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Co-Editors
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Academy of Accounting and Financial Studies (AAFS)

DO SHORT SELLERS ANTICIPATE LARGE STOCK PRICE CHANGES?

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ABSTRACT

It is commonly believed that short sellers must possess better information than the average trader in order to overcome the costs associated with short sale restrictions. Previous studies provide evidence which is consistent with, but insufficient to prove, informed trading. The role of short sellers in the stock market has come under greater scrutiny by regulators, who are considering additional restrictions on short selling activities. Thus, understanding the nature of the information used by these traders is crucial in determining whether there is need for additional restrictions on short sellers.

We test whether short sellers base trades on superior information by examining short interest around large, one-day stock returns. Our methodology allows us to overcome the 'self-fulfilling prophecy' bias that may exist in previous studies. We find significant and robust increases in short interest immediately prior to large negative returns caused by corporate strategic changes and random, non-recurring corporate events. This finding is consistent with informed trading. However, there are no statistically significant increases in short interest for firms with negative returns caused by commonly occurring events. Surprisingly, the level of short interest is higher for firms experiencing large, positive returns, and we find no significant declines in short interest preceding these positive returns. Thus, we find weak evidence of informed trading by short sellers, but must conclude most short selling activity appears to result from speculation or hedging and not informed trading.

MODELING THE RELATIONSHIP BETWEEN DIVIDEND PAYOUTS AND SYSTEMATIC RISK

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ABSTRACT

This paper focuses on how the payment of dividends affects a firm's level of systematic risk. Previous studies have used empirical analysis to show that an inverse relationship exists between dividends and systematic risk, however, a theoretical explanation for this result has yet to be shown. We develop and present a mathematical model that illustrates why this inverse relationship exists.

INTRODUCTION

A primary area of research in the field of corporate finance centers on the relationship between dividends and stock prices. Early literature (Graham and Dodd 1951, and Durrand 1955) focuses on how the dividend payout ratio affects common stock prices, and it concludes that firms can affect the market value of their common stock by altering their dividend policy. Subsequent studies reveal that the relationship between dividends and stock prices is enormously complex and inconclusive. This paper isolates one component of stock price determination, that of systematic risk, and presents a mathematical model that illustrates how it is affected by a firm's dividend policy. By isolating the impact on systematic risk, we can draw conclusions about how firm value is affected by dividend policy in the absence of other mitigating factors.

LITERATURE REVIEW

Rather than seeking a direct link between dividend policy and stock prices, several empirical studies have focused on how dividend policy affects stock price volatility and the firm's level of systematic risk. A negative relationship was found to exist between payout ratios and firm betas in studies by Beaver, Kettler and Scholes (1970), Ben-Zion and Shalit (1975), and Lee, Liaw and Rahman (1986). The thinking behind this theory stems from how variances in dividends affect the timing of an asset's cash flows. Dyl and Hoffmeister (1986) argue that dividend policy affects security duration and, ultimately, the riskiness of the underlying stock. Duration, as demonstrated by Macaulay (1938), is the elasticity of the value of a capital asset with respect to changes in the discount factor. It is calculated as the weighted average of the length of time needed to recover the current cost of the asset. A high dividend paying stock has a shorter duration because of more near-term cash flow. The earlier one receives payment, the less susceptible is the value of a capital asset to changes in the discount factor. With the dividend in hand, investors are subject to less interest rate risk and, as a result, a reduced level of systematic risk. All other things being equal, the reduced level of systematic risk will influence the firm's cost of capital and, finally, the firm's stock price (Gordon, 1959).

While the inverse relationship between dividend yield and systematic risk is generally accepted in the finance field, it falls short of a true mathematical reasoning. Dyl and Hoffmeister (1986) specifically address this fact when they comment:

...one should be able to observe an empirical relationship between a firm's beta and its dividend policy (e.g., payout ratio). In fact, a number of researchers have observed this relationship although they have not provided any rationale for its existence.

Our study fills this gap by providing a mathematical model illustrating this relationship.

MODEL DEVELOPMENT

Gordon's (1959) constant growth version of the dividend valuation model can be used to illustrate the relationship between dividend yield and risk. Gordon's model simply states that the value of a share of common stock is the present value of the expected returns to that share. Specifically, the model is stated as:

$$P = \sum_{t=1}^{\infty} \frac{D_1}{(1+k)^t} \quad (1)$$

Where P is the stock price, D_1 is the level of dividends, and k is the investor's required rate of return. If the dividend stream is expected to grow at a perpetual rate, equation (1) can be written as:

$$P_0 = \frac{D_1}{(k-g)} \quad (2)$$

where g is the constant growth in dividends and $k > g$. This, of course, is the common *Gordon Constant Growth Model* that is routinely taught in many basic finance courses. The model is also commonly expressed in terms of the investor's required rate of return, which is written as:

$$k = \frac{D_1}{P_0} + g \quad (3)$$

To develop the relationship between dividend policy and risk, we first take the total differential of equation (2):

$$dP = \left[\frac{1}{(k-g)} \right] \partial D + \left[\frac{-D}{(k-g)^2} \right] \partial k + \left[-\frac{(-D)}{(k-g)^2} \right] \partial g \quad (4)$$

which gives us:

$$dP = \left[\frac{D}{(k-g)} \right] \times \left\{ \frac{\partial D}{D} + \left[\frac{1}{(k-g)} \right] \times (\partial g - \partial k) \right\} \quad (5)$$

Since $g = \frac{\partial D}{D} \partial P$, simplifies to equation (6):

$$dP = P \left[g + \frac{D}{(k-g)} \times \frac{1}{D} (\partial g - \partial k) \right] \quad (6)$$

We then solve equation (6) for $\frac{dP}{P}$, which yields:

$$\frac{dP}{P} = g + \frac{(\partial g - \partial k)}{Y} \quad (7)$$

where $Y = \frac{D}{P}$ is the dividend yield $\frac{dP}{P}$ and is the capital gain.

Equation (7) can be extended to show a theoretical relationship between dividend yield and return. Stockholder's expected return can be expressed as:

$$R = Y + \frac{dP}{P} \quad (8)$$

Substituting equation (7) into equation (8) yields:

$$R = Y + g + \frac{\partial g - \partial k}{Y} \quad (9)$$

Finally, substituting equation (3) into equation (9) yields:

$$R = k + \frac{\partial g - \partial k}{Y} \quad (10)$$

$$\text{Since } P = \frac{D}{(k - g)} \quad k - g = \frac{D}{P},$$

the lower the dividend yield, the greater the impact changes in g and changes in k has on required return. From equation (10) then, with a low dividend yield, a large increase in g will result in a large increase in returns and a large increase in k will result in a large decrease in returns. Since the expected return on any asset is a linear function of its systematic risk, a low dividend yield will result in a higher risk, all other things being equal.

CONCLUSION

The debate surrounding the impact of dividend policy on firm value is without resolution after over 50 years of analysis. This is not unexpected given that affecting firm value is only one of a multitude of reasons firms have for actually paying dividends. In addition, the recipient clientele of a dividend paying firm may also assert both positive and negative influence on the stock price depending on their disposition toward dividends and capital gains. A high yield firm, for example, subjects its shareholders to possible tax penalties should investors choose not to shelter their income *a la* Miller and Scholes (1978). They may also incur additional costs if external financing is needed to fund ongoing operations. On the other hand, many shareholders will shelter dividend income, and many firms will not incur additional costs of external financing if adequate internal funds are available. Thus, the same policy may affect two different sets of investors and two different firms in opposite ways. Consequences, such as these, coupled with the reduced interest rate risk associated with high yield stocks, are consistent with the broad range of theoretical and empirical findings with regard to dividend policy.

We have chosen to narrow the focus of dividend policy and isolate how it affects the systematic risk of the firm. In so doing, we separated the motivation for paying a dividend from the

immediate impact the dividend has on the firm. Our model shows that when all other things are held constant, there will be a clear inverse relationship between dividend payout ratios and the systematic risk of the firm.

To broaden the interpretation of our findings and apply them to firm value requires consideration of the various motives involved in setting a dividend policy. At this point, our model is not robust with regard to motives beyond a simple return of capital to shareholders. This, of course, leaves us with an opening for further refinement of our model and additional research.

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PRICING MODEL OF S&P 500 MARKET INDEX TARGET-TERM SECURITIES

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ABSTRACT

As an era of high commodity prices comes, everyone has a desire to own substantial wealth. However, no one wants to see any possibility of losing money. One of the world's leading wealth management, capital markets and advisory companies, Merrill Lynch, designs an investment instrument, the "S&P 500(R) Market Index Target-Term Securities(R)", for risk adverse investors. This product allows investors to participate in potential gains without losing the principal. "How much does it cost per unit?" is attractive to investors. Now, I develop two models to value the MITTS Securities, combining the "principal" position and the "Supplemental Redemption" position, on a specific date using the bond valuation approach and two option valuation methods-the binomial option model and the Black-Scholes option model. Finally, I test whether these two models are goodness-of-fit for pricing the MITTS Securities.

A NEW SELECTION STRATEGY FOR PORTFOLIO DIVERSIFICATION IN THE EUROPEAN UNION

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ABSTRACT

Benefits of portfolio diversification transpire from the motivation of risk minimization and maximization of the expected return. Potential for global portfolio diversification has been recognized by the investors in recent years. A portfolio with the highest level of expected return for a given level of risk is said to be mean-variance efficient. Therefore, the risk-reward ratio of a globally diversified portfolio is expected to be optimum.

This paper proposes a method of portfolio selection on the basis of partial correlation criterion by seeking market relationship that is independent of world market. Portfolios are constructed using both partial correlation approach and Markowitz (correlation) approach in the European Union for two different home markets France and Germany. The performance of these portfolios has been measured for three different strategies to determine the proportion of asset allocation in the portfolio. The findings of this study suggest that the optimum strategy that minimizes the coefficient of variation to determine the proportion of asset allocation has a better potential for diversification. Furthermore the results reveal that, the partial correlation approach produces superior portfolios as opposed to Markowitz approach based on Sharpe's performance measure.

UNOBSERVABLE PARAMETERS AND CONDITIONAL ESTIMATES OF INTERNAL RATE OF RETURN

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ABSTRACT

The conditional estimate of internal rate of return (CIRR) is intended to address several conceptual problems of the accounting rate of return (ARR). Nevertheless, researchers have raised concerns about the need to use an assumed project life and cash flow profile to calculate CIRR. The inability to directly measure IRR has prevented researchers from determining the impact of erroneous assumptions about firms' project lives and cash flow profiles. The current study addresses this gap in the research literature by using simulation techniques to observe the IRRs, project lives, and true cash flow profiles for a sample of firms.

By simulating the results of operations for a sample of firms, observations of the IRR, life of the composite project, and cash flow parameter were obtained to support a detailed evaluation of CIRR. The results of the current study indicate that assuming incorrect cash flow profiles affects the error with which CIRR estimates IRR. Moreover, the nature of the effect does not appear to be consistent with expectations. The results also indicate that assuming incorrect values for the life of the firm's composite project will affect the estimation error in CIRR. The impact of erroneous assumed project lives appears to be more pronounced when CIRR is estimated for shorter sample periods. Growth did not significantly influence the estimation error in CIRR for the sample of simulated firms.

The results of the current study support prior research, which suggests that sensitivity analyses may not fully compensate for the use of assumed values for unobservable parameters. Additional research is needed to identify techniques that will allow decision makers to more accurately determine the parameters needed to calculate CIRR. Also, more information is needed about the unique characteristics of the firm and its economic environment that can increase the error with which CIRR estimates IRR.

TO FLAT TAX, OR NOT TO FLAT TAX....

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ABSTRACT

Proponents of the flat tax argue that it is more equitable, increases consumer spending and provides sufficient revenue for government spending. It is likely that all three justifications are flawed. Any change to the tax codes affects the economy and, in the case of a flat tax, the result may not be favorable.

The flat tax effect may be similar to the domino theory. In an individual's case, a tax cut means less revenue for the government. Less revenue for the government, means job losses for government employees. The additional job losses mean even fewer taxes. Business owners, with less allowable deductions, will be inclined to end employee benefits that are no longer deductible. This means that employees will have to pay for the costs of medical insurance and other benefits out of their own pay and not be able to deduct the expenses on their own personal tax return, which reduces net wages available to taxpayers for investment. Changes in business deductions create similar negative situations with the abolishment of the interest deduction and depreciation system for businesses. One can only imagine what effect these spirals might have on the United States economy if the flat tax bill passes.

INTRODUCTION

Proponents of the flat tax argue that it is more equitable, increases consumer spending and provides sufficient revenue for government spending. However, it is likely that all three justifications are flawed. Any change to the tax codes affects the economy and, in the case of a flat tax, the result may not be favorable.

Congressman Dick Armey (R-TX) introduced the Freedom and Fairness Restoration Act, H.R. 2060, in 1995 and, H.R. 1040, again in 1997. Congressman Michael C. Burgess (R-TX) introduced another H.R. 1040 on February 14, 2007. These plans, based on a proposal previously developed by two Stanford University professors and updated in April 2007, radically reform the tax and government structure of the United States. The plans have received serious consideration on Capitol Hill and by the American public in the past and are now being considered again. The flat tax rate in 1995 was recommended to be 17 percent but current proposals suggest 19 percent for two years and then a step down to 17 percent.

Tax reform is the essential element of the Armey and Burgess plans. Can abandoning the current IRS tax code and its mazes of credits, deductions, exclusions and exemptions and applying a flat 19 percent tax rate really increase consumer spending, be fair and still raise sufficient funds to run a government?

BACKGROUND

Approval of any of the flat tax plans would mean repeal of the entire tax code. This means that all deductions, exemptions and credits would disappear. Under the flat tax, only wages, salaries, and pensions would be taxable to individuals. There would still be a standard allowance (deduction) based on filing status and a dependency allowance (deduction) larger than presently allowed. Businesses will file a separate tax return. This includes sole proprietorships normally filed in conjunction with an individual's tax return and partnerships and S corporations income that currently flows through to an individual's tax return. The flat tax proposal requires taxpayers to

maintain two entirely separate "baskets" of income, one for individual income and another for business income. Although the "system has two separate tax forms—one for business income and the other for wages and salaries—it is an integrated system." (Hall, Rabushka 2007) This is not uncommon in the case of partnerships and S corporations but it would be a change for a sole proprietor to file two tax returns, one with the spouse that reports salaries, wages and pensions; and, a second tax return for the business income. Rather than having sole proprietors report income and have it subject to self-employment tax. Those business owners will take wages from the business to be reported on their individual tax return and then any remaining income would be taxed as a business.

All business owners will find changes in allowable business deductions under the flat tax, specifically no deduction for employee fringe benefits or interest paid on outstanding debt. Cash wages and purchases of goods, services and materials the business purchases to make the product it sells, as well as all capital equipment are the deductions allowed for businesses under the flat tax. (Bartlett 1996) Deduction of the full cost of capital equipment abolishes the entire depreciation system currently recognized by the Internal Revenue Service. With the entire expense of capital items, it is apparent that taxes for business will be volatile from one year to the next. Ideally, according to the Hall and Rabushka proposal companies will not continue to plow back all its income into plant and equipment, "Sooner or later, the firm will run out of sufficiently profitable opportunities and start paying out its income to its owners instead of plowing it back." (Hall, Rabushka 2007)

TAX EQUITY

Filing of the tax return under the flat tax will be easier, in contrast to the over 400 forms in 1996 and the estimated over 900 forms in 2006. To file, taxpayers complete a tax form the size of a postcard. Line 1 contains the total of all wages, salaries and pensions. Personal allowances are different for the various proposals these examples use the amounts from FreedomWorks that are \$24,400 for married couples, filing jointly; \$12,000 for single persons; and \$15,650 for head of households. There are no personal allowances for taxpayers and spouses, just a dependent allowance of \$5,500 per dependent. (FreedomWorks 2007) These are deducted from total wages to arrive at taxable wages on line 6. The taxpayer calculates tax by multiplying the amount on line 6 by 19%. A single individual that normally files a 1040, Schedule A and Schedule D will find the following changes:

	<u>2006 Tax</u>	<u>Flat Tax</u>
Wages	\$50,610	\$50,610
Interest	2,000	-0-
Dividends	1,500	
Capital Gains	6,340	-0-
Adjusted Gross Income	<u>\$60,450</u>	<u>\$50,610</u>
Itemized Deductions	\$11,886	\$12,000
Personal Exemption	\$ 3,300	-0-
Taxable Income	<u>\$42,264</u>	<u>\$38,610</u>
Tax	<u>\$ 7,090</u>	<u>\$ 7,336</u>

In this example, the single taxpayer would not realize a tax savings but instead, would owe \$246 more in tax. If this example changed to a single taxpayer receiving only interest, dividends and capital gains, a more drastic tax change occurs.

	<u>Current Tax</u>	<u>Flat Tax</u>
Interest/Dividends	\$ 2,000	-0-
Dividends	52,110	
Capital Gains	6,340	-0-
Adjusted Gross Income	\$60,450	\$ -0-
Itemized Deductions	\$11,886	\$11,100
Personal Exemption	\$ 3,330	-0-
Taxable Income	\$42,264	\$ -0-
Tax	\$ 3,725	\$ -0-

It appears from the examples that individuals who earn their income from labor will pay a higher personal tax than individuals who collect more of their wealth from interest, dividends, and capital gains. Is it equitable that the resources of different individuals grow at an equal amount, and yet they pay different amounts of tax? As evidenced by the Internal Revenue statistics for 2004, taxpayers with adjusted gross income over \$100,000 filed 9.65% of all tax returns and earned only 36.3% of wages that will be taxable under the flat tax. However, these same taxpayers collected 52.97% of all interest, 67.72% of all dividends, and 26-88% of all capital gains earned in 2004.

Table 1
Percentage of Portfolio Income by AGI Level

Current AGI Income Level	Taxable interest	Ordinary dividends	Capital gain distributions	Long Term Capital Gains
\$100,000 under \$200,000.....	14.38%	16.20%	18.70%	10.12%
\$200,000 under \$500,000.....	11.05%	13.84%	5.96%	13.98%
\$500,000 or more.....	27.54%	37.68%	1.38%	64.59%
Total				
Percentage.....	52.97%	67.72%	26.04%	88.70%

The current AGI income levels affected the most at the 19% flat tax rate are the individuals with income between \$40,000 and \$100,000, with a calculated 6.0% to 9.5% increase in tax liability. All other higher and lower current AGI income levels will show a reduction in tax liability under the flat tax. This supports the response by H&R Block to Steve Forbes in 1996 that the "flat tax would hurt middle class Americans." (Forbes, 2005)

Some proponents of the flat tax have suggested a 20% flat tax and that percentage would increase taxes more dramatically and affect the \$30,000 to \$100,000 current AGI income level by 4.0% to 15.25% based on calculations using the 2004 IRS statistical data. This is not surprising based on the percentage of the upper current AGI level on income from items that will not be taxed under the proposed flat tax system.

The flat tax equality remains in question. The definition of income by the supporters of the flat tax does not include returns on investments, which make up a major part of the growth in wealth of taxpayers in the over \$100,000 brackets. Changing the current tax laws to a flat tax would increase the "tax burdens of a majority of taxpayers, and it would significantly redistribute tax burdens," mainly from the upper to middle income level taxpayers. (Dunbar, June 1998) Will cutting the taxes of people who work or receive retirement from work by a lesser amount than the taxes of those who receive revenue in the form of investments offer true tax equality?

CONSUMER SPENDING

Because of tax cuts for individuals and businesses, supporters of the flat tax believe that consumer spending will increase. Our current tax system taxes capital excessively, according to supporters of the flat tax. (Bartlett, 1996) The Internal Revenue Service imposes double taxation on corporation income. Current tax law taxes the earnings of a corporation when earned and then again when distributed to investors as dividends, interest or capital gains. Ending double taxation provides more savings to taxpayers and disposable income for consumer spending.

According to calculations, some taxpayers will see a reduction in tax liability. This income will be available for other uses. However, the possibility exists that taxpayers must use their savings to replace benefits no longer provided by employers. Employee fringe benefits constitute one of the main deductions for businesses under the current tax law. The flat tax proposal does allow these deductions (Fleishman, 1997).

Small business owners will not be able to offset their losses against wages earned by themselves or spouses as under the current tax code. The offsetting of losses is a benefit to farmers and other small business owners whose spouses work to keep the farm or business a viable operation. No offset of losses against wages seriously hampers the ability to increase consumer spending for small business owners.

Low-income taxpayers will feel the effects of the implementation of a flat tax. There will be more tax-free households due to the new size of the personal allowance. However, many individuals also will lose their Earned Income Tax Credit, which provides additional income for over 19 billion families in 1996 and 22 billion families in 2004 per the Internal Revenue Service statistics. Many taxpayers will not realize the effects of the flat tax because they are already below the thresholds under the current tax system. (Dunbar, June 1998)

GOVERNMENT REVENUE

According to Congressman Arney, if all personal income were subject to a single, flat-tax rate of less than 10%, it would provide the federal government as much revenue as it collected in 1995.

Hall and Rabushka report, "The low tax rate of 19 percent is enough to match the revenue of the federal tax system as it existed in 1993, the last full year of data available as we write." A government operating at a level 14 years in the past is difficult to comprehend as capable of bringing in equal revenues currently.

A review of individual and corporations using Internal Revenue Service statistics from 2004 show a drastic change in tax revenue from corporate and individual filers at the 19% tax rate.

Taxable Income (in thousands)	Flat Tax		Difference
	19%	2004 Actual Tax	
Individuals	558,019,933	831,976,335	
Sole Proprietors	61,031,688		
S Corporations	66,141,309		
Partnerships	66,894,421		
Total Individual & Business			
Flow Through	752,087,351	831,976,335	(79,888,984)
Corporations	42,124,887	199,285,003	(157,160,116)
Foreign Corporations	(3,989,806)	888,065	(4,877,871)
	<u>790,222,431</u>	<u>1,032,149,403</u>	
Decrease in Tax Revenue		(241,926,972)	

It appears that the revenue raised from individual and smaller business taxes will be 9.6% lower and over 78% lower for corporations. With almost \$242 billion in less tax, where will the government revenue increase? Partly from the fact that there will be no refundable credits to lower income tax payers. According to the IRS statistical data, the 2004 refundable credits totaled \$40 billion for earned income credit and \$14 billion for additional child tax credits.

Changes in tax laws calls for transitional relief during the changeover to a new tax system. Transitional relief may be granted for firms with loss carryforwards and depreciation remaining on assets currently in service. Transition relief will further reduce the tax base and the available tax revenue to the government. (Gale, 1998)

With such radical decreases in revenue, the federal deficit will undoubtedly increase. The Treasury Department estimated an increase in the deficit of \$160 billion a year resulting in increasing interest rates and higher taxes in the future upon the implementation of the 17% flat tax plan. (Hamond, 1998)

CONCLUSION

The flat tax effect may be one similar to the domino theory. In an individual's case, a tax cut means there will be less revenue for the government. Less revenue for the government, means job losses for government employees. Currently there are 115,000 IRS employees and many of them will be laid off if the new "simplified" flat tax is implemented. The additional job losses mean even fewer taxes. 351 million tax returns were filed by accounting service providers other than Certified Public Accountants. Those offices will also be affected by the tax change. Business owners, with less allowable deductions, will be inclined to end employee benefits that are no longer deductible. This means that employees will have to pay for the costs of medical insurance and other benefits out of their own pay, which reduces net wages available to taxpayers for investment. Changes in business deductions create similar negative situations with the abolishment of the interest deduction and depreciation system for businesses. It does not appear that the flat tax will increase consumer spending, be more equitable and still provide sufficient revenue for government spending. Nor does it appear that the "flat tax is simple, fair, and good for growth" as reported by Daniel J. Mitchell, Ph.D., (2005) in the posting to The Heritage Foundation website. Although the preparation of the tax return may be simplified under the plan, the effects of these spirals on the United States economy will not be if the flat tax bill passes.

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MANAGING PENSION EXPENSE TO MEET ANALYSTS' EARNINGS FORECASTS: IMPLICATIONS FOR NEW FASB STANDARD

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ABSTRACT

This paper presents evidence that pension expense is used by firms to manage bottom-line reported earnings in order to meet their targeted analysts' earnings forecasts. Firms are predicted and shown to manipulate reported earnings in the direction that will move them closer to their targeted analysts' earnings forecasts than they would be otherwise.

Firms with actual reported earnings in the vicinity relatively close to their targeted analysts' earnings forecasts are selected for examination. Based on a proxy for premanaged earnings, two distinct groups are formed. These groups consist of firms hypothetically missing their targeted analysts' earnings forecasts firms hypothetically meeting or exceeding their targeted analysts' earnings forecasts.

Both groups of firms are shown to directionally manipulate pension expense to affect reported earnings in the direction that most feasibly meets their economic needs to achieve their targeted analysts' earnings forecast.

INTRODUCTION

This research study focuses on whether or not managers manipulate pension expense to meet analysts' earnings forecasts. The primary motivation for this study is the integrity of financial statement reporting.

Various stakeholders, such as investors, creditors, directors, auditors, regulators, and standard setters rely heavily on the integrity of financial statement information in assessing firm value and in making a wide range of business decisions. Therefore, when the true economic condition of a firm is distorted by financial statement manipulation the ultimate outcome is poor decisions based on flawed information. Capital markets are weakened and public confidence in the accounting profession is impaired as a result of financial statement manipulation. For these reasons, this study based on the directional change in pension expense to meet analysts' earnings forecasts is relevant to decision makers in today's business environment and makes an important contribution to the accounting literature.

This study differs from most prior studies in that it examines whether or not analysts' earnings forecasts create incentives for managers to use pension expense as an earnings management vehicle for financial statement manipulation. The research design raises public awareness and provides important information about the predicted directional change in pension expense that is indispensable in detecting and preventing future earnings management of this kind. This study provides basic information and practical analyses for stakeholders, particularly standard setters, to more carefully monitor the changes in pension expense to reduce future financial statement manipulation.

One problem associated with attempting to identify financial statement manipulation is that of determining what a firm's financial statements would report absent the manipulation. The Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions (SFAS No. 87), provides a unique measure of what pension expense should be from year to year based on its built-in smoothing¹ technique. Firms are allowed to smooth pension expense to avoid the

immediate recognition of wide swing market fluctuations that affect pension investments. The logic behind the allowed smoothing of pension expense is a long-term perspective where market fluctuations are expected to average out over the long-term. The problem is overcome of reasonably estimating what a firm's pension expense would be absent the manipulation because of the transparency of the allowed smoothing technique (Parker and Sale 2007).

A basic characteristic of the research design is modeling the behavior of pension expense to identify its discretionary and nondiscretionary components. This study builds on an approach similar to the random walk approach whereby the prior year's pension expense is assumed to be the most relevant and reliable approximation for predicting the current year pension expense. So theoretically, pension expense is expected to be the same from year to year. Therefore by design, any change in pension expense from year to year is considered discretionary and is the primary focus of explanation in the present study. In addition, the specific accruals research design is used because it is more powerful in detecting earnings management than the aggregate accruals research design as the explanatory factors for the discretionary portion of pension expense can be tested directly.

An earlier study by Powall et al. (1993) finds evidence that earnings forecasts are value relevant, and thus, establishes their importance in capital markets. Investors often use analysts' earnings forecasts in assessing firm value rather than using more costly and complex valuation tools. According to Collinwood (2001), firms convey good news by meeting analysts' earnings forecasts and firms convey bad news by missing analysts' earnings forecasts. Roen et al. (2003), in studying the effect of preliminary voluntary disclosure and preemptive preannouncement on the slope of the regression of returns on earnings surprise, find when firms manage earnings by attempting to inflate them; the response to negative earnings surprise is stronger than the response to positive earnings surprise. Accordingly, managers are motivated to meet analysts' earnings forecasts to avoid stock price penalties and to receive stock price rewards.

Most prior studies are unable to provide convincing evidence that pension expense is used as an earnings management vehicle. This lack of empirical evidence is surprising because auditors as well as many others perceive pension expense as being a frequently used earnings management vehicle. Parker and Sale (2007) suggest that most prior studies are unable to detect earnings management via pension accounting for two fundamental reasons. The first reason is that most prior studies focus on contracting incentives rather than on capital market incentives for explaining earnings management. The second reason is that most prior studies focus on the manipulation of pension rates rather than on the direct manipulation of the pension expense amount. So following Parker and Sale (2007) this study focuses directly on the manipulation of pension expense in response to capital markets incentives.

MOST RECENT GAAP REGULATIONS

In 1985, the FASB issued SFAS No. 87, *Employers' Accounting for Pensions*, which remains the primary standard influencing pension expense measurement for defined benefit pension plans. In 1998, the FASB issued SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, which was intended to make pension disclosures more informative.

Then again in 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. Although SFAS No. 158 is an amendment of SFAS No. 87, 88, 106, and 132 (R), SFAS No. 87 is not amended for the calculation of pension expense. The changes in SFAS No. 158 represent Phase 1 of the Board's planned two-phase project to reconsider the accounting for pensions and other postretirement benefits. The second phase is expected to be a multi-year, comprehensive review of the fundamental issues underlying SFAS No.

87 and 106, including measurement of liabilities and the determination of pension expense. As a result, the public can expect more pension accounting changes to be implemented in the not so distant future.

RESEARCH DESIGN

According to Healy and Wahlen (1999), future research contributions in the earnings management area are expected from documenting the extent and magnitude of the effects of specific accruals and from identifying factors that limit the ability of managers to manage earnings. So following Parker and Sale (2007), this study uses a specific accruals research model with earnings-based benchmarks as the explanatory variables. The distinction from prior research is determining whether or not there is an association between the change in pension expense and the amount by which firms would otherwise miss or beat their targeted analysts' earnings forecasts.

The theoretical concepts discussed above are formalized in alternate form in the following hypothesis.

H1A: Pension expense is managed to meet analysts' earnings forecasts.

The estimated cross-sectional regression model is presented below.

$$PE_{chg} = \alpha_0 + \alpha_1 Miss_UE_Dummy + \alpha_2 UE + \alpha_3 Interact + \alpha_4 \Delta Employ + \sum_{t=1996}^{t=2001} \alpha_t \times yrD_t + \sum_{i=1}^{i=54} \alpha_i \times indD_i + \varepsilon$$

- PEchg is the change in pension expense equal to current year pension expense minus prior year pension expense all scaled by lagged assets.
- Miss_UE_Dummy is a dummy variable that equals 1 if the continuous variable, UE < 0, and 0 otherwise.
- UE is a continuous variable equal to pretax income absent manipulation minus the applicable benchmark all scaled by lagged assets.
- Interact is an interaction variable equal to Miss_UE_Dummy times UE.
- ΔEmploy is a control variable equal to the number of employees for the current year minus the number of employees for the prior year all scaled by lagged assets.
- yrDt is a dummy variable for each applicable year 1995-2001 with the 1995 dummy effects captured in the intercept.
- indDi is a dummy variable representing 55 industries.
- α₀ is the intercept for UE ≥ 0 where Miss_UE_Dummy = 0.
- α₀ + α₁ is the intercept for UE < 0 where Miss_UE_Dummy = 1.
- α₂ incentive slope for UE ≥ 0 where Miss_UE_Dummy = 0.
- α₂ + α₃ incentive slope for UE < 0 where Miss_UE_Dummy = 1.
- PI is pretax income.
- PIAM is pretax income absent manipulation. The basic calculation is PI + (PE_t – PE_{t-1}).
- At-1 is assets lagged one period.
- BM is or target earnings. The applicable benchmark is analysts' earnings forecasts on a pretax basis.
- PE is pension expense.

SUMMARY CONCLUSIONS

Managers have strong incentives to manage earnings to achieve analysts' earnings forecasts in order to reap stock price advantage and to avoid market devaluation. In addition, many contracting incentives are tied directly or indirectly to earnings based measures which also provide strong incentives for earnings management.

This research study contributes to the literature by providing evidence that managers are, in fact, using pension expense to manipulate reported earnings in a predictable rational economic manner. The research provides evidence that analysts' earnings forecasts create capital market incentives in opposite directions depending on the economic status as measured by whether or not firms will miss or beat their analysts' earnings forecasts based on premanaged earnings.

By using "what if" analyses, firms that hypothetically miss their analysts' earnings forecasts are shown to manipulate actual pension expense downward to increase actual reported earnings; whereas firms that hypothetically beat their analysts' earnings forecasts are shown to manipulate actual pension expense upward to decrease actual reported earnings. As predicted, both groups of interest are successfully manipulating pension expense in the direction that moves their actual reported earnings closer to their analysts' earnings forecasts than they would be otherwise. The results suggest that smoothing behavior is stronger than benchmark behavior. One reason may be that auditors are more cautious in constraining effort to manage earnings upward than in constraining earnings downward.

This research is timely as it has relevant implications in support of FASB's planned upcoming Project - Phase 2 to again comprehensively review the determination of pension expense. As a result of the recently completed Project's Phase 1, FASB issued SFAS No. 158 addressing pension reform exclusive of pension expense. Since the research findings indicate both groups of firms use pension expense in managing their actual reported earnings, FASB will again want to consider more stringent rules for measuring pension expense to mitigate predictable earnings management in future financial statements through the use of pension expense.

Capital markets and the U.S. economy are heavily influenced by the integrity of financial statement reporting. Therefore, this research should be of interest to investors, directors, creditors, auditors, regulators, and standard setters.

WORKS CITED

All works cited are obtainable from the author upon request. All works cited are located in the full version of this paper as well.

ENDNOTE

1. The term smoothing is used in this paper in two different contexts. In this instance, smoothing indicates spreading over time. Later, the term smoothing is used in another context as a means for identifying firm behavior.

AN IMPORTANCE-EFFECTIVENESS ANALYSIS OF CONTEMPORARY AUDITING CURRICULUM

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ABSTRACT

Sarbanes-Oxley Act, legislation enacted in 2002, gave the audit profession increased prominence and responsibilities. Historically, the profession has urged the academic community to institute changes in the accounting curriculum and specifically to the audit course to prepare students for entry into the profession. This research surveys audit faculty members and obtains their opinions on the importance and effectiveness of topical coverage in audit curriculum. Given that the American Accounting Associate Audit Section Committee (2003) analysis of syllabi found that the course content was highly dependent on textbook topics, this research asks audit educators to assess the effectiveness of the audit text in developing 63 auditing topics. Nine topics relate specifically to the Sarbanes-Oxley Act. Analysis of the results identifies topics both with respect to importance and the effectiveness of textbooks in developing these topics. Unlike prior research that focused only on importance, this study, by using effectiveness as well, permits the translation of results into action. Presenting an importance-effectiveness diagram, this paper provides the auditing professor the information necessary to make tradeoffs within the audit curriculum that enhance student learning.

LONG-TERM MARKET REACTIONS TO EARNINGS RESTATEMENTS

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ABSTRACT

The long-term stock performance of restating firms after the announcement of earnings restatements has been examined using three major measures for long-term stock performance such as modified CAR, BHAR, and calendar time portfolio in this study. All three measures for long-term stock performance of restating firms show that there are no significant abnormal returns over the six month and the one year post announcement holding periods, supporting the efficient market hypothesis but not the under reaction hypothesis. The results are robust across different testing periods and methodologies but inconsistent with the previous studies which exclusively used conventional CAR. These results may provide additional evidence for how the capital market responds to bad news.

Key words: *long-term stock performance, CAR, BHAR, & Calendar time portfolio. All data used in study are public data.*

Academy of Commercial Banking and Finance (ACBF)

BEST BUSINESS PRACTICES IN THE SOUTH AFRICAN INDEPENDENT FINANCIAL ADVISOR'S PRACTICE: AN EXPLORATORY STUDY

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ABSTRACT

Determining the value of the independent financial advisor's (IFA) practice is subject to a range of uncertainties. The success of the most profitable international financial advisory practices has been ascribed to the implementation of best business practices (BBP). The contribution BBP render to enhancing the value of the practice can, therefore, not be negated.

BBP assist the IFA with key functions related to Finance and Reporting, Potential Clients, Client Relationship Management, Staff Management, Operational Efficiency, External Environment, Business Continuity and Business Entity and Client Access. Based on the findings of this research, the following two conclusions have been reached. The implementation of BBP contributes toward enhancing client experience, increasing profitability, improving the value of the IFA's practice and ensuring the continuity thereof. The extent to which BBP were implemented by IFAs; however, is low. This finding, combined with a demonstrated correlation between the implementation of BBP and the annual income and longevity of the IFA in an uncertain environment, confirmed the need for the implementation of BBP in the South African IFA's practice.

INTRODUCTION

Implementation of qualitative value drivers affords financial advisors the opportunity to enhance the value of their practices (McCarthy, 1996: 52-56; Opiela, 2002: 1-5). It has been found (Clarke, n.d.: 1) that the success of the most profitable financial advisory practices may be ascribed to the implementation of those qualitative value drivers that, collectively, are known as best business practices. According to Peters (2005: 1), "best practice is a generally accepted best way of doing a thing" and is "formulated after the study of specific business or organizational case studies to determine the most broadly effective and efficient means of organizing a system or performing a function". The concept of best business practices is, therefore, found on finding the ideal manner in which to perform typical business practices.

Best business practices contain principles and suggested actions, specific to financial advisors and their practices, in terms of Finance and Reporting, Potential Clients, Client Relationship Management, Staff Management, Operational Efficiency, External Environment, Business Continuity, and Business Entity and Client Access. Briefly, in complying with best business practices the advisor should:

Analyse income and expenditure to determine productivity and profitability (finance and reporting).

Develop a marketing plan and implement actions toward gaining new clients (potential clients).

Segment the client base to deliver services appropriately according to the various client categories and to implement various client initiatives (client relationship management).

View staff as an investment upon which a return should be earned (staff management).

Recognise the benefits of technology and the importance of standardised processes, record keeping and time management (operational efficiency).

Anticipate and manage risks to the practice, develop the brand thereof and deliver a comprehensive service portfolio to clients (external environment).

Develop a business plan and provide for both planned and/or unplanned departure from the practice (business continuity).

Consider the impact of the various legal business entities, as well as the location, premises and accessibility of the practice (business entity and client access).

Implementing best business practices is a relatively new concept to the South African financial advisor. Results from an international and national data search on the topic revealed that no similar research, specific to the South African independent financial advisor, exists (Anderson, 2003; Boyson, 1999; Cooper, 1998; Cunill, 2006; Falkena, Fourie & Kok, 1996; Kock, Roodt & Veldsman, 2002; McBride, 2002; Nelson, Moody & Stegner, 2001; Oosthuizen, 2005; Parisse & Richman, 2006; Robertson & Sribar, 2002; Schuman, 2005; Sosnowski, 1971; Starinsky, 2003; Wagner & Newell, 2005). The objective of this study was to report on the case for best business practices, which includes the economic, market and legislative challenges faced by South African independent financial advisors; provide an overview of best business practices; and to present the empirical findings pertaining to the implementation of best business practices in the South African independent financial advisor's practice. The objective of this paper is to report on South African independent financial advisors' use of best business practices, specifically those related to Finance and Reporting, Potential Clients, Client Relationship Management, Staff Management, Operational Efficiency, External Environment, Business Continuity, and Business Entity and Client Access. These reported findings, therefore, form part of a more comprehensive study on best business practices as applied by South African independent financial advisor's practices. Given that best business practices have enhanced the value of financial advisor's practices in other countries, the contribution of this study is expected to be significant in the South African context.

RESEARCH DESIGN AND METHODOLOGY

The research paradigm deemed most appropriate to this study is that of positivistic research. This may be substantiated by the intentions of this study; namely to use exploratory and confirmatory data analysis to determine the extent to which South African financial advisors currently make use of best business practices (Collis & Hussey, 2003: 121, 151, 155).

The unit of analysis in this research comprised an aggregate of South African independent financial advisors (N = 2209) who were registered members of a financial services distribution network during the year 2006. This provided the assurance that all selected financial advisors were appropriately licensed with the Financial Services Board (FSB), in terms of both the Financial Advisory and Intermediary Services (FAIS) Act of 2002 and the Financial Intelligence Centre Act (FICA) of 2001. Members of this financial services distribution network are further expected to remain compliant to legislation (FAIS and FICA) and to any requirements imposed by the FSB. Compliance assessments are conducted quarterly for each network member and an annual audit report is submitted to the FSB for each member. This provides the assurance that respondents have implemented, and are maintaining, those processes required to render adequate and appropriate financial advice to their clients, as required by legislation.

Both qualitative and quantitative variables were used in the process of collecting data by means of an electronic questionnaire. Qualitative variables were used to provide non-numerical data specific to the aggregate and included the race and gender of respondents, as well as the legal business entities employed by respondents. Quantitative variables were used to provide numeric data specific to the same aggregate (Collis & Hussey, 2003: 152). The questionnaire consisted of both discrete (annual income of the financial advisor's practice) and continuous (number of support staff employed, number of years practicing as a financial advisor and age of the financial advisor) quantitative variables.

The respondents were chosen based on a quota sampling technique. Quota sampling allows the random selection of respondents from sub-groups within a population and requires an advance indication of the required number of respondents within each sub-group (Pijnenburg, 2004: 38). The

Random Number Generation function (Excel) was used to select the required quantity of random numbers per region. This function provided independent random numbers (Keller, 2005: 148) that were used to select regional respondents with matching numbers. Questionnaires were submitted to members (N = 442) from each of the six regions, as indicated in Table 1.

<i>Region</i>	<i>Number of members</i>	<i>Questionnaires submitted to 20 per cent of members</i>
Eastern Cape	258	52
Free State	312	62
Gauteng	481	96
KwaZulu-Natal	324	65
Mpumalanga	416	83
Western Cape	418	84
Total	2209	442

Source: Researcher's own construction

Collis and Hussey (2003: 155) maintain that the size of the population determines the size of the respondent sample and the results from such a representative sample may be deemed valid for the entire population. In order to attain a representative quota sample for this study 20 per cent of members from each region, as shown in Table 1, were included in the research. It was expected that, based on personal experience, the findings of the empirical analysis would demonstrate a 40 per cent incidence nationally of respondents having implemented best business practices. To ensure that the national figure would be within a five per cent variation of the 95 per cent confidence level, a sample size of 369 was required. An 85 per cent response rate was further expected from respondents. To arrive at both the required precision limit (confidence level of 95 per cent) and a sample size large enough to ensure the expected response rate of 85 per cent, a total of 442 questionnaires (Ferreira, 2006) was submitted to randomly selected respondents. This constituted 20 per cent (rounded) of the number of network members.

Two measures, namely validity and reliability, may be used to assess the credibility of the research findings. The design of the questionnaire was expected to contribute to achieving validity of findings. This was accomplished through the use of closed questions, supplemented by detailed descriptions, which restricted the potential for response variance. Confidence in the validity of the findings was reinforced through the delimitation of the research. It was further considered that the size of the sample, as well as the number of respondents per region, would prove sufficient to validate the reliability of the findings received across the respondent sample (Ferreira, 2006). It is anticipated that the findings will prove reliable in the foreseeable future due to the relative novelty of the implementation of best business practices in the South African independent financial advisor's practice.

EMPIRICAL FINDINGS – BEST BUSINESS PRACTICES

The number of questionnaires required to achieve both the desired precision limit (95 per cent) and the expected response rate (85 per cent) was submitted to members selected randomly from the various geographic regions, according to the quota sampling technique. An overall response rate of 85 per cent was achieved. This is consistent with the response rate expected.

An analysis of the demographic data indicated that the typical respondent is a White male, aged 48, who has been practicing as a financial advisor for a period of 17 years. It was further indicated that this member operates as a close corporation, employs one staff member and earns between R500,000 and R600,000 per annum. A detailed analysis of the demographic findings,

according to each of the six regions, is available on request. An extensive empirical analysis of findings pertaining to the regional implementation of best business practices was completed for the purposes of this study and are available on request. Empirical analysis of findings pertaining to the national implementation of best business practices is classified according to the following categories:

findings per best business practice, both national and regional;
national findings per best business practice, per race;
national findings per best business practice, per gender;
national findings per best business practice, per legal business entity;
national findings per best business practice, per number of support staff;
national findings per best business practice, per income category; and
national findings per best business practice, per number of years in business.

A summary of these empirical findings are presented in Table 2 and Table 3.

<i>Category</i>	<i>Mean percentage</i>
National, overall mean percentage	41
<i>Mean implementation percentage per best business practice:</i>	
Finance and Reporting	50
Potential Clients	37
Client Relationship Management	32
Staff Management	37
Operational Efficiency	50
External Environment	39
Business Continuity	22
Business Entity and Client Access	61
Source: Researcher's own construction	

It was expected that the findings of the empirical analysis would demonstrate a 40 per cent incidence nationally of respondents having implemented best business practices. This view is corroborated by the overall mean percentage of 41 per cent obtained nationally for the implementation of best business practices, as provided in Table 2.

The empirical findings in Table 2 also suggest that the typical member of the financial services distribution network achieved a high mean (61 per cent) for the implementation of best business practices associated with Business Entity and Client Access. The findings further suggest that best business practices associated with income to the practice, namely Potential Clients (37 per cent) and Client Relationship Management (32 per cent), have only been implemented amongst a minority of respondents and only to a lesser degree.

As stated previously, the average age of respondents is 48 years. The low mean achieved for the implementation of best business practices associated with ensuring the continuity of the practice (22 per cent) and the client relationship (32 per cent) is a concern, as this poses a risk to the financial advisor, especially in terms of current legislation.

Table 3 provides a summary of the implementation of best business practices in the South African independent financial advisors' practice according to various demographic aspects.

Table 3	
Summary of empirical findings according to demographic aspects	
<i>Category</i>	<i>Mean percentage</i>
<i>Mean implementation percentage per race:</i>	
Black	30
Coloured	40
Indian	32
White	42
<i>Mean implementation percentage per gender:</i>	
Male	41
Female	44
<i>Mean implementation percentage per legal business entity:</i>	
Close Corporation	43
Proprietary Limited	48
Sole Proprietor	35
Trust	45
<i>Mean implementation percentage per number of support staff:</i>	
None	29
One	40
Two	47
Three	51
Four	54
Five	48
Seven	56
<i>Mean implementation percentage per income category (R'000):</i>	
0 – 100	34
100 – 200	32
200 – 300	35
300 – 400	38
400 – 500	41
500 – 600	40
600 – 700	49
700 – 800	44
800 – 900	44
900 – 1,000	49
1,000 – 1,500	48
1,500 – 2,000	59
2,000 – 2,500	58
2,500 – 3,000	20
<i>Mean implementation percentage per number of years practicing as advisor:</i>	
0 – 5	42
6 – 10	34
11 – 15	34
16 – 20	37
21 – 25	34
26 – 30	30
31 – 35	40
36 – 40	48
46 – 50	33
Source: Researcher's own construction	

Table 3 indicates a low implementation rate for best business practices amongst Black members; members operating as sole proprietors; and members without a staff complement. The findings further indicate a higher implementation rate amongst members in the higher income categories. It may be concluded from Table 3 that the highest mean for the implementation of best business practices was achieved by a White female respondent who operates as a proprietary limited entity; employs seven staff members; earns an income of R1,500,000 to R2,000,00 per annum; and has been practicing as a financial advisor for a period of 36 to 40 years.

CONCLUSIONS

The primary objective of this paper was to report on South African independent financial advisors' use of best practices, specifically those related to Finance and Reporting, Potential Clients, Client Relationship Management, Staff Management, Operational Efficiency, External Environment, Business Continuity, and Business Entity and Client Access. Based on the findings from the research into the extent to which South African independent financial advisors currently make use of best business practices, the following may be concluded:

South African independent financial advisors achieved a low national mean of 41 per cent for the implementation of best business practices.

A correlation exists between a high mean percentage for implementation of best business practices and respondents who earn in excess of R600,000 per annum. This demonstrates the financial benefits associated with the implementation of best business practices.

A correlation exists between a high mean percentage for implementation of best business practices and respondents who employ two or more staff members.

A correlation exists between a high mean percentage for implementation of best business practices and respondents who have been in practice for longer than 30 years.

A low mean percentage was achieved for the implementation of best business practices related to securing income to the practice (Potential Clients and Client Relationship Management) and ensuring the continuity of the practice (Business Continuity).

The above conclusions confirm the importance of best business practices to improve the capital value of the practice; to contend with the industry environment; and to ensure the continuity of the financial advisory practice. The above-mentioned findings, together with the low national mean (41 per cent) achieved by respondents for the implementation of best business practices, conclusively indicate a need for the implementation of best business practices in the South African independent financial advisor's practice.

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THE KEYNESIAN-MONETARIST CONTROVERSY IN INTERNATIONAL ECONOMICS: DISCRIMINATORY POWER OF LONG-RUN EMPIRICAL TESTS

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ABSTRACT

Two major theories in the area of balance of payments are the Keynesian and monetarist theories. There have been many long-run tests of the monetary approach to the balance of payments and the evidence has been used to support the monetary approach. This paper argues that most of the existing empirical work does not have any discriminatory power. Long-run empirical models can discriminate between a simple Keynesian cross and a monetarist approach, but they cannot discriminate between a monetarist and a standard IS-LM model because the monetary equation is the LM schedule in an IS-LM model. This paper recommends that Keynesian and monetarist views about the transmission mechanism and the homeostatic mechanism are fundamentally different and provide bases for discriminatory tests.

INTRODUCTION

Keynesian and monetarist theories dominate macro-economics in general and balance of payments theories in particular. There have been many long-run tests of the monetary approach to the balance of payments and the evidence has been used to support the monetary approach. This paper argues that most of the existing empirical work does not have any discriminatory power.

Ardalan (2003, 2005a, 2005b) has reviewed three alternative theories of balance of payments adjustments. They are the elasticity and absorption approaches (associated with Keynesian theory), and the monetary approach. In the elasticities and absorption approaches the focus of attention is on the trade balance with unemployed resources. The elasticities approach emphasizes the role of the relative prices (or exchange rate) in balance of payments adjustments by considering imports and exports as being dependent on relative prices (through the exchange rate). The absorption approach emphasizes the role of income (or expenditure) in balance of payments adjustments by considering the change in expenditure relative to income resulting from a change in exports and/or imports. In the monetary approach, on the other hand, the focus of attention is on the balance of payments (or the money account) with full employment. The monetary approach emphasizes the role of the demand for and supply of money in the economy.

Ardalan (2003, 2005a) has comprehensively reviewed the relevant empirical work dealing with the monetary approach. Empirical work on the monetary approach to the balance of payments can be divided into two different approaches; one tests the theory in long-run equilibrium, the other considers the adjustment mechanism and the channels through which equilibrium is reached. The first approach is based on the reserve flow equation developed by Johnson (1972). Testing was undertaken by Zecher (1976) and others. The second approach is based on theoretical work of Prais (1977), with corresponding empirical work undertaken by Rhomberg (1977) and others.

This paper is based on Ardalan (2003, 2005a, 2005b) and it argues that most of the existing empirical work in the long-run framework has no discriminatory power because Keynesian and monetarist approaches yield similar implications when Keynesian models contain a monetary sector. The standard monetary equation may be used to discriminate between the monetary approach and simple Keynesian multiplier theory, but it cannot discriminate between the monetary approach and

the Keynesian IS-LM models because the monetary equation is the LM schedule in an IS-LM model.

The next section explores the existing empirical work on the long-run monetary approach to the balance of payments to see if it can discriminate between the differing views of Keynesian and monetarist economists.

QUESTION OF DISCRIMINATORY POWER

The main goal of this section is to show that existing empirical work on the long-run monetary approach to balance of payments does not discriminate between Keynesian (IS-LM) and monetarist theories of the balance of payments. This is because the evidence is consistent with both Keynesian (IS-LM) and monetarist models, as specified.

Ardalan (2005a) noted that Johnson (1972) proposed a test of the monetary approach to the balance of payments for a small open economy under fixed exchange rates. Ardalan (2005a) also reviewed examples of the numerous applications of that idea to various small countries (either developed or under-developed). The major conclusion of this line of research was that the evidence strongly favors the monetary approach over the traditional Keynesian one.

This section argues that Johnson's (1972) equation discriminates between the monetarist theory and a simple Keynesian multiplier theory in which there is no monetary sector. It does not discriminate between the monetarist theory and a Keynesian model with a monetary sector (i.e., IS-LM). In order to show this, the monetarist model of Johnson (1972) and the Keynesian models of Mundell (1963, 1964) are analyzed and compared. First, small-country comparisons are shown, and then two-country comparisons are examined.

SMALL-COUNTRY COMPARISON

In this subsection, for the case of a small country, first the monetarist model of Johnson (1972) is reviewed. Then, the Keynesian Model of Mundell (1963) is analyzed. Finally, the implications of the monetarist and Keynesian models are compared.

Johnson's (1972) Model: The reserve flow equation is associated with Johnson (1972). For a small country with a fixed exchange rate, the equation can be derived by the following system: The demand for money, equation (1), is dependent on the foreign and domestic price level, P , real income, Y , and the nominal interest rate, i . The supply of money, equation (2), is dependent on the magnitude of the money multiplier, m , and the sum of international, R , and domestic, D , assets of the central bank. Equation (3) specifies equilibrium in the money market.

$$M^d = P.L(Y, i) \quad (1)$$

$$M^s = m.(R+D) \quad (2)$$

$$M^d = m.(R+D) \quad (3)$$

In stationary steady state, this model implies that the balance of payments is zero. In order to obtain non-zero reserve flows, the model is reformulated in terms of steady state "growth." Letting "g" denote the percentage growth rate of a variable, equation (3) implies the following equations:

$$g_x = (1/x)(dx/dt)$$

$$g_{M^d} = g_m + g_{(R+D)} \quad (4)$$

$$g_{M^d} = g_m + [R/(R+D)].g_R + [D/(R+D)].g_D \quad (5)$$

The demand for money in growth terms is:

e_x signifies elasticity of money demand with respect to x

$$g_{Md} = g_p + e_Y \cdot g_Y + e_i \cdot g_i \quad (6)$$

Combining equations (5) and (6) with the equilibrium condition yields equations (7) and (8):

$$g_p + e_Y \cdot g_Y + e_i \cdot g_i = g_m + [R/(R+D)] \cdot g_R + [D/(R+D)] \cdot g_D \quad (7)$$

$$[R/(R+D)] \cdot g_R = g_p + e_Y \cdot g_Y + e_i \cdot g_i - g_m - [D/(R+D)] \cdot g_D \quad (8)$$

Equation (8) is the reserve flow equation developed by Johnson (1972). It is the foundation for almost all long-run analysis.

Ordinary least squares can be applied to the reserve flow equation if the following conditions hold; there is no sterilization of reserve changes, and real income, prices, and interest rates are exogenous. Given the earlier assumptions, all of these conditions must hold for a small country with a fixed exchange rate. In this model the domestic monetary authorities have no control over any real or nominal variables in the economy except the domestic component, D, of high-powered money, and, through reserve flows, international reserves.

Aghevli and Khan (1977) point out that in utilizing the reserve flow equation, one can use basically two methods. One method is to estimate the reserve flow equation directly, and then check the signs and values of the estimated coefficients. The other is to estimate a demand for money function and substitute it into the reserve flow equation. Simulated values from this equation then can be compared with actual values to test the tracking ability of the model.

Using the first method, one has to know what signs and magnitudes to expect for the estimates of coefficients. The coefficient for g_Y is e_Y , the income elasticity of demand for money. It should be positive and in the neighborhood of unity. For given interest rates, price levels, money multiplier, and domestic credit, growth in income generates an increased demand for money, and a reserve inflow just sufficient to result in an increase in the nominal and real money stock. This result conflicts with the simple Keynesian model in which rising income increases imports and presumably generates a reserve outflow. Some authors have used a statistically significant positive relation between income, Y, and international reserves holdings of the central bank, R, as evidence favoring a monetarist view over the Keynesian approach.

The coefficient for g_i is the interest elasticity of the demand for money, which is negative. Increases in the interest rate are associated with reserve outflows in this hypothesis. The interest rate is viewed as a proxy for world interest rates, and changes in this interest rate are taken to reflect similar movements in rates around the world. Given foreign price levels, an increase in interest rates reduces the demand for money and generates reserve losses.

The coefficient for g_p is unity because the elasticity of money demand with respect to the price level is unity. Domestic and world prices are assumed to be equal. As a result, price changes have a positive effect on reserve flows. An increase in prices reduces real money balances (increases demand for nominal balances) and, other things being equal, leads to a reserve inflow just sufficient to restore real money balances to their previous level.

The final two variables reflect domestic influences on the money stock, and both variables are responsive to policy actions by the monetary authorities. An increase in either variable tends to increase the stock of money and, other things being equal, should lead to an outflow of reserves sufficient to restore the real money stock to its previous level. As a result, the coefficient for g_m must be unity while the coefficient for g_D depends on the relative importance of domestic assets in the central bank's portfolio.

Mundell's (1963) Model: Mondell's (1963) typical Keynesian small country model is analyzed here. Using the notation from Mundell's (1964) two-country model, the variables in his (1963) small country model can be expressed as follows:

I = investment

I* = autonomous investment

S = saving
 BT = balance of trade
 M = money supply
 L = demand for money
 D* = domestic assets of the central bank
 R = foreign assets of the central bank

Government spending and taxes are included under “investment” and “saving” (a simplification which entails no significant loss).

The following three equations express the system for a small country:

$$I(i) + I^* - S(Y) + BT(Y) = 0 \quad (9)$$

$$M = L(Y, i) \quad (10)$$

$$M = D^* + R \quad (11)$$

Equation (9) specifies that the flow market for goods and services is in equilibrium. This condition ensures that the current supply of goods and services equals the current demand. Due to unemployed resources, output can change with no change in domestic prices. Like monetarists, Mundell (1963) assumes perfect capital mobility, i.e., domestic and foreign interest rates are equal. Autonomous investment, I^* , is a parameter representing an autonomous element in the investment schedule, separated for purposes of analysis. It should be noted that:

$$dB T/dY < 0, dS/dY > 0, dI/di < 0, I(i) + I^* - S(Y)$$

is the balance on capital account, and $BT(Y)$ is the balance on current account. Equation (9), therefore, shows both the equilibrium in the commodity market, i.e., the IS curve, and the balance of payments equilibrium. The demand for money, L , is assumed to depend upon the interest rate and domestic income.

The money stock, described by equation (11), equals the assets of the central bank. Commercial banks are ignored. D^* is taken as a policy-determined parameter. In effect, Mundell (1963) assumes the money multiplier is unity.

Equating (10) and (11), the LM curve is obtained:

$$L(Y, i) = D^* + R \quad (12)$$

Expressed in growth terms equation (12) is:

$$e_Y \cdot g_Y + e_i \cdot g_i = [R/(R+D)] \cdot g_R + [D/(R+D)] \cdot g_D \quad (13)$$

Rearranging terms, yields equation (14):

$$[R/(R+D)] \cdot g_R = e_Y \cdot g_Y + e_i \cdot g_i - [D/(R+D)] \cdot g_D \quad (14)$$

which, except for the absence of the money multiplier and price level, is the reserve flow equation (8) of Johnson (1972). Note that Mundell’s (1963) Keynesian model implies the same positive relationship between income and international reserves. The theories yield similar implications because both require monetary equilibrium. The absence of prices and a money multiplier in Mundell’s (1963) model are due to the assumptions of a constant price level and unit money multiplier. Neither assumption is crucial for the Keynesian approach. Prices can change in an IS-LM model and fractional reserve banking is consistent with an IS-LM model.

Comparison: The essential equivalence of equation (8) and (14) implies that the reserve flow equation cannot discriminate between monetarist and Keynesian views of balance of payments adjustment. Both theories imply the same relationships between the variables in the reserve flow equation developed by Johnson (1972). The only substantive difference is what can be taken as exogenous. In the monetarist approach, (real) income is exogenous, while income is endogenous in the Keynesian model.

THE KEYNESIAN-MONETARIST CONTROVERSY IN INTERNATIONAL ECONOMICS: DISCRIMINATORY POWER OF SHORT-RUN EMPIRICAL TESTS

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ABSTRACT

Two major theories in the area of balance of payments are the Keynesian and monetarist theories. There have been many short-run tests of the monetary approach to the balance of payments and the evidence has been used to support the monetary approach. This paper argues that most of the existing empirical work does not have any discriminatory power because it assumes equilibrium in the money market. This paper recommends that Keynesian and monetarist views about the transmission mechanism and the homeostatic mechanism are fundamentally different and provide bases for discriminatory tests.

INTRODUCTION

Keynesian and monetarist theories dominate macro-economics in general and balance of payments theories in particular. There have been many short-run tests of the monetary approach to the balance of payments and the evidence has been used to support the monetary approach. This paper argues that most of the existing empirical work does not have any discriminatory power.

Ardalan (2003, 2005a, 2005b) has reviewed three alternative theories of balance of payments adjustments. They are the elasticity and absorption approaches (associated with Keynesian theory), and the monetary approach. In the elasticities and absorption approaches the focus of attention is on the trade balance with unemployed resources. The elasticities approach emphasizes the role of the relative prices (or exchange rate) in balance of payments adjustments by considering imports and exports as being dependent on relative prices (through the exchange rate). The absorption approach emphasizes the role of income (or expenditure) in balance of payments adjustments by considering the change in expenditure relative to income resulting from a change in exports and/or imports. In the monetary approach, on the other hand, the focus of attention is on the balance of payments (or the money account) with full employment. The monetary approach emphasizes the role of the demand for and supply of money in the economy.

Ardalan (2003, 2005a) has comprehensively reviewed the relevant empirical work dealing with the monetary approach. Empirical work on the monetary approach to the balance of payments can be divided into two different approaches; one tests the theory in long-run equilibrium, the other considers the adjustment mechanism and the channels through which equilibrium is reached. The first approach is based on the reserve flow equation developed by Johnson (1972). Testing was undertaken by Zecher (1976) and others. The second approach is based on theoretical work of Prais (1977), with corresponding empirical work undertaken by Rhomberg (1977) and others.

This paper is based on Ardalan (2003, 2005a, 2005b) and it argues that most of the existing empirical work in the short-run framework has no discriminatory power. Theoretical models explicitly differentiate between the two types of adjustment mechanisms, but most short-run empirical models have no discriminatory power because they assume equilibrium in the money market.

The next section explores the existing empirical work on the short-run monetary approach to the balance of payments to see if it can discriminate between the differing views of Keynesian and monetarist economists.

QUESTION OF DISCRIMINATORY POWER

The main goal of this section is to show that existing empirical work on the short-run monetary approach to balance of payments does not discriminate between Keynesian and monetarist theories of the balance of payments. This is because the evidence is consistent with both Keynesian and monetarist models, as specified.

Ardalan (2003) noted that Prais (1977) proposed a test of the short-run monetary approach to the balance of payments. Ardalan (2003) also reviewed examples of the numerous applications of that idea to various countries. The major conclusion of this line of research has been that the evidence strongly favors the monetary approach.

This section argues that most of the short-run evidence is unable to discriminate between the two theories. Monetarist short-run models consider the adjustment process to take place by excess money balances spilling over into commodity and financial markets. When this basic idea has been translated into empirical form, it has lost its discriminatory power because, with one notable exception, the estimated equations do not explicitly recognize monetary disequilibrium. Therefore, the evidence has no discriminatory power because it is consistent with both Keynesian and monetarist models, as specified. In order to demonstrate this, first the theoretical monetarist model of Prais (1977) and the Keynesian model of Mundell (1963) are analyzed and compared, and then three empirical studies that are based on Prais' (1977) formulation are reviewed. These three consist of one by Rhomberg (1977) and two by Khan (1977, 1976). The examination of the short-run empirical formulations illustrates that the evidence is consistent with both models, as specified.

THEORETICAL MODELS:

In this subsection the theoretical monetarist model of Prais (1977) and the Keynesian model of Mundell (1963) are analyzed and compared.

Prais' (1977) Model: Prais' (1977) model formulated the adjustment process in terms of continuous time, which allows precise specification of the relation between stock and flow variables. Prais (1977) specifies a domestic expenditure function which emphasizes the role of deviations of actual from desired money holdings as the link between the real and monetary sectors of the economy. This particular specification has been widely used in the literature.

The model, which is in differential equation form, may be set out with a system of six equations given by equations (1) through (6):

$$\begin{aligned} LD &= k.Y && (1) \\ dL/dt &= X - IM && (2) \\ E &= Y + a.(L - LD) && (3) \\ IM &= b.Y \quad \text{or} \quad IM = b.E && (4) \\ X &= X(t) && (5) \\ Y &= E + X - IM && (6) \end{aligned}$$

In these equations LD is the desired level of liquidity as distinguished from the actual liquidity, L. The first equation is the familiar Cambridge equation relating a desired level of liquidity, LD, to the level of income. The second equation relates the change in actual liquidity to the balance of payments, which is represented in differential form. An additive term to represent any given rate of credit creation can be introduced on the right-hand side of (2) without altering the basic mathematics. Equation (3) indicates that domestic expenditure, E, equals income plus the excess of actual over desired liquidity. Imports, equation (4), are taken as a constant fraction of income. As an alternative, imports may be taken as a fraction of expenditure, E, so as to be proportionately influenced by the liquidity situation. However, this and other variations lead to rather similar results,

apart from changes in the constants. Exports are assumed exogenous and given by equation (5). Finally, national income, in equation (6), is defined as domestic expenditure plus exports less imports.

In this system, a disequilibrium – for example a deficit in the balance of payments due to an exogenous reduction in exports – is corrected by a fall in the money supply via (2), followed by a fall in domestic expenditure via (3), a fall in income via (6), and a fall in imports via (4). This process continues until the deficit in (2) is eliminated.

Mundell's (1963) Model: Mundell's (1963) model can be expressed in the following three equations:

$$I(i) + I^* - S(Y) + BT(Y) = 0 \quad (7)$$

$$M = L(Y, i) \quad (8)$$

$$M = D^* + R \quad (9)$$

Where:

I = investment

I* = autonomous investment

S = saving

BT = balance of trade

M = money supply

L = demand for money

D* = domestic assets of the central bank

R = foreign assets of the central bank

Government spending and taxes are included under “investment” and “saving” (a simplification which entails no significant loss).

Equation (7) specifies that the flow market for goods and services is in equilibrium. This condition ensures that the current supply of goods and services equals the current demand. Due to unemployed resources, output can change with no change in domestic prices. Like monetarists, Mundell (1963) assumes perfect capital mobility, i.e., domestic and foreign interest rates are equal. Autonomous investment, I*, is a parameter representing an autonomous element in the investment schedule, separated for purposes of analysis. It should be noted that: $dBT/dY < 0$, $dS/dY > 0$, $dI/di < 0$, $I(i) + I^* - S(Y)$ is the balance on capital account, and $BT(Y)$ is the balance on current account. Equation (7), therefore, shows both the equilibrium in the commodity market, i.e., the IS curve, and the balance of payments equilibrium. The demand for money, L, is assumed to depend upon the interest rate and domestic income.

The money stock, described by equation (9), equals the assets of the central bank. Commercial banks are ignored. D* is taken as a policy-determined parameter. In effect, Mundell (1963) assumes the money multiplier is unity.

In this model an autonomous increase in exports has a multiplier effect on income, and increases savings, taxes, and imports. After the new equilibrium is established, both the goods and capital markets must be in balance. In the goods market, the budget surplus and excess of private saving over investment have their counterpart in the balance of trade surplus. In the capital market, the private and public sectors must be willing to accumulate foreign securities. Capital market equilibrium requires that the current account surplus be exactly balanced by a capital outflow, so that there is balance of payments equilibrium after all adjustments have taken place.

There will nevertheless be a change in foreign exchange reserves. Before the flow equilibrium is established the demand for money will increase at a constant rate in proportion to the increase in income. To acquire the needed liquidity the private sector sells securities and this puts upward pressure on the interest rate and attracts foreign capital. This improves the balance of

payments temporarily, forcing the central bank to intervene by buying foreign reserves and increasing the money supply. The money supply is therefore increased directly through the back door of foreign exchange rate policy. Foreign exchange reserves accumulate by the full amount of the increased cash reserves needed by the banking system to supply the increased money demanded by the public as a consequence of the increase in income.

COMPARISON

When the adjustment processes in these short-run models are compared, the essential points are seen to be captured by the expenditure and import functions. Behavioral relations (equation 6) in Prais' (1977) model indicate that excess money balances spill over to the commodity market in general, and imports in particular, while the disequilibrium interpretation of Mundell's (1963) model suggests that the increase in money balances results in downward pressure on interest rates and, therefore, a capital outflow. These models reflect the theoretical difference that exists between Keynesian and monetarist views of the transmission mechanism and the international adjustment process. Monetarists tend to assume that some excess balances spill over directly in to commodity markets while Keynesians tend to assume that all excess balances spill over in to financial markets.

CONCLUSION

Two major theories in the area of balance of payments are the Keynesian and monetarist theories. This paper argued that most short-run "tests" of the monetary approach to balance of payments have no discriminatory power. Short-run (disequilibrium) models specify a monetarist transmission mechanism, i.e., excess money balances spill over to commodity markets and increase expenditures on goods and services in general and imports in particular. This transmission mechanism, however, disappears from most of the empirical work, because actual money balances, not excess balances, appear as an explanatory variable. As a result, these short-run models are indistinguishable from equilibrium models and, therefore, cannot be used to identify the effects of excess money balances. In other words, most of the existing short-run empirical work on the monetary approach to the balance of payments has very little discriminatory power because it assumes equilibrium in the money market.

The need still exists to discriminate between Keynesian and monetarist theories of international economics. Most of the extant empirical work does not meet that objective because it cannot discriminate between monetarist and Keynesian models.

Keynesian and monetarist views about the transmission mechanism and the homeostatic mechanism are fundamentally different and provide bases for discriminatory tests. On the transmission mechanism (which is a short-run phenomenon), the Keynesian view is that excess money balances spill over into the bond market only. In the monetarist view, excess money balances spill over into the bond and money markets. On the homeostatic mechanism (which is a long-run phenomenon), Keynesian theory holds that there is no, or only a very weak, homeostatic mechanism and, in the absence of government intervention, real income tends to remain below the level of full employment. In the monetary interpretation, the homeostatic mechanism is strong, and real income can be treated as though it were exogenous.

For further research in this area some directions may be outlined. One is to develop tests on the basis of differing views of Keynesians and monetarists with respect to the transmission mechanism. One, for example, may estimate Prais' (1977) short-run theoretical model, without assuming equilibrium in the money market, as most existing empirical work does. Given the rapid development of econometric procedures to estimate disequilibrium systems, an effective test based on this approach should be feasible in the near future. The other approach would be to develop tests on the basis of differing views of Keynesians and monetarists with respect to the homeostatic mechanism.

MARKETS: A PARADIGMATIC LOOK

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ABSTRACT

Any adequate analysis of markets necessarily requires fundamental understanding of the worldviews underlying the views expressed with respect to the nature and role of markets. This paper starts with the premise that any worldview can be associated with one of the four basic paradigms: functionalist, interpretive, radical humanist, and radical structuralist. It shows that any view expressed with respect to markets is based on one of the four paradigms or worldviews and is equally scientific and informative. It notes that knowledge in general, and knowledge of markets in particular, is ultimately a product of the researcher's paradigmatic approach to a multifaceted phenomenon and therefore it is as much an ethical, moral, social, ideological, and political activity, as it is a technical one. Emphasizing this example about markets, the paper notes that there are opportunities for functionalist mainstream academic finance to benefit from contributions coming from the other three paradigms and obtain a balanced view of the subject of their study.

INTRODUCTION

An analysis of markets necessarily requires a fundamental understanding of the worldviews underlying the views expressed with respect to the nature and role of markets. Four general views with respect to markets, corresponding to four broad worldviews, are discussed. These four views with respect to the nature and role of markets are equally scientific and informative; each looks at the nature of markets and their role from a certain paradigmatic viewpoint.

The paper takes the case of markets as an example and emphasizes that, in general, any phenomenon may be seen and analyzed from different viewpoints and that each viewpoint exposes a certain aspect of the phenomenon under consideration. Collectively, they provide a much broader and deeper understanding of the phenomenon. Therefore, academic finance can benefit much from contributions coming from other paradigms if it respects paradigm diversity.

Any adequate analysis of the role of paradigms in social theory must recognize the assumptions that underwrite that paradigm or worldview. Social theory can usefully be conceived in terms of four key paradigms: functionalist, interpretive, radical humanist, and radical structuralist. The four paradigms are founded upon different views of the social world. Each generates theories, concepts, and analytical tools which are different from those of other paradigms.

The four paradigms are based on different assumptions about; the nature of social science (i.e., the subjective-objective dimension), and the nature of society (i.e., the dimension of regulation-radical change). This can be used as both a classificatory device, or more importantly, as an analytical tool. The two dimensions are very important to social theorists because the subjective-objective dimension represents the root cause of the differences among philosophical schools and their corresponding theories and applications; and the regulation-radical change dimension represents the degree of tension which exists in human societies.

The paper is organized as follows. Each of the following sections, first, each lays down the foundation by discussing one of the four paradigms. Then, each presents the nature and role of markets from the point of view of the respective paradigm.

THE FUNCTIONALIST PARADIGM

Schools of thought within this paradigm can be located on the objective-subjective continuum. From right to left they are: Objectivism, Social System Theory, Integrative Theory, Interactionism, and Social Action Theory.

The functionalist paradigm assumes that society has a concrete existence and follows certain order. These assumptions lead to the existence of an objective and value-free social science which can produce true explanatory and predictive knowledge of the reality out there. It assumes that scientific theories can be assessed objectively by reference to empirical evidence. Scientists do not see any roles for themselves within the phenomenon which they analyze through the rigor and technique of the scientific method. It attributes independence to the observer from the observed. That is, an ability to observe “what is” without affecting it. It assumes there are universal standards of science, which determine what constitutes an adequate explanation of what is observed. It assumes there are external rules and regulations governing the external world. The goal of scientists is to find the orders that prevail within that phenomenon.

The functionalist paradigm seeks to provide rational explanations of social affairs and generates regulative sociology. It emphasizes the importance of understanding order, equilibrium and stability in society and the way in which these can be maintained. Science provides the basis for structuring and ordering the social world, similar to the structure and order in the natural world. The methods of natural science are used to generate explanations of the social world. Their approach to social science is rooted in the tradition of positivism.

Functionalists are individualists. That is, the properties of the aggregate are determined by the properties of its units.

The functionalist paradigm has become dominant in academic sociology and mainstream academic finance. The world of finance is treated as a place of concrete reality, the individual is regarded as taking on a passive role; his or her behavior is being determined by the economic environment.

Theories and policies in current mainstream academic finance may be listed as follows: (1) Efficient market theory, (2) Portfolio theory, (3) Capital asset pricing theory, (4) Option pricing theory, (5) Agency theory, (6) Arbitrage pricing theory, (7) Capital budgeting policy, (8) Capital structure policy, and (9) Dividend policy.

Bettner, Robinson, and McGoun (1994) note that the common threads among theories in mainstream academic finance are:

1. There is a cause and effect mechanism underlying all nature and human activity (ontology);
2. It is known through the set of nomological connections between initial conditions and final outcomes (epistemology);
3. Human beings interact with each other and their society in accordance with this mechanism (human nature); and
4. Information regarding all natural and human activity can be acquired through observations and measurements unaffected by individual perceptual differences (methodology), (page 3)

which lead to the conclusion that the current theories in finance are clearly based on the functionalist paradigm.

Functionalist paradigm’s views with respect to the nature and role of markets are presented next.

Markets play a central role in allocating resources and distributing income. Their performance depends in part on their structure. On the suppliers’ side, monopoly and competitive market structures define the extremes. Market structure also varies on the buyers’ side. When there

is only one buyer, “monopsony” prevails, and when there are few buyers, “oligopsony” prevails. When there is a monopolist and a monopsonist, the structure is a “bilateral monopoly”. There are other possible combinations as well.

Among economic models, the theory of perfect competition holds the dominant position. Economists have used the logic of perfectly competitive markets very widely and successfully. In contrast, all other market models (referred to as “imperfectly competitive,” which includes monopoly, monopolistic competition, dominant-firm price leadership, bilateral monopoly and other situations of bargaining, and all the varieties of oligopoly theory) have been used comparatively very little.

Arrow, Debreu, and MacKenzie are the founders of the formal analyses of Walrasian general equilibrium, and Debreu’s *Theory of Value* (1959) is still the standard treatment of this subject. In this theory, competition finds a behavioral definition. There is a set of consumers, a set of firms, and a set of commodities. One price for each commodity is introduced, and then a perfectly competitive behavior is defined. Each consumer selects transactions that maximize his/her utility, subject to a budget constraint. It is assumed that each consumer can buy or sell unlimited quantities at the specified prices and that the consumer’s purchases or sales do not affect the profits he/she earns. Furthermore, it is assumed that each firm selects the inputs and outputs that maximize its net receipts, and that the firm’s purchases and sales do not affect prices. Finally, equilibrium is defined as a price vector such that perfectly competitive choices of each agent at these prices aggregate to a feasible allocation, i.e., markets clear.

Mathematical proof of this model results in three fundamental theorems. These set conditions on agents’ tastes, agents’ endowments, and technology under which competitive equilibrium exist (existence), equilibrium allocations are Pareto-optimal (efficiency), and, with an initial reallocation of resources, any Pareto optimum can be supported by a competitive equilibrium (unbiasedness). The combination of efficiency and existence theorems formalize Adam Smith’s argument of the invisible hand that the self-interested behavior serves the common good. The unbiasedness theorem states that the competitive price mechanism does not favor any especial group (capitalists, workers, resource owners, consumers, etc.). The efficiency theorem requires the assumption that not all consumers are satiated. The existence and unbiasedness theorems require the assumption of the absence of any increasing returns to scale as well.

Debreu’s model embodies most of the conditions arising in less formal treatments of perfect competition. For instance, the homogeneity and the divisibility of commodities are assumed. But, free entry and large numbers of producers and consumers play no explicit role in Debreu’s model. That is, all the theorems would hold if there were only one buyer and one seller of any commodity.

The above property that the results of Debreu’s model are independent of the number of producers and consumers reflects the fact that Debreu’s model is an equilibrium theory. That is, a theory which specifies what happens only if agents behave as specified and that prices are the equilibrium, market-clearing values. The model neither considers what happens if prices were not at their Walrasian levels, nor specifies how prices are determined. Furthermore, not even Walrasian auctioneer and tatonnement (no trade at non-equilibrium prices) support this equilibrium through a consistent price formation with rational actors. That is, an agent would have incentive to misrepresent his/her demands, by responding consistently to each price announcement by the auctioneer as if he/she had a different set of preferences than the real ones, with the goal of arriving at monopolistic prices and outcomes.

The above points are approached by the methods of game theory, especially the theory of non-cooperative games and games in extensive form. Recent research in game theory has significantly improved the partial equilibrium theory of imperfect competition, and it has shown great potential to provide not only a satisfactory general equilibrium theory but also a unified theory of competition that would encompass both perfect and imperfect competition.

Games in extensive form are modeled by specifying the set of agents, the beliefs each has about the characteristics of the other agents, the order in which each acts, the information available

to each whenever he/she makes a decision, the possible actions available at each decision point, the outcomes resulting from each possible combination of choices, and the valuations of these outcomes by the agents. In this way, a typical model completely specifies a particular set of institutions.

Then, a solution concept should be specified. In general, there is great freedom in making this specification, but most researchers choose the Nash equilibrium or one of its refinements. It is interesting that adopting the Nash equilibrium does not preclude collusion if opportunities to coordinate and to enforce agreements are modeled as part of the game. Nash equilibrium applies equally to simultaneous or sequential moves, and it does not mean that the agents are necessarily acting simultaneously, in fact, the order of moves is part of the model specification. Finally, the Nash equilibrium does not limit analysis to one-shot situations as it is also applicable to games of repeated play.

Game theory is in the process of unifying the existing theory of imperfect competition. It has provided a common language and analytical framework to understand the earlier work. Also, it has shown that some theories that appeared to be in conflict are in fact consistent in that they arise from a common, more basic model. It is revolutionizing the field of industrial organization.

THE INTERPRETIVE PARADIGM

Schools of thought within this paradigm can be located on the objective-subjective continuum. From left to right they are: Solipsism, Phenomenology, Phenomenological Sociology, and Hermeneutics.

The interpretive paradigm sees the social world as a process which is created by individuals. Social reality, insofar as it exists outside the consciousness of any individual, is regarded as being a network of assumptions and intersubjectively shared meanings. This assumption leads to the belief that there are shared multiple realities which are sustained and changed. Researchers recognize their role within the phenomenon under investigation. The goal of interpretive researchers is to find the orders that prevail within the phenomenon under consideration; however, they are not objective.

The interpretive paradigm believes that in cultural sciences, the subject matter is spiritual in nature. In the cultural sphere, human beings are perceived as free. An understanding of their lives and actions can be obtained by the intuition of the total wholes. Cultural phenomena are seen as the external manifestations of inner experience. The cultural sciences, therefore, need to apply analytical methods based on “understanding;” through which the scientist can seek to understand human beings, their minds, and their feelings, and the way these are expressed in their outward actions.

The interpretive paradigm believes that scientific knowledge is socially constructed and socially sustained; its significance and meaning can only be understood within its immediate social context. Interpretive finance research enables scientists to examine aggregate market behavior together with ethical, cultural, political, and social issues. The interpretive paradigm believes that there are no universally valid rules of finance and financial management.

Interpretive research in academic finance is negligible compared to the functionalist research. The following is a list of examples of interpretive research: Baker (1992), Baker and Wruck (1989), Cray and Haines (1992), Frankfurter and Lane (1992), Kryzanowski and Roberts (1993a, 1993b), Lintner (1956), O’Barr and Conley (1992), and Rosen (1990).

Interpretive paradigm’s views with respect to the nature and role of markets are presented next.

Economies are instituted processes. The understanding of how empirical economies are instituted should be based on the manner in which the economy acquires its unity and stability. That is, the way the economy’s parts are interdependent and are perpetuated. This happens through a combination of three patterns which are called forms of integration. These forms occur side by side on different levels and in different sectors of the economy. Therefore, frequently it becomes almost impossible to choose one of them as dominant and use it for a classification of the empirical economy as a whole. However, these forms differentiate between sectors and levels of the economy

and offer a means of describing the economic process in comparatively simple terms. In this way, these forms introduce a measure of order into economy's endless variations.

TECHNOLOGY: A PARADIGMATIC LOOK

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ABSTRACT

Any adequate analysis of technology necessarily requires fundamental understanding of the worldviews underlying the views expressed with respect to the nature and role of technology. This paper starts with the premise that any worldview can be associated with one of the four basic paradigms: functionalist, interpretive, radical humanist, and radical structuralist. The paper looks at the current state of mainstream academic finance and notes that it is founded only on the functionalist paradigm. It argues that any view expressed with respect to technology is based on one of the four paradigms or worldviews. It, therefore, discusses four views expressed with respect to the nature and role of technology. The paper emphasizes that the four views expressed are equally scientific and informative; they look at the nature and role of technology from a certain paradigmatic viewpoint. Emphasizing this example in the area of technology, the paper concludes that there are opportunities for mainstream academic finance, in general, and technology, in particular, to benefit from contributions coming from the other three paradigms if they respect paradigm diversity.

INTRODUCTION

An analysis of technology necessarily requires a fundamental understanding of the worldviews underlying the views expressed with respect to the nature and role of technology. Four general views with respect to technology, corresponding to four broad worldviews, are discussed. These four views with respect to the nature and role of technology are equally scientific and informative; each looks at the nature of technology and their role from a certain paradigmatic viewpoint.

The paper takes the case of technology as an example and emphasizes that, in general, any phenomenon may be seen and analyzed from different viewpoints and that each viewpoint exposes a certain aspect of the phenomenon under consideration. Collectively, they provide a much broader and deeper understanding of the phenomenon. Therefore, academic finance can benefit much from contributions coming from other paradigms if it respects paradigm diversity.

Any adequate analysis of the role of paradigms in social theory must recognize the assumptions that underwrite that paradigm or worldview. Social theory can usefully be conceived in terms of four key paradigms: functionalist, interpretive, radical humanist, and radical structuralist. The four paradigms are founded upon different views of the social world. Each generates theories, concepts, and analytical tools which are different from those of other paradigms.

The four paradigms are based on different assumptions about; the nature of social science (i.e., the subjective-objective dimension), and the nature of society (i.e., the dimension of regulation-radical change). This can be used as both a classificatory device, or more importantly, as an analytical tool.

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which lead to the conclusion that the current theories in finance are clearly based on the functionalist paradigm.

Functionalist paradigm's views with respect to the nature and role of technology are presented next.

Capital goods are heterogeneous commodities due to their different technical characteristics. Capital goods are one of the factors of production. In contrast to labor and land, capital goods are not given, because they are themselves produced. Capital goods are both an output and an input and,

therefore, the size and variation of the capital stock are determined endogenously. That is, as a factor of production, capital stock is not a given but it is the result of an economic process in which it participates as one of the determinants. Consequently, the formation of capital stock or investment is the major channel through which all other determinants (such as technical progress, change in labor supply, or the exploitation of natural resources) influence the long-run growth of an economic system.

Classical economists became interested in the analysis of economic growth because of their philosophical concern with growth in national wealth, consumption, and the material basis of society. They regarded the principle of national advantage as an essential criterion of economic policy. Accordingly, their purpose of analysis was to identify the forces in society that promoted or hindered economic growth in order to provide a basis for policy and action to influence those forces.

Classical economists provided an account of the mechanisms underlying the growth process and major forces that influence economic growth. Their important achievement was the recognition that the main driving force behind economic growth is the investment of a part of the social product towards accumulation of capital stock. Such capital accumulation forms as a result of the reinvestment of a portion of profits.

At the core of the problem of economic growth lies the explanation of the forces underlying the process of the accumulation of capital stock. Closely associated with the accumulation of capital stock is the technical change, as expressed in the division of labor and changes in methods of production.

The most common analysis of the accumulation of capital has viewed the problem as the expansion of the productive potential of an economy with a given technology, which may be improved in the process. This approach leads to analyses based on the idea of steady growth.

Accumulation of capital is the result of plowing back part of the surplus generated from production. Accordingly, accumulation of capital is the investment of part of society's net product – the surplus of output over consumption and the requirements for maintaining the existing capital stock – in order to expand productive capacity to take advantage of new or developing markets. The study of the accumulation of capital in the steady state growth of the economy explains both the availability of the surplus and the motivation for plowing it back.

Most of the modern work studied accumulation of capital in the context of steady growth. Economic growth can have a specific target, or can continue indefinitely. The former is the subject of "turnpike" studies (that is, in order to reach a target set of outputs, first the economy most rapidly shifts to the balanced growth path – the "turnpike" – and grows along it, and changes to the desired set of outputs when it reaches the right size). The latter is the subject of models in which equilibrium paths of perpetual growth are determined and their properties examined. In other words, given a system of production, the above two approaches answer the question how that system can be organized in order to grow either over some finite period of time to reach some target set of outputs or over the indefinite future. In either case the accumulation of capital, which is the core of economic growth, will result from the investment of part of the surplus, and will be analyzed either as a case of steady growth or as a deviation from steady growth.

Classical economists provided a complex structure of ideas expressing a deep understanding of the nature of the economic system, the sources of its expansion, and the barriers or limits to its expansion. However, their ideas were constrained by the conditions of their agrarian economy, i.e., without significant change in methods of production. Without technological progress, the limited quantity and diminishing fertility of the soil results in the limit to growth by increasing the cost of production of agricultural commodities. Their analysis underestimated the role of technological progress in transforming the conditions of productivity both in agriculture and in industry.

Neoclassical economists explicitly incorporate technological progress in their analysis. The neoclassical model determines a path of steady and stable full-employment growth. For example, when the rate of growth of labor, measured in efficiency units (the natural rate of growth), exceeds the rate determined by the propensity to save and the capital-output ratio (the rate that will just

balance aggregate demand and aggregate supply), the real wage will tend to fall. This leads firms to substitute labor for capital. Consequently, the capital-output ratio will decline, raising the rate of growth. If the production function is well-behaved (linear and homogeneous, positive first and negative second derivatives, marginal product of capital tends to infinity as capital-labor ratio tends to zero, and tends to zero as capital-labor ratio tends to infinity), then there will exist an equilibrium growth path. Technological progress which leaves the capital-output ratio unchanged (Harrod-neutral) will not affect the steady-growth path; and technological progress which leaves the ratio of the marginal products of capital and labor unchanged (Hicks-neutral) will change the path, but the economy will adjust smoothly to the new equilibrium.

In neoclassical theory, equilibria tend also to be optimal, but in general the steady growth path will not be. Along an optimal path per capita consumption is at a maximum. Consumption is output minus investment. Investment must grow at a constant rate in order to fully employ the growing labor force. If the marginal product of capital is more than is required to equip the labor force, consumption rises; if it is less, consumption falls. Hence when the marginal product of capital just equals the additional investment required to equip the growing labor force, consumption will be at a maximum. The “Golden Rule of Growth” means consumption per head is maximized and obtains when the rate of profit equals the rate of growth.

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Interpretive paradigm’s views with respect to the nature and role of technology are presented next.

The social construction of technology (SCOT) shows how social processes influence the content of technology, e.g., when a technology is deemed to be working. SCOT illustrates that technology and the facts about its working, which are established through processes of engineering design and testing, are social constructs.

EFFECT OF PREREQUISITE ON INTRODUCTORY STATISTICS PERFORMANCE

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ABSTRACT

Experience in teaching suggests that students' success is greatly affected by the prerequisite courses taken. Statistical Reasoning (introductory statistics) is one of several core courses at Illinois State University's general education program and this course is required for all business and economics students. One prerequisite option for this course is to take any inner-core mathematics courses in the program. Some of these courses are more mathematically oriented than others. Therefore, the objective of this research is to observe if one prerequisite is more effective than the others on Statistical Reasoning.

This paper focuses on the students performance in introductory statistics course who took one of two prerequisite courses— i) Data & Chance, and ii) Finite Mathematics. Several parametric and nonparametric tests provide consistent conclusions about the effectiveness of prerequisite course on student's performance in Statistical Reasoning. Specifically, we have found that students who took the Finite Mathematics received significantly better grade in introductory statistics than did students who took Data & Chance. Thus, students with added mathematical orientation do have greater statistical proficiency. Furthermore, the analysis reveals that on average student's course grade is half a point higher with Finite Mathematics than with Data & Chance.

TEACHING ETHICS, CORPORATE GOVERNANCE, AND SOCIAL ECONOMICS: MOVIES AS A METHOD

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ABSTRACT

This paper puts forth an application of movies into the economics curriculum. Seminar courses focusing on critical thinking skills serve as an ideal environment to integrate movie themes into a curriculum. Employing movies as an alternate to chalk and talk can stimulate student interest in economic issues and provide imagery that facilitates retention and long-term memory. The explicit example described in this study is derived from a critical thinking in economics course with a general theme of corporate governance, ethics, and society. Preliminary experiences of the authors have been very positive with respect to both student satisfaction and learning outcomes.

INTRODUCTION

Teaching economics via edutainment efforts is surfacing as a modern approach to supplement or substitute from traditional chalk and talk (Becker, 2003). The cost of using conventional chalk and talk to teach, rather than more contemporary outcome-based methods, may be significant in the long run as students choose to move away from economics and into more lively and interesting classes (Becker & Watts, 2001). Some economists have adopted teaching techniques that deviate from the pure lecture method by incorporating movies, television, and other forms of popular culture (Watts, 1998; Kish-Goodling, 1998; Formaini, 2001; Leet & Houser, 2003; Mateer, 2005; Sexton, 2006). Imagery and visual encoding is important for learning and an effective memory aid (Myers, 2004). Retention depends on how well students comprehend. Organizing material into a meaningful form that integrates economic concepts can provide a concrete framework for learning (Ericksen, 1984). Successful learning is also dependent upon the relevance of the material. Students must understand the importance of the material or see how it relates or will relate to them before they are willing to fully engage in the learning process. For over seventy years the movie industry has been one of the few outlets to consistently reach the vast majority of people in society. The purpose of this manuscript is to provide a framework where movies can be applied to the learning environment in economics courses that focus on critical thinking.

CRITICAL THINKING AND LEARNING OUTCOMES

The focus of education has changed from an emphasis on the amount of material presented (i.e. how many chapters can a class finish in a semester?) to the comprehension of select learning outcomes (i.e. how do I show what my students learned?). The change in focus is due in part to the prominence of assessment in the educational process. Assessment has become the norm at most institutions. The assessment process typically focuses on identifying skills that students are expected to learn, usually referred to as learning outcomes, and then verifying that students have sufficiently gained these skills. The learning outcomes are not merely a recitation of facts but instead concepts and techniques that students must be able to understand and demonstrate.

Many disciplines such as accounting, finance, and management information systems have projects or simulations that can be used to exhibit student comprehension. Other disciplines such as marketing, international business and political science have case studies through which students

can display their skills. However, economics due to its breadth of topics does not lend itself to just one capstone event. Furthermore, many economics programs include a variety of courses that lack a defined core objective which makes a single project insufficient to demonstrate student knowledge. Accounting programs typically prepare students for the C.P.A. exam while technology students learn specific programming skills.

One key attribute of all economics classes is the emphasis on critical thinking skills. Problems and situations are presented and through a clear and defensible thought process, potential outcomes are discussed. The development of critical thinking skills is one of the main roles that economics plays in either a liberal arts or business curriculum. The importance of critical thinking skills is where economics differentiates itself from the other disciplines. While all disciplines use critical thinking, the process of analyzing many real world situations is based on fundamental economic theories. This gives economics the complex role of providing students with the basic knowledge foundation and with the skills to properly and thoroughly analyze any situation in another discipline.

The focus on assessment has also come at a time where universities are competing more for students and working harder to retain those students. Kuh (2004), writing about the conceptual framework for the National Survey of Student Engagement (NSSE), finds that what students do in college is more important to their success at learning than who they are or where they go to school. Conclusions drawn from the NSSE survey include that students are more satisfied if they are engaged in the learning environment and are able to clearly see gains in intellectual skills. Two main skills identified are critical thinking or problem-solving skills and social and ethical development.

The focus on social and ethical development is also a fundamental part of the accreditation process by the Association to Advance Collegiate Schools of Business (AACSB). While the organization does not delineate how a school is to teach ethics, all accredited colleges must be able to demonstrate how ethical issues are presented in their curriculums.

The challenge facing economics programs is multifaceted. Not only must fundamental economic principles be taught but it must put forth in a way that engages students and gives them the problem-solving skills to be successful in other disciplines. In addition, the process must include a method for assessing the success of students at mastering the learning outcomes. This must be accomplished without losing the broad-based exposure to ideas on which economics curriculums thrive.

Active learning has been shown to increase student involvement and retention of information (Kolb, 1981). The interaction from case studies or team projects provides a stimulating atmosphere within the classroom (Carlson and Schodt, 1995; Bartlett, 1996; Palmieri, 1996). Experimental courses provide a natural method for assessing programs (Walstad, 2001). A key point of active learning is to engage the students so that they are unaware they are learning at the same time they are applying the ideas. Many of the economics concepts especially those that involve ethical behavior are tricky to present without becoming preachy. Plus, many students do not have the experiences that enable them to relate to various ethical situations.

Movies provide the needed link between theory and reality. Movies present the topic visually and with the necessary background to allow all the viewers to see and understand the issues. The movies are basically visual case studies. The students don't have to have been there in their own lives to identify with the issues. Instead, they are able to see the complexity of the situation from a detached viewpoint. Consequently, students do not immediately take one side or another because of personal experience. This allows the situation to be examined and analyzed without interference from preconceived opinions or biases. Any biases or opinions that do exist are brought out during the discussion and can be examined.

For success in using movies as a vehicle to teach and demonstrate critical thinking skills, the instructor must have a delineated outline of topics to be covered in order to guide the discussion and keep from getting off on too many tangents.

MOVIES WITH AN ETHICS AND CORPORATE GOVERNANCE THEME

This section provides a possible list of sample movies that could be employed as part of a seminar course focusing on corporate governance, ethics, and society. The theme could easily be modified to other issues such as labor relations, macroeconomics, civil rights and discrimination, business icons, or cross cultural relations are examples of alternative themes. Movies are merely the vehicle for engaging the students and providing the needed setting to understand the issues surrounding a topic. Table 1 presents a list of possible movies supporting the theme of corporate governance, ethics, and society.

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Table 1
Corporate Governance, Ethics, and Society Movies

<i>Boiler Room</i> (2000)
<i>Casablanca</i> (1942)
<i>City of God</i> (2002)
<i>A Civil Action</i> (1998)
<i>The Corporation</i> (2003)
<i>Dirty Rotten Scoundrels</i> (1988)
<i>Dogville</i> (2003)
<i>Double Indemnity</i> (1944)
<i>The Emperor's Club</i> (2002)
<i>Enron: The Smartest Guys in the Room</i> (2005)
<i>Erin Brockovich</i> (2000)
<i>Fun with Dick and Jane</i> (2005)
<i>Gattaca</i> (1997)
<i>Glengarry Glenn Ross</i> (1992)
<i>In Good Company</i> (2004)
<i>An Inconvenient Truth</i> (2006)
<i>The Insider</i> (1999)
<i>Matchstick Men</i> (2003)
<i>Mr. Deeds</i> (2002)
<i>Office Space</i> (1999)
<i>The Rainmaker</i> (1997)
<i>Schindler's List</i> (1993)
<i>Syriana</i> (2005)
<i>Treasure of the Sierra Madre</i> (1948)
<i>Wall Street</i> (1987)
<i>Wal-Mart: The High Cost of Low Prices</i> (2005)
<i>Who Killed the Electric Car?</i> (2006)

DOES STUDENT DEBT IMPACT ALUMNI GIVING RATES?

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ABSTRACT

This manuscript examines the determinants of alumni giving rates. The data set is derived from U.S. News & World Report and comprises 196 educational institutions. The combination of decreased state funding for education and increasing costs of education has increased the need to find alternative sources of funds. Alumni donations provide the funds needed along with the signal that alumni are proud of their alma mater. Regression results indicate that the primary determinants of alumni giving rates are institutional acceptance rate, amount of average student debt, percent of students receiving Pell Grants, cost of room and board, value of the institution's endowment, public versus private institutions, percent of full-time students, and percent of female students.

INTRODUCTION

Fundraising efforts at colleges and universities continue to be a top priority for administrators in a higher education environment universally characterized by declining government support as a percentage of total funding. There has been a shift in prioritizing elementary and secondary education over higher education. Higher education is less than one-third of state spending on elementary and secondary education, which comprises 35.1% of total state expenditures (National Association of State Budget Officers, 2007).

A simple search of employment opportunities at a level of college president or dean reveals fundraising ability as an important expectation of the job at most institutions. In order to meet strategic goals, universities compete for top students, faculty and research grants. However, the goals and initiatives are expensive and directly dependent upon accessing funding from donors (Mann, 2007). It becomes a catch-22 for institutions. Donors prefer to give to successful programs but universities need the funds initially to create the successes. Plus, many programs and research projects require several years before fruition, creating a lag effect between donation and success. Furthermore, institutions must continually find new programs that spark the interest of donors.

Higher education's significant and growing dependence upon donations from alumni clearly distinguishes it from other industries. Frequently, a dollar donated by alumni is critically important to an institution because it provides the funding for the margin of success for initiatives that separate one institution from another (Leslie & Ramey, 1988).

Recent reports indicate that the alumni contributions share of expenditures have climbed to over thirty percent. Donations are somewhat distinct from other higher education revenue sources because many times they are based on lagged rather than contemporaneous institutional features, administrative choices, and student body characteristics (Ficano & Cunningham, 2001). Major alumni donors are typically near or in retirement age and remember the university of their youth not necessarily the current characteristics of the institution.

The purpose of this research is to empirically analyze the determinants of alumni giving rates with a focus on financial, institutional, and demographic variables.

DATA AND MODEL

The primary source of cross-sectional data employed in this study is the *U.S. News & World Report's* website (usnews.com). The subscription component of the website not only offers traditional information on several colleges but has recently added student debt information for almost 200 colleges and universities.

The general model in this study used to evaluate the determinants of alumni giving rates is comprised of a total of thirteen independent variables from three general categories: four financial variables, five institutional variables, and four demographic variables. The explicit empirical model employed to investigate the determinants of average student debt is specified below as:

$$\text{ALUMGIV}_i = B_0 + B_1\text{AVDEBT}_i + B_2\text{PPGRANTS}_i + B_3\text{TUITIONFEES}_i + B_4\text{ROOMBOARD}_i + B_5\text{SIZE}_i + B_6\text{PUBLIC}_i + B_7\text{ENDOWMENT}_i + B_8\text{LARGECLASS}_i + B_9\text{ACCEPT}_i + B_{10}\text{FULLTIME}_i + B_{11}\text{FEMALE}_i + B_{12}\text{AFAMERICAN}_i + B_{13}\text{HISPANIC}_i + u_i$$

where ALUMGIV is the percent of alumni giving to the institution, AVDEBT is average student debt for an undergraduate after graduation at an institution of higher education, PPGRANTS is the percent of students receiving Pell Grants, TUITIONFEES is the 2005-06 rate of institutional tuition and fees, ROOMBOARD is the 2005-06 estimated room and board expense at an institution, SIZE is the total number of undergraduate students at the institution, PUBLIC is a categorical variable separating public and private institutions, ENDOWMENT is the size of the endowment at an institution, LARGECLASS is the percent of classes offered with more than fifty students, ACCEPT is the institution acceptance rate, FULLTIME is the percent of students attending school full-time, FEMALE is the percent of female students at the institution, AFAMERICAN is the percent of African-American students at the institution, and HISPANIC is the percent of Hispanic students at the institution.

Several alternative model specifications were considered including control variables for student/faculty ratio, institutional ranking, categorical variables for various regions of the country, and freshman retention. Inclusion of these variables into the model affected the standard errors of the coefficients but not the value of the remaining coefficients or they suffer from excessive multicollinearity with variables included in the model. For these reasons they are not included in the final model.

Descriptive statistics for the model variables are presented in Table 1. Princeton University has the highest alumni giving rate at sixty-one percent, while Nova Southeastern University and Tennessee State University have the lowest alumni giving rate at three percent.

A discussion of the independent variables and their expected impact on alumni giving is in order. The four financial variables are AVDEBT, PPGRANTS, TUITIONFEES, and ROOMBOARD. One of the unique components of this study is the exploration of the impact of student debt on alumni giving rates. Average debt is expected to have a negative impact on alumni giving rates because large debt should limit the ability to give. Monks (2003) reveals that alumni who gave less to their alma mater had loan debt, which limited capacity to give. Average student debt for the data set is \$18,367 with a standard deviation of \$4,709. Twenty-one institutions have an averaged student debt level above \$25,000 including University of Miami, Idaho State University, Duke University, Wake Forest University, University of Notre Dame, Rensselaer University, George Washington University, and Iowa State University. Five institutions have an average student debt level below \$10,000. The five represent a diverse grouping of institutions as follows: Princeton University, Harvard University, University of Texas El Paso, University of Hawaii at Manoa, and California Institute of Technology.

Pell Grants are need-based federal grants that had been the starting point for low-income students to attend college. In 1985-86, the maximum Pell Grant would have covered 25% to 30% of the tuition and room and board at an average public institution. By 2004-05, the maximum Pell

Grant covers less than 15% (College Board: Trends in Higher Education, 2005). PPGRANTS is expected to have a negative impact on alumni giving as an institution with a large student population receiving Pell Grants is also likely to encompass a student body that faces financial constraints that limit the ability to give to the institution. These individuals may give first to other family members. Idaho State University leads the way with fifty-seven percent of students receiving Pell Grants versus only one percent receiving Pell Grants at Princeton University.

The direct financial cost of education via tuition & fees (TUITIONFEES) and room & board (ROOMBOARD) should have a negative impact on giving rates, holding other factors constant. George Washington University has the data set distinction of having the highest tuition and fees at \$34,030 per year versus the low of \$2,955 per year at the University of Florida. Room and board expenses reach a high of \$12,554 per year at the University of California at Berkeley versus a low of \$4,155 at Louisiana Tech University. One weakness of the model is that it does not explicitly take into account the level of scholarship support that each institution provides because the information is not readily accessible. Posted tuition and fees are generally not what students pay.

The five institutional variables are SIZE, PUBLIC, ENDOWMENT, LARGECLASS, and ACCEPT. SIZE is anticipated to have a positive impact on alumni giving as large institutions often have high profile athletic teams that help facilitate a long-run relationship between the alumni and the institution. The University of Texas at Austin is the largest program in the sample with 37,509 undergraduate students versus California Tech as the smallest institution with only 896 students. PUBLIC is expected to have a negative impact on alumni giving rates as public institutions have traditionally lagged behind private institutions with respect to alumni development activities. The pedigree associated with a private school education is generally considered to be a rallying point for alumni giving. Sixty-three percent of the institutions in the data set are public institutions.

ENDOWMENT is expected to have a positive impact on alumni giving. People generally prefer to invest in a winner and nothing says success like a large endowment. The largest endowment in the data set is over \$22 billion at Harvard University. LARGECLASS and ACCEPT are expected to have a negative impact on alumni giving as large class sizes and a high acceptance rates are not usually associated with the quality required to inspire high rates of alumni giving. The University of California at Davis has the highest percentage of classes fifty or more students at twenty-nine percent. Yale, Harvard, Princeton, Stanford, and Columbia have the lowest acceptance rates, which range from ten to thirteen percent.

The four demographic variables are FULLTIME, FEMALE, AFAMERICAN, and HISPANIC. FULLTIME is expected to have a positive impact on alumni giving as full-time students have a greater probability of engaging in the college experience. Financial burden is a main reason why students drop-out of college as they simply have to go to work (Matz, 2005). Work also forces some students to attend part-time. Of entering freshman, seventy-nine percent of part-time students work while 44.3% of full-time students work (BLS, 2006). In addition, part-time student often work and are not able to fully engage in campus activities resulting in an expected probability of lower rates of giving. Several institutions including Harvard University, Cornell University, California Tech, and Boston College report 100 percent of the undergraduate student body at full-time status versus only forty-four percent at the University of Missouri at St. Louis.

The expected sign on the FEMALE, AFAMERICAN, and HISPANIC are uncertain. There is no inherent reason to believe that one demographic group is more or less likely to give than another demographic group beyond the observation that colleges that cater to minorities have a greater propensity to receive state and federal funds (Fischer, 2006). Nova Southeastern University and Adelphia University have the highest percentage of female students at seventy-four percent. Howard University has the highest percentage of African-American students at eighty-four percent while the University of Texas at El Paso has the highest percentage of Hispanic students at seventy-five percent.

RESULTS

The estimated empirical relationship between the explanatory variables and alumni giving rates is presented in Table 1. Two model specifications are presented. The first is a linear specification offering results from the full thirteen independent variable model. The second specification employs a reduced model where insignificant variables are eliminated via a stepwise elimination process in order to reduce potential multicollinearity among the numerous independent variables. None of the independent variables have a correlation in absolute value higher than 0.71 (TUITIONFEES and PUBLIC has the highest correlation), suggesting that excessive multicollinearity is not a problem in the analysis. On the other hand, nine paired independent variable correlations have an absolute value above 0.50 implying that the stepwise elimination procedure might lead to more efficient estimates.

The results of the two empirical models are extremely consistent. The full and reduced models both explain approximately sixty-four of the variance in alumni giving rates. Seven of the thirteen independent variables are statistically significant in full model specification, while one additional variable is statistically significant in the reduced model. It should be noted that a semi-log model specification was also estimated but not presented as the results yield equivalent results but with coefficients that are not as applicable as the linear specifications are.

Table 1
Determinants of Alumni Giving Rates (2005-2006)

Variable	Full Model		Reduced Model	
	Coefficient	(t-statistic)	Coefficient	(t-statistic)
Intercept	43.977	(5.11)	45.900	(6.01)
AVDEBT	-0.0002	(-1.85)**	-0.0002	(-1.79)**
PPGRANTS	-0.1424	(-2.22)*	-0.1886	(-3.56)*
TUITIONFEES	0.00013	(0.74)		
ROOMBOARD	-0.0010	(-2.95)*	-0.0010	(-3.06)*
SIZE	-9.07 E-05	(-1.12)		
PUBLIC	-3.2813	(-1.22)	-5.6610	(-4.37)*
ENDOWMENT	1.1 E-09	(4.34)*	1.1 E-09	(4.49)*
LARGECLASS	0.0463	(0.42)		
ACCEPT	-0.1570	(-4.91)*	-0.1556	(-5.39)*
FULLTIME	0.1089	(1.90)**	0.1244	(2.30)*
FEMALE	-0.1973	(-3.53)*	-0.2322	(-4.47)*
AFAMERICAN	-0.0558	(-0.99)		
HISPANIC	-0.0725	(-1.13)		
R Square	0.6439		0.6358	
Adjusted R Square	0.6184		0.6202	
F-Value	25.310		40.800	
Notes: *p<.05, **p<.10, and n = 196.				

THE EFFECT OF SCRAMBLING TEST QUESTIONS ON STUDENT PERFORMANCE IN A SMALL CLASS SETTING

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ABSTRACT

In an effort to reduce the benefits of cheating on an exam, a technique used by instructors is to prepare several versions of the same exam in which the multiple-choice questions appear in a different order in each test version. This makes it difficult for a student to obtain answers from another student while keeping the level of difficulty of the exam constant across all students since every version contains the same questions. Many computerized test banks offer question scrambling as a standard feature. This makes it easy for the instructor to prepare multiple versions of the same test questions and its standard availability highlights the popularity of the technique.

Earlier research has addressed whether the content order of material covered in an exam affects a student's performance on the exam. If the order in which questions are arranged in an exam has an effect on a student's performance on the exam, then administering multiple versions of the same questions in different sequencing order on an exam may bias student performance. Previous statistical analyses of data collected from economics courses provide mixed results on whether scrambling the content order of exam questions has an effect on a student's test score. In this paper, I investigate the effect of scrambling test questions on student performance in principles of macroeconomics courses and principles of microeconomics courses that are characterized by small class size.

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RURAL WOMEN'S SELF-EMPLOYMENT: A LOOK AT PENNSYLVANIA

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ABSTRACT

The quantity and quality of rural jobs have been seriously affected by problems such as sagging farm economies, decreases in rural industries, and increased foreign competition, leading many workers to migrate to more urbanized areas. Other workers may choose self-employment over relocation. Women, in particular, may have difficulty finding suitable jobs in rural areas because of their need to balance work and family obligations. Rural areas in general are often considered economically disadvantaged due to problems such as lower levels of capital, less-developed infrastructure, and fewer resources/business services. These factors would logically create difficulties for entrepreneurs and small business owners and therefore discourage business start-ups. However, interviews with some rural women in Pennsylvania have revealed that rural areas may be more conducive to small business start-ups. This study examines the levels of self-employment by comparing the rates of self-employment for women and men in rural (non-metropolitan) and metropolitan areas within Pennsylvania, the state with the highest number of rural residents.

THE USE OF NON-MONETARY MOTIVATORS IN SMALL BUSINESS

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ABSTRACT

The present paper provides small business owners and entrepreneurs with a variety of techniques that can be used to motivate employees without increasing salaries. Small business owners and entrepreneurs have an advantage over larger businesses by being able to know their employees, treating them as individuals, and tying rewards to the things that these employees value. The things that employees might value, such as being treated with respect and having a flexible work schedule, might be an advantage that small businesses can offer, which might increase the ability of small business owners to attract and retain quality employees. Additionally, employees can be developed in ways that will benefit both the employee and the small business, and represents a level of involvement that these employees might not find in larger organizations.

INTRODUCTION

Any business that has employees faces challenges keeping them motivated. Both large and small businesses attempt to use financial incentives to motivate employees to achieve the organization's objectives. The present paper focuses on non-monetary motivators that small businesses can use to assist them in keeping their employees motivated. The first section of this paper focuses on how small business owners might treat employees. In this section, the importance of getting to know your employees, communication with employees, and fairness and respect towards employees will be addressed. The second section of the paper focuses on developing employees in a small business. The role of performance appraisal will be presented, along with involving your employees in the planning and running of the business. The next section of the paper will focus on rewarding employees in small business. Specifically, the use of non-monetary rewards and bonuses will be addressed. The fourth section of the paper will focus on work schedules. The main focus of this section will be on the benefits of flexible work schedules, and how small business can gain and retain valuable employees while using flexible work schedules. Finally, conclusions of the paper will be presented.

TREATMENT OF EMPLOYEES

It is important for any organization to treat its employees with respect, since it is employees that make the difference between success and failure for most organizations (Howard, 1998). While this might appear to be a simple issue, it is especially important that small business owners capitalize on treating their employees well in order to get the greatest benefit from the employees, as well as increase retention. Treating employees with respect, as well as greeting each employee everyday by saying "Good morning", can go a long way to establishing a reputation as a business owner who cares and takes an interest in his or her employees at a personal level, which may be different from what employees have experienced in larger organizations. This can lead to a tremendous value for small businesses. In order to develop this value, a small business owner needs to first get to know his or her employees. Three ways to treat employees well are to get to know your employees, communicate with your employees, and ensure that employees are treated fairly and with respect.

Get to know your employees.

An opportunity that small businesses have, which large organizations might not have, is that the small business owner can get to know each and every employee. Small business owners can gain a lot of respect by knowing each employee by name, as well as taking a personal interest in each employee. By listening to employees, small business owners not only gain the confidence of their employees, but they also learn what motivates these employees (Howard, 1998). Learning about the skills and abilities that the employees have can help the small business employ these individuals in areas that capitalize on their strengths. Small business owners need to remember that all employees are different from one another. As such, two employees might not value the same things. By getting to know what motivates your employees as individuals, as well as knowing what each employee can do for the small business, small business owners are in a better position to deliver a reward that the employees' value (Harris & Arendt, 1998).

Communicate with employees, not at them.

When getting to know your employees, small business owners should consider taking that same type of communication pattern to the next level, communicating with employees on a regular basis, rather than communicating at employees (Howard, 1998). This includes listening to employees and their ideas. Employees help the small business succeed, and they might see ways in which work can be done more efficiently, since they are focused on a smaller part of the picture than the small business owner. By listening to employees, the small business might be improved, benefiting all in the small business. While it is not always feasible to speak with each employee directly on a regular basis, bulletin boards can be put up so notices and announcements can be posted. This type of activity opens up communication throughout the organization.

Treat employees fairly and with respect.

One of the fastest ways to help gain the commitment of employees toward a small business is to treat employees fairly and with respect (Howard, 1998). Employees will be more likely to work harder, and will be less likely to leave the organization if they are respected and appreciated (Pomeroy, 2004). One way that small business owners can go about maintaining respect for their employees is to regularly look at what their employees are doing. This can be accomplished by shadowing their employees occasionally, seeing directly the challenges employees face and how they successfully address those challenges (Pomeroy, 2004). This will help small business owners identify the resources that the employees need, as well as remain familiar with the myriad of challenges that employees face. While one might think that a small business owner would be familiar with all of the aspects and challenges associated with his or her business, it is easy to become removed from the issues that face line employees, as the small business owner is the primary marketing strategist, financial officer, human resource manager, in addition to the operations manager and owner. Given all of these responsibilities and duties, it could be easy to forget all of the details faced by line employees.

DEVELOP YOUR EMPLOYEES

Developing employees in a small business is a second area of importance to the success of the small business. While open communication helps encourage employees to develop their ideas, there are additional ways that small business owners should consider developing their employees. Developing employees can help them further understand how they can help the organization, and this can help the small business owner understand how they can help the employees improve their performance and achieve their personal goals (Harris & Arendt, 1998). Two ways that small

business owners can develop employees is by conducting performance appraisals on every employee, as well as involving employees directly in the business.

The use of performance appraisals.

One way to develop employees is by conducting performance appraisals for all of the employees in a small business. While many managers in all types of business do not like to use formal performance evaluation techniques, viewing the use of time to do so as time better spent working on other issues, performance appraisals are an excellent tool that can be used to develop employees. Certainly, employees need to know if they are not performing their tasks correctly or to standard. If they are not informed of mistakes, how would they be able to take corrective action? As such, even if formalized performance appraisals are not conducted in organizations, informal feedback can address areas of poor performance as needed. The Calvert Group takes this approach, focusing performance appraisal from an informal perspective (Barrier, 1998).

Involve employees in the business.

Unless a small business is a one-person operation where the small business owner has no employees, it is important to understand that employees will have a tremendous effect on the success of the business. Given this, it is important to develop employees so that they can take over operations and activities as necessary, as small business owners should desire to have a situation where they own the business and not a situation where the business owns them. Involving employees in the business helps employees to understand the business as a whole, and not just the job that they are performing. At Johnsonville Sausage LLC, employees are indoctrinated into a culture of involvement from the time they begin working for the company (Pomeroy, 2004). All employees go through initial training where they are trained not only on their jobs, but about how the organization runs, teamwork, and how the finances of the organization are managed, to include their influence on employees. The goal is to create a situation where all employees understand that they influence the organization as a whole, and that Johnsonville wants employees to be involved, offering the organization ways to improve. Because of this approach, when teams do not meet monthly production goals, they voluntarily meet to determine as a team how to improve their performance so that goals are met (Pomeroy, 2004).

REWARDING EMPLOYEES

Rewarding employees is critical for any business organization. In today's business world, employees demand adequate rewards, and if they are not rewarded to the level which they believe they deserve, they might leave the organization for better alternatives. This is a challenge for all organizations, but can be a greater challenge for small businesses. Small businesses may not have the ability to pay employees that large businesses have (Milkovich & Newman, 2008). There are a variety of reasons for this, such as a lack of revenue, the lack of market share, or the reinvesting of profits into the business. Additionally, it has been noted that small businesses have faced challenges associated with being able to pay salaries to employees at an appropriate or competitive level (Howard, 2006). All of these factors are issues that small business owners need to consider addressing. However, there are rewards that small business owners can offer that employees will value.

While most organizations focus on the use of monetary rewards, non-monetary rewards may not only be less expensive, thus more viable, for small business owners, they might be just as effective as monetary rewards. When one considers that most employees of any business spend as much or more of their waking hours at work than with the people they choose to live with, work is a big part of any employee's life. Given this, the work environment may be a critical part of the

decision to remain with an employer, in addition to the monetary rewards. Going to work at a place where everyone gets along and people feel that they are appreciated is important to many employees, especially when workers are putting in long hours. Some nontraditional rewards that Analytical Graphics, Inc. offers its employees are breakfasts, lunches, dinners and snacks, that the employees and their families can have (Rubis, 2004). Other companies offer free cab rides home after certain times, to ensure that employees are taken care of (Oldfield & O'Donovan, 2001). These companies offer these rewards or perks because employees put in so many hours to ensure that the company is successful.

An often times overlooked reward that small business owners can give to employees is recognition. Recognition can take many forms, from recognizing the years of service that employees have given the company to recognizing performance for a job well-done. Some employees may want to ensure that their efforts are being acknowledged, and letting these employees know that they are doing a good job and are appreciated can go a long way to keeping them satisfied and motivated. Additionally, by recognizing employees, the organization can benefit by either reducing turnover levels or keeping them low, especially if a reward is tied to the recommendation, such as a gift certificate to a local restaurant to spa (Caggiano, 1997).

WORK SCHEDULES

For many years now, the U.S. work force has felt the pressures associated with working many hours, the effects of these work schedules on the ability to take care of personal needs (Howard, 1998). Most of the needs that employees have require attention during the same hours of work, creating situations where employees might have to make difficult decisions about whether to go to work or to take care of their own health, for example. A benefit that does not cost a small business owner from a financial standpoint is to offer flexible work schedules. That does not mean that this benefit is without challenges, but it is a benefit that might enable small business owners to attract and retain quality employees in some instances.

Flexible schedules represent a benefit that can be simple to offer, if managed appropriately. If a worker has an issue to address during normal business hours, such as a doctor's appointment or meeting with a teacher of a child, the employee could be allowed to take the time off as necessary, working later during a given day or making the time up sometime during the pay period. By doing this, the employee can take care of their issues, not lose income, and the employer gets the productivity that he or she needs, without incurring the costs associated with having to pay overtime to an employee.

CONCLUSION

Small business owners have numerous challenges when operating a small business. In many cases, small business owners might not be able to offer the same types of benefits as large businesses, as well as the same level of wages. While this might represent one disadvantage that small businesses face, it also provides opportunities for small business owners. By utilizing non-monetary motivators, small business owners can offer employees things that large companies are not in a position to offer. Specifically, small business owners are in a position to know each and every one of their employees. By getting to know his or her employees, a small business owner can ensure that when they recognize and reward their employees for outstanding performance that they are rewarded with something that the employee values. These non-monetary rewards might be more effective than other options, as the employee might develop a loyalty and commitment to the organization. Also, working with employees to meet their developmental needs, as well as working with them on their schedules, can establish a situation where the small business owner wins while the employee wins, an option that employees might not be able to find in large companies. Ultimately, these options help small businesses succeed.

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ENTREPRENEURIAL STARTUPS AND THE IMPORTANCE OF BOOTSTRAP MARKETING

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ABSTRACT

A popular definition of the term “bootstrap marketing” relates to that of bootstrapping in general—using creative means to start businesses in a financial context—as compared to using creative means to promote businesses, respectively. Existing scholarly research on bootstrap marketing is extremely limited, even though the vast majority of start-up businesses will need to employ less expensive, creative methods to successfully launch their products and services in the marketplace. Due to a lack of existing scholarly research this paper is necessarily exploratory in nature, and presents an overview of bootstrap marketing as well as implications for future entrepreneurship research, teaching and practice.

INTRODUCTION

Bootstrap marketing can be related to entrepreneurial bootstrapping in general, which aims to start businesses with little or no capital (or reliance on traditional sources of capital), by employing creative means to achieve goals (Bhide, 1992; Van Auken & Neely, 1996; Winborg & Landstrom, 2001). Some have argued that constrained resources can be an advantage. Firestone observed: “Entrepreneurs use unorthodox methods to get their messages across; the best start-ups are chronically undercapitalized. Although researchers have typically connected bootstrapping with a lack of access to traditional sources of capital, more recent research has suggested that it may be a conscious choice to bootstrap, so as to avoid the “strings attached” when accepting money from investors, lenders, or even friends or family members (Lahm, 2005).

Van Auken stated that there is a “serious gap in the literature” associated with entrepreneurial bootstrapping (Van Auken, 2005). However, the relevance of bootstrapping as a whole in the practitioner community is perhaps far more significant than research to-date would imply. It is well known that traditional sources of capital from banks, investors and venture capitalists can be extraordinarily hard to acquire (Detamore-Rodman, 2003; Fried & Hisrich, 1995; Van Auken & Neely, 1999). Several sources, none of which state their basis for saying so, indicate that the vast majority of small businesses are bootstrapped. For instance, according to Firestone, “probably less than 1% of all startups ever get any funding from VCs; that means that 990 out of 1,000 new enterprises are forced to use bootstrapping as their only means to success.” (Firestone, 2004). *Entrepreneur* magazine suggests a similar number, in an article stating that “Despite the dream of some entrepreneurs to meet a VC with deep pockets, the fact is that 99.9 percent of business owners will struggle alone, pulling themselves up by their bootstraps” (Worrell, 2002).

Obviously, if one is by choice or by necessity bootstrapping with respect to the financial aspects of starting a business, it follows that bootstrap marketing would go-hand-in-hand with the overall approach. It is also presumed that entrepreneurship teaching that includes a greater emphasis on bootstrap marketing and financing would be paramount, if educators are to address the set of circumstances and invoke the requisite skills, knowledge and abilities that students will need.

REVIEW OF EXISTING LITERATURE ON BOOTSTRAP MARKETING

The term “bootstrap marketing,” as a construct, has received little attention by scholars to date. Scholars are also beginning to recognize differences in entrepreneurial marketing, abbreviated

EM (Morris, Schindehutte, & LaForge, 2002) versus marketing as it is practiced by large, mature firms with significant budgets.

In the course of conducting the literature review for this paper, several leading databases were consulted in searches on the term “bootstrap marketing.” The *WilsonOmniSearch* database produced only one irrelevant result. *Ebsco* results also indicated a dearth of articles in the existing literature. *ProQuest* produced only one result with settings to select full text scholarly articles, and this hit was evidently based upon the authors’ advocacy for including bootstrap marketing within what they suggested would be an improved entrepreneurship curriculum (Debra, Justin, & Ryan, 2006). *LexisNexis* produced numerous results, but upon examination almost all of the 125 initial hits were either duplicates, from non-scholarly sources, or presented in decreasing levels of relevance.

Having encountered virtually no other choice, *Google* was selected as a search tool. At first, it appeared that a large number of hits (1420) were produced—albeit not from scholarly journals as sources—but after reviewing the first 365 links across 37 web pages, Google’s search algorithm displayed a message to the effect that the remaining hits were duplicates. Of those links that were among the first 365 hits, this reviewer found a hodge-podge of results that included a smattering of mentions that bootstrap marketing and bootstrapping would be included as topics in academic courses, a larger number of independent training programs, anecdotal articles about bootstrap marketers and accounts of their efforts, marketing and PR firm websites and other consultants, brochures, press releases, and the criticisms about a lack of coverage relative to bootstrapping as a topic at large that is deserving of greater emphasis in entrepreneurship education. Nevertheless, many of the documents and were helpful in constructing an image of what is meant by the term, bootstrap marketing, but this was the result of qualitative data analysis that ensued.

BOOTSTRAP MARKETING: IT’S A PROCESS (AND IT’S NEVER FINISHED)

It would be very easy to overlook the underlying requirement for extraordinary creativity in bootstrapping in general or bootstrap marketing by succumbing to an inclination to list specific tactical methods (e.g., use low cost doorknob hangers, pass out lots of business cards—whatever), while failing to address the underlying philosophy or ingeniousness in well executed bootstrap marketing processes. Product development does not fail, it just isn’t finished yet. For example, market research (Lawrence, 2003) can be used by bootstrap marketers before the fact: before starting a business; before creating a product or a prototype; before writing a single word in a business plan; and most importantly, before deciding the features and benefits, wants and needs, or even the target audience for a product (hereinafter, synonymous with service).

Bootstrapped businesses do not fail, philosophically—from the point of view of the bootstrapper—because if pre-sales do not fund the creation of a product, a business isn’t started in the first place; if multiple sales transactions and requisite cash-flow and profits do not follow the first sale, then a business isn’t launched, either. Rather than pre-selling an actual product up-front, an alternative is to sell a redeemable premium, such as a gift certificate, and use the proceeds from those sales to underwrite start-up costs. Lissa D’Aquanni, founder of The Chocolate Gecko, used this approach (Detamore-Rodman, 2003):

In 1999, the cash-strapped chocolatier needed molds and a temperer for the Christmas rush. Recalling a strategy she had seen in a magazine, she sold discounted gift certificates to raise capital. D’Aquanni offered customers \$25 in free chocolates for every \$100 in gift certificates purchased. Within two weeks, she had \$5,000 for the equipment purchase. ‘A lot of folks mailed them as gifts to friends, family and co-workers,’ D’Aquanni says. ‘And most of those people ordered chocolates. My customer base exploded’ ...D’Aquanni routinely barter to pay for professional services for her business; both her accountant and Web site designer accept chocolates in exchange for their services.

As is demonstrated in the instance described above, motives and actions that pertain to financing can become inextricably intertwined with marketing results, and vice versa.

LEVERAGING OTHER PEOPLES' MONEY, RESOURCES, OR GOOD GRACES

Bootstrappers are continuously looking for ways to leverage other peoples' money, resources, or good graces. They may promise to pay later, in exchange for support lent now by a supplier; they may do something for a supplier within the realm of their talents or production capacity for exchange in lieu of cash. In so doing, they might also form deeper and more meaning alliances. By paying a supplier in chocolates, as compared to cash (Detamore-Rodman, 2003), one might tend to appeal to the recipient at a more basic level that invokes emotional attachments and a lasting friendship.

The above discussion suggests means by which bootstrappers can buy at a discount, or trade. However, to fully appreciate the cleverness of bootstrap marketing, one must become aware of the next iteration: viral marketing. A bootstrapper would be inclined to create a message, and have that message disseminate itself for free, or even while making a profit. The Internet website, BloggingontheSide.com's "free" ebook on blogging provides an illustration, and explains the reasoning: "In exchange for giving you valuable information, including links to additional free ebooks and other resources, we ask you to support our sponsors. The last page of this ebook contains banner advertisements representing these sponsors" ("Making Money Blogging on the Side - A FREE Ebook For Stay-at-Home-Moms and Dads, Students, and Anyone Else Who Needs to Earn Extra Cash," 2007). The site also says, feel free to pass it along directly, or give it away as a gift on [your] own website, thereby enlisting an army of sales agents (leveraging other peoples' resources, i.e., their websites).

BOOTSTRAP MARKETING COMMUNICATIONS

The ability to bypass intermediaries in several contexts has empowered bootstrap marketers as they are now able to leverage forces never before available to humankind. The Internet allows individuals to sell, promote, produce or deliver globally, from the comfort of one's own home, for instance. This ability to bypass intermediaries is changing the face of communications and the ability to reach audiences directly. An "entrepreneurial blogosphere" (Lahm, 2006) has arisen, wherein virtually anyone can create and disseminate text, audio, graphical and video messages that circulate the globe in real time. Blogs and other forms of social media have enabled virtually anyone with a message to obtain a platform ("Bootstrappers Guide to Blogging," 2007) and broadcast messages across major media pipelines, as more and more journalists consult blogs or use them in their daily reporting ("US: 51% of journalists use blogs," 2004).

CONCLUSION

One of the purposes of this paper has been to begin the process of distinguishing the term "bootstrap marketing" from other idioms. Implications for entrepreneurship education are also suggested by this present analysis. Perhaps these are of even greater urgency as students who are to become entrepreneurs are vitally important to our future economic development and well being. Knowing that the majority of all businesses are indeed very small businesses—knowing that in all likelihood venture capital is not going to be awarded to students, entrepreneurship educators must do more to develop and disseminate better information and direction about bootstrap financing and bootstrap marketing alternatives.

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Academy of Educational Leadership (AEL)

CURING CLASSROOM NARCOLEPSY: USING THE SERVICE LEARNING/EXPERIENTIAL PARADIGM TO GENERATE STUDENT OWNERSHIP AND COMMITMENT, A CASE STUDY

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ABSTRACT

Currently educators are facing major challenges in modifying traditional methods of delivering the educational experience for a number of reasons. First this tech savvy, “hooked up” generation demands new ways to learn or we face the prospect of academic narcolepsy and ineffective delivery. This need is particularly acute considering the intense competition for tuition dollars from less expensive alternative means of delivery including online education. And employers are demanding more hands-on experience and for higher priced degreed hires to “hit the ground running”. New research on brain-based pedagogies assert that experiential designs help relate knowledge to skills, motivate reflection and higher level thinking and nest what is learned. The goal of this research is to attempt to find tentative support for the effectiveness of experiential models in general and this variant of academic service learning specifically.

The subject of this research is a case study of 160 undergraduate students put through a relatively unique six year experiment with experiential learning at one Midwestern college of business administration. The Global Village Café is a demanding and intense hands-on academic service learning project. The students have a ten week term to design a full service restaurant from the bottom up, including the theme, interior design, flow charts, customer service plan, job descriptions, training, financials, etc., and with the participation of a local culinary school a menu with an international fare. The project immerses students in a real life business project under time constraints and intense pressure for excellence. The project culminates when glasses clink and music and the aroma of haute cuisine waft through the air for two nights of hands on experience.

The data was collected over a seven year period on 160 students who participated in the project over six iterations. Students were given a questionnaire as part of there course evaluation form. These results were then compared to college averages in more traditional courses. These students also were encouraged to offer open-ended comments which were used to support some conclusions. The tentative conclusions of our analysis of the empirical data strongly support the effectiveness of experiential learning pedagogies in general, and this variant of academic service learning specifically. One might argue that, properly constructed, experiential pedagogies are very effective at motivating student ownership, interest and commitment more effectively than traditional means of course delivery. Our data demonstrates an overwhelming difference in student attitudes and satisfaction when compared to other more traditional means of delivery. It is beyond the scope of this research to definitively test learning outcomes. However, the results do seem to indicate that improved learning outcomes also may result from experiential pedagogies.

STRUCTURAL CHANGE IN THE CPCU CURRICULUM PROGRAM AND ITS INDUCED EFFECT ON THE TRAVEL TIME

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ABSTRACT

This study investigates the impact of structural change of CPCU program's curriculum on candidates (students) travel time (completion time). The CPCU professional examinations is the most recognized system in the area of property/casualty insurance, which provides a comprehensive, integrated, skill and knowledge set in all areas of property/casualty insurance. American Institute for CPCU has changed their curriculum program in 2003; first, they have deleted two redundant courses from the program, second, provided students with two different options to choose from on elective courses.

Data collected for this study include 1782 candidates who completed their program beginning 1999 to 2006. After controlling for age, gender, and education level, we find that structural change in 2003 is instrumental in shortening the length of program completion time. Results indicate that the predictive power of structural change in the curriculum to be contingent on the level of education and gender. Candidates with higher level of education, as measured by their highest degree earned, achieved significantly better performance. Findings of this study have important implications on curriculum change for any certification or degree program. Despite the differences among candidates education level, academic performance is impacted by structural change in the program curriculum. The relationship between gender-based increases in candidate's academic performance appears significant in this study. These findings are consistent with the hypothesis that efficient curriculum structure combined with education level enhances the shortening process of travel time.

AN EVALUATION OF FACTORS INFLUENCING STUDENT PERFORMANCE IN AN INTERACTIVE VIDEO CONFERENCING TEACHING MODE

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ABSTRACT

This study examined factors that impact student performance in a pharmacy management course delivered by interactive video conferencing mode at four different locations in which some had instructor presence. Additionally, the study examined the impact of demographic variables such as gender, age, marital status, educational level, student grade-point average, and the Pharmacy College Admissions Test (PCAT) on student performance. The results showed that there were significant differences in student performance among the four sites. The GPA and PCAT scores were the only two demographic variables that had significant positive relationships with student performance. Results also showed that presence of the instructor in the classroom had a mixed impact on student performance.

ESSAY VERSUS MULTIPLE-CHOICE: STUDENT PREFERENCES AND THE RATIONALE BEHIND THOSE PREFERENCES

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ABSTRACT

The budget cuts experienced at many universities are leading to larger class sizes and pressuring faculty to make greater use of multiple-choice exams, a practice that conflicts with the frequently held intuitive belief that multiple-choice is inferior to essay and other open-ended assessments in terms of both measuring and promoting student learning. This paper reviews previous findings suggesting that teaching methods designed to encourage higher-order thinking among students tend to do so and that the adoption of study strategies focused on learning with greater understanding tend to lead to superior student performance, relating those results specifically to the use of multiple-choice versus essay questions. It will also report the results of a survey administered to undergraduate business students in which the students specified not only their preferences for multiple-choice or essay but also the reasons behind those preferences. The results suggest that students generally prefer multiple-choice but become more accepting of essay when they are well prepared for exams. The responses concerning preference rationale are seen to fall into two major factors, one focused on the ease of obtaining a high test score (and favoring multiple-choice) and the other focused on the fairness and reliability of the assessment (and favoring essay). These results, in conjunction with suggestions derived from the literature, are used to develop assessment-related pedagogical recommendations.

KNIT AND PEAL: A “PUZZLING” APPROACH TO TEACHING HUMAN RESOURCE MANAGEMENT

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ABSTRACT

What do two 500 piece puzzles purchased from a discount store and the hit television show Survivor have to do with teaching a college course in Human Resource Management? Practically everything, if you use your imagination. That is what students enrolled in their first Human Resource Management class at a small southern university were asked to do one semester: to use their imagination, to work creatively as teams, and to think and act like Human Resource managers while “rolling out” a new product line via the metaphor of a jigsaw puzzle. Through this approach, which took some Survivor-like twists and turns along the way, the students literally “gamed” their way through the course material. This article will first address the materials required for the course. It will then address the way in which the course should be structured to make it meaningful and at the same time entertaining. A sequential outline of activities which track the topical areas of most Human Resource Management texts will follow, and then a real life example of how this approach has been implemented will be used to complete the picture.

PAPER TITLE: INVESTING IN AN MBA: RECENT GRADS AND CURRENT STUDENTS REPORT IMMEDIATE ROI

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ABSTRACT

The objective of this study was to discover whether, at a non-first tier MBA program, one set of benefits of an MBA degree, i.e. extrinsic or intrinsic benefits, was more entrenched than the other, and whether current students of the MBA program realized extrinsic or intrinsic benefits prior to degree completion. The author examined data gathered from a small private university in the Southeast. This relatively new MBA program intended to use the study to establish a baseline for reported objectives sought by its students as well as recognized outcomes. It also intended to use the data to help shape curriculum design and to develop marketing materials. The results of the study indicate that graduates report both extrinsic and intrinsic benefits of the MBA experience, with intrinsic benefits being reported more strongly as outcomes by the program graduates. Further, this is the first study of its kind to examine the program benefits reported by currently enrolled students of an MBA program. The data indicates that currently enrolled students report significant benefits, both intrinsic and extrinsic, prior to their completion of the program.

Academy of Health Care Management (AHCM)

PHYSICIAN REIMBURSEMENT AND HMO ADVERTISEMENT: AN EXAMINATION OF DISCLOSURE OF MATERIAL INFORMATION

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ABSTRACT

Managed care is a major component of the emerging health care provision system in the United States. At present, more than 80 million Americans depend on health maintenance organizations (HMOs) for their health services. While payers of health care, namely employers and government, are generally pleased with managed care, patients and health care providers have often expressed concern about the health coverage of managed care and its financial practices. One of the more controversial financial practices increasingly used by HMOs over the last few years is capitated physician reimbursement. The paper first examines the implications of capitation and how it places the physician in an inappropriate position of 'double agency,' where he acts as both an economic agent of his own self interest as well as a medical agent of his patient. It then examines the standards set forth by the FTC for advertising and highlight salient FTC case rulings. Finally, it shows that HMOs by not informing consumers about their method of reimbursing physicians are unethical and fail to conform to the basic requirements of disclosure of material information in advertising.

SYSTEMS ANALYSIS AND DESIGN IN EMR (ELECTRONIC MEDICAL RECORDS) PLANNING

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ABSTRACT

Change is omnipresent in healthcare. Hospital mission statements have changed from sickness to wellness. Consumers are playing a more active role in managing their healthcare. Marketing is not so much based on product, price, and promotion, but more so contract negotiations and getting in the provider network. The healthcare financing system works like no other organized industry with discounts, capitation, and negotiated rates. And information technology such as electronic medical records, healthcare portals, and geographic information systems are being implemented with the hopes of saving money and raising patient quality and safety. With all of these changes, the healthcare environment clearly is trying to enhance itself through planning and change interventions.

Organization development is a 'planned effort, organization wide, and managed from the top to increase an organization's effectiveness and health through planned interventions in organizational processing using behavioral science knowledge'. (1)

This definition is an overlay for the implementation process of the electronic medical record (emr) within a healthcare organization. The emr implementation follows a planned effort based on the systems analysis and design (saad) process. The implementation is system wide as paper is migrated to electronic documents. It is not only the nurses and doctors who will experience the change, but all ancillary departments such as laboratory, radiology, dietary, pharmacy etc. Medical records, accounts payable, finance, and all of the departments who process a patient's visit will be affected by the change. It is managed from the top by the chief information officer, but with contributions from all areas to thus have a participatory, team focus. One of the goals for emr implementation is to improve effectiveness of the organization which then contributes to fiscal strength, employee retention, and patient satisfaction. The interventions are planned as emr implementation follows the saad process and occurs systematically over a period of time. Behavioral science knowledge is employed, such as goal setting, teamwork, and participation, to gain consensus.

The healthcare industry, as it looks to employ information technology such as electronic medical records, is the perfect venue to use organization development for as Warren Bennis stated, "there is a need for organization development whenever there is growth and change" (2) With the use of the seven step saad process in emr implementation, this organization development can be accomplished. (3)

Step One: Project Identification and Selection: Many people think that the first step in the saad process is 'easy' as one already knows what the project at hand is. That may be true for the big picture project, emr implementation, but what are the development or smaller projects that go into accomplishing the overall project. Has the organization, or the entities that will be affected by the project, had sufficient communication and ultimate buy-in? Are all constituents in favor of the project and the direction that it will take? Here, one must determine the outcomes for the project. Also, one must engage the strategic planning process to ensure that there is a 'master plan' for the project. At the end of this step, the organization should be confident in the project and the support of all constituents must be had with agreement on the project.

Step Two: Project Initiation and Planning: In the second step, a more detailed focus now occurs. Here, a specific team of people will be selected each having a pertinent role to the project outcome. Project planning will include describing the project scope, alternatives, and their feasibility, planning resources with a draft budget, developing a communication strategy, and setting preliminary time frames. (4) One must be careful to assess manpower and recruitment and retention of key personnel, technical feasibility, and financial resources. With the rapid obsolescence of information technology, this step must proceed expeditiously.

Step Three: Analysis: With the first two steps, the organization has a rather solid idea of what is to be the outcome and what steps need to be taken to achieve those outcomes. Now though, more specificity will be gathered. One must look at their business operations and data flow to understand how the present system functions and how the new system will enhance operations. Alternatives will be analyzed and best and worst case scenarios discussed. The key is to get feedback from as many constituents as possible. Here, the utilization of organizational development techniques such as structured interviewing, focus groups, and questionnaires will yield rich information. Second, data modeling various processes using data flow diagrams is important as it graphically showcases how data flows between processes and any redundancies in the system. (5) Here, not only is an organization gaining feedback on their processes but also effectuating their systems before emr implementation. With all of this information, the organization can then determine their design strategy prior to moving to the next step. (6).

Step Four: Logical Design: In this step, one takes the information from the data flow diagrams and creates forms, reports, interfaces, and databases. These are a representation of what the users will see when the new system is in place. In a sense it is a 'rehearsal' for the full implementation. Usability, reliability, and validity of the outputs must be assessed in this step. Pilot test the forms, not with the committee members, but with other users who have not been too close to the process. Listen to what they are saying and incorporate useful suggestions. Think about the level of users and the complexity of the processes. Be sure to check that one is asking the key questions and truly soliciting feedback and not only what one wants to hear. The level of openness of the organizational culture will play a huge role in that.

Step Five: Physical Design: In physical design, the previous thoughts and plans are now converted into a physical database. Here the fields, records, data types, etc. are designed. The database architecture is selected in regards to the size of the data that needs to be stored and manipulated. Physical computer issues need to be addressed such as RAM and memory prior to proceeding with the data base. It is in this step that the information technology, management, and operations personnel work very closely on the physical design.

Step Six: Implementation: With the previous five steps of planning, now comes the actual launch. First there is a test of the new system under various scenarios. This includes the normal everyday operations, but also situations that might not occur frequently, but if not tested could have a big impact, negatively, on the organization. The key here is to think through every possible scenario. Then it is time to convert the systems. Parallel conversion offers the organization the opportunity to have the old system continue to run as the new system is eased into use. For any trepidation with personnel use or malfunctions, the old system can still be accessed. Over time then the old system will be 'retired'. Also will the new system be phased in or out in all at once. The new system's design and procedures must be documented. In addition, personnel training takes place in this step. Training may take many formats from live to web based, but it is best that there be some post 'test' to ensure that the training has positive outcomes such that the trainees have acquired both the skills and knowledge of operating the new system within their job context. Last, support must be built in for user questions and emergencies. Again, this can range from the live help desk assistance to web

based help modules to paper based training manuals. These are to be tested in this step such that they are at the level of the user. (7)

Step Seven: Maintenance: From an information technology standpoint, system maintenance, is ensuring that the system is available and running effectively and efficiently at all times. But with the view of technology as an enabler, maintenance also includes the users. It is at this stage that most likely the old system is now defunct and people are fully adjusting to the new system. Here positive reinforcement must not be in short supply or discouragement can set in. Questions must be answered and encouragement rendered. For just as a technology virus can shut down a system, so can disgruntled people; thus technology and people must be maintained.

The electronic medical record (emr) has the capacity to change not only how business is done, but the culture of the organization. The emr can increase billing efficiency; decrease release of information time, and enhance outcomes reporting, all to raise the effectiveness of the organization. What is more difficult to measure quantitatively though is the culture change of the organization. Here, future research is needed on employee satisfaction and patient perception. Is the office on the forefront of using technology or only going through the motions? With the changes in the healthcare industry, both technology and people must be thought of together for each enables the other.

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Academy of Legal, Ethical and Regulatory Issues (ALERI)

WHISTLEBLOWERS & MESSENGERS: TARGETS FOR PUNISHMENT

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ABSTRACT

This paper examines a Supreme Court case in which the court approved the transfer of a senior attorney in a district attorney's office to a staff attorney position after the attorney questioned the validity of a search warrant. The paper also cites the commander of the local VFW post of the MP unit at Abu Ghraib who in an interview on Sixty Minutes said the enlisted man who gave authorities the pictures of abuse had failed his comrades and was a traitor, that it was not safe for him to return to his unit's home base in the United States for fear of retribution. So, we have two situations in which punishment of whistleblowers is approved. Most recently we have the wounded soldiers who spoke to reporters about the poor conditions at Walter Reed Army Medical Center. Subsequently, the wounded soldiers were told that there would be early morning room inspections and that there would be no further contact with reporters. Finally, we have General Taguba, who was assigned by the Pentagon to investigate the Abu Ghraib abuse, wrote a report, and appeared before Congressional committees to testify to his findings. He alleges he was forced to retire because of his report and testimony. This is an inherent organizational characteristic. We punish those who tell the truth if it causes embarrassment to the organization or exposes it to punishment. It should come as no surprise. We were taught by our parents not to tell on our siblings, even when they had violated a family rule.

INTRODUCTION

Last term the United States Supreme Court ruled that a public employee could be disciplined for doing his job. Richard Ceballos was a supervising deputy district attorney for the Los Angeles County District Attorney's Office. He had been employed there since 1989. He was a calendar deputy in the Pomona branch with some supervisory duties over other attorneys. In February 2000, a defense attorney asked him about incorrect descriptions in an affidavit used to obtain a search warrant. Ceballos claimed that it was normal for defense attorneys to ask calendar deputies to look into elements of pending cases. The defense attorney had already filed a motion to challenge the warrant.

After reviewing the affidavit and visiting the location described in the affidavit, Ceballos concluded the affidavit had made critical misrepresentations. What the affidavit described as a long driveway, Ceballos thought should have been described as a separate roadway. He also doubted the affiant's assertion that tire tracks led from a derelict truck to the premises to be searched because the surface of the roadway made it difficult to leave visible tire tracks (Garcetti, 1955).

After speaking by phone with the deputy sheriff who had applied for the warrant and not receiving an explanation with which he was comfortable, Ceballos informed his supervisors and prepared a memorandum in which he recommended dismissal of the case. Ignoring his recommendation, his supervisor proceeded with the case. At a hearing on the defense motion to

challenge the warrant, Ceballos was called by the defense to testify as to his conclusions about the affidavit. The motion was denied.

Following these events, Ceballos claimed he was subject to retaliation by his employer. These actions included reassignment from calendar deputy to trial deputy, transfer to another courthouse, and denial of a promotion. He filed a grievance which was denied because he had not suffered any adverse action by his employer. He then sued in federal district court alleging his employer had violated his First and Fourteenth Amendment rights by retaliating against him based on his memorandum. In answer, his employer responded that all actions were due to staffing requirements and that his memo was not protected speech under the First Amendment. The district court granted the employer's motion for summary judgment concluding that Ceballos wrote the memorandum according to his employment duties which were not protected speech under the First Amendment. The Ninth Circuit Court of Appeals reversed holding that Ceballos's allegations of defects in the affidavit in his memorandum were protected speech under the First Amendment. By a 5-4 vote, the Supreme Court reversed the Ninth Circuit, holding that when public employees make statements arising under their official duties, the employees are not speaking as citizens for First Amendment purposes and the Constitution does not protect their words from employer discipline (Garcetti, 1960).

PUNISHMENT

There are various methods of discouraging those who wish to tell what they perceive is the truth. The easiest way is to order them not to speak or make a statement. If the order is ignored the supervisor can make an example of the truth tellers by taking what is perceived to be adverse actions against them. These adverse actions are noted by others in similar positions as a warning not to take similar actions in the future.

A number of recent examples have been publicized. On a 60 Minutes broadcast Anderson Cooper interviewed Joe Darby, the soldier who turned in the pictures of prisoner abuse at Abu Ghraib. Mr. Darby was from Appalachia, where he joined the Army Reserves to become an MP. His local unit was sent to Iraq and assigned to Abu Ghraib. He discovered the pictures of prisoner abuse because one of his unit members gave him CDs on which they were stored. Darby decided he had to turn in the pictures, but he wanted to do it anonymously, because he knew a lot of his unit members would regard him "as being a stool pigeon or ...a rat" (Cooper, 3). Even though he was promised confidentiality by a CID investigator, his name was broadcast nationwide when the Secretary of Defense, testifying before a Congressional committee, mentioned he was the source of the pictures of prisoner abuse. He did get support from his unit, but not back home in Cumberland, Maryland. There they felt he had betrayed his unit members. The commander of the local VFW post related what people were saying. "He was a rat. He was a traitor. He let his unit down..."(Cooper). Then the commander added his own belief. "I agree that his actions ... were no good and borderline traitor..."(Cooper, 4). To prevent the soldiers in Iraq from retaliating against him, the military command sent Darby home early, ahead of his unit. However, when he arrived stateside, he was informed that the Army Reserve had done a security assessment of his home town and concluded it was not safe for him to return. Mrs. Darby received phone calls telling her Joe "was a dead man. That he was walking around with a bull's-eye on his head" (Cooper, 5). Both sides of their families have turned against them. They cannot go home and cannot say where they are currently living for their safety. (Cooper, 6-7).

Reporters for the Washington Post printed a story about the neglect of outpatient wounded soldiers at Walter Reed Army Medical Center. Even though top military officials at Walter Reed knew of the neglect from complaints of Congressmen, their spouses, wounded soldiers, and their families, no action was taken. Last October, a woman who had volunteered many times to help at Walter Reed with outpatients, brought the wife of then Defense Secretary Donald Rumsfeld to a weekly meeting at which wives, girlfriends, and mothers of soldiers exchanged stories and offered

support. At the end of the meeting, Mrs. Rumsfeld asked one of the staff members whether she thought that the soldiers picked to meet her husband had been chosen to paint a rose colored picture of their time there. The answer was yes. When Walter Reed officials discovered that Mrs. Rumsfeld had secretly visited, they told the friend who had brought her that she was no longer welcomed at Walter Reed (Hull, 2). In February of this year, the wounded soldiers who had spoken to reporters were told that there would be early morning room inspections and that further contact with reporters was prohibited. Some soldiers viewed these actions as retaliation for speaking to the press (Hull, 3).

In an interview Major General Antonio M. Taguba, who was assigned to investigate the Abu Ghraib prison abuse, alleged he was forced to retire for doing what he was asked to do. He was told he was no longer part of the team and had to retire within a year. He was quoted in the article saying, "They always shoot the messenger." "I was ostracized for doing what I was asked to do" (Cloud).

This term, the Supreme Court made it harder for whistleblowers to collect a share of the fines collected for fraud by government contractors. By a 6-2 vote, the Court ruled that James Stone, a retired engineer, could not collect anything for his role in exposing fraud at the Rocky Flats nuclear weapons facility northwest of Denver. Stone was not eligible to collect a fee from the \$4.2 million fine for fraud because he was not the original source of the information that led to Rockwell International being ordered to pay the fine (Sherman). The company, supported by defense, energy, and pharmaceutical interests, wanted the Court to restrict when a whistleblower can collect for suing on the government's behalf. The Bush administration supported Stone because it would encourage whistleblowers to uncover fraud against the government. The False Claims Act permits persons, acting on behalf of the government, to bring fraud suits against companies that have contracts with the government. If they win, they get to receive a percentage of what the contractor pays the government. The issue in the case was whether Stone provided the information that the jury used to find fraudulent claims filed by Rockwell. Stone claimed he was the original source. Rockwell said he could not have been because Stone was laid off a year before it began submitting false claims relating to meeting goals of treating low-level radioactive wastes at the former atomic weapons plant. The title of the case is Rockwell International v. U.S., ex rel Stone.

CONCLUSION

It is human nature to punish those who do not follow the crowd. We have done it since the beginning of recorded time. When we told our parents that our siblings were violating a rule, we were invariably told it was not nice to tell on others. The rule was implanted early in our psyches. The current Supreme Court seems to mirror that rule. The Court could easily have sided with Ceballos. The majority chose to ignore a great deal of evidence. It is interesting to note that this case was argued twice; once, while Justice O'Connor was on the bench, and a second time after Justice Alito replaced her. It looks like O'Connor had voted with the dissent and her replacement turned the minority opinion into the majority opinion. So the Court upholds punishing a deputy district attorney who does what the California Code of Professional Conduct for attorneys requires, i.e., that he disclose exculpatory evidence to the defendant. If he had not, he risked having his license to practice law suspended or revoked (Garcetti, 1962).

Joe Darby and his wife cannot return to Cumberland, Maryland, their birthplace and home of their parents and grandparents and cousins. Why? Because Joe Darby did what he was told to do. He reported a violation of duty by MPs guarding Iraqi prisoners at Abu Ghraib. Even though it involved only seven out of two hundred MPs from his unit, the townsfolk regarded him as the traitor, not the seven who violated the code of military conduct. They are the heroes who can return home after they get out of prison. But Joe Darby who testified for the prosecution at their trials cannot. He is the one under witness protection.

General Taguba was forced to retire. He was punished for testifying too zealously before Congressional committees about the Abu Ghraib scandal.

Mr. Stone provided the information which led to the government recovering \$4.2 million dollars. His reward would have been a percentage of that amount. But the Court said he could not have it; thereby discouraging future whistleblowers. The current majority of the Court seems to follow the letter of the law, but not its spirit. It is probably because most of the members never held political office. They are not oriented to people, but rather to words. We seem to be entering a time when the Court will be more reluctant to help people. It will defer to the executive and legislative branches to do those tasks.

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FEDERAL EXPRESS DRIVERS: EMPLOYEES OR INDEPENDENT CONTRACTORS?

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ABSTRACT

Federal Express Ground has created a business model that has made it highly competitive in the package delivery industry; FedEx hires its drivers as independent contractors. This business model is not unique. In many industries workers are customarily hired as independent contractors to avoid the liability and expense associated with an employer/employee relationship. While potentially profitable, this business model also exposes the hiring party to lawsuits by workers claiming that they are employees rather than independent contractors. Currently Federal Express Ground is facing a wave of such lawsuits. This paper considers the employment status of FedEx drivers by examining the tests used to classify workers as either employees or independent contractors and by comparing FedEx drivers to drivers in the courier service industry who have been found to be employees rather than contractors.

INTRODUCTION

As most employers discover, hiring an employee can be burdensome. The employer becomes responsible for minimum wage and overtime payments, payroll taxes, workers' compensation, medical leave, workplace safety and in some instances, the torts of the employee. Many employers try to avoid these burdens by hiring workers or reclassifying current employees as independent contractors, a practice that if done incorrectly can actually compound the employer's problems should a court determine that a worker hired as a contractor is actually an employee.

Such misclassification claims can be brought by a variety of plaintiffs bringing suit under a myriad of legal theories. Plaintiffs can include workers alleging they have been misclassified as independent contractors, injured parties seeking to impute liability to the alleged employer under the doctrine of respondent superior, unions attempting to represent workers, and the federal and state governments seeking employer contributions to worker compensation funds and payment of employment taxes. Such plaintiffs can contest a worker's status under numerous legal theories including common law negligence claims, workers' compensation and unemployment statutes, the Age Discrimination in Employment Act (ADEA), the Americans with Disabilities Act (ADA), the Employee Retirement Income Security Act (ERISA), the National Labor Relations Act (NLRA), the Federal Insurance Contributions Act (FICA), the Family Medical Leave Act (FMLA) and Title VII of the Civil Rights Acts of 1964.

EMPLOYMENT STATUS

Hiring parties can hire a worker in one of two ways, as an employee or as an independent contractor. Should a plaintiff allege that the hiring party has misclassified the worker, courts apply a variety of somewhat similar tests to determine a worker's proper classification. These tests categorize the worker by examining the nature of the employment relationship and as such, the tests are very fact intensive.

For claims based on common law legal theories courts use the "common law test" which the U.S. Supreme Court described in *Nationwide Mutual Insurance Company v. Darden* (1992) as follows:

In determining whether a hired party is an employee under the general common law of agency, we consider the hiring party's right to control the manner and means by which the product is accomplished. Among the other factors relevant to this inquiry are the skill required; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party's discretion over when and how long to work; the method of payment; the hired party's role in hiring and paying assistants; whether the work is part of the regular business of the hiring party; whether the hiring party is in business; the provision of employee benefits; and the tax treatment of the hired party. (p.322)

Under this test no one factor is determinative. The classification must be based on a thorough analysis of all the relevant facts; however, in most cases particular attention is paid to the hiring party's ability to control the worker, whether exercised or not.

Worker classification tests can also consider the purpose promoted by a particular statute, as well as the interests of the class protected by the statute. For claims based on the FLSA, the FDEA, and FICA courts have employed an economic realities test that focuses on the degree of the worker's dependence on the hiring party's business. The test uses six factors to determine if the worker is in business for himself or whether the worker is economically dependent on the hiring party's business for which the worker merely provides a service. The six factors, as stated in *Herman v. Mid-Atlantic Installation Servs., Inc.* (2000), are:

(1) the degree of control that the putative employer has over the manner in which the work is performed; (2) the worker's opportunities for profit or loss dependent on his managerial skill; (3) the worker's investment in equipment or material, or his employment of other workers; (4) the degree of skill required for the work; (5) the permanence of the working relationship; and (6) the degree to which the services rendered are an integral part of the putative employer's business. (p. 671)

In other instances states apply more inclusive tests based on statutory definitions that consider the "purpose of the protective legislation" (*JKH v. Dept. of Indus. Relations*, 2006) to determine a worker's status. For example, in *Boston B.C. v. D.D., Div. Emp.* (2002) the court considered whether a hiring party was required to make contributions to the state's unemployment fund for workers that had been hired as independent contractors. The provisions of the applicable statute specifically rejected the common law standard for determining employment status and set forth a more inclusive three part "ABC" test. The court in *Boston B.C. v. D.D., Div. Emp.* (2002) held that the test required that the alleged employer establish that the worker:

(a) is free from direction and control by the employing unit; (b) performs services outside the usual course of, or places of business of, the employing unit; and (c) the worker — albeit performing services of the same nature as the employing unit — is engaged in an independently established trade, occupation, profession or business wholly apart from the employing unit. (p. 477)

FEDERAL EXPRESS DRIVERS

Federal Express (FedEx) has created a smart business model for its FedEx Ground division that enables it to be highly competitive in the package delivery industry; FedEx hires its drivers as independent contractors. FedEx's 14,000 drivers receive rights to FedEx routes, drive their own vehicles, are responsible for their own expenses and, according to FedEx, operate as self-employed businesspeople. This business model has been very successful for FedEx. Since acquiring Roadway

Package Systems and renaming it FedEx Ground in 2000, sales have increased to \$4.7 annually creating profits of \$1.4 billion in fiscal 2005. (MacDonald, 2005)

While this business model has been profitable, attorneys for FedEx drivers have filed numerous lawsuits asserting that FedEx improperly hires drivers as independent contractors while treating them as employees. These cases have been brought by individuals and as class actions, and claim relief under various federal and state statutes. In August of 2005 the cases were consolidated into *In Re FedEx Ground Package System, Inc. Employment Practices Litigation* by the Judicial Panel on Multidistrict Litigation and assigned to the U.S District Court in the Northern District of Indiana where pretrial proceedings are currently being resolved.

Whenever a court is asked to determine whether or not a worker is an independent contractor or an employee, the court's examination is quite fact-intensive. And in the FedEx cases, because of the business model employed by FedEx, the factual issues are substantially similar. All drivers conduct their responsibilities according to a standard operating agreement which serves as the basis for their employment relationship with FedEx.

THE OPERATING AGREEMENT

Prior to entering into an operating agreement with a driver, FedEx recruits and trains interested candidates. FedEx advertises that is seeking individuals who want to run their own businesses and who have "entrepreneurial spirit". (FedEx Home Delivery, 2006) Individuals who respond to the ads attend informational meetings that emphasize the independent contractor status of FedEx drivers. If FedEx is satisfied with the candidate's screening, he or she is then required to complete a FedEx Home driver training course, which instructs them on how FedEx wants drivers to make their deliveries. (FedEx Home Delivery, 2006)

Candidates who pass the training course are eligible to receive a route and enter into a Contractor Operating Agreement. The same contract is offered to all potential drivers and it is essentially at "take it or leave it" proposition. The agreement specifically classifies the driver as an independent contractor and states that the driver is not a FedEx employee. (FedEx Home Delivery, 2006)

Under the agreement the drivers are required to purchase or lease a white vehicle approved by FedEx that has a painted FedEx logo or displays a removable magnetic logo. While on their routes, drivers must use the vehicles exclusively for the delivery of FedEx packages, but when drivers are not using the vehicle for FedEx deliveries, it may be used for personal and other commercial uses so long as the FedEx logo has been removed. The drivers are responsible for all the costs associated with the vehicle's operation and maintenance. (FedEx Home Delivery, 2006)

In addition to acquiring a vehicle, the agreement requires the drivers to purchase and wear FedEx uniforms, and to maintain certain standards of personal appearance. While making deliveries, drivers must wear a FedEx identification badge that includes the driver's photograph and the title "contractor". The agreement also requires the drivers maintain their vehicles in a clean, and dent-free condition, without extraneous markings. To ensure vehicle complies with FedEx safety and appearance standards, drivers are required to submit a monthly maintenance form along with receipts for any repair and maintenance. (FedEx Home Delivery, 2006)

The agreement specifically states that FedEx does not control how the driver carries out the responsibilities agreed to under the contract; although, it does require the driver to provide the agreed upon daily delivery services in a manner that identifies the driver as part of the FedEx system. Deliveries must be made Tuesday through Saturday; however, drivers can choose the hours they work, and take breaks and run personal errands at their discretion. The drivers are not required to log their hours; however, FedEx does require them to scan their FedEx badges when they leave the FedEx terminal to make deliveries and after they complete their deliveries in order to track their delivery hours. (FedEx Home Delivery, 2006)

Drivers are compensated weekly according formula that, among other things, takes into account the number of stops made by the driver as well as the number of packages delivered by the driver. Drivers also receive a per-package payment for sorting and loading the packages they are to delivery, and can receive additional bonuses for meeting FedEx performance and service standards. Finally the agreement entitles the driver to receive a van/vehicle availability fee for every day that the driver makes his or her van available to provide services to FedEx. (FedEx Home Delivery, 2006)

Should the driver fail to comply with the terms of the operating agreement, a FedEx manager meets with the driver to try to resolve the issue. If the manager is unable to resolve the issue, FedEx can, under the terms of the agreement, terminate the relationship. The agreement also allows the driver to terminate the relationship if he or she provides 30 days written notice. (FedEx Home Delivery, 2006)

ANALYSIS

The courier industry is very analogous to FedEx's delivery business and many courier services hire couriers using a business model similar to FedEx's. While the exact details will vary from business to business, in most instances couriers are hired as independent contractors and are required to provide their own vehicle or in some cases, bicycle. The couriers use their vehicles to pick up and deliver packages for the customers of the courier service and are generally paid on a per-delivery basis. Because of the similarities between FedEx's delivery business and the courier industry, the case law from alleged courier misclassifications should shed some light on the strength of FedEx's assertion that its drivers are truly independent contractors.

Under any of the worker classification tests, courts consider the extent to which the hiring party controls how the worker performs his or her services a significant factor in determining the worker's classification. In *Stover Delivery v. Div. Employ* the court found sufficient control in the fact that Stover's couriers received a policies and procedures handbook that they were expected to comply with and that they could be disciplined for violating. In addition, drivers were required to carry a Stover beeper so that a Stover dispatcher could tell them of necessary route deviations (*Stover Delivery v. Div. Employ*, 1999). The element of control was also established in *JKH v. Dept. of Indus. Relations* where the court held that "by obtaining the clients in need of the service and providing the workers to conduct it, JKH retained all the necessary control over the operation as a whole." (*JKH v. Dept. of Indus. Relations*, 2006) Finally, in *AFM Messenger Service v. Dept. Employ. Security* the court found evidence of the requisite control in a number of facts. "AFM procured the customers; AFM set the delivery rates; AFM provided the delivery tickets to the customers; AFM made the delivery assignment; AFM billed the customers; AFM set the commission; AFM paid the drivers. AFM also retained the right, under the parties' written agreement which AFM provided, to terminate their relationship at any time." (*AFM Messenger Service v. Dept. Employ. Security*, 2001, p. 402)

Given FedEx's business model it is likely that the requisite control could be established. FedEx's operating agreements structures the employment relationship in such detail that it operates as a de facto policy and procedures handbook. The agreement requires drivers to purchase a FedEx approved vehicle, wear a FedEx uniform and FedEx I.D. badge, carry and use a FedEx beeper and comply with FedEx guidelines for safe driving. Drivers are even required to keep their vehicles in a clean and presentable manner. (FedEx Home Delivery, 2006)

On the other hand, FedEx does not require its drivers to follow a schedule. Drivers can decide when they start work and when they stop work; however, they do not have the discretion to skip deliveries on any given day. The FedEx operating agreement requires them to be available to be available for deliveries Tuesday through Saturday. Further control is evidenced the fact that FedEx assigns the drivers' routes while retaining the right to unilaterally reconfigure a route. (FedEx Home Delivery, 2006)

The FedEx agreement clearly evidence FedEx's control over how its drivers perform their service. In addition to the extensive and detailed rules and policies in the agreement, control is evidenced in the actual working relationship between FedEx and its drivers. If a driver's service fails to meet the standards set by FedEx, FedEx managers hold a "business discussion" with the driver to try to remedy the problem. If the problem cannot be resolved, FedEx retains the right to terminate the relationship with 30 days notice. (FedEx Home Delivery, 2006)

Another common factor considered in the courier cases was the whether the service provided by the worker was an integral part of the hiring party's business or was it "outside the usual course of the business for which such service is provided" (*AFM Messenger Service v. Dept. Employ. Security*, 2001, p. 398). In each courier case, and also in FedEx's business, drivers pick up and deliver packages. Given the nature of a courier service's business, it is not surprising that in all three courier cases the courts found that the driver's service was part of the hiring party's courier business. In fact, in *JKH Enterprises* the court found the service "functions as the integral heart of" (p. 1065) the courier business. The court in *Stover* reached a similar conclusion and stated that a courier service's success "depends almost entirely upon the drivers' performance of their duties" (p. 693). The same can certainly be said of FedEx's dependence on its drivers.

The courts in the courier cases also considered whether the service provided by the drivers constituted an independently established business. The court in *Stover* determined this by examining whether the drivers were working for more than one firm at a time and whether they made their services available to the generally public. It concluded that while the drivers were free to work for other firms and to offer their services to the general public, none of them did nor could they reasonably do so given the number of hours they worked for Stover. Similarly the court in *AFM Messenger* concluded that the drivers were dependent on their relationship with AFM and as such "a drivers 'business' was not established 'independently' of" the courier service. (p. 402)

Applying these considerations to the relationship FedEx drivers have with FedEx, it is pretty clear that they do not operate independent businesses. While FedEx drivers do own their vehicles and arguably could perform services for another delivery service, realistically their "businesses" could not exist apart from FedEx. As noted by the court in *AFM Messenger* the appropriate question is "whether the driver could have performed the same services independent of a relationship with UDS or another such messenger service" (p. 408). If that standard is applied, FedEx drivers do not operate independent businesses. Should FedEx terminate its relationship with a driver, that driver is essentially unemployed.

Another factor considered in the courier cases was whether the parties maintained a continuous relationship. A continuing relationship is considered evidence of an employer/employee relationship, while temporary or short term relationships generally indicate that a worker has been hired as an independent contractor. FedEx's relationship with a driver is not of a temporary nature. Drivers must complete a training course and are required to purchase a FedEx approved vehicles. This investment of time and money realistically precludes a driver from ending his or her relationship with FedEx precipitously. Both FedEx and the FedEx drivers anticipate an ongoing relationship. After the initial term of the relationship, the operating agreement automatically renews for successive one year terms. (FedEx Home Delivery, 2006)

A final factor almost always considered in classifying a worker is whether the worker's compensation is dependent on his own skill and initiative. The court in *Stover* considered the degree to which the driver's profits or losses were dependent on the driver's skill or efforts. In that case the court rejected the Stover's assertion that its drivers could make more money through their own effort and initiative. The court noted that the drivers were paid according to their routes and not according to the number of deliveries they made. (*Stover Delivery v. Div. Employ, 2006, p. 695*)

FedEx drivers on the other hand do receive a fee for each delivery they make and thus are able to earn more money if they make more deliveries. However, the number of deliveries a driver makes each day is limited by the number of deliveries required by FedEx and as such, a driver can not increase his or her profits by simply working harder or faster.

CONCLUSION

While profitable, the FedEx business model of hiring its drivers as independent contractors is unlikely to survive judicial scrutiny. Regardless of which legal theory a plaintiff might use to challenge the classification or which test a court might apply to review the classification, FedEx drivers will almost certainly be found to be employees rather than contractors. The FedEx operating agreement, which all drivers must commit to, extends FedEx's control over how the drivers perform their service, and the service drivers provide, delivering packages, is an integral part of FedEx's business. In addition, the FedEx compensation formula does not allow drivers to increase their income through their own skill or efforts. Finally the employment relationship between FedEx and its drivers is not temporary in nature. Both parties expect, and it is in both parties' interest, that they create and maintain an ongoing relationship. Based on these facts FedEx drivers should be found to be employees and as such, entitled to all the benefits associated with an employer/employee relationship.

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OVERCOMING OBSTACLES TO ARBITRATION AWARD CONFIRMATION UNDER THE INTER- AMERICAN CONVENTION ON INTERNATIONAL COMMERCIAL ARBITRATION

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ABSTRACT

Numerous businesses that engage in cross-border commerce in the Western Hemisphere rely on the enforceability of international arbitration awards. The Inter-American Convention on International Commercial Arbitration was promulgated by nations of the Organization of American States to provide this assurance in the Americas. Eighteen (of 35) OAS member nations, including the United States, have ratified this Convention. The Inter-American Convention is controlling law in the United States. The Convention mandates the enforceability of written arbitration agreements in commercial transactions and provides that arbitral awards shall have the force of judicial final judgments. The laws of the United States support this policy and provide a method for award confirmation and enforcement. However, the Convention and the laws of the United States also provide obstacles to award confirmation. Recent United States court cases interpreting the Inter-American Convention have recognized no less than thirteen separate grounds for denial of arbitration award confirmation. The purpose for this paper is to identify and explain the grounds that may be asserted in United States courts to thwart confirmation of arbitral awards governed by the Inter-American Convention.

Academy of Marketing Studies (AMS)

USING INTERACTIVE TELEVISION (ITV) AND CASES INTERNATIONALLY IN MARKETING COURSES: LESSONS LEARNED

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ABSTRACT

Based upon the increased interest in internationalization across business schools, and increased use of various types of educational technologies at colleges and universities worldwide, the author describes a series of experiences in using interactive television (ITV), involving cases studied simultaneously by students in the U.S. and in the UK. Over the course of several instances of using ITV-based case discussions internationally, the author presents a series of recommendations related to using ITV-based case discussions in an international context.

INTRODUCTION

Given the growth in technological investment on university campuses (Brown 1999, Carr 2001, Olsen 2001) as well as the growing interest in different ways to internationalize the curriculum, marketing students in a course at a US-based university (U.S. site) and in a course at a U.K.-based university (U.K. site) studied a set of common business cases. After their case analysis and recommendation preparation, an interactive television (ITV) session was held during which students listened and responded to opinions from their peers overseas. This initiative was conducted several times over two semesters each a revision of the former to maximize effectiveness.

CONCEPT ORIGINATION

On a number of occasions, the author has observed and read about the use of ITV in higher education. On one specific occasions, an ITV session was demonstrated as part of a FIPSE-sponsored conference that ITV linked faculty from three institutions. This sparked an interest between the author and a colleague at a university in the UK to conduct a series of joint case studies culminating in a series of ITV-based student case discussion sessions.

OBJECTIVES

The primary objective of this initiative was to provide students and faculty the opportunity use ITV technology and become more familiar with its uses and shortcomings. Additional objectives related to fostering cross-cultural collaboration as well as competition between sets of students in an effort to enhance learning outcomes. Finally a third objective related to broadening students and faculty understanding of different learning styles and approaches to problem solving.

IMPLEMENTATION ISSUES

The following issues were instrumental to both the development and implementation of the initiative, and are listed in the order of sequence:

1. Agreement by working parties / faculty on objectives and outcomes
2. Approval obtained from respective deans
3. Determining technical feasibility for ITV sessions at both locations and test runs
4. Case study selection (criteria: case setting does not give one group an advantage, but crosses international market borders; enough facts to conduct a thorough case analysis; limited to a North American or European business)
5. Determination of conference date/time
6. Inclusion into course syllabus/outline as an early notice of the event
7. Creation of questions for ITV session that student ask each other
8. Preparations to link students via email prior to the planned ITV sessions
9. Advanced coaching of students by faculty in preparation of an ITV environment. Students shown video of a prior ITV session.
10. Email communications between students (transatlantic) in advance of the ITV session, allowing students to ask questions and initiate a professional relationship prior to the ITV session(s)

ITV SESSION MANAGEMENT ISSUES

To avoid possible empty time (no conversation) a question set, given to students in advance, was used as a discussion generator. On the US side, an entire class of 25 marketing students participated in the ITV session while at the UK site, 10 students were selected from a large lecture class. Students at each location were able to see their overseas peers on a television and hear and verbally respond to them via audio. The typical 90-minute session provided sufficient time for the case discussion and open discussion afterwards.

UNFORESEEN CHALLENGES

- Logistics. The semesters do not align, therefore finding a date that allows students at both locations to be well enough versed for the task at hand, while not yet taking final examinations was a concern. For example, a mid-November date was initially selected, based upon the timing issues for the two semesters at the US site and the UK site. A second logistical issue was time of day. An 8:30 A.M. EST time slot was chosen, but the US students exhibited a slow-start due to the “early morning” hour. Any later and the UK students would be fatigued as the day ends.
- Technology. A dedicated ITV classroom at the US site was used and provided high quality transmissions and technical support who were present during the session. At the UK site, two earlier sessions held in a campus location were not as well equipped, resulting in somewhat poor ITV quality. Later ITV sessions were held in an off-campus ITV location permitting better quality. Typically, professors are not experienced with ITV and need practice or training in order to make the process effective. This includes where to stand/sit, speaking diction, and movement. Sound is delayed from the video so viewers must be trained to adjust for out of sync voice and visuals. The humor of this setting needs to be permitted, yet moved beyond.
- Cost. The cost for earlier ITV sessions using the UK site equipment was approximately \$100 per one-hour session. A typical case discussion, using professional equipment and obtaining better quality, cost approximately \$700 for a one and one-half hour session.
- Class size. 15-20 students at each location seems to be an optimal size. Smaller groups tend to have a silence factor and larger groups are unwieldy.

ASSESSMENT ISSUES

Students gained a significant awareness of cultural diversity, even between two English-speaking communities. Students from the two sides did not always focus on the same data points within the case or their importance in resolving the case issues. US students recognized that European students have a better grasp of the US market than they have of the European market. The overall opinion of students was positive and worth the extra effort involved. Some students at both locations seemed to particularly enjoy the exchange. This positive reaction was also held by Brunswick and Hadland.

SUGGESTIONS TO OTHERS CONSIDERING AN ITV SESSION: LESSONS LEARNED

The following are offered as suggestions for those considering using ITV / cases in an international context:

- Begin planning early (1 semester) to permit the technicians to reserve the time and equipment.
- Present the ITV session plan early to students in an enthusiastic manner to enforce the need for adequate preparation, set up a good mental mode for acceptance, and permit adjustments to individual schedules.
- Determine costs in advance.
- Select a case study that nudges students to gain some cultural skills and learn more about foreign markets as well as getting a foreign view of the home market.

SUMMARY

While the initiative was successful, the cost of annual repetitions becomes prohibitive--perhaps offering an ITV session every other year is more realistic. Some colleges and universities, however, are beginning to seriously consider the use of technology in making promotion and tenure decisions (Young 2002). Using other (non-ITV) technology is always another option. A collaborative website that promotes more frequent international contact with threaded discussions, an archive of case question analyses, student photos, and research resources is very cost-effective and readily available. For example, assigning student teams consisting of two US students and two EK students who jointly analyze a case, conversing via e-mail and file attachments, creates a more one-on-one setting. If this can be preceded by or followed up with an ITV session, the outcomes will increase in quality.

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SERVICE DIMENSIONS OF FINANCIAL INVESTMENT CHANNELS

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ABSTRACT

Substantial effort is made by organizations in the design and choice of marketing channels. Economic value is created for the consumer through the performance of these functions. When products are marketed through multiple channels the question of what channel attributes are salient to consumers becomes even more important.

This question is extremely important to sponsors of mutual funds. Today, mutual funds can choose multiple channels to market their mutual funds. Apart from retirement plans and institutional accounts, mutual funds are sold through full service brokers, financial planners, banks, insurance agents, discount brokers as well as through the direct channel. Each channel provides different types and levels of services to the consumer. For example, financial planners provide guidance and advice while discount brokers provide a means of financial transaction and little financial guidance or advice. The finance, search and retail literature provide partial answers to this choice process.

The aim of this paper is to identify salient channel characteristics and their relationship to consumer characteristics and search behavior. A theoretical model is developed and empirical research is conducted to examine these relationships.

TELLERS VERSUS TECHNOLOGY IN OVERALL CONSUMER SATISFACTION WITH BANKING SERVICES

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ABSTRACT

Proliferate use of technological conveniences offered by service providers has prompted interest in its effect on consumer's overall satisfaction. Service encounters play a vital role in ensuring consumer satisfaction because each individual encounter aggregates to form consumer overall satisfaction of a company. Prior research has indicated that both human encounters and technological encounters are indispensable for service firms. The authors examine the relative impact of the human encounter and the technological encounter on consumers' overall satisfaction. Findings from two studies reveal that while the human encounter was more important before online banking became so prevalent, the convenience of online banking has displaced the importance of human interaction.

Academy for Studies in International Business (ASIB)

INTERNATIONAL TRADE AND GROSS DOMESTIC PRODUCT (GDP): A STUDY OF CURRENCY EXCHANGE RATES

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ABSTRACT

The purpose of this paper is to analyze if currency exchange rates are valid predictors of economic output or Gross Domestic Product (GDP). Previous research finds a correlation between exchange rate volatility and economic openness of a country's import market that we consider with price levels in making this analysis. Higher free trade integration is associated with lower volatility, but price levels for products are a function of the firm's expectations that exchange rate movements are permanent rather than transitory. Using changes in currency exchange rates, changes in consumer price index (CPI), changes in Balance of Current Account (BCA), and changes in the share of imports into a country as a percent of that country's GDP in Canada, Japan, Sweden, and the U.S., we analyze the effect of these variables on the level of GDP. Annual data for the period 1975-2004 were collected from the Federal Reserve Board and United Nations for the sample. After creating a sample design that shows no direct significant difference in exchange rate – GDP movement, the study concludes that statistically significant regressions for CPI and imports merit further research of those two variables in exploring indirect linkages between exchange rates and GDP.

INTRODUCTION

This paper examines correlations between currency exchange rates and economic output in a country. Economic output is illustrated through Gross Domestic Product (GDP). Currency exchange relationships are explored between the United States and the following countries: Canada, Japan, and Sweden. The focus of the analysis is to what extent currency exchange rates and economic output, as measured by Gross Domestic Product (GDP), correlate either positively or negatively. If a country's currency appreciates relative to another country's currency, bilateral trade between each country finds prices cheaper in the country with the weaker currency relative to the country with the stronger currency. Thus, imports into the country with the weaker currency are less expensive and more desirable, while exports from that country are more expensive and less desirable to consumers in the country with weaker currency (Taylor, 2001).

With the relative strength of a country's currency affecting importation and exportation of goods and services and market equilibrium adjustments providing needed flexibility (Kim, 1991), the extent that relative changes in currency exchange rates impact production within a country is a basis for this analysis. Relatively lower currency exchange rates that are favorable to exportation benefit producers of those goods and services that are exported, while relatively higher currency exchange rates benefit consumers of imported goods by stretching buying power. Prior research focuses heavily on exchange rate volatility as a dynamic explaining international transaction (Obstfeld & Rogoff, 1995). To the extent that international trade between the domestic and foreign country affects monetary policy, currency exchange rates are expected to correlate with macroeconomic policy goals that affect GDP.

This analysis considers the relative exchange rate relationship between the U.S. dollar and each currency of the four countries listed above. Examining if a statistically significant relationship exists between currency exchange rates and GDP involves considering the relative strength of two currencies over a period of years and measuring differences between changes in the two variables. This paper examines changes in annual current account balances, volatility of exchange rates vis-à-vis annual changes in the value of each country's currency relative to the U.S. dollar, annual changes in consumer prices, and economic openness of each country's markets in analyzing this relationship.

LITERATURE REVIEW

A theoretical basis for analyzing the relationship between currency exchange rates and GDP extends from several studies of currency exchange rates and their impact on bilateral trade and macroeconomic policies. Krugman, Baldwin, Bosworth, and Hooper (1987) logically examine the effects of currency exchange rates on international trade. Currency exchange rates that promote lower prices for imports lessen inflationary pressures in the economy and have a downward push on interest rates in that country. Conversely, currency exchange rates that make importation relatively more expensive (i.e. a depreciating currency) produce inflationary pressures and have an upward push on interest rates in the country with a depreciating currency. Exports experience opposite effects. A stronger currency that makes importation of goods and services relatively cheaper and thus more attractive makes exportation relatively less attractive. Exports from a country where the currency is relatively weak to a country where the currency is relatively strong are more attractive to consumers in the importing country (Mann, 2002). The argument in studying a correlation rests on a premise that economic openness, which is a measure of the degree that free trade policy are encouraged, and real exchange rate volatility are inversely related. Higher degrees of trade integration are associated with more stable exchange rates and lower degrees of integration more volatility (Hau, 2002, pp. 611-612). That this phenomenon varies across countries is cause for investigation. Weak associations between exchange rate volatility and the volume of international trade exist, where volatility is representative of market inefficiencies (Kenen & Rodrik, 1986, p. 312; Koray & Lastrapes, 1989, p. 708). Nevertheless, exchange rate dynamics remain elusive (Taylor & Taylor, 2004; Evans, 2002; Dewenter, 1995).

Terra's (1998) findings of an inverse relationship between economic openness and price levels offers important justification in utilizing changes in exchange rates to predict GDP. Not only are price levels important in examining expected movements in exchange rates, but also associations between the viability of a country's export market and GDP. An open economy and freely floating exchange rates assume predictable changes in output and inflation. Taylor (2001, p. 266) finds that such associations occur with a lag, however. That is an appreciation or depreciation of currency does not produce immediate results but rather increases the probability that monetary policy changes will occur as a result of these expectations (Feinberg & Kaplan, 1992, p. 267).

METHODOLOGY

The data for the sample were collected from the Federal Reserve Bank – St. Louis division (<http://research.stlouisfed.org/fred2/>) and United Nations statistical database (http://unstats.un.org/unsd/cdb/cdb_dict_xrxx.asp?def_code=63). The sample includes annual data for each variable coded as an absolute change in that variable. All variables in the model, with the exception of CPI data for 1975, 1976, and 1977 in Japan were gathered for 1975-2004, inclusive, for a total of 30 observations.

The model for this research considers four countries with which trading histories are well established and currency markets are well developed. Focusing on annual changes with the 30 years of the analysis, correlations between the variables are considered in measuring statistically

significant correlations by using Pearson R. With Taylor (2001) finding exchange rate movements as a lagging indicator of changes in output the model compares concurrent changes in GDP with changes in GDP one year after changes in exchange rates. Comparisons are made to changes in GDP one year before changes in currency. Both future changes in GDP, as Taylor (2001) predicts, and laggard changes in GDP before changes in exchange rates are analyzed in this study.

Variables are chosen from studies by examining exchange rate studies conducted by Hau (2002), Mann (2002), and Terra (1998). Using the Pearson R, bivariate correlations between all variables in the model are measured for statistical significance at both .01 and .05 levels. Variables that are statistically significant with each other indicate an indirect correlation. Using multiple regression analysis those variables that are found to have a bivariate, statistical significance are analyzed in measuring a direct correlation between each independent variable and dependent variable.

If changes in GDP are not a function of changes in currency exchange rates, no difference should exist in changes in GDP. The hypothesis for this study is that in comparing countries, those countries that experience greater changes in currency exchange rates also experience greater changes in levels of GDP one year after such changes in exchange rates. This two-tailed examination is stated as an alternative hypothesis (H_1) as $GDP > \text{ or } < \text{ currency}$. The null hypothesis (H_0) is that changes in a country's GDP will not be affected by changes in currency exchange rates, or $GDP = \text{ currency}$.

RESEARCH FINDINGS AND ANALYSES

Descriptive statistics for the respective variables for each country – Canada, Japan, Sweden, and the U.S. – are included in the model before considering leading or lagging effects of currency exchange changes. These statistics are an illustration of a concurrent measure of change for all variables associated with changes in exchange rates. Exchange rate data for the U.S. are omitted in that the currencies of each of the other countries are measured relative to the U.S. dollar, which represents the reserve currency in the model.

Multiple regression results utilized annual changes in GDP in Canada, Japan, Sweden, and U.S. as the dependent variables and all other variables for currency exchange rates, consumer prices, and BCA as independent variables in separate analyses from each country. Values for the U.S. include changes in each of the three currencies, since each is measured relative to the U.S. dollar and the U.S. dollar is the reserve currency. Adjusted R-square values for each output were as follows: Canada (.354); Japan (.108); Sweden (.311); and U.S. (.556).

The results of changes in annual levels of GDP for each country in the model were analyzed by applying changes in currency exchange rates one year prior to the change in level of GDP recorded. Standardized coefficients of multiple regression results using changes in GDP in Canada, Japan, Sweden, and U.S. as the dependent variables and all other variables for currency exchange rates, consumer prices, and BCA as independent variables in separate analyses from each country. Changes in currency exchange rates are applied one year prior to changes in GDP. Values for U.S. include changes in each of the three currencies, since each is measured relative to the U.S. dollar and the U.S. dollar is the reserve currency. Adjusted R-square values for each output were: Canada (.384); Japan (.111); Sweden (.258); and U.S. (.526).

Consideration of currency exchange rates as a lagging predictor of changes in GDP is presented a separate multiple regression analysis. Standardized coefficients of multiple regression results using changes GDP in Canada, Japan, Sweden, and U.S. as the dependent variables and all other variables for currency exchange rates, consumer prices, and BCA as independent variables in separate analyses from each country. Changes in currency exchange rates are applied one year after changes in GDP. Values for U.S. include changes in each of the three currencies, since each is measured relative to the U.S. dollar and the U.S. dollar is the reserve currency. The adjusted R-square values were found to be: Canada (.351); Japan (.204); Sweden (.330); and U.S. (.494).

Bivariate correlations find that changes in imports relative to GDP are universally statistically significant with changes in GDP, where such correlation exists. Changes in CPI and changes in BCA were inversely correlated with changes in GDP. For currency exchange rates, the only correlation that existed was between changes in the value of the Kronor relative to the U.S. dollar and the ratio of changes in imports into Sweden and GDP.

When currency exchange rates were analyzed by considering the effects of their movement as a leading and a lagging indicator of changes in GDP, the results were highly statistically insignificant. Applying the multiple effects of each independent variable to changes in GDP found that changes in CPI remain a strong predictor of a country's GDP, with increases in the former associated with decreases in the latter. For the U.S. annual changes in BCA were negatively correlated with GDP, while imports as a percentage of GDP positively correlated. This association remains when considering exchange rates one year before or one year after changes in GDP. For each output in the model low coefficients of determination, or R-square, indicate that the variables in the model are not responsible for most of the changes in GDP.

Interestingly, change in the value of the Japanese Yen to the U.S. dollar is significant in predicting GDP in the U.S. one year after changes in exchange rates; this association is positive. That this association does not exist when exchange rates are considered as a lagging indicator suggests that Hau's (2002) analysis linking trade integration and exchange rate volatility deserves consideration when applied across countries.

With changes in currency exchange rates within each country in the model failing tests of statistical significance in predicting changes in that country's GDP, the model accepts the null hypothesis that changes in a country's GDP will not be affected by changes in currency exchange rates, or $GDP = \text{currency}$.

CONCLUSION

This paper examines whether changes in currency exchange rates in a country are valid predictors of GDP. With relatively few prior studies on which to base a model of direct correlations between exchange rates and the economic output within a country this study borrowed from patterns of exchange rate volatility that Kenen and Rodrik (1986) analyze and openness of import markets that Terra (1998) closely links to protectionists patterns affecting exchange rates through price levels, which in turn affects GDP. Using 30 annual observations of changes in a country's GDP, changes in currency exchange rates, changes in price levels, changes in BCA, and changes in the quantity of imports as a percent of GDP, the model fails to identify a relationship between currency exchange rates and GDP, but finds associations that merit further attention. Change in CPI consistently inversely correlates with GDP, while change in imports as a share of GDP are positively related, supporting Feinberg and Kaplan's (1992) assertion that transitory exchange rate movements are less important to pricing levels than real exchange rate movements. A positive, statistically significant correlation between imports as a percent of GDP and greater GDP change is not surprising. What is surprising is that those countries that have experienced a statistically significant association between import ratios to GDP often experience similar inverse associations between CPI and GDP.

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INDIVIDUALISM AND COLLECTIVISM: RECONSIDERING OLD ASSUMPTIONS

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ABSTRACT

Traditional views of individualism and collectivism suggest that Eastern countries will exhibit collectivistic tendencies while Western countries will exhibit individualistic tendencies. The purpose of this study was to examine whether these findings have changed in the intervening 25 years of global evolution. An electronic survey was administered to 209 students in the United States and 315 students in China. The survey included 17 items from previous research on individualism and collectivism. Results indicate that there are significant differences on all nine questions dealing with collectivism and six of the eight questions dealing with individualism. However, these differences were unexpected, showing that the United States is becoming more collectivist while China is becoming more individualistic. These results may be due to the globalization of trade and the increasing homogeneity of Generation Y around the world.

International Academy for Case Studies (IACS)

ETHEREAL CEREALS: RESPONDING TO HEALTHY DIET CAMPAIGNS

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CASE DESCRIPTION

The primary subject matter of this case is concerning marketing strategy formulation and execution as a response to the external environment of a cereal company. Focus is on the implications of potential threat and damage that healthy news campaigns may afflict on cereal manufacturing companies.

Secondary subject matter includes issues of importance of market surveillance and consumer segmentation. Other issues include human resources and the importance of building strategic alliances in order to continue to compete in competitive market such as the cereal market. The case can be used to identify basic marketing concepts while at the same time witness the workings in the marketing division of a major company. The case can also be used to stimulate group discussions by critiquing whether the actions of the protagonist were of best interest to the company, and also evaluation of how the ideas presented in the case will affect the cereal company in the long and short run. This case can be used for basic Product Marketing courses, as well as courses/lectures on Team Building, Public Relations, and Consumer Behavior. This case has a difficulty level of two to three. The case is designed to be taught in two class hour(s), requiring three hours of preparation.

CASE SYNOPSIS

The case introduces Alana Powers, the marketing director of the number one cereal company, Ethereal Cereals. A barrage of recent media publicity stresses the importance of a healthy diet and lifestyle and eliminating sugary foods in the diet such as excessive sugary cereals. Alana quickly takes action and creates a marketing campaign to restore Ethereal Cereals' image in the minds of consumers as a wholesome, healthy cereal. The case chronicles Alana's interactions with various marketing departments within Ethereal Cereals to help support and promote her new campaign. Students are encouraged during the case to challenge various decisions that Alana and her colleagues make on the benefits the company will confer from their decisions.

STERN IN SATELLITE RADIO: ARE YOU SIRIUS?

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CASE DESCRIPTION

This case involves satellite radio, a relatively new industry with a constantly rising popularity. For a monthly fee listeners can enjoy a multitude of broadcasts that are free of commercials. Despite skepticism on the whether people would pay for radio, the customers have answered yes.

The FCC created Digital Audio Radio Service, or (DARS) in 1992. This is more commonly known today as satellite radio. Later, an auction has held for the license of satellite radio. There were two buyers, American Mobile Radio (later known as XM Radio) and CD Radio (later known as Sirius Satellite Radio). Since then, these two companies have been competing to be on top of the satellite radio business. This is a level 2 case designed to be covered within one class period and is appropriate for small business or management classes.

CASE SYNOPSIS

To be a company in the satellite radio industry is very similar to being any new company in the technology industry, it involves taking a good amount of risk. The technology industry in general is a high risk market and companies have to take a big chance that their product will do well in order for them to see a profitable return. The satellite radio industry is so risky because when it was released into the market it was a totally new product for the consumers. XM Radio took the first movers advantage in the satellite radio market and was seeing favorable results in the amount of consumers that were catching on to their product. Soon after, Sirius released their version of satellite radio and began to try to compete with XM for a bigger share in the satellite radio market. This case study will examine satellite radio's past and possibilities for the future.

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CASE OBJECTIVES AND USE

This case is designed for use in a variety of undergraduate business courses to help students learn about the operation of a typical small business organization. The case offers students an opportunity to evaluate the operational philosophy and actions of a small retail jewelry store. This case provides insights into the jewelry and diamond markets and describes the operations of a small local independent retailer in this industry. Students may critique the retailing approach and develop improved strategies for the small business. It is very suitable for a written report and/or oral presentation by students. It can also be used for examination purposes. The case lends itself to a variety of Small Business/Entrepreneurship courses, Marketing courses (such as Retailing and Services Marketing) and Business Strategy.

CASE SYNOPSIS

This case presents a situation of an actual retailer, Jack Adams (all names are disguised) who owns and manages Adams Jewelry, an independent, local jewelry store. The case describes the retail management style and decisions that Jack is facing in the competitive local jewelry market. It incorporates global dimensions as it describes the nature of the diamond market. Jack must decide whether to move his long established store location. The case also presents a variety of additional issues for students to consider as Jack discusses his retail philosophy.

USE OF A JOB COST SIMULATION TO ENGAGE STUDENTS IN MANAGERIAL ACCOUNTING COURSES

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CASE DESCRIPTION

Meeting the educational needs of the current generation of students, referred to as Gen Y students, is a pedagogical challenge. Research suggests that Gen Y students learn most effectively in environments where they are actively engaged and in control of their learning. The in-class learning simulation described in this paper is designed to appeal to the more active learning style of Gen Y students. The simulation focuses on the process flow and accounting for products in a job cost environment.

The simulation requires students to actively perform three different job functions in a manufacturing environment. First, they assume the role of inventory manager in which they receive and inventory raw materials. Second, they assume production roles, in which they analyze prototypes, order materials, build products, and accumulate production costs. Third, they assume the role of cost accountant. In this role, they account for the accumulation and application of product costs. By completing this simulation, students build a frame of reference for manufacturing production processes that should deepen their understanding of accounting in a production cost environment.

This simulation has a difficulty level appropriate for freshman and sophomores but can be easily adapted for upper level accounting classes. Several options for adaptability of content are presented in the instructor's notes. The simulation is designed to follow lectures on the text material and takes approximately one hour of class time. It does not require any outside preparation by students. Prior students have rated this simulation as a very helpful hands-on learning experience that greatly enhanced their understanding of the job cost process.

CASE SYNOPSIS

Introductory accounting courses are generally taught to undergraduate business majors as part of the required basic business core. Many of the students are non-accounting majors and may lack the motivation to study accounting. Most have little work experience and may also lack a frame of reference for the concepts taught in class. While these demographics have made accounting education challenging in the past, meeting the educational needs of the current generation of students, Gen Y students, is proving to be even more of a challenge.

Gen Y students (1984 to present) grew up with computers, the Internet, beepers, cell phones, MTV, and a proliferation of computer games. Learning styles of this generation are more active and visual than verbal (Eisner, 2004), causing traditional teaching methods to be less effective. For these students to learn, they must be actively engaged and in control of their learning (Arhin & Johnson-Mallard, 2003).

The use of non-traditional teaching aids has been shown to be beneficial to the learning process and is becoming more common (Gupta, Elson, & Ostapski, 2006; Hoffjan, 2005; Albrecht, 1995). The use of games and simulations to teach managerial accounting concepts engages students in the process, helps them relate the concepts to real-world situations, and enhances their ability

to retain the knowledge without memorization. Goman (2006) refers to this style of learning as “edutainment”, an environment where students want to be entertained to induce learning.

This simulation embodies these strategies by allowing students to design and build products in a manufacturing environment following the product from design through completion and sale using a job costing methodology. Students are actively engaged in both the manufacturing process and accounting for the manufacturing processes as they complete the exercise. Student feedback indicates that the simulation was perceived as an effective learning strategy.

THE SIMULATION

The simulation materials include simulation instructions, ©Legos, product prototypes, inventory lists, and forms. The forms consist of a job cost sheet, material requisition forms, time sheets, raw material inventory cards, and receiving reports (see Exhibit 1 in instructors’ notes for all simulation forms). The simulation mimics a job cost environment. The classroom is divided into a raw materials inventory area, a production area, and a finished goods area. Students are divided into groups and simulation instructions are distributed and reviewed. Students are required to perform three separate functions in the simulation, assuming different “player” roles, beginning with inventory management. The instructor assumes the role of factory supervisor assisting in all areas as needed.

Inventory Management

The first assignment, presented in Table 1, requires students to perform inventory management functions. Students performing this function are required to receive, count, and store inventory in the raw material inventory warehouse. The goal of this function is for students to understand that raw materials inventory is made up of different types of material which, in the aggregate, make up the general ledger balance in raw materials inventory. The subsidiary ledgers are the inventory cards, which can be actual cards as they are in this simulation or electronic records that record the same information.

Raw materials used in production consist of thirteen different ©Lego shape-color combinations. An inventory list of each item, description, and price is provided to each student (See Exhibit 1 of instructors’ notes). Each individual inventory item is delivered to the company packaged in a large ©Ziploc bag with an inventory label attached to the outside of the bag. Students perform the procedures outlined in the simulation instructions for the inventory management position and create receiving reports and inventory cards for received materials.

Table 1

Inventory Manager: *In this assignment, you will perform the tasks of an inventory manager in a manufacturing environment.*

The steps to complete the assignment are as follows:

Receipt of raw materials:

Count and fill out a receiving report for each unique raw material delivered and forward complete receiving reports to the cost accountant

Record the purchase of raw materials on inventory cards, one for each type of raw material. Use the inventory list to aid you in inventory costing.

Issuance of raw materials to production:

Receive material requisitions from production teams.

Issue material to teams, complete and sign the material requisition slips, and update the inventory cards.

Forward signed material requisitions to cost accounting.

Production Processing

The production processing assignment, presented in Table 2, requires the students to perform the production functions in a job cost manufacturing environment. The objective in the production process procedures is for students to understand how direct material and direct labor are assigned to jobs as the actual tasks are performed. They should also understand that overhead, the factory supervisor, the facilities surrounding them, etc., are not directly associated with their particular job. This should enhance their understanding of the need to allocate overhead since it cannot be directly charged. A final objective is for them to understand that costs accumulate by job. They should gain this understanding by summarizing the production cost on their job cost sheet.

Students are assigned to groups. Each group is to produce a unique product. "Jobs" consist of product prototypes built from ©Legos by the instructor in advance of the class or the instructor can elect to allow students to design their own product prototypes. Suggested designs are included in each Lego kit if students wish to use these as a basis for their unique product design. Team members should pick one of the job team roles as described in the procedures and performs their functions.

Table 2

Job Teams:

*Job Coordinator
Designer
Production Staff
Team Accountant*

Production Processing: *In this assignment, you will perform the tasks of a job team that builds the Product on the shop floor.*

The steps to complete the assignment are as follows:

The designer reviews the production steps, analyzes the prototype, and identifies the material needs.

The job coordinator issues material requisitions and receives material.

Production staff builds the product.

All members keep track of time on times sheets as work begins by job.

All members submit time sheets weekly to cost accounting.

The team accountant completes the job cost sheet, using material requisition forms, time tickets, and predetermined factory overhead rates. The predetermined overhead rate is \$150 per direct labor hour, which is based on a total of 20 estimated direct labor hours.

Job coordinator ships the completed job to finished goods and forwards completed job cost sheets to cost accounting.

Cost Accounting

The objective for this function is for students to understand how to account for the tasks they just performed and for the movement of materials and jobs throughout the production process. Team accountants summarize job costs in T accounts on the board. The T account represents the job cost sheet prepared by the team during production. As a class, students now assume the role of cost accountant, described in Table 3, using the professor as their “scribe”. Students direct the professor to record the accumulation of manufacturing costs using the source documents prepared by the teams and the summary of job costs on the board. These functions are performed as group to allow students to synthesize their individual group activities into a single set of summary journal entries. Students propose the appropriate entries to record the application of job costs to production, the movement of completed jobs out of production, and the sale of a job. The final objective is for students to dispose of any remaining overhead balances and to reconcile subsidiary job accounts to general ledger inventory control accounts.

Table 3

Cost Accounting: In this assignment, you will perform the tasks of a cost accountant in a job cost manufacturing environment.

The steps to complete the assignment are as follows:

Journalize the following transactions and post the entries to T accounts:

From inventory receiving reports, record the receipt of raw material inventory.
 From time cards and from salaried payroll, record the payroll. Salaried employees consist of the inventory manager (\$500), and the factory supervisor (\$2,500). Payroll taxes are 8% of gross wages.
 Record overhead costs. Overhead costs consist of:
 Purchasing and storage of raw materials \$100
 Insurance \$200
 Fuel surcharge for delivery of materials \$200
 From duplicate copies of material requisitions forms, record application of material to work-in-process and manufacturing overhead.
 Apply labor to jobs and overhead.
 Apply overhead to work-in-process.
 Receive job cost sheets and record the transfer of completed jobs to finished goods inventory.

Assume that one of the jobs has now been sold and do the following:

Choose the job that is sold.
 Calculate a selling price equal to cost plus a 20% markup for profit.
 Record the sale of the job.

Complete the accounting process by :

Analyze the inventory account.
 Prepare the journal entry to dispose of any over or under applied overhead.
 Reconcile the T accounts to the subsidiary job accounts that support their balances (Raw material inventory, Work-in-Process, Finished goods inventory)

The simulation has been used in ten sections of undergraduate managerial accounting courses. Student feedback indicates that students felt it enhanced their understanding of job costing and accounting for job costing and was much better than reading the text, hearing a lecture, or preparing homework answers. Students also reported that visualizing the process really enhanced their learning and kept them from just memorizing the steps.

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BIO-DIESEL PLANT LOCATION DECISION

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CASE DESCRIPTION

This case addresses biodiesel production plant location considerations. The case is appropriate for undergraduate seniors (difficulty level: 4) in supply chain management, logistics, and/or general operations and marketing classes. Understanding the business issues presented is critical to firm success thus, to a student's success when they become involved in such decisions. The time a student must spend on this case for total understanding will vary depending on a student's base level of understanding, but most business students should be able to complete the case in four to six hours out of class and one hour of class discussion.

CASE SYNOPSIS

Bruce Nave had been using biodiesel in his own construction operation for over a year. With the advent of petroleum oil prices breaking seventy dollars per barrel, he saw an opportunity to start producing biodiesel on a commercial scale. Bruce knew that the success of his planned enterprise would depend in part on location, as each location would have different start up cost, cost of living, local laws, cost of doing business, availability and cost of inputs, and cost of shipping raw materials and finished product. Differences in these costs could quickly erode the slim contribution margins that commodity items generate. The case ends with Bruce wondering where he should locate his biodiesel production facility. The purpose of this case is to provide a decision scenario to students that will be managing supply chains, logistic functions of a firm, and/or are otherwise involved in strategic decisions relative to location of capacity.

WEIGHT MANAGEMENT MEDICAL CENTER

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CASE DESCRIPTION

The primary subject matter of this case concerns the life and faith journey of Claudia. A highly educated woman, Claudia has tragedy strike her, and with the support of friends, returns to her faith and finds unexpected answers. Eventually, Claudia finishes her graduate degree, leaves behind a promising career and launches an entrepreneurial venture with a new business partner, Weight Management Medical Center, treating childhood obesity. With their conviction of faith, the partners believe they have received their calling. However, business success has yet to appear, so do the partners continue to trust their faith at the expense of profit?

CASE SYNOPSIS

Creating and successfully operating a small business is a challenge for virtually all entrepreneurs. In particular, the challenges facing women can often seem insurmountable. Claudia was raised in a Christian home, but she left the church when she left home. Years later when confronted with tragedy in her marriage, Claudia fell into a deep depression, where only a return to faith could save her; faith in her friends, faith in her treatment, and faith in God.

A tortuous path involving a career changes, education starts and stops, and a new marriage eventually lead to a new business partner and venture, Weight Management Medical Center, serving the emerging epidemic of adolescent obesity. At the forefront of this new medical field, Claudia found skeptics in the banking and insurance field as the partners attempted to launch their business. The case tracks WMMC from inception through two incarnations to the most recent crossroads; where will WMMC go in the future?

This case study chronicles the trials and tribulations of one woman that weaves common threads for many students; from spiritual loss and awakening, to tragic loss and recovery, to redemption and purpose discovered through faith and friends. The teaching note reviews obesity issues, entrepreneurship and spirituality, and business conclusion.

Obesity has been termed the next American epidemic; Christian businesses are becoming increasingly visible. Coupled with the tragic event of Claudia's life, her struggle with depression and her spiritual awakening, the case serves as a powerful example for women and men when faced with seeming insurmountable emotional and financial barriers. This case is designed for an undergraduate business class and presents various opportunities for interdisciplinary teaching. The case is based completely on Claudia's own words.

PATAGONIA: CLIMBING TO NEW HIGHS WITH A SMALLER CARBON FOOTPRINT

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CASE DESCRIPTION

The primary subject matter of this case concerns corporate environmental responsibility. Secondary issues examined include strategic intent and marketing dynamics. The case has a difficulty level of three, appropriate for junior level students. The case is designed to be taught in one class hour and is expected to require three hours of outside preparations by students.

CASE SYNOPSIS

The California outdoor clothing and equipment company, Patagonia, has set a very high standard for firms seeking to be environmentally sensitive. The privately-held company has created a culture of reducing its impact on the environment through product design and manufacturing, energy usage, and waste management. The case explores the methods by which Patagonia reduces its "carbon footprint" and asks if other firms can follow its lead.

TEACHING OBJECTIVES AND TARGET AUDIENCE

This short and simple case seeks to begin a discussion of the desirability of developing an environmentally friendly approach to business. The case looks at the activities of one company and asks students to think about the possibility of this expanding this approach to other companies. The main objective of the case is to provide a backdrop for further discussions concerning the driving and restraining forces for the greening of global businesses. Students should be able to discuss reasons why firms resist adopting an environmentally friendly company position, in addition to promoting its universal adoption.

The case is best suited for an undergraduate audience. Courses that seem most appropriate for its use include basic management, marketing, international business, and an introduction to business course.

SUNNY VIEW MEMORIAL HOSPITAL: A DAY IN THE LIFE OF A BUSY HOSPITAL PHARMACY MEDICATION ERRORS, MANAGERS, AND MISSING MEDICATIONS, OH MY!

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ABSTRACT

The primary subject matter of this case is concerning the managerial and personnel issues in a hospital pharmacy. Focus is on the implications of mismanagement leading to localized medication errors, dissatisfied employees and a global endangerment of patient wellbeing. The case also provides insight into the behind-the-scenes of a hospital pharmacy atmosphere.

Secondary subject matter includes issues of organization and cooperation of the work force that increase the problems in the hospital. The case can be used to assist in specifically improving and understanding the function of management in a regulated healthcare setting or to generally illustrate the importance of proper leadership and organization to prevent local and global issues in the workplace.

This case has a difficulty level of two to three. The case is designed to be taught in two class hour(s), requiring three hours of preparation.

