakness:

- Personnel lack of awareness of organizational missions, objectives, and policies;
- Deficiency in IT department;
- Lack of new product and services;
- Non-compliance with appropriate legislation; and
- Inadequate leadership, etc,

Taking into consideration opportunities and threats in the planning process provides leaders and team members the opportunity to scan the external environment related to the industrial conditions aiding in identifying and evaluating those elements that may positively or negatively impact the organization (Heal, 2000).

Some examples of opportunities include:

- New customer base and new markets;
- New products and service lines;
- New technology; and
- Personnel training opportunities, etc.

Some examples of threats include:

- New legislation;
- Lack of training, education, and development;
- Price competitions; and
- Customer rejection, etc.
Coupled with organizational planning is the importance of continuous planning which integrates the continuation for contingency planning. Continuous planning within the context of business organizations should be directed in such a manner in which all processes within the organization is connected, a condition which reflects system thinking. Continuous planning further incorporates the continuation of applied SWOT techniques that allow organizational leaders and team members to adjust to the sudden impact of changes that ultimately affects the organizations position locally as well as globally.

Considering the broad base of continuous as well as contingency planning, the gravity of these important tenets is principled in the following:

- Identifying Risk and Potential Crises
- Establish and Sensor Monitoring
- Developing a Crises Action Plan
- Testing the Crises Action Plan

The idea of continuous external environmental scanning coupled with SWOT techniques; allow leaders and team members the opportunity to obtain information about events, trends and relationship, which can be assimilated into the continuous planning process. These congruencies enhance and sustain the present and future goals of the organization, and they greatly assist with mitigating potential crises through appropriate crises management measures. The aforementioned tenets, among many other flexible elements, are essential for organizational survival. Moreover, the aforementioned tenets aid in balancing the scorecard as the process of ongoing planning continues within the organization.

The amalgamation value of applied SWOT and Environmental Scanning techniques in an organizations continuous planning process provides a systematic approach that helps to identify risk and potential areas for crises. To identify those risk and potential areas for crises, organizational leaders and team members must consistently perform organizational audits both internally and externally. Auditing must occur throughout all levels of the organization and it must take into consideration all personnel, customers, suppliers, and external competition. As part of the ongoing planning process, organizational leaders and team members must take on the role of an assassin. Taking on this role allows for the proverbial thinking out of the box concept, i.e., thinking of creative ways in which internal and external conditions can drastically bring about a negative change to the organization (Crisis management: Master the skills to prevent disaster, 2004).

Applying SWOT and external environmental scanning techniques contributes to establishing and putting in place those sensory monitoring processes that significantly aid in mitigating potential crises situations. Sensory monitoring includes, but is not limited to:

- Adherence to effective internal and external communications from all constituents of the of the organization regarding potential areas of concern;
- The development and periodic review of comprehensive business data; and
- A total organizational audit from top to bottom to flesh out potential areas of crises concern (Leading through a crisis, 2009).

Throughout the continuous planning process, organizational leaders and team members must be able to develop the foresight for crises anticipation. The progressive development of this
foresight should lead to the development and preparation of action plans designed to neutralize and contain perceived potential areas of crises. The crises plan must be able to:

- Identify obstacles and fail points, i.e., what factors can and will fuel a potential area of crises;
- Create a resource plan, i.e., identify those resources the organization might need on board to aid in a crises;
- Create a communication plan, i.e., create a communication plan that is designed on a need to know basis both internally and externally; and
- Distribute the resource and communication plan, i.e., all the key players who are part of the crises action process should be issued a copy of the resource and communication plans and measures must be taken to ensure those key players understand the resource and communication plans (*Leading through a crisis*, 2009).

Once organizations has identified those obstacles and fail points that can have a drastic effect on the operations of the organization, the plan for defeating those obstacles and fail points are not complete until the leaders and team members test those plans under simulated and rigorous conditions. Scenario test activities is a means by which organizations can measure the future outcome of a crises situation, and actual simulated scenario activities help to improve the quality of continuous organizational planning.

Creative simulated test plan activities will reveal with clarity what can actually go wrong in the environment, and testing the plan offers a chance for organizational personnel to train and prepare for the future crises events. Creative scenarios activities ensures that organizational members are focused on priorities and the plans that have been developed are aligned with changes that can take place both inside and outside the organization. Moreover, organizational creative scenario activities allow for organizations to project negative events that could possibly affect its environment 5, 10, 15, and even 20 years down the road. Continuous planning as well as the testing of those plans through scenario training ensures that each potential crises event has a developed strategy to suppress its effects and increases the survivability of the organization (Tracy, 2010).

**Mitigate the Threat**


A crisis event can threaten any organization at any time during the business life cycle (Hargis & Watt, 2010). Therefore, it is important to understand the actions that may be taken to mitigate any loss and facilitate a speedy recovery for the organization. For our purposes, let us define the term, crisis, as any situation or event that creates disruption to the organization’s normal operations. We would also suggest that a time element exists in a crisis event. This time pressure is the result of the perceptions of the business managers/leaders of “the amount of time they have to search, deliberate, and take action before losses being to occur or escalate (Ford,
Therefore, mitigation of the events occurring becomes of paramount importance. With this in mind, it is critical for business leaders/managers to have an understanding on how to lead and manage crisis events. It is obvious that no organization can “totally control or prevent the occurrence of any potentially negative crisis event” (Louden, 1992). Moving forward with this theory, we suggest in order to navigate these events strategic planning and strategic leadership are of vital concern.

Rigorous strategic planning can assist your organization to clarify its goals and deploy the available resources in a manner that is consistent with the planning. It also assists in maintaining the focus of your organization on those issues. It may also assist in averting some unexpected developments and help mitigate others. Thus, sound strategic planning can enable your organization to transcend the circumstances you are encountering and avoid the panic of entering crisis management (Lettow & Mahnken, 2009). Realistically, situations, large or small, can enter our lives instantly. More recently, the economic situation we are facing is very real and has affected virtually every type of organization at some level. “The attitude of those responding to the crisis and the cohesive nature of the teams involved is critical to the success of the effort” (Van de Walle & Turoff, 2007). To mitigate any encountered situation, the organization must first recognize what is being encountered. It is this detection that influences the organization’s ability to mitigate the encountered event(s). Clearly, the scale and scope of the event can and most likely will produce complex and difficult situations that must be handled. In some instances, the initial response by organizational leaders/managers is to deny that an event has taken place that requires the organization to respond. This assumption results in the belief that no changes or reactions are needed within the organization. These leader/managers suggest that the issue is outside their realm of influence and that by “pulling together they can weather the storm” (Ford, 1981). There is a very large body of both literature and practical real-world experience that indicates that ignoring an event will not make the event disappear.

The organization’s reputation among its various stakeholders (employees, stockholders, customers, the community where the organization is located, etc) and what those stakeholders believe regarding the previous behaviors demonstrated by the organization will also affect the mitigation and recovery effort. There is evidence that suggests that an organization’s reputation is a strategic resource to be used wisely and that same reputation may assist organizational leaders/managers during the mitigation and recovery phases of a crisis.

Take Action

“When crisis strikes, a leader must initially think like an EMT. He must quickly identify the problem and determine what actions his organization can take to stabilize the situation” (Crisis management: Master the skills to prevent disaster, 2004, p. 67). These actions may only be technical solutions, but they will buy the crisis action team time to implement the appropriate actions form the crisis action plan (Crisis management: Master the skills to prevent disaster, 2004). With the crisis action team in execution mode, the leader should continue to search for new and decisive ways to facilitate damage control and move the crisis out of the danger zone (Bazerman & Watkins, 2004). At this point, information is critical to the leader but it’s also one of his biggest challenges. His problem may be that there is too little information available, or it may be that there’s far too much, with no way to sift out what is important (Crisis management: Master the skills to prevent disaster, 2004). Consequently, the requirement for the leader to bring clarity to a murky situation might well be describe the early phase of most crises (Crisis
Despite this information challenge, the leader must continue to shape the response through actions, even when the response may be based on inaccurate or incomplete information (Bazerman & Watkins, 2004). Decisive, identifiable action is critical at this point because it reduces individuals’ perceived level of disequilibrium. Additionally, it gives the appearance that responsibility for the problems has been shifted to the individuals taking action. People will feel that the danger is retreating when they see the leader is paying attention (Heifetz, 1994).

**Be On the Scene**

Individual’s need to know the leader is involved. This critical point cannot be overstated. People want to see their leaders in a crisis (Harvard business essentials: Crisis management, 2004). The leader should be physically on the scene as soon as possible. His physical presence sends a loud and clear signal that he thinks this situation is extremely important (Harvard business essentials: Crisis management). Similarly, a leader’s absence sends the message that he has other priorities (Harvard business essentials: Crisis management). Physically being at the scene also gives the leader the opportunity to embrace his central leadership role, capture the initiative, seize power and take control (Bazerman & Watkins, 2004). During periods of crisis, people look for a strong, confident, and visibly engaged leader to pull them through (Harvard business essentials: Crisis management). Sadly, analysis of crisis after crisis repeatedly reveals that leaders hit by crisis often withdraw behind the protective shell of peers and lawyers or they play the blame game with subordinates and the media (Pinsdorf, 2004).

**Consult the Team/Find Experts**

During crisis mitigation, a leader will find himself deluged with time sensitive decisions. Information quality may be marginal at best and there is little time to consider alternative courses of action or think about unintended consequences. The organization’s crisis action team exists to address this challenge and take pressure off the leader. Never the less, a leader’s capacity to make good decisions will undoubtedly be strained, making it imperative that he seek expert advice and council (Harvard business essentials: Crisis management, 2004). Small group decision making can provide a backstop to help curb a leader’s impulses, encourage reflection and critical dialogue, and point out problematic assumptions and unrecognized implications of a potential course of action (Stern, 1999). Likewise, engaging subject matter experts from outside the organization as well as individuals, companies, or industries that have an interest related to the crisis can bring fresh, critical thought and ideas to the table (Mitroff, 2004). But leaders should also consider the warning to “beware of conventional wisdom – it may be wrong” (Stern).

**Tell the Story**

Another issue that must be part of any discussion on crisis management and leadership is the issue of communication. The communication process is critical during normal business operations; however, it takes on an even more criticality during a crisis. On June 28, 1863, three days prior to the Battle of Gettysburg, General George Meade was made the commanding officer of the Army of Potomac by President Abraham Lincoln. Realizing that a major battle was close at hand, Meade needed information- accurate and complete information – in order to prepare the Army for the forthcoming task. General Meade treated his subordinates as colleagues rather than as subordinates. Meade believed that “important plans may be frustrated by subordinates, from their ignorance of how much depended on their share of the work” (Coddington, 1968). As history shows, Meade did receive accurate and complete information and passed that information
on to his subordinates, which resulted in the defeat of Confederate forces under General Robert E. Lee. What was true then is true now; communications must be accurate and complete for senior leaders/managers within the organization to formulate appropriate responses to the situation and the recovery effort. It is equally important that senior leaders/managers also provide subordinates and with complete and accurate information. As Ford (1981) suggests, information distribution and distortion is likely to place the organization at an even greater disadvantage.

Effective communication is critical to leaders through all phases of the crisis. A leader should capitalize on all forms of communication to tell the story and ensure the widest reception. If a leader communicates effectively, he can at least help to frame, if not control the story. Failing to communicate will result in a misinformed public that may go so far as to damage or destroy the organization (Harvard business essentials: Crisis management, 2004).

In the end, how well or how poorly a crisis goes for an organization will have much to do with its communication. If an organization’s communications seem open and truthful and the leader is seen as genuine, compassionate, and confident in the future, the leader has already gone a long way towards successfully managing the crisis (Witt, 2002).

**Be the Spokesperson**

Selecting the correct spokesperson is also central to the effectiveness of an organization’s communications. It is imperative that the spokesperson have inner discipline and poise. Crisis will escalate the stress for both the spokesperson and the audience. Despite the stressful environment, a spokesperson must not show distress; he must have the emotional capacity to endure the uncertainty, frustration, and pain that is ever present in a crisis (Heifetz & Linsky, 2002). Whenever possible, the spokesperson should be the identifiable leader, usually the CEO (Harvard business essentials: Crisis management, 2004). When the crisis involves highly technical issues that the CEO cannot effectively address, a team approach should be used (Harvard business essentials: Crisis management). General Tommy Franks used this technique very effectively during the Iraq Campaign. General Franks would provide the strategic overview and key points but would hand-off detailed questions to subject matter experts (Harvard business essentials: Crisis management).

**Be Honest and Timely**

Rapid, honest, and transparent communication is the lifeblood of successful crisis management (Witt, 2002). The crisis leader must provide all available information as timely as possible. His message must always be forthright, accurate to the best of his ability and reinforced with understandable facts (Harvard business essentials: Crisis management, 2004). If there is ever any doubt, his guiding principle should be to err on the side of over disclosure (Harvard business essentials: Crisis management). The leader must also get his side of the story into the public’s mind early and often (Harvard business essentials: Crisis management). When he doesn’t, his organization is often convicted by the court of public opinion because a statement by the leader is too late or overcome the medias’ negative story and the perceptions that have been fostered (Mitroff, 2004). Warren Buffett’s advice is to “first state clearly that you do not know all the facts. Then promptly state the facts that you do know. One’s objective should be to get it right, get it quick, get it out, and get it over” (Harvard business essentials: Crisis management). An organization’s crisis management team may be great and its crisis management plan may be
complete, but if a leader cannot communicate his message during the crisis, the organization will fail (*Harvard business essentials: Crisis management*).

**Shape the Message**

A leader must also determine the principle message he wants to convey in the story. For starters, it should reduce fear and contain empathy for the victims of the crisis. Many victims will sustain incredible loss; financial, emotional, and spiritual. When a leader genuinely conveys a feeling of empathy to the victims, it bolsters the confidence, will, and character they need to recover (Witt, 2002). The story should also tie into the organizations core purpose and values. A message developed from the organization’s purpose and values will be calming and reassuring because of its consistency. Organizations that know what they stand for and know where they are going before a crisis hits, inevitably mange it better (*Crisis management: Master the skills to prevent disaster*, 2004).

**Profit from the Crisis**

Time is not a leader’s friend. The longer a crisis drags on, the more likely it is that the organization will be associated with trouble and conflict in the public’s mind. Similarly, while the organization is embroiled in crisis, it is likely that it is not working at peak efficiency. Employees will become increasingly concerned with the health of the company and defections will increase. Relationships the leader has developed with suppliers, customers, investors, and stakeholders, which strengthened in the early stages of the crisis, will become increasingly strained. The leader must press on to the next move; he must resolve the crisis, quickly (*Harvard business essentials: Crisis management*, 2004).

At some point the crisis will end and the leader should declare the crisis is over. The leader’s declaration serves to stand-down the crisis action team, turn off the crisis mind-set, and focus on adapting the organization while searching for opportunities. To give closure, a leader should meet with his organization. He should explain what happened and why it happened. He should describe how things have been resolved and where they stand today. Finally, he should reiterate the company’s core purpose and values and ask everyone to do his best moving forward (*Harvard business essentials: Crisis management*, 2004).

**Keep Moving**

Once a leader has mitigated the threat, that is, moved the crisis out of danger zone, he can begin efforts to profit from it. He must keep an eye on the threat, but his primary goal should be to move forward as quickly as possible with actions to end the crisis completely. Failure to guard against the threat and move forward gives the crisis an opportunity to mutate and break through the holding actions (*Crisis management: Master the skills to prevent disaster*, 2004).

**Learn From the Crisis**

A lessons learned session, or after action review should follow any significant event, especially a crisis. Participants should identify what went right, what went wrong, and what should be learned from the event. The leader should add the notes from the after action review, as well as all relevant crisis documents, to the historical record so valuable experiences are not lost (*Crisis management: Master the skills to prevent disaster*, 2004).

**Adapt the Organization**
The leader may feel a lot of internal and external pressure to see the crisis as a technical problem, with straight forward, technical solutions that can quickly restore the balance (Heifetz & Linsky, 2002). But he must not squander the urgency, attention, or opportunity the crisis has given him to address the difficult adaptive task of reinvention and simply return to status quo.

**Conclusion**

During a time of uncertainty, opportunities are available for those organizations that are prepared. As was previously stated, managers tend to be protective and hope that over time things will work out. Leaders/managers that use their imaginations, pay attention to the indicators, and listen to understand experts both inside and outside their organizations will find recovery faster than those that enter into a protective state of mind. Those leaders that understand what caused the crisis and work to create a lasting value for the organization’s customers, employees, and shareholders will be successful when compared to those that use protectiveness as a method of dealing with the crisis. A true leader understands that the world that existed prior to the crisis will not return to its original condition, therefore, we need leaders/manages that will understand how to benefit from those events that occurred during the crisis. During a crisis, true leaders are those who believe in people; create a feeling of belonging and confidence that the organization will emerge from the crisis in a stronger position than it was before the crisis. Leadership exists because of people. It is for people and with people that we get the concept of leadership. Leadership does not exist as a concept in a vacuum; it exists because it is with this concept that we, as a people, are able to achieve great things.

For years crisis management has been synonymous with reactive leadership. While this type of leadership is often an unavoidable reality, this paper introduced a model that may be used to understand the general life cycle of a crisis, but what is the utility of such a model?

Applied to specific situations, this model can serve as a lens through which leaders may view their organizations. This lens can frame the crisis and help leader’s understand the situation they are facing. Further, the model provides the leader perspective and context during the crisis. This perspective gives the leader a birds-eye view of the situation. The crisis life cycle model addresses the theory of crisis analysis, but the strength of the tool is put into practical terms when the crisis leadership strategies are applied to the model. The strategies represent the prescriptive portion of the paper. Knowing where an organization is in a crisis is not helpful unless the leader also knows how to manage this new reality.

We believe that each crisis situation is unique and therefore it is impossible to develop a checklist that can be universally applied. However, the theory and strategies addressed in this paper may serve leaders well, if used to think about where their organization may be in the life cycle of a crisis and the appropriate strategies to be employed to meet their unique challenges.

The intent of this paper is to provoke thought within leaders at every level concerning the management of crisis situations and leadership in this environment. The skills required to lead through disaster must be continually honed to prepare for, respond to, and learn from crisis.
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Collins, J. (2003, July 21). The 10 greatest CEOs of all time; What these extraordinary leaders can teach today's troubled executives. Fortune.
SIZE EFFECT ON EMERGING MARKETS WHILE ESTIMATING THE SIZE PREMIUM OF COMPANIES
STUDY OF THE RUSSIAN MARKET

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The study investigates the existence of size effect and size premium of Russian public companies. While most Russian companies facing the problem of proper evaluation of size premium of companies and then integrating it in required rate of return on equity, the study of size effect on the Russian market is actual and on the agenda for corporate finance research.

The first step of size effect investigation is the determination of size criteria of Russian public companies. Probably, market capitalization is not the only and the best size criterion for companies from riskier and less developed emerging market. Conducting regression analysis, three size criteria were found out.

Secondly, using chosen size criteria, the existence of size effect on the Russian market was examined and detected. On the whole, obtained results demonstrate the adequacy of chosen size criteria and inspire to further study.

Thirdly, according to size criteria, industry concentration was studied on the Russian market, which characterized by predomination of extractive industries. It was proved that big-sized Russian companies dominate in extractive industries such as oil and gas industry and basic materials, while small-sized companies dominate in public health industry and utilities’ industry.

Understanding the relation of industry concentration and size of companies as well as other results of the study will allow developing a complex approach in the sphere of size premium evaluation on emerging markets. As a result, financial experts could more accurately estimate the rate of return on equity of companies from emerging markets. Consequently, the further in-depth research with the extended sample of data from emerging market is needed.

Key words: size effect, size premium, size criteria of companies, industry concentration.
Over the last decades researchers (Fama and French, Gordon, Banz, Grabowski, King and others) have been pointed out the necessity of considering additional risk factors in the value of rate of return on equity of a company. Risks associated with the size of a company were among these factors. According to the famous researchers from developed markets (among which worth mentioning analysts of U.S. companies Ibbotson Associates and Duff &Phelps) size of company and so-called size effect have a significant impact on enterprise value. Size effect appears in the fact that yields of small companies are higher than the yields of large companies. Thereby, size premium is a quantitative measure of size effect for a specific company (individualized risk assessment of business scale) that should be integrated in rate of return on equity of a company.

With the development of theory and practice of corporate finance in Russia the decision on considering the risk in financial values, associated with company's size and scale of its business, and consequently the estimation of size premium have become on a special urgency on the emerging markets and especially in Russia.

In fact, the in-depth research has not been conducted in Russia. Unfortunately, in the absence of fundamental research in this area, Russian experts have to use values for size premiums of U.S. companies, which are much lower than estimated values of size premium of emerging market companies. For example, the most common practice of Russian analysts nowadays is to take the values of size premium from Ibbotson Associates Yearbook (calculated on a huge sample of U.S. public companies) for evaluating rate of return on equity of Russian companies. Thus, the specificity of Russian business is not taking into account at whole.

There are two key features of the Russian market as an emerging market:

- Russian economy has sectorial imbalances: generally, most of large companies are extractive companies (according to key size criteria used in this study);
- There is a little of available data on Russian public companies in comparison with data on companies from developed markets.

Considering above characteristics of Russian emerging market, it is important to conduct the analysis of size effect on the Russian market as a basis for further investigation of size premium of Russian public companies.

The data of Russian public companies for size effect analysis were taken from Bloomberg database and cover the period of 2006-2010. Size criteria (chosen set of companies’ performance indicators) were investigated on these data. Industry classification of small and big companies as well as research of existence of size effect as a whole was conducted on data of 2010 year. A 2010 year was a year of stabilization of the Russian market after the deep fall in 2008-2009. In fact, lots of Russian public companies’ yields fell much more than companies’ yields on developed market during financial and economic crisis.
Thus, for my analysis it was important to exclude potential financial distressed Russian companies.

The key prerequisites for selecting Russian public companies are following:

1. a public company quoted on the Russian RTS and MICEX, which demonstrate transactions on public market;
2. a company is legally registered in the territory of Russia;
3. companies that have shown positive performance during the last 5 years (this assumption allows us to consider companies that will continue to operate after the time of analysis);
4. Non-financial companies (financial industry of Russian companies is excluded from the analysis, as the business of the industry is very specific).

The final sample of analyzed Russian companies consists of a very small number of 70 companies:

- Industry of «Basic Materials» (20 companies);
- Industry of «Oil and gas» (10 companies);
- Industrial industry (10 companies);
- Industry of «Consumer goods» (8 companies);
- Industry of «Consumer Services» (2 companies);
- Industry of «Utilities» (11 companies);
- Industry of «Public health» (4 companies);
- Industry of «Telecommunications» (5 companies).

Situation with a small number of data in the sample is still typical of Russian studies. This is due to the low transparency of information and less developed financial market.

Before determining the existence of size effect and also industry concentration of companies, we should investigate size criteria upon which we could carry out the analysis. It should be mentioned that for determining the size criteria of Russian public companies it is important to examine absolute indicators (e.g., market capitalization of the companies.) of company’s performance. A key disadvantage of relative indicators (e.g., liquidity ratios, profitability ratios, etc.) is that they liquidate the size characteristic while comparing the performance of companies. Thus, these indicators allow us to value and compare the performance of companies regardless of size.

Probably, market capitalization is not the only and the best size criteria, especially for Russian undeveloped financial market. Obviously, balance indicators could be also very informative indicators, revealing the size of companies.

I use the logarithmic equation that shows the relation of absolute performance indicators (probable size criteria) of companies and actual yields of its stocks (i.e., returns on equity):
\[ y = a + b_1 \ln(x_1) + b_2 \ln(x_2) + b_3 \ln(x_3) + b_4 \ln(x_4) + b_5 \ln(x_5) + b_6 \ln(x_6) + b_7 \ln(x_7) + b_8 \ln(x_8) + b_9 \ln(x_9) + b_{10} \ln(x_{10}) + b_{11} \ln(x_{11}), \]

where \( y \) – actual stock returns of companies (%); \( x_1 \) – market value of common equity (mln. dollars); \( x_2 \) – book value of common equity (mln. dollars); \( x_3 \) – EBITDA (mln. dollars); \( x_4 \) – sales (mln. dollars); \( x_5 \) – net income (mln. dollars); \( x_6 \) – total assets (mln. dollars); \( x_7 \) – fixed net assets (mln. dollars); \( x_8 \) – net working capital (mln. dollars); \( x_9 \) – total debt (mln. dollars); \( x_{10} \) – invested capital (mln. dollars); \( x_{11} \) – number of employees; \( a \) – constant; \( b_i \) – numerical coefficients.

Based on regression model, I have got the following result. The model is significant as a whole (according to F-statistics) and the most significant parameters (based on t-statistics for the coefficients \( b_i \) of variables) were six out of the nine variables (Figure 1).

**Figure 1. The significance of the dependent variables in regression model**

Thus, according to the significance of the dependent variables in regression, I identified the size criteria (most significant variables) of Russian companies on the basis of analysis of annual performance of companies over a five year period of time (from 2006 to 2010):

- book value of common equity
- number of employees
- market value of common equity

Relying on investigated size criteria for analyzed Russian public companies, graphic analysis was conducted to identify the size effect on the Russian market. Charts 1 -3 show ranked (from big-sized companies to small-sized companies - on the chart from the left to the right) seventy selected Russian public companies on the basis of actual annual returns on stocks in 2010 according to three size criteria. Charts 4 –6 also show the same ranked companies but yet on the basis of actual average monthly returns on stocks in 2010 according to size criteria.
According to the general definition of size effect, yields of small-sized companies are constantly higher than the yields of large companies. Charts 1 – 3 slightly reflect this regularity.

Actually, we could not state, that size effect exists, based on these actual annual data. We even could not specify which size criterion best reflects the existence of size effect on the Russian market. Charts do not show steady or sharp increases of returns on stocks when we trace the yields from the left to the right (from big-sized companies to small-sized companies).

Contrary, Charts 4 – 6 explicitly proves the existence of size effect on the Russian market. All size criteria of companies show increase in actual average monthly returns on stocks of smaller companies. Minor exception makes the size criterion of book value of common equity: the increases in returns are shifted to the left on Chart 4 in comparison to other Charts 5–6.

One of possible reasons of this could be the biases due to small sample and non-stable time-period of analysis. Moreover, average monthly returns analysis smoothes out possible fluctuations of returns in comparison to the analysis of annual returns on stocks. Thus, it is possible to see more clearly the existence of size effect on the Russian market.
In fact, the evidence of size effect existence on emerging markets is more difficult to obtain due to existing variable risk factors in contrast to developed market. These factors may be interlinked and intertwined, that is why it is harder to spot the size effect. Therefore it is important to understand the drivers and sources of size effect and purify it from of concomitant effects and other market effects anomalies. Therefore it is necessary to conduct further empirical research in this area, especially in emerging financial markets (particularly in Russia), as well as at different time intervals. This will allow making the output about qualitative and quantitative characteristics of size premium of companies from emerging markets and, consequently, better calculating the value of the required return on equity of companies.

While purifying size effect from possible industrial risks, it is important to conduct the analysis of industry concentration of companies and then to investigate size effect and size premium of companies from emerging markets within each industry group in future research.
Understanding an existence of sectorial peculiarities, it is reasonable to assume that the small-sized companies are likely to be concentrated in a relatively less profitable sectors where there are probably some lower barriers to market entry. Therefore a high competition does not allow companies to earn relatively large profits. In contrast, larger companies are concentrated in more profitable, stable and less risky industries (probably, with higher entry barriers) and thus in more oligopolistic industries. This assumption is generally consistent with the basic theoretical postulate, observable in practice: the greater the risk of a company (in our case, we mean that a company is operating in a high-risk industry), the higher company’s return on equity.

The analysis of industry concentration could help to identify the relationship between firm size (and, therefore, its risk and return) and firm’s belonging to a particular industries. Earlier this type of research has not been conducted on the Russian market that is why the results of this study will be of interest to specialists in the field of corporate finance.

Previously we have detected the existence of size effect on the Russian market in 2010. Industry concentration was studied on the Russian market based on the same sample and investigated size criteria of Russian public companies. Russian industries were grouped according to the Bloomberg industry classification: basic materials, oil and gas, industrials, consumer goods, consumer services, utilities, public health and telecommunications.

With the use of investigated size criteria, Russian companies were grouped in descending order by breaking into ten deciles: the first decile represents the largest companies, and the tenth - the smallest companies for each size criterion (are presented in Tables 1-3).

<table>
<thead>
<tr>
<th>decile</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
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<tbody>
<tr>
<td>Oil and gas,</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>8</td>
<td>6</td>
<td>1</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>0</td>
<td>4</td>
<td>8</td>
<td>6</td>
<td>1</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer goods,</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>0</td>
<td>8</td>
<td>2</td>
<td>1</td>
<td>1</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrials</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>8</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td>8</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic Materials,</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>8</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>1</td>
<td>6</td>
<td>2</td>
<td>8</td>
<td>1</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Telecommunications</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1. Industry concentration according to the size criterion of book value of common equity
Table 2. Industry concentration of Russian public companies according to the size criterion of market value of common equity

<table>
<thead>
<tr>
<th>decile</th>
<th>1</th>
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<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and gas, %</td>
<td>88</td>
<td>28</td>
<td>17</td>
<td>24</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>12</td>
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<tr>
<td>Consumer goods, %</td>
<td>22</td>
<td>15</td>
<td>15</td>
<td>26</td>
<td>34</td>
<td>44</td>
<td>44</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrials companies, %</td>
<td>92</td>
<td>22</td>
<td>71</td>
<td>64</td>
<td>14</td>
<td>33</td>
<td>13</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>Basic Materials, %</td>
<td>22</td>
<td>12</td>
<td>12</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Telecommunications, %</td>
<td>22</td>
<td>15</td>
<td>44</td>
<td>44</td>
<td>14</td>
<td>44</td>
<td>44</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td>Utilities, %</td>
<td>22</td>
<td>15</td>
<td>44</td>
<td>44</td>
<td>14</td>
<td>44</td>
<td>44</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td>Consumer Services, %</td>
<td>22</td>
<td>15</td>
<td>44</td>
<td>44</td>
<td>14</td>
<td>44</td>
<td>44</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td>Public health, %</td>
<td>22</td>
<td>15</td>
<td>44</td>
<td>44</td>
<td>14</td>
<td>44</td>
<td>44</td>
<td>44</td>
<td></td>
</tr>
</tbody>
</table>

Table 3. Industry concentration of Russian public companies according to the size criterion of number of employees
According to three size criteria, companies of oil and gas industry as well as basic materials’ industry are the largest. Particularly interesting to note, that telecommunications industry is also represented by big companies.

With the size decrease, companies are generally concentrated in relatively less profitable industries with higher competition: consumer goods and consumer services, as well as industrial companies. Generally, public health and utilities are industries with small-sized firms.

However, the first exception is the basic materials industry: probably the explanation of it is biases in analysis due to small sample of analyzed companies and the unstable period of analysis. This fact requires further study. The second exception is the industrials companies. Apparently the dominance of extractive industries in Russia is inversely proportional to the level of development of manufacturing. Probably, performance of manufacturing enterprises confirms the current undeveloped condition of the Russian national manufacturing. On the other hand, perhaps it is also the bias of analysis that could be overcome in future studies with larger sample.

Thereby, despite the exceptions and biases of analysis, our general industry concentration assumption was confirmed in all investigated sized criteria of Russian public companies. In this
case, the most profitable industries of the Russian economy (which are mainly extractive industries) are oil and gas industry and basic materials, and the least profitable are public health, utilities, consumer goods and consumer services. Thus, small-sized Russian companies are concentrated in the less profitable and relatively weak and more risky industries of the Russian economy, while larger companies are concentrated in the most profitable and less risky industries.

Summing everything up, research of size effect as well as investigation of size criteria of Russian companies and industry concentration of all-sized companies are the first steps on development of methodic of size premium estimation for the Russian market as well as for other certain emerging markets. Since the study was conducted on data of unstable period in 2010, the various risk factors could cause biases in results. Nevertheless, they do not contradict each other but, of course, require further comprehensive research.

Finally, future research of method of size premium estimation will accounts for obtained results of this study and will provide flexible to changes and modifications algorithm for companies from emerging markets. Considering risks associated with the size of a company, financial experts could estimate more accurately the rate of return on equity of companies from certain emerging markets.

Monographs


Periodicals


ECONOMIC CONTRIBUTION OF IMMIGRANTS

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Abstract

Many scholars have studied the economic activities of immigrants in the United States of America. (Borjas, 1986; Schuetze and Antecol, 2007; Fairlie and Robb, 2008 and others). They found that approximately 10% of the total businesses in the United States are owned by immigrants. They are important part of the U.S. economy and contribute to its productivity growth and technological advancement (Bureau of labor Statistics, American Community Survey). The main objective of this research paper is to study the contribution of immigrants in the following three areas of the US economy and to find the opportunities for future growth: Real estate businesses, Restaurant business, and White color jobs.

For the purpose of this study, the US census reports from 2000-2011 have been used. According to the 2011 census report, the maximum number of immigrants is from Mexico, which is 11,711,103 million people or 29.33% of the total immigrant population. The number of Chinese immigrants is 2,166,524 million and they make 4.20% of the business owner and labor force. The number of Indian immigrants is 1,780,322 and they make 5.71% of the businesses owner and labor force in the United States. The main reason of Chinese’ and Indians’ low percentage of the total business owner and labor force is due to the fact that majority of them are highly educated and, therefore, get well paid white color jobs. This study is designed to evaluate the contribution of immigrants from Mexico, China and India in US economy.

Research Methodology

The findings in this research study are supported by the historical data. The major data sources have been US census 2000 - 2011, US Government Data, International Monetary Fund, authentic
websites and published research studies. The data sources are reviewed and analyzed to draw conclusion with the help of graphs and tables.

**Introduction**

Economic contribution of immigrants has been one of the most debated topics for economists, researchers and Think Tank (Center for Economic and Policy Research). United States is known as a nation of immigrants. The review of American history indicates that immigrants have contributed greatly to the economic vibrancy and strength of the nation. The impact of immigrants is more discernible in recent years. According to David Dysegaaad Kallick, immigrants make up 20% of the population and are responsible for 20% economic outputs in 25 largest metro areas combined together. These metro areas comprise 49% of the total population of the country, 66% of all immigrants and one-half of the country’s total GDP (Jason Richwine, 02/24/09). The 21st century has witnessed a concrete sign of the economic contribution of immigrants in USA. Recently, there is also a positive shift in the US immigration policy from economic point of view. The liberal immigration policy is one of the most important reasons for continuous economic growth as compared to many European countries. (Quentin Peel, 2005)

**Literature Review**

Immigrants’ contribution to US economy has been widely discussed. There could be varying opinions in this area but it is clear that it has been a matter of constant evaluation. There are number of research studies and updates on this topic. Immigrants are nearly 30 percent more likely to start a business as compared to non immigrants, and they represent 16.7 percent of all business owners in the United States. Immigrant business owners make significant contribution to business income, generating $ 67 billion of the $577 billion in US business income, as estimated from 2000-2011 US census data. Ten high-tech companies started by immigrants earned 831 billion in revenue during 2002.
Indian immigrants have founded more engineering and technology companies in the United States during the past decade, 1995-2005, than immigrants from the United Kingdom, China, Taiwan and Japan. The largest groups of immigrant investors were Chinese. Indian immigrants were second followed by Canadians and British. According to Saxenian findings, the percentage of firms with Indian and Chinese founders in the Silicon Valley had increased from 24% to 28% in 1999. Indian immigrants outpaced their Chinese counterparts as founders of engineering and technology companies in Silicon Valley. Saxenian reported that 17 percent of Silicon Valley startups from 1980-1998 had a Chinese founder and seven percent had an Indian founder. The new study found that from 1995-2005, Indians were key founders of 15.5 percent of all Silicon Valley startups and immigrants from China and Taiwan were key founders of 12.8 percent businesses. There was at least one immigrant key founder in 25.3 percent engineering and technology companies established in the United States between 1995-2005. This pool of immigrant funded companies was responsible for generating more than $ 52 billion in 2005 sales revenue and creating almost 450,000 jobs. Roughly, 26 percent of all immigrant funded companies during the last ten years were founded by Indian immigrants. Immigrants from the UK, China and Taiwan contributed to 7.1%, 6.9% and 5.8% of all immigrant funded businesses, respectively (Borjas, Schuetze & Antecol, 2007)

Findings

The majority of immigrants in the United States of America are from China, India, Mexico, Philippines and Vietnam (Table1&2). There has been mixed reaction and debate whether these immigrants really contribute to the US economy or not, and if at all they contribute, then in which area of economy. According to David Dysegaad Kallick, Director of Immigration
Research at the Fiscal Policy Institute, New York, analyzed the data on immigrants and concluded that “the US is getting a more varied and economically important flow of immigrants than the public seems to realize”. Table 1 shows the increasing flow of immigrant in US labor force from 1970-2011. Table 2 provides a detail description of immigrants regarding their total population and their number as labor force and business owners. According to this table Mexico is on top, which is 29.33%. Chinese have 5.42% and Indians 4.46% of the immigrants’ population in the United State.

Table 1

**Table 1**

**Immigrants as a Percentage of the Total US Population and of the US Civilian Labor Force, 1970 to 2011**

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of the civilian labor force</th>
<th>Share of the total population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>5.30%</td>
<td>4.80%</td>
</tr>
<tr>
<td>1980</td>
<td>6.70%</td>
<td>6.20%</td>
</tr>
<tr>
<td>1990</td>
<td>9.30%</td>
<td>7.90%</td>
</tr>
<tr>
<td>200</td>
<td>12.50%</td>
<td>11.10%</td>
</tr>
<tr>
<td>2010</td>
<td>16.50%</td>
<td>12.90%</td>
</tr>
<tr>
<td>2011</td>
<td>16.60%</td>
<td>13.00%</td>
</tr>
</tbody>
</table>

Sources Fiscal Policy Institute analysis of American community Survey 2010 five year estimate.

Table 2

**Table 2**

**Immigrants as a Percentage of the Total US Population and of the US Civilian Labor Force 2011**

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Labor Force</th>
<th>business owners</th>
<th>% business owner &amp; labor force</th>
<th>population %</th>
</tr>
</thead>
</table>
Sources Fiscal Policy Institute analysis of American community Survey 2010 five year estimate.

Our findings are directed to three important areas where immigrants play a vital role in US economy, which are real estate business, restaurant business and white collar business.

Chinese and Korean immigrants dominate restaurant business; whereas Indian immigrants hold most white collar jobs. It is worth observing that more than 50% restaurant businesses are owned by Asian immigrant (Graph-1 & Tables 3, 4).

**Immigrants Population in Restaurant Business Census 2010.**

*Graph -1*

Table 3

Immigrants Population in Real Estate Business Census 2010

<table>
<thead>
<tr>
<th>Country</th>
<th>Immigrant in Real estate</th>
<th>% Share in real state</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>2,354</td>
<td>2.23</td>
</tr>
<tr>
<td>India</td>
<td>1,308</td>
<td>2.09</td>
</tr>
<tr>
<td>Korea</td>
<td>1,278</td>
<td>2.23</td>
</tr>
<tr>
<td>Cuba</td>
<td>1,863</td>
<td>5.2</td>
</tr>
<tr>
<td>China</td>
<td>1,274</td>
<td>3.72</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1,153</td>
<td>3.68</td>
</tr>
<tr>
<td>Canada</td>
<td>2,128</td>
<td>7.69</td>
</tr>
<tr>
<td>Iran</td>
<td>1,651</td>
<td>6.52</td>
</tr>
<tr>
<td>Philippines</td>
<td>1,175</td>
<td>5.93</td>
</tr>
<tr>
<td>Poland</td>
<td>732</td>
<td>4.19</td>
</tr>
</tbody>
</table>

The contribution of the immigrant in the area of real state is very low. It is not clear from table-3 it is not clear how much percent of real estate owned by immigrants and how much is the percentage of the labor force.

**Immigrants Business Owners in White Collar Jobs**

**Table-4**

<table>
<thead>
<tr>
<th>Country</th>
<th>% share in white color jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>1.79</td>
</tr>
<tr>
<td>India</td>
<td>29.93</td>
</tr>
<tr>
<td>Korea</td>
<td>5.71</td>
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<tr>
<td>Cuba</td>
<td>6.76</td>
</tr>
<tr>
<td>China</td>
<td>9.14</td>
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<tr>
<td>Vietnam</td>
<td>8.95</td>
</tr>
<tr>
<td>Canada</td>
<td>17.55</td>
</tr>
<tr>
<td>Iran</td>
<td>17.05</td>
</tr>
<tr>
<td>Philippines</td>
<td>17.13</td>
</tr>
<tr>
<td>Poland</td>
<td>3.19</td>
</tr>
</tbody>
</table>

Sources: Fiscal Policy Institute analysis of American community Survey 2010 five year estimate. [www.fiscalpolicy.org](http://www.fiscalpolicy.org)

**Conclusion**

It is clear that Chinese, Korean and immigrants from several other countries contribute a great deal to the US economy through the restaurant businesses. This is one of the important areas where immigration policies need to be liberalized for immigrants to boost up the US economy. The second area of consideration is white color jobs where Indian immigrants dominate. Americans are inclined to welcome upper tier immigrants, realizing that they contribute to economic growth without burdening public services. Nearly half of foreign born workers in America work in white color jobs, including management, sales, technology and administration. They bring new ideas, start businesses and contribute to the economic growth of the country. This view is supported by Kallman Moore. David Dysegaard Kallick also examined the contribution of immigrants in the work force in 25 largest metropolitan areas. His study
which was published in New York Times supports our conclusion. Our research study also took into account the real estate business where immigrants do not seem to be very much interested. However, real estate business can be converted as a source of attraction for immigrants, enabling them to contribute to the economic growth. We recommend that a further research needed in this area.
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THE THREAT OF NEGATIVE SYNERGY IN INTERNATIONAL PROJECT MANAGEMENT DECISION-MAKING

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Abstract

Presented is a paradigm shift in the effective decision-making processes that evolves as a result of the effect of negative synergy in the ever-growing environment of international project management. The authors introduce the concept of negative synergy as a special case of synergy where the whole is less than the sum of its parts. A discussion of the emerging role of project management in international business, an emerging model of decision making under conditions of negative synergy is suggested, and finally introduced are recommended ways to reverse situations where decision making is sent into a destructive spiral due to the effects of negative synergy. Negative synergy presents an interesting new way to increase comprehension and understanding of the complexities of decision making in international project management that may create more effective group decisions within international management.

Background

Three topical areas are significant contributors to an investigation into the impact of negative synergy upon groups in international project management and the group decision-making process. Indicated first is a summary of the rise of project management in international business and major business decision-making models in order to establish an environment that encompasses decision makers. Indicated second is a likewise review of the fundamentals of synergy and associated applications of synergy in various selected settings. Finally, the third area of discussion indicated is a review of the importance of negative synergy on the international project management decision making processes and protocols. Presented is a paradigm shift in the effective decision-making processes that evolves as a result of the effect of negative synergy on decisions made in international project management situations. A review of the literature centering on project management, the development of global standards, decision-making protocols, and the application of such project protocols to other industries is considered. Several examples of the effect of negative synergy on decisions are introduced. An emerging model of decision-making under conditions of negative synergy is suggested. Finally, ways to reverse situations where decision-making is sent into a destructive spiral due to the effects of negative synergy is introduced. Negative synergy and the application of project decision-making principles present an interesting new way to increase comprehension and understanding of how groups may make effective group decisions.

Introduction
Groups working together to make decisions, to arrive at conclusions, to make recommendations, and to derive policy have made spectacular progress in such diverse fields as medicine, engineering, finance, and project management. The spectacular events and accomplishments seen since the Industrial Revolution and those decisions stand in silent tribute to the efficacy of managers capturing the positive aspects of synergy and synergistic relationships to advance goals and objectives of firms (Buchholz & Roth, 1987). Nevertheless, sometimes things go wrong generating spectacular errors and colossal failures as weaknesses in decision-making occur (Kuhn & Poole, 2000). This paper will examine negative synergy as a proposed explanation for such an event in terms of international project management, will present a model of decision-making under conditions of negative synergy, and will suggest some countermeasures that might be useful to improving the chances for future success under conditions exhibiting features of negative synergy. Among such countermeasures is the potential application of project management standards to the decision-making process in response to an increasingly global practice.

**Literature Review**

The management of projects, defined in part as temporary, unique endeavors to achieve a specific goal within scope, on-budget, and on-time, has grown in significance for industries worldwide (Project Management Institute, 2012). As the international community embraced standards set by the U.S.-based Project Management Institute (PMI), the foremost authority on the subject, other organizations in counties such as China, Japan, and Australia developed their own standards for specific industries that continue to add to the field (Crawford & Pollack, 2008).

The researchers reviewed the existing literature related to the growing significance of project management on a global scale, the creation of various industry standards, and the use of those standards and related processes to aid in decision-making activities. The objective of this review is to link decision-making activities espoused by project managers (PMs) to better decision making for teams experiencing negative synergy.

**Overview of Project Management**

The temporary, unique nature of projects typically creates an environment where the PM forms a project team consisting of individuals who often do not work together on a regular basis.
Their goal is not only to complete the project, but also to connect project results to business goals. Participating in formal processes contained in PMI’s *A Guide to the Project Management Body of Knowledge* (PMBOK Guide), creates a framework from which project teams learn to compete at a higher level within their markets (Project Management Institute, 2012). PMs use numerous tools such as Gantt charts or network diagrams to visualize project progress and to manage time, cost, resources, and quality (Arden, 2008).

Crawford and Pollack (2008) submit that the use of such standards is a clear sign of maturity in any industry. Classic project management processes promoted through the PMBOK Guide occur within the five process groups of initiation, planning, execution, monitoring/control, and closing. Each of these process groups requires in-depth knowledge of such variables as cost, quality, scope, risk management, and communications (Project Management Institute, 2012). Such skills may add to the decision-making capabilities of project and marketing managers alike.

**Increasingly Global Nature of Project Standards**

Organizations worldwide continue to realize progressively the benefits for prescribed, professional standards related to project processes and implementation techniques (Arden, 2008). The mid 1900s saw a noticeable surge of projects with international consequence including ones with global operations and project management. The PMI remains the largest professional organization related to project management and their PMBOK approach is still the most widely used in the field (Crawford & Pollack, 2008). However, PMs have begun to take notice of alternative approaches such as Value-Driven Change Leadership (VDCL) that encourages the measurement of the value/outcome of a project over the traditional budget/schedule measurements. This approach then places emphasis on outcomes of a project as opposed to cost and schedule performance (Nicholas & Hidding, 2010).

VDCL is but one example of a host of alternative approaches to project management in a growing field of study. Other approaches and decision-making activities developed by professionals in organizations across the globe are beginning to take root. Some notable, professional organizations include Project Management South Africa (PMSA), the United Kingdom’s Association for Project Management (APM), the Japan Project Management Forum (JPMF), the Australian Institute of Project Management (AIPM), China’s Project Management Research Council (PMRC), and the International Project Management Association (IPMA), which operates not only in Europe but also in Africa and Asia (Crawford & Pollack, 2008). Members of these organizations number well into the hundreds of thousands and add greatly to the discussion on project management processes and to decision-making techniques in particular.
Project Management Decision Protocol

Frequently, PMs face the challenge of managing both the technical aspects of the project (budget, resources, scope, schedule, etc.) and the human factors of interpersonal relationships among a diverse team. This may include working with team members from differing departments within the firm to those with varying organizational, ethnic, generational, or cultural backgrounds (Wong, 2007). Skills required of PMs include “…problem-solving, teamwork, leadership, critical analytical thinking, time management, managing relationships, attitudes, and expectations, and the ever-critical communications, to the problems raised in the day-to-day managing of projects, programs, and portfolios (Kraus, 2007, p. 3). Adherence to strict project controls and standards to manage the technical and human factors adds to the decision-making capabilities of PMs (Wong, 2007).

Major decisions required by PMs include input into the selection of projects, monitoring/control, resource, risk, conflict, and stakeholder management (Ardren, 2008; Wong, 2007). Regardless of the type of decision required, PMs often follow the project management protocol of a) establishing decision criteria, b) producing and analyzing alternative approaches, c) weighing alternatives to decision criteria, d) determining the favored alternative, and e) implementing the decision. PMs base such decisions on historical data from past projects and previous project outcomes if applicable to the decision criteria (Ardren, 2008). Jankovic, Stal-Le Cardinal, and Bocquet (2010) add that project decisions include realistic objectives that correspond to the market; and that decisions are often made using collaborative efforts as no one team member often has the technological ability to make the decision alone. This common decision-making approach is part of a growing standard that creates a sense of reciprocity between established professional standards in other management fields with the field of project management (Crawford & Pollack, 2008).

Classical Decision Making

There are four widely accepted models of business decision-making: the Rational or Classical Model, Simon’s Bounded Rationality Model, Vroom and Yetton’s Normative Model and the Intuitive or Heuristically based model. In addition, there are a number of protocols for enhancing group decision-making. This section of the paper will discuss the four decision models and various suggestions for improving the efficacy of group decision-making.
The Rational Model. has been the dominate model of decision making since WWII (Prusak, 2005). The model is based on the following eight steps:

1. Identification of the problem
2. Identification of the decision criteria
3. Allocation of weights to criteria
4. Development of alternatives
5. Analysis of alternatives
6. Selection of an alternative
7. Implantation of the alternative

The model, however, has inherent flaws. For instance, it assumes that the exact problem to be dealt with can be clearly identified. Therefore, for example, according to the Rational Model, if the manager sees there is a problem with turnover in the organization, the model assumes that turnover is the problem to be solved, not, perhaps, a symptom of a larger problem in the organization. Possible errors in the identification of the problem can, obviously, lead to problems with the rest of the model since the original assumption in the eight-step process may be erroneous. Other problems with the model lie in its assumptions of rationality; that, for instance, there is only one single-well defined goal to be obtained; all alternatives and consequences can be known; preferences are always clear and those preferences remain constant; there is unlimited time and monies available and that the final decision can be an optimal decision (Robbins & Coulter, 2005).

The Bounded Rationality Model. The problems with the Rational Model, led some, like Herbert Simon, a political scientist, to explore the limits of rationality in the model. Simon suggested, in his investigation of the model, that the Rational model “leaves no room for regrets, second thoughts or ‘weakness of will’” (Simon, 1986). He suggested, instead, that business decisions are made under conditions of “bounded rationality” (Simon, 1947). In this model of Bounded Rationality, the inherent flaws of the Rational Model are taken into consideration in the decision making process and suggests that managers make decisions rationally, but are “bounded” by their inability to process the information required to make an optimal decision. Simon (1947) coined the term ”satisfice” to mean that managers, because of their limitations to process information, are not able to make an optimal decision, but merely a satisfactory and sufficient decision (Robbins & Coulter, 2005).

The Intuitive Model. The third widely accepted model of decision making in the business literature is the Intuitive or Heuristically based model. The Intuitive model also points
to problems in the Rational model. For instance, Nutt said that when manager’s use the Rational model to make decision they “struggle to reach the 50% success mark.” (Sinclair, Ashkanasy, 2005). The literature (Wally & Baum, 1994; Tomer, 1996; Kuo, 1998; & Agor, 1984) suggests that the Rational model is being replaced by a more “holistic model” (Sinclair, Ashkansy) model that takes into account the threat of high decision costs, increased time constraints and more ambiguous, dynamic environments. The Intuitive model suggests that managers make “gut” decisions or decisions based on past experiences so they can “act quickly with what appears to be limited information” (Robbins & Coulter, 2005). One study “revealed that almost one-third of (them) emphasized ‘gut’ feelings over cognitive problem solving and decision-making” (Robbins & Coulter, 2005).

The Normative Model. Whichever the model followed, the individual decision maker is emphasized. Vroom and Yetton’s Normative Model is one of the few business decision-making models that emphasizes consultation and group dynamics (Vroom & Yetton, 1973). Vroom and Yetton based their group decision-making model on the ideas that situational factors cause “almost unpredictable leader behavior” (faculty.css.edu, 2006). The authors explain that five different decision procedures are followed: two autocratic, two consultative and one totally group based:

A1: Leader takes known information and then decides alone

A2: Leader gets information from followers, and then decides alone

C1: Leader shares problem with followers individually, listens to ideas and then decides alone.

C2: Leader shares problem with followers as a group, listens to ideas and then decides alone

G2: Leader shares problems with followers as a group and then seeks and accepts consensus agreement.

Vroom and Yetton (1973) assumes that participation of those involved in the decision-making process increases acceptance of the decision and that increased acceptance increases commitment to the decision.

Nevertheless, even with the increased attention to participation by others in the decision-making process, there are factors that suggest that the results of group decision making are different from individual decision-making. For instance, there “are some decisions which
employees simply accept because they are indifferent to them” (Hoy, Tarter, & John, 1993). In addition, if there is little group commitment to a decision, then participation in the decision making process should be limited because it may influence the direction in which the decision maker wishes the solution to turn (Hoy, Tarter, & John, 1993).

In order to increase the efficacy of group decision making there are several suggested conditions. For instance, giving groups “task–relevant information that simplifies…their tasks…, more cohesive groups tend generally to be more productive, group norms that favor productivity…” (Kerr, Tindale, 2004); group commitment to organizational goals and tasks and group expertise all enhance the quality of group decision making. In fact, even seemingly simplistic suggestions like larger groups allow for more diverse input, having an odd number of people in the group helps to avoid stalemates and having a group large enough to allow for members to “shift roles” but small enough for “quieter members to participate” (Robbins & Coulter, 2005) all enhance the group decision making process.

**Forms of Synergy**

Usually synergy is thought of as getting more done with less (Francis & Young, 1979). In reality, synergy is found abundantly in a variety of natural systems. The idea that the whole is somehow greater than the sum of the subsets of a system and the concept is divergently applied universally across such disciplines as engineering, medicine, chemistry, business, leadership, psychology, and social work. The benefits of shared energies are apparent. For example, a monkey and a gorilla stand under a banana tree each hungry for a piece of ripe fruit. Neither can reach high enough to gather it. However, if the monkey stands on the shoulders of the gorilla, they can accomplish together what neither of them could have accomplished alone.

Doctors know that certain medications are useful in treating diseases. A diabetic may reduce the risk of death through damage to their heart, liver, eyes, nerves and kidneys by taking insulin injections. Alternatively, the patient may reduce the risk of death through blood clots that can induce strokes and heart attacks by simply taking a children’s strength dose of aspirin every day. However, when both are taken together, the risk of death is dramatically reduced to levels that greatly enhance longevity.

A business that has a potential advertising budget of two million dollars might spend the entire amount on magazine ads and expect to gain an additional five million dollars in revenue. Alternatively, they may elect to apply the increase to their personal selling budget by that amount and obtain a four million dollar increase in revenue. However, the more powerful result might be to apply one and a half million to advertising and the other half million to personal selling with a resultant increase of revenue of twelve million dollars. Why? The marketing manager
would say that each promotion method reinforces the other. However, in reality, this is but an excellent example of synergy. The whole is greater than the sum of the parts.

Synergy has an important place in all aspects of systems theory and its application to science, medicine, and business. Understanding when and how to apply synergistic relationships may be a key success factor for implementing strategic, tactical and operational planning at all levels and functions throughout a firm.

**Negative Synergy**

Negative synergy may be thought of as the logical opposite of synergy. (Phillips, 2001) What is often not as well recognized nor appreciated is this reverse effect: represents a condition where the sum of the subsets of a system is less than the sum of the whole. However, this negative synergy concept, too, has widespread but under recognized applications. For example, the loss of a right eye has serious consequences. The beholder may lose peripheral vision, there may be a loss of depth perception, and some disfigurement may exist. Likewise, the loss of a left eye may result in similar serious consequences: the beholder may lose peripheral vision, there may be a loss of depth perception, and some disfigurement may exist. Either eye is obviously a subset of the whole vision system. The loss of either subset is not desirable. Now consider the loss of both eyes. The consequences are much more severe than the loss of either subset alone. The combined loss and concurrent resulting total blindness then has a negative synergistic effect that is much more adverse to the total visionary system than that experienced by the loss of either individual subsystem.

In the Sudan, relief efforts are frustrated for years. The region is characterized by overpopulation, too many people. Additionally, poor soil conditions coupled with low annual rainfall; result in overgrazing by the animal population to the point that herdsmen lose a significant number of animals each year due to malnutrition and drought. Likewise, the region will not provide enough surface crops to sustain the number of people living in there. An epic surge of HIV/AIDS related deaths has left entire generations of children without any surviving parents or home life of any form. Any of these issues would be difficult to overcome but the sum of all is devastating. The cumulative effect of negative synergy is so overwhelming that the solution to the situation in the Sudan is almost beyond human comprehension or understanding. The result of the effect of negative synergy leaves policymakers without a clue as to how to proceed best (Mathews, 2006).

Negative synergy is a force to be reckoned with. Managers must be aware of its potential impact. They must be as aware of the possibility negative synergy appearing in relationships as they are of the occurrence of the effects of positive synergy.
Group Manifestations of Negative Synergy

When someone is involved in making decisions in a group setting, the possibility exists that the group or team may come to a better decision than any one individual may. This approach using the concept of synergy underlies the models previously discussed. However, none addresses the effect of negative synergy. This, and its ramifications, will be discussed in a setting roughly based upon the popular communications model, the JoHari Window (Luft & Ingham, 1955).

The JoHari Window is, “a model named after its creators, Joseph Luft and Harry Ingham (hence Joe/Harry…), and is a way of describing how we give and receive information about ourselves and others”(Team Building Tips, 2006). The metaphorical model is a tool that is used to help people understand better relationships in groups and is used primarily as a heuristic exercise (Chapman, 2006). The model has been adapted into many forms (e.g.; NoHari (Hase, Davies & Dick; 1999) and JoHari (Luft & Klett, 1972).

Figure 1 titled Negative Synergy Group Decision Model, shows one variation that has been developed to facilitate discussions of negative synergy in group decision-making settings. Four quadrants are used to categorize the relationships among self and groups on two dimensions – action and feelings. Hence, the four quadrants may be described as follows:

How I Act. This quadrant is where I project myself to the group. It is the outward set of clues as to my identifiable, open communications in either verbal or nonverbal form. If I am attentive, open, strong, secure and engage in imaginative solutions to problems then that message is sent to the group.

How the Group Feels. The second quadrant shows how the group reacts inwardly to the actions that I have processed. Such a reaction might be feelings of being conceptually supportive, seeking inward concurrence, striving to remain engaged, or identifying areas of future discourse. The reaction is inward with no outward manifestation of the secret internal process.

How the Group Acts. This quadrant gives the external or public response to the internalization that has taken place within the group (minus me). The result might be to convey sympathy of concurrence. Alternatively, the group might convey confusion or a need for clarification. Again, this quadrant represents a public manifestation of the secret internalization that has taken place.
**How I Feel.** Finally, it is here that I process the communications from the group. Inwardly I may either accept or reject an interim decision. I may feel confused and ask for clarification or I may accept a degree of finality towards a decision.

![Figure 1 - Negative Synergy Group Decision Model](image)

When a group is in a state of equilibrium in their decision-making processes, it remains stable. How I feel or react is appropriate to how the group has acted. My actions are proportional to how I reacted. The group properly reads my external messages and reacts accordingly. Finally, the group endeavors to continue the decision-making process and working towards an eventual decision.

However, a different reaction occurs when positive synergy is a factor in the decision process. A new element has resulted in a new dynamic that is better than that seen before. A new advertising slogan has been suggested or a new line of products proposed. The key here is that the cumulative effect of the decision making process was as expected. The whole increased over its initial position. However, the shift does not continue indefinitely since such an action is resource constrained. Finite reality serves as a buffer or limit on unbounded increases due to a synergistic effect and such a model is beyond the scope of this paper.

However, there exists a third possibility – that of negative synergy. If How I Feel is smug, cynical, inflexible, or unethical. That reaction is not positive. How I Act then adds to the unfavorable situation. My actions may be loud, cowardly, aloof, or insensitive. Moreover, those actions will not be well received. The group might react in unimaginative, impatient, callous, or insecure ways. In addition, that reaction could be shown through group actions that are selfish, loud, lethargic, or cruel. However, negative synergy does not stop here. How the group acted affects how I react and the cycle continues repeatedly. A spiral of negative synergy may set in and the group decision-making process spirals inward until the system decomposes into absolute failure.
There is a popular model of group decision making gone awry, such as that described in Irving Janis’ *Groupthink* (Janis, 1977). Janis describes how too much group cohesion can result in limited alternatives being considered in group decision making behavior and could result in the incorrect decision being made. However, if Groupthink is but a special case of negative synergy, at least the concept of Groupthink gives cause to consider the possibility for remedies under conditions or situations where negative synergy has resulted in a downward spiral in the decision making process.

**What to do About It**

An examination of the four quadrants in *Figure 1* quickly reveals that three of the four represent states beyond “my” control. The only quadrant that I can effectively influence is How I Act.

How should I act? Avoid situations that increase the probability of increased, unwarranted risk. At least avoid giving an impression of being overly optimistic as to the outcome when, in fact, it is not nearly as certain as it is being presented by the group. Act with caution to defuse risky adventures. Be aware of warning signs. Do not let the groups actions discredit or rationalize away those warning signs for prudent action. The advice to take a deep breath before going forward may be a simple heuristic that might give time to reflect on assumptions made in the decision process to evaluate if they really are as true as they were assumed to be initially. Be careful that the moral actions proposed by the group are indeed also ethical. It is easy for the ethical opinions of individuals to become confused and even accepted as equal to the external ethical standards of a group. You need to raise the criteria to the appropriate group standard.

It is important not to underestimate the competition and the competitive atmosphere that surrounds a firm in decision making. Do not let the group lead you to the assumption that your team in invincible. You probably are not. Also, do not let the group persuade you that expressing an opposing viewpoint represents disloyalty to the group process. In reality, the reverse is true. Giving a good counter argument is a very effective way to turn aside a cycle of negative synergy. In the same regard, do not let your silence be misread as concurrence with the action by the group. Shift the focus. Do not let the group encourage complacency. If you not concur with the signals sent by the group’s actions, stop the spiral.

The only element of negative synergy that you can influence is how you act. Therefore, each action must send a clear signal as to where you see actions going. Otherwise, only you can reverse the effects of negative synergy. You must make the choice.

**Summary**
Presented here has been a small step proposed to advance the decision making paradigm by expanding the original conditions assumed in major models to incorporate negative synergy into the dynamics of conventional approaches. This paper does not attempt to derive proofs for the new models but instead proposes a paradigm shift that would accommodate negative synergistic effects within the framework of the existing body of knowledge. It advances only the concept.

This paper proposes, perhaps for the first time that internationally accepted project management principles might provide a framework for better decision making among those managers experiencing negative synergy. Knowing that numerous project managers make decisions through team consensus or some other collaborative method due to the highly technical nature of many international projects contributes to the concept of synergy directly (Crawford & Pollack, 2008). The researchers suggest additional field research and observations connecting project management principles to negative synergy to increase the value of this observation.

Furthermore, a new challenge in the group decision-making process is the addition of electronic meetings. According to a study done by PricewaterhouseCoopers, cited in Fortune (Fisher, 2004), 45% of “lucrative“ ideas come from employees via email and chat sessions; to stimulate that “in-house” gold mine of ideas is a new frontier for managers concerned with decision making. No work is known to exist examining the effect of negative synergy in such a rich environment for decision making in international project management. Therefore, a large balance of the work remains yet to be done in subsequent expanded versions of the material presented here.

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